BRITISH BUDGETS

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BRITISH BUDGETS

Third Series

1921-22 TO 1932-33

BY

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AND

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PREFACE

WITH the present volume of British Budgets, the third of the series, we have now completed a task which one of us began with the publication in 1913 of an account of twenty-six budgets from 1887, and we have thus covered a period of nearly half a century during which momentous changes have occurred in the character and methods of public finance in this country.[1]

The process by which taxation since the earlier years of the period was slowly increased and adjusted had gone some way, up to the beginning of the European War, to meet the new demands and ideals of democratic policy and social justice, without imposing unreasonable burdens on the community as a whole, or on any one section of it. In the preceding hundred years population had much more than doubled, but wealth had increased more than five-fold so that the income per head had risen from £23 11s. 0d. in 1818 to £50 2s. 0d. in 1913, and the Debt Charge had accordingly been reduced to comparative insignificance. The ratio of total tax revenue to national income, which in 1818 had stood at 14 per cent., had sunk by 1913 to 7 per cent., while the country was still enjoying the trade boom which had begun in 1910. The growth of public expenditure was indeed a constant theme of comment and warning by Chancellors of the Exchequer, and complaints were heard, with an income-tax at 1s. 2d. in the £, of the burden of direct taxation, the proportion of which to indirect taxation had been steadily increasing. But in the

[1] *British Budgets* 1887-88 *to* 1912-13, by Bernard Mallet, C.B., 1913. *British Budgets*, second series, 1913-14 to 1920-21, by Sir Bernard Mallet, K.C.B., and C. Oswald George, B.Sc. Econ., 1929, Macmillan & Co., Ltd.

light of after events the year before the war will certainly stand out as an auspicious date in our fiscal history.

Very different is the situation to-day. While the national income, allowing for the change in the value of money, was no greater in 1924 than in 1913 and is now in all probability considerably less, the burden of taxation, imperial and local, has increased at least four-fold and must now stand at between one-quarter and one-third of the national income. The natural result has been that a fiscal system which had attained a very high degree of perfection in the production of revenue with an unrivalled capacity for expansion both in direct and indirect taxation—a system which had successfully withstood the strain of war and of post-war expenditure and extravagance for many years—began at last to show signs of inability to respond to ever-increasing demands.

It was not the cost of the war alone, immense as that was, which in the end placed an intolerable strain on the main branches of the revenue. From the earlier years of the present century ideas of social policy had been gaining ground which involved the intervention of the State in every department of the national life and necessitated increasing expenditure both from taxes and from rates. Not only education, primary and secondary, but health, housing, employment and wages were among the questions, too much neglected in the palmy days of Victorian finance, which began to absorb the attention of the legislature. The range of objects upon which public money might be expended, hitherto confined mainly to the restricted requirements of civil and military administration, was almost indefinitely enlarged; and necessitated greatly increased demands upon the income and property of the richer classes, demands which soon began to be justified and reinforced by the doctrine of the new economics that the engine of taxation could, and should, be used to bring about a redistribution of wealth. The theory of "taxation for revenue only," which had been adequate for the simpler needs of an earlier generation, sank into neglect, and with it disappeared one of the chief safeguards against excessive taxation.

During this period the principles of the school of free exchange were gradually superseded in every direction except that of foreign trade. At last, however, that one remaining citadel was successfully assaulted from two sides. The commercial and financial depression which overtook the world in 1929 brought home the fact that taxation, and especially direct taxation, was being pressed to a point at which it was becoming not only positively harmful to trade and industry but also a cause of unemployment, and gave rise to a demand for a general revenue tariff which appealed even to free-traders. The depression further accentuated the difficulties from foreign competition and high protective duties under which British trade had been languishing since the war, and fanned the always smouldering agitation against free imports into the flame which ended in the addition of a tariff for protection to a tariff for revenue.

It was a fitting point at which to bring to a close a record of budgets which, in spite of growth and development, had so far remained structurally unaffected throughout the whole period.

The second series of British Budgets, from 1914 to 1920, dealt almost exclusively with the finances of the war, but at the time of its publication, in 1929, we noted that the question whether the existing scale of taxation could be increased or even maintained was forcing itself rapidly to the front. The events of the last three years, if they have not furnished a conclusive answer to this question, have at least made apparent to the world the results of the long continued expansion of Governmental expenditure, and brought into sharp relief the two schools of thought which will doubtless continue to sway the fiscal and economic destinies of this country—that which holds that industrial progress and the maintenance of an adequate standard of living depend on limitation of expenditure and taxation, and the other which rests all its hopes of continued social progress on increasing public expenditure upon the social services and a further extension of the functions of the State. The evolution of this situation to its dramatic climax may be traced throughout the budgets of the present series, and especially those of the two chief protagonists, Mr. Churchill and Lord Snowden; and the future of our public finance, and much besides, depends on the possibility of continuing to find some practical compromise between the two seemingly incompatible ideals of capitalism and socialism.

But it is not within the province of a publication of this character to intervene in this great controversy. Our humbler task has been to follow once again in the footsteps of the first Lord Iddesleigh, and endeavour to provide another convenient summary of the financial measures of recent years; and to illustrate, by quotation and comment as well as by statistical tables, the actual growth of public expenditure in all its forms and the various methods by which taxation has been expanded to meet the growing demands of the State. One consideration, however, emerges from this survey which will not be disputed by either party, the extreme difficulty, under existing conditions, of any further increase in the burden of taxation without a fatal reaction in the industrial production of the nation, upon which both the national income and the revenue derived from it must ultimately depend.

The general plan of this book is the same as that laid down in the first series and followed in the second. The object of all three has been to give condensed but as far as possible readable accounts of each separate budget speech with the discussions which accompanied it, and to bring out, by quotations or summaries, the opposing arguments on any important question raised in them. The budget tables follow, and Part II contains a series of chapters analysing and commenting on expenditure and taxation, direct and indirect, and dealing with other questions which could not be treated in the main text.

The Tables which conclude this volume will enable the reader, in conjunction with similar Tables in the previous volumes, to trace the development of, and changes in, the different items of revenue and the totals of revenue and expenditure since the beginning of our period. It need only be added that the present volume brings the story down to the end of the summer session of 1932, and therefore does not attempt to deal in detail with the Conversion operations or the results of the Lausanne and Ottawa Conferences.

We have to thank the Controller of H.M. Stationery Office for permission to reproduce tables, or parts of them, and also to make quotations from various Government publications and reports.

B. M.
C. O. G.

20th September, 1932.

THE preparation of this and the previous volume of *British Budgets* extended over five and a half years, a long collaboration which was suddenly ended just as our task was completed. The manuscript had been sent to the printers, the first proofs were coming through, and in a few weeks the book would have been out of our hands, when, on 28th October, Sir Bernard Mallet was struck down by pneumonia.

C. O. G.

November, 1932.

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PART I.

BUDGET STATEMENTS, DISCUSSIONS AND TABLES.

THE RIGHT HONOURABLE SIR ROBERT STEVENSON HORNE, G.B.E., K.C., M.P.

FIRST BUDGET, 1921-22.

The Budget was opened by Mr. Chamberlain, not by the Chancellor of the Exchequer, 3 but it had been prepared by the latter. 4 The 1920 Estimates had proved accurate in the aggregate 4 but there were wide divergencies in many constituent items 4 and Special Miscellaneous Revenue was disappointing. 5 The total debt had been reduced by £256 million, 5 internal debt by £139 million, 6 and external debt by £117 million. 6 This year, there was an Ordinary and an Extraordinary Budget. 7 The Ordinary Budget, 7 the Estimates in which, as shown in the table 8 differed widely from the previous year's receipts 9 provided for an Ordinary surplus of £84 million, 9 while the surplus in the Extraordinary Budget was £93½ million. 9 But owing to further liabilities, the ultimate surplus was not expected to exceed £80 million. 10 Mr. Chamberlain maintained it was desirable to reduce debt, not taxation, 10 supporting his thesis with an analysis of next year's revenue. 11 But there were to be one or two minor changes, 12 including the abolition of the disappointing year-old surtax on cigars and a change in that on wine, 12 and a tightening up of income-tax law. 13 The winding up of the excess profits duty 14 left various promises of previous Chancellors to be redeemed, 14 and the difficult question of stocks. 15 The only real surprise of the budget was the Conversion Loan, 15 the terms of which were criticised as being too generous. 16 Mr. Chamberlain concluded his speech, 16 and was followed by Mr. Asquith. 17 The Labour Party's attitude to the budget 18 was expounded by Mr. Graham. 18 The budget gave rise to no outstanding debates. 19 Discussion centred mainly round the urgent need for economy, 19 on which L.-Commr. Hilton Young preached an able sermon. 20 It was said we were being bled to death by taxation 21 and various tax reductions were suggested. 21 Income-tax changes embodied in the dropped Revenue Bill, 22 including the abolition of the three years' average, were criticised, 22 as was the corporation profits tax, 23 the application of which to Co-operative Societies gave rise to much discussion 23 and a Government defeat. 24 Many minor concessions were made during the passage of the Bill. 24. At the third reading, Mr. Mosley moved an amendment, 24 and in the subsequent debate Sir Robert Horne defended the budget estimates, 25 and Mr. Thomas made a characteristic speech. 25 The Bill was read a third time and then rapidly followed the final stages 26 of a budget described as humdrum, the revenue side of which was uninteresting and the expenditure side displayed a signal failure to reduce expenditure. 26 - - - - - - - - pp. 3-27

SECOND BUDGET, 1922-23.

Introduction. 27 The previous year's finances had, on the whole, been disappointing. 28 Customs and Excise showed a surplus, 28 Inland Revenue a large deficit, 28 and Miscellaneous Revenue a substantial surplus, 29 while expenditure had fallen below the estimate. 29 In spite of a surplus, the total debt had increased, 29 although a reduction had been made in the external debt, 30 and in the floating debt. 30 The current year's estimates 31 did not embody all the Geddes cuts, 31 and included no provision for debt redemption. 32 The 1922-23 revenue estimates showed a decline, 32 particularly Inland Revenue and Miscellaneous Receipts. 32 The statutory companies' exemption from corporation profits tax was to be extended, 33 and there were to be several income-tax changes. 33 The anomalous system of assessing employees 33 was to be changed, 34 evasion trusts were to be countered, 34 as also were one-man companies, 35 but difficulties of distinguishing *bona-fide* companies 35 led to amendments, 36 and exemption from corporation profits tax was granted. 37 There were differences of opinion as to the morality of tax evasion. 37 There was to be a new property re-valuation, 37 to come into force in 1923, with new repairs allowances. 38 Agricultural profits, 38 which had always received special treatment, 38 were to be assessed for income-tax, not as recommended by the Royal Commission, 39 but on once instead of twice the annual value, 39 which gave rise to criticism, 40 as did also the reduction on amenity land. 41 There was a further minor change. 41 As regards excess profits duty, arrears were to be payable in instalments, 41 and the Gittus decision gave rise to concessions, 42 which did not satisfy the business interests. 42 A substantial reduction of postal charges 43 and telephone charges was announced. 44 The Chancellor, with a surplus of £38 million, 44 if all debt redemption were suspended, 44 decided, in view of need to stimulate trade, to use it, 45 by reducing taxation, taking 1*s*. off the income-tax, 45 and reducing the duty on tea, 46 cocoa, coffee, and chicory. 47 Sir Robert Horne, in conclusion, claimed certain merits for the budget, 47 which were disputed by Mr. Asquith, 47 and Mr. Clynes. 48 The Finance Bill passed its various stages without delay, 49 many minor concessions being granted. 49 The critics attacked the expenditure estimates, 49 and the suspension of debt redemption, 50 while the income-tax reduction, welcomed by Mr. Asquith, 51 was not generally accepted as a cure for trade depression, 51 Government economy being suggested as a better cure. 52 The budget was widely stigmatised as a rich man's budget, 53 but this Mr. Bonar Law indignantly denied. 53 The official attitude of Labour to the budget, 54 as expounded by Colonel Wedgwood, 55 was criticised by the Chancellor, who commented on our increasing financial stability 55 in his final speech on the budget. 56 The fundamental defect of this budget was the extraordinary inaccuracy of the expenditure estimates. 56 - - - - - - - - pp. 27-57

THE RIGHT HONOURABLE STANLEY BALDWIN, M.P.

FIRST BUDGET, 1923-24.

After the Carlton Club meeting, 58 where Mr. Bonar Law and Mr. Baldwin took prominent parts, 58 the Coalition broke up 58 and a General Election gave the Conservatives a large majority. 59 Mr. Baldwin, opening his budget, disclosed a huge surplus. 59 A small revenue excess, hiding large divergencies under Customs and Excise, 60 Inland Revenue, 60 including two disappointing items, 61 and Special Receipts, 61 was entirely overshadowed by savings on Consolidated Fund 61 and Supply Services. 62 The bad forecasting was criticised 62 but was defended by Sir Robert Horne. 63 In spite of the surplus, the total debt had increased, 64 but improvements were claimed in both foreign 64 and internal debt. 65 For the current year, Supply Estimates 65 (with no special provision for Supplementary Estimates) 65 and Consolidated Fund charges showed substantial reductions, and 66 the proposed new sinking fund added little or nothing. 66 The revenue estimates were also down, Customs and Excise falling less than 67 Inland Revenue. 67 Further measures to meet tax evasion were announced. 68 Mr. Baldwin, in view of possible future deficits, 68 considered a tax on betting 69 as a source of future revenue. 69 Budget changes included lower Post Office charges, 70 but no reduction on tea or sugar, 70 although beer prices were to be reduced 71 by means of a rebate 71 of £1 per barrel. 72 The duty on sweetened table waters was reduced, 72 but less than the trade desired, 73 while the cider duty was abolished. 73 Mr. Baldwin took a further sixpence off income-tax 73 for reasons hotly contested, 74 and halved the corporation profits tax, 74 thus leaving a small estimated surplus. 75 When the budget speech ended, 75 Mr. Ramsay Macdonald rose to criticise. 75 The proposed sinking fund was criticised by Mr. Lees-Smith, 76 Mr. Hilton Young, 77 and Mr. Asquith, 77 and Mr. Baldwin replied. 78 The National Liberals 78 preferred tax reduction to debt reduction, 78 Mr. Asquith steered a middle course, 79 and Labour wanted greater debt reduction, 79 a policy with which Sir Robert Horne disagreed. 80 Mr. Snowden's theory of tax remission 80 was disputed by Mr. Baldwin. 81 The beer duty reduction provoked Mr. Asquith and Mrs. Wintringham, 81 and the temperance movement to criticise 82 Mr. Baldwin's policy 82 and the small part borne by the brewers. 83 Mr. Bonar Law was compelled by ill-health to resign, and 83 Mr. Baldwin became Premier, but did not relinquish the Chancellorship. 84 The property assessment agitation 84 led to increased repairs allowances, etc., 85 and to criticism 85 and reduction of the inhabited house duty. 85 There were also minor concessions 86 and a change in the land valuation procedure 86 which ruffled the House 87 but left Mr. Baldwin unmoved. 87 A new double taxation clause was added on report. 88 At the third reading, Mr. Snowden, 88 Mr. Hilton Young, 89 Sir William Joynson Hicks, 89 and Mr. Gould took part, 90 and Mr. Baldwin concluded, 90 giving details of the debt settlement 90 which he defended. 91 The last stages of 91 a budget essentially orthodox rather than outstanding. 92 - pp. 57-92

THE RIGHT HONOURABLE PHILIP SNOWDEN, M.P.

FIRST BUDGET, 1924-25.

Mr. McKenna declined the Chancellorship, 93 and Mr. Baldwin, openly embracing Protection, 93 appealed unsuccessfully to the electorate 94 and the first British Labour Government resulted. 94 Mr. Snowden, opening his budget, 95 analysed the past year's surplus of £48 million, to which Customs and Excise, 95 motor vehicle duties, 95 Inland Revenue, 96 and non-tax revenue had all contributed. 96 On the expenditure side, Consolidated Fund Services had exceeded estimates 96 but Supply Services showed savings of £30 million. 97 He dealt with the National Debt 97 and the current year's estimates of expenditure 97 and revenue, 98 and then gave reasons 98 for declining to accept the Conservative Preference proposals. 99 Budget changes included minor Inland Revenue concessions, 99 lower part-year vehicle licences, 99 other minor changes, 100 one denounced as retrospective, 100 and reduced telephone charges, but no penny post. 100 A heavy reduction of the sugar duty 101 had repercussions 101 on the British beet industry. 102 The other breakfast-table duties were reduced 102 and the duty on certain table waters abolished. 103 The repeal of the McKenna duties 103 led to bitter opposition. 104 The final indirect tax changes were entertainments duty relief 104 and new methylated spirits regulations. 105 Income-tax rates remained unchanged 105 but the inhabited house duty 106 and the corporation profits tax 106 were abolished, 106 leaving an estimated surplus of £4 million. 107 After some significant remarks 107 on land valuation and taxation 107 Mr. Snowden concluded his speech, 108 and was followed by Sir Robert Horne 109 and Mr. Asquith. 109 The estimates gave rise to criticism 110 and a significant comment. 110 The merits of direct and indirect taxation were discussed by Sir Robert Horne, 110 Mr. Pethick Lawrence, 111 Sir John Marriott, 112 Sir Arthur Samuel, 112 and Mr. Neville Chamberlain. 112 Mr. Snowden was accused of aggravating the unemployment problem. 113 During the passage of the Bill, minor concessions were made. 114 The debate on the Conservative Preference Resolutions 114 produced speeches from Sir Philip Lloyd-Greame, 115 Mr. J. H. Thomas, 115 Mr. Snowden, 116 Mr. Asquith, 116 Major-Gen. Seely, 117 Mr. H. A. L. Fisher, 118 Mr. Baldwin, 118 who described his ideal Commonwealth, 119 Dr. Haden Guest, 119 and Mr. Austen

Chamberlain, the Resolutions being defeated by narrow majorities. 119 The final stages of a budget, 120 sharply criticised by Sir Henry Buckingham, Mr. Neville Chamberlain, 120 and Sir John Marriott, 120 but welcomed by Liberals, while most Conservatives felt relief 121 in view of the opinions recently expressed 122 by Mr. Snowden. 122 But the Liberals had the whip hand 123 and fundamentally influenced 123 a budget notable in many respects. 124 - pp. 93-124

THE RIGHT HONOURABLE WINSTON SPENCER CHURCHILL, C.H., M.P.

FIRST BUDGET, 1925-26.

Mr. Churchill, appointed Chancellor of the Exchequer after his return to the Conservative Party, opened his budget 125 with a review of the past year 126 and of debt redemption, 126 and commenting on the disappointing increase in the current expenditure estimates, hoped for a progressive decrease in the future. 127 Estimated revenue gave a surplus of £26,600,000. 127 He announced new proposals 128 including the return to the gold standard. 128 The surplus was insufficient for his schemes and was to be increased by higher estate duties, 129 new duties on silk and hops, 129 and the reimposition of the McKenna duties. 130 Looking into the future 131 he pointed to the automatic increase in the cost of the existing old age pension scheme 131 and the new widows', orphans', and old age pensions schemes, 132 against which he set the falling cost of war pensions. 132 No charge would be incurred in the current year. 133 The distribution of the surplus on Imperial Preference extensions, 133 super-tax reductions, 134 the reduction of income-tax from 4*s*. 6*d*. to 4*s*., and increased relief to earned incomes 134 brought the budget speech to a conclusion. 135 The next day 135 Mr. Snowden opened the real attack, 135 doubting the promised future reduction of expenditure, 136 and criticising the pensions scheme, 136 the super-tax reduction, 137 and the favourable treatment 137 of the direct taxpayer. 138 He was followed by Sir Alfred Mond, 138 Sir Robert Horne, Mr. Pethick Lawrence, 139 Mr. Runciman, 139 and Mr. Graham, and Mr. Churchill, replying, dealt with the pension scheme. 140 At the second reading, Mr. Snowden discussed the proportion of direct to indirect taxation 140 and Mr. Churchill replied. 141 Mr. Hilton Young maintained that the burden of taxation was out of proportion to national wealth, 142 but Socialist economists such as Mr. Lees-Smith and Mr. Dalton maintained that high direct taxation was not detrimental to industry, a statement partially true. 143 The super-tax reduction was described as a dole to the rich 145 and Sir Alfred Mond and Mr. Churchill replied. 146 The tea duty was discussed. 146 The Preference proposals were not opposed by some Labour Members 146 but the protectionist character of the silk and other duties was violently criticised by Mr. Wedgwood Benn, Mr. Lloyd George, and Mr. Snowden, 147 while Mr. Graham and Sir Alfred Mond commented on the growing "tariffism." 148 The motor industry was not vitally affected. 149 The silk duties were again criticised 149 by Mr. Runciman and Mr. Snowden, 149 and defended 150 by

Mr. Churchill on various grounds, 150 and Mr. Snowden summed up 151 on the protectionist tendency of the duties. 151 After the general criticisms of the third reading debate 152 and a helpful speech from Mr. Graham, 153 Mr. Churchill made his final defence of a budget 153 which had met with a mixed reception 154 and was noteworthy for its ingenuity and its grave extension of public expenditure. 155 - - - - - - - pp. 125-155

SECOND BUDGET, 1926-27.

The talk of economy in the King's Speech 156 and elsewhere 156 culminated in the Economy Bill 157 to save £8 or £10 million a year. 157 Speeches on economy were delivered by Mr. Snowden, Sir Robert Horne, 158 Sir Frederick Wise, 158 and Mr. Hilton Young, 159 and Mr. Snowden spoke 159 on additional taxation, 159 but they had little practical effect. 159 The budget speech opened with a survey of 1925-26 ; customs and excise 160 and inland revenue had fulfilled expectations, 160 with minor variations, 161 and non-tax revenue showed a surplus of £13 million, but owing to the coal subsidy, there was a deficit of £14 million. 161 After commenting on the need for economy, 161 the return to the gold standard, 162 and the success of the silk duties, 163 Mr. Churchill dealt with the current estimates, which showed a prospective deficit of £7,900,000, and to obtain increased revenue, 163 he proposed certain income-tax changes, new " optional " taxation on betting, 164 a safeguarding duty on wrapping paper, the extension of the McKenna duties to commercial cars, and the renewal of the key industry duty. 165 He then dealt with some minor changes, 165 the stabilisation of existing preferences, 166 the Road Fund and increased motor vehicles duties, 166 and the shortening of brewers' credit. 167 He now had a surplus of £14 million 168 and after talking of the debt, 168 he said last year's deficit was to be made good, 168 which occasioned comments of varying character 169 on debt reduction. 170 Budget critics included Mr. Snowden, who called it the budget of a profligate and a bankrupt, 170 Sir Robert Horne, 170 and others, 171 and Mr. Churchill replied, 171 pointing out the merits of " optional " taxation. 172 The coal stoppage 172 affected the tone of the subsequent debates. 173 The second reading brought speeches from Mr. Snowden, Mr. Graham, 173 Mr. Runciman, 173 and Mr. Churchill, 174 much of the discussion turning on the new betting duty, 175 which had been in the air for some years, 175 and was now attacked on moral and other grounds by Mr. Snowden 175 and others, 176 some maintaining that it would increase betting, 177 but Mr. Churchill's estimate was based on the opposite assumption. 178 There were other objections, 178 but Mr. Churchill's case for the tax was not seriously impaired, although he agreed to reduce the rate. 178 The reduction of the Road Fund was strenuously opposed by Mr. Snowden 179 and Mr. Lloyd George, 179 but Mr. Churchill's reply seemed convincing, 179 and the discussion turned to other points. 180 The annual tea debate 180 turned on tax incidence, 181 although Mr. Churchill spoke sympathetically of a reduction on tea. 181 Then followed discussions on the sugar duty, 181 the stabilisation of preferences, 182 and

Imperial Preference in general, 182 and the key industry duties came in for some criticism, 183 as did the wrapping paper duty. 183 At the third reading, the questions dealt with included that of "communal" expenditure, 184 which was also raised in the Lords, 185 and that of losses from the coal stoppage. 185 The real interest of the financial discussions 186 was in their treatment of economy. 186 - - - - - - - - - pp. 156-187

THIRD BUDGET, 1927-28.

Mr. Churchill opened with comments on the coal stoppage, 187 and its effects on revenue 187 and expenditure; 188 the effects had been less than might have been expected. 188 With revenue down, 189 and expenditure up, there had been a deficit of £36½ million. 189 The current expenditure estimates of £818 million, the increase in which he explained away, 190 and £796 million from revenue, 191—which included many recent additions—191 and the need to increase the sinking fund, left him with £35 to £40 million to find this year. 192 He announced income- and super-tax modifications, 192 new duties on pottery and tyres, a revision of the match duty, 193 increased duties on tobacco 193 and foreign wines, 193 a new duty on British wines, 194 and "windfall" receipts from the Road Fund, the curtailment of brewers' credit, and a third moiety of Schedule A during the year, 194 thus enabling the sinking fund to be raised to £65 million, while leaving an estimated surplus of £1½ million. 195 This concluded the speech. 195 Subsequent discussion 196 revolved round tax incidence, 196 the duty on tyres 197 and its protective effect, 197 the increased and new wine duties, 198 the tobacco duty 198 and high profits in the trade, 199 the protective effects of the revised match duty, 200 the translucent pottery duty and safeguarding generally, 201 the additional Schedule A instalment, 202 and the "highway robbery" of the Road Fund. 202 The second reading debate was discursive 203 with much talk on tax incidence and effects 204 and on economy, 204 but Mr. Churchill said he had never known a more favourable consensus of opinion. 205 At the Committee Stage, there was further discussion on Imperial Preference, the tobacco duty, 206 the pottery duty, the taxation of co-operative societies, and the complexity of income-tax law, and Mr. Churchill replied. 207 Lengthy discussions on the proposals for preventing tax avoidance 207 brought forth examples of one-man companies, 208 but business interests still objected, 208 although the Attorney-General showed that their fears of unduly inquisitorial departmental powers were exaggerated. 209 There were further debates on the raiding of the Road Fund, which Mr. Churchill claimed was only an alternative to increased taxation; 209 Mr. Snowden moved the repeal of the betting duty, 210 while the sugar duty 211 and its hampering effects on industry were denounced, 211 and amendments were moved to reduce the heavy tax burden on the middle classes. 212 Various topics were dealt with on Report 212 and at the third reading, 212 including economy and deflation, 213 and Mr. McNeill replied. 213 This budget, a dexterous budget, 214 passed its final stages uneventfully. 214 - - - - - - - pp. 187-214

FOURTH BUDGET, 1928-29.

The previous year had ended with a surplus. 214 Mr. Churchill, after dealing with the National Debt 215 and savings certificates, 215 announced that a new Fixed Debt Charge of £355 million would be instituted 216 and specially increased in the current year to £369 million. 216 There was to be a change in the form of National Accounts 217 which showed expenditure from 1924 to 1928 in a favourable light. 217 The 1928-29 estimates of expenditure 218 and revenue, including minor changes in customs and excise, 218 and inland revenue on existing basis, 219 showed a prospective surplus of £6 million. 220 The relief of industry 220 by the de-rating scheme, 220 which distinguished between productive industry and the distributing trades 220 was described 221 with the procedure to be followed 221 and the accompanying local government reform. 222 The surplus of last year was to be carried forward 222 and a duty imposed on oils, but the sugar duty was to be reduced 222 and children's allowances raised, while the prospective surplus was to form a suspensory fund. 223 This brought to an end the budget speech. 224 Subsequent critics included Mr. Snowden 224 and Mr. Lloyd George, who criticised the rating relief, 225 replies coming from Sir P. Cunliffe Lister 226 and Mr. Chamberlain. 226 Other speakers were Mr. Runciman 227, Sir Robert Horne, Col. Howard Bury, 228 and Lord Hartington. 228 Later, the tea duty raised questions of incidence 229 and Mr. Churchill announced exemption of kerosene from the new oil duty. 229 Sugar 230 and mechanical lighters 230 gave rise to discussion 230 as did the duty on buttons 231 and the sinking fund, a subject dealt with by many, 231 including Mr. Runciman 232 and Mr. Grenfell, 233 and Sir L. Worthington Evans, in Mr. Churchill's absence, 233 replied 233 later. 234 At second reading, Mr. Snowden moved rejection 234 and Mr. Churchill replied. 235 The de-rating scheme was attacked by Sir John Simon, Sir Robert Horne, 236 and Lord Hugh Cecil, 237 and the debt policy by Mr. Grenfell 238 and Mr. Dalton. 238 In Committee, the tea duty 239 and oil duty were discussed 240 and amendments moved, 241 and there were further discussions on sugar 241 and mechanical lighters, 242 and on the extension of safeguarding to iron and steel 243 on which there were differences of opinion among Conservatives. 244 Speeches on the new Fixed Debt Charge came from Mr. Gillett, Mr. Churchill, 244 and Mr. Pethick Lawrence, 245 and other topics, including surtax, were discussed. 246 In Committee, the betting duty was reduced and its ultimate repeal foreshadowed, 246 and a surtax grievance 247 and taxation of co-operative societies were discussed. 248 The introduction of the Currency and Bank Note Bill 248 aroused some criticism. 249 The Report Stage of the Finance Bill 250 was soon followed by third reading, when Mr. Lloyd George asserted that the Bill had been so altered that a revised budget statement was necessary, 250 and Mr. Churchill replied. 251 The last stages 252 of a great budget. 252 . . . . pp. 214-253

FIFTH BUDGET, 1929-30.

Mr. Churchill opened with a brilliant speech, in tone an election manifesto, 253 giving a survey of his five years during which conditions on the whole had much improved. 254 He claimed to have made economies, 255 and defended the return to the gold standard. 255 He dealt with the National Debt, 256 the annual charge for which had increased, 256 then with the 1929-30 estimates of expenditure 256 and revenue, optimistic estimates giving on existing basis a prospective surplus of nearly £12 million. 257 Remarks on the Suspensory Fund 258 and a review of revenue changes during his five years 258 led up to his tax proposals, including repeal of the betting duty with the imposition of licence duties on bookmakers' telephones, 259 increased licence duties on brewers, distillers, and tobacco manufacturers, but reduction of liquor retail licence duties. 259 Mr. Churchill, after criticising the Liberal policy of borrowing for roads and public works, 260 proposed the abolition of the railway passenger duty, the capital equivalent of which was to be spent by the companies on transport development, 261 then announced that agricultural de-rating was to be advanced at a cost of £2½ million, leaving a prospective surplus of £10¼ million 261 with which he repealed the tea duty, 262 a change of doubtful merit, 262 and left £4 million to go to the Suspensory Fund. After announcing that part of the budget provisions would be postponed to a second Finance Bill after the General Election 262 Mr. Churchill concluded his speech. 263 In the later discussion on the tea duty remission, the speakers included Colonel Gretton, and Mr. Snowden, who also criticised the sinking fund operations, 264 fictitious surpluses, 264 silk duties and decreases of liquor licences, and spoke of Mr. Churchill's "career of financial profligacy." 265 Mr. Runciman attacked his handling of public debt, 266 a question on which Sir Robert Horne, Sir L. Worthington Evans, 266 and Mr. Gillett also spoke. 267 The gold standard was discussed by Sir Robert Horne 267 and Mr. Mond, 267 and expenditure by Mr. Graham. 268 Mr. Snowden made a sensational attack on our continental debt settlements and the Balfour Note, 268 provoking a lively debate in which Sir E. Hilton Young, Sir L. Worthington Evans, Mr. Ramsay MacDonald and Mr. Churchill took part. 269 Mr. Graham reviewed income-tax statistics and industrial savings, 270 and Mr. Snowden and Mr. Churchill spoke again on the betting duty. 271 On second reading, Mr. A. M. Samuel reverted to the question of industrial savings, and direct and indirect taxation, 271 which drew a reply from Mr. Dalton, who maintained that national wealth could provide increased expenditure on social services. 272 The first Finance Bill passed the Lords on May 8th, but the second was dropped by the Labour Government after the election. 272 Mr. Churchill's financial administration 273 might be defended, 274 but it had many serious defects, 274 (although the effects of the economic depression must not be ignored), 276 and his monetary policy 276 contributed substantially to the unsatisfactory position which was to culminate under Mr. Snowden. 276 - pp. 253-277

THE RIGHT HONOURABLE PHILIP SNOWDEN, M.P.

SECOND BUDGET, 1930-31.

Mr. Snowden's speech, plain and unsensational in tone if not in effect, 278 had been preceded by lengthy debates 278 on the problem of unemployment, 279 and the rival party cures. 280 Mr. Snowden, who had long admitted the seriousness of the financial situation, 280 announced a deficit of £14½ million, revenue being down 281 and expenditure up, 281 but debt had been reduced. 281 He proposed to provide for the past year's deficit and all future deficits. 282 The current year's estimates showed a prospective deficit of £42¼ million 283 to be partially met from the Suspensory Fund. The bookmakers' certificates duty was abolished, and certain safeguarding duties were to lapse, but the McKenna duties were to remain for the present. 284 The beer duty was to be raised, 285 minor changes made in Inland Revenue law to prevent tax avoidance, 285 and a new assessment of land values prepared. 286 The standard rate of income-tax was raised by 6*d.*, with revised graduation to relieve smaller incomes, 286 surtax raised and amended, 287 and the estate duty raised, 287 so the deficit was turned into a small estimated surplus. 287 The budget, with " no direct burden on industry," 288 gave little satisfaction in any quarter. 289 Mr. Brown expressed the disappointment of the Labour Party, 290 and Mr. Churchill, contrasting Socialist with Conservative ideas of taxation, 290 contested the justification for any increase. 291 Mr. Snowden, in an uncompromising reply, said the deficit was due to Mr. Churchill's mistaken estimates. 291 Mr. Lloyd George supported the budget but deplored eleemosynary legislation. 292 The effect of increased direct taxation was the main subject of the Opposition attack 293 elaborated by various speakers, 293 and the Government reply 294 was perhaps of limited application. 295 Sir Herbert Samuel spoke strongly against high taxation, 295 and especially taxation of reserves, 296 and Mr. Graham expressed sympathy. 297 Captain Bourne moved an amendment of the estate duty scale, 297 but Mr. Snowden opposed 298 all amendments at first, 298 although becoming somewhat more moderate in Committee. 300 Progress in Committee was slow, 300 the Chancellor often being far from conciliatory and the Opposition provocative, 301 while obscure drafting caused delay. 301 One-man companies 302 were discussed, 303 as were aggregation of insurance policies with deceased's estates, the quinquennial valuation 304 and its unification, 305 and inherently wasting assets 305 on which the Government narrowly escaped defeat, 307 but Mr. Churchill's attempt to follow this up failed. 307 Lord Wolmer's proposal for the special assessment of agricultural property for death duties 308 was opposed by Mr. Pethick Lawrence, but Mr. Leif Jones thought the complaint of the landed interests justified. 309 The proposal to make good last year's deficit in the next three years was criticised 309 by various speakers, 310 including Sir E. Hilton Young, who denounced Mr. Snowden's "devotion to the formal logic of public finance." 311 At the third reading 311 the speeches of Mr. Leif Jones 312 and Mr. Churchill deserve special notice. 312 This budget, the weaknesses of which were soon to become apparent, 313 passed rapidly through its final stages. 313 - pp. 278-313

THIRD BUDGET, 1931-32.

After the momentous Economy debate 314 when Mr. Snowden admitted the gravity of the situation, 314 he was taken ill 315 but was able to open the budget in person. 315 A printed statement 316 gave details of Inland Revenue, 316 Customs and Excise, and other revenue 316 and expenditure for 1930-31, 317 and of debt reduction, 317 unapproached by any other nation. 318 But the austere debt policy 318 introduced by Mr. Snowden in 1930 319 was to be dropped. 319 The current estimates for Inland Revenue, 319 Customs and Excise, 320 and other revenue 320 left a prospective deficit of £37 million. 320 Changes were to be made 321 affecting light motor cycles 321 and income-tax law, 322 and the collection of income-tax 322 was to be centralised. 323 To a revenue tariff 323 Mr. Snowden vowed he would never be a party, 324 and proposed to bridge the deficit 324 by £20 million from the Exchange Account, 325 £10 million from advancing the collection 325 of Schedules B, D and E income-tax, 326 and £7½ million from a duty he disliked, 326 that on hydrocarbon oils, 327 leaving the small surplus of £134,000. 327 Failing economies or an improvement in trade, he said, 328 a heavy increase in taxation would be inevitable next year. 328 Details of the proposed tax on land values 329 brought the budget speech to an end. 329 In a subsequent debate, Mr. Chamberlain attacked the budget, 330 Sir Donald Maclean blessed it, 331 and Mr. Oliver Stanley called it a gamble. 331 L.-Commr. Kenworthy's comments on expenditure 332 provoked Mr. Robert Boothby, 332 while the Liberal approval of the budget aroused Brig.-Gen. Croft. 333 Mr. Winston Churchill 333 characteristically criticised 334 and Sir Herbert Samuel praised the budget. 334 The estimates, criticised by the Opposition, 335 were defended by Mr. Pethick Lawrence 336 who, 336 with Mr. Graham, also defended the Unemployment Fund policy. 337 The income-tax instalments payments aroused controversy. 337 A few days later, Mr. Snowden described the land value tax, 338 the valuation 338 and its basis, 339 and the exemptions, 339 commenting on some difficulties. 340 The tax was denounced by Sir Wm. Mitchell-Thomson, 340 and defended by Mr. Maclaren 341 and Mr. Lloyd George, 342 Second reading critics included Mr. Chamberlain 342 and Sir John Simon, 343 who were opposed by Sir Stafford Cripps 344 and Colonel Wedgwood. 344 The guillotine's aid was invoked. 345 Liberal disapproval of land tax double taxation 345 was dissolved largely in a compromise formula, 346 ungraciously conceded by Mr. Snowden, 346 who also made other and less important concessions. 347 At the third reading, Mr. Chamberlain 347 and Sir John Simon were among those attacking the Bill, 347 Mr. Lloyd George attacked Sir John Simon, 348 and Mr. Snowden replied to general 348 and land value tax criticism. 349 In the Lords, Lord Parmoor, 350 Lord Peel, 350 and the Marquess of Lothian spoke, 350 the debate turning largely on the land value tax. 351 This budget temporarily relieved the fears of taxpayers, 351 and was a party success, 351 but was, and under the circumstances could only be, a makeshift. 352 . . . . . pp. 314-352

FOURTH BUDGET, 1931-32 (SUPPLEMENTARY).

Faced by a severe financial crisis 353 the Cabinet split on a cut in unemployment benefit 353 and a Coalition Government was formed. 354 When Parliament reassembled 354 the Prime Minister told his story of the crisis, 354 pooh-poohing the idea of a bankers' ramp, 355 and said the new Government would defend the national credit 355 until the crisis had passed. 356 Mr. Henderson, telling his story, 356 objected not to the new Government but to the manner of its formation, 357 and expressed unconditional hostility to cuts in unemployment benefit. 357 Then followed different explanations and opinions of the crisis from Mr. Churchill, 358 Mr. Maxton, 359 Mr. Baldwin, 360 Sir Oswald Mosley, 360 Sir Godfrey Collins, 361 Mr. W. J. Brown, 362 Mr. A. V. Alexander, 362 and Sir Herbert Samuel; the "confidence" division showed a majority of 59 for the Government. 363 When Mr. Snowden opened the supplementary budget 363 he emphasised the need for increased taxes, economies, 364 and cessation of borrowing, 364 in the face of a prospective deficit of £74½ million, 365 and one of £170 million in 1932-33. 365 With economies of £22 million in the current year 366 and reduced provision for debt redemption, 367 the balance required was to come mainly from direct taxation. 367 He increased the standard rate of income-tax from 4*s.* 6*d.* to 5*s.*, and reduced the personal allowances, 367 the children allowance, 368 and the graduation "slice," 368 but increased the earned income allowance. 368 Industry was to be compensated by increased allowances 369 for depreciation and obsolescence. 369 The surtax was increased by 10 per cent. 370 Increases in indirect taxation 370 included a penny a pint on beer, 370 eightpence a lb. on tobacco, 371 twopence a gallon on hydrocarbon oils 371 which aroused little criticism, 372 and increased imposts on entertainments. 372 Provision for conversion of war "Fives" 373 when opportunity offered 373 was to be made in the Finance Bill. 374 The budget speech peroration, 374 punctuated by Opposition interruptions, 375 aroused tumultuous Ministerialist cheering. 375 Subsequent speakers included Mr. Graham, 376 Mr. Runciman, 376 who made an important pronouncement on tariffs, 377 Mr. Wise and others. 377 Next day, Mr. MacDonald moved the second reading of the National Economy Bill 379 providing for cuts for Ministers, M.P.'s, judges, civil and defence services, 379 education and teachers' salaries, 379 doctors and chemists, 379 police, 380 unemployment grants, 380 unemployment benefit, in addition to increases in contributions, 380 limitation of benefits and imposition of a means test. 381 The cuts would save £22 million in the current year 381 and £70 million in 1932-33. 382 The Opposition complained of the injustice, futility, revolutionary character, 382 and incomprehensible illogicality of the proposals, 383 and criticised the basic unemployment figure of 3 million. 383 The cuts aroused opposition and naval unrest. 383 Soon the gold standard was suspended, 384 and the cuts for teachers, police, and defence services were limited to 10 per cent. 384 The aid of the guillotine was invoked. 385 The imposition of a means test 385 was defended, and 385 the third reading of the National Economy Bill 385 secured a majority of 55. 386 The resumed attack on the budget by Mr. Graham, 386 Mr. Baker, 387 and Mr. Dalton, 387 was replied to by Mr. Snowden. 388 Mr. Pethick Lawrence opened the second reading debate. 388 Income-tax changes were criticised, 389 and Mr. Snowden, replying, 389 made a small concession. 389 The main outlines of the budget were defined by Major Elliot. 390 To further Labour criticisms 390 Mr. Snowden made a spirited 391 and sarcastic reply. 391 Then followed quickly the last stages 392 of this drastic, 392 unparalleled, 392 crushing, 393 yet largely inevitable budget 393 of Mr. Snowden, 394 who emerged in something like triumph. 395 - - - - - - - pp. 353-396

THE RIGHT HONOURABLE NEVILLE CHAMBERLAIN, M.P.

FIRST BUDGET, 1932-33.

After the election 397 Mr. Neville Chamberlain became Chancellor of the Exchequer and Mr. Runciman President of the Board of Trade, 397 and many tariff changes followed. 398 Few hoped for reduced taxation, 398 but the budget speech caused some disappointment. 399 A small surplus had been secured without drawing to the full on the exchange account. 399 On the expenditure side, estimated economies had been exceeded, mainly owing to unemployment being less than expected. 399 Mr. Chamberlain gave figures of the previous year's revenue, 400 with details of inland revenue 400 and of debt, 401 and summed up the year as one of "anxiety, difficulty, and hardship." 401 All war payments were left in suspense. 402 Estimating 1932-33 expenditure at £766 million, 402 and with falling Inland Revenue 403 but higher Customs and Excise revenue, 403 including new duties, there was a prospective deficit of £1,700,000. 404 The exchange equalisation account 404 was explained, 404 and then the Chancellor dealt with some minor matters. 405 There was to be no relief for the income-tax payer 405 or for beer, but there was a small change in motor cycle taxation, 405 and the home sugar industry was to be assisted, and special preference given to colonial sugar, 406 while the tea duty was to be reimposed to bridge the gap and produce an estimated surplus of £796,000. 407 A cool reception was accorded 407 to this budget with its increased burdens, 407 and attention was driven towards economy. 408 Sir Robert Horne touched on many points, 409 particularly currency, 409 and provoked further discussion, 410 to which Major Elliot replied. 410 Rather less attention was paid 411 to tariffs. 412 The tea duty 413 gave rise to debate on the incidence of indirect taxation, 413 while the sugar problem 413 and the unsatisfactory position of the silk duties were also discussed, 414 the demand for further protection resulting in Mr. Chamberlain making interim arrangements. 415 The unpopularly heavy taxation of beer was debated, 415 Mr. Churchill intervening. 416 The second reading debate, an " inflation debate," included speeches from Sir Robert Horne, 417 Mr. Amery, 418 and Mr. Churchill, who insisted on the need for economy, 418 a subject on which the Chancellor addressed the bankers. 419 In Committee, criticism of the Exchange Equalisation Fund 420 was replied to by Sir E. Hilton Young, 421 while repeal of the land value tax 421 and increase of the income-tax personal allowances were suggested. 421 At the Report Stage, 422 Mr. Chamberlain, reviewing the financial situation, said further taxation was not inevitable, 422 and thought there was no cause for pessimism. 423 Then followed the final stages 424 of this unsensational budget. 424 - - - - - - - - - - pp. 397-424

BUDGET TABLES 1921-22 *TO* 1932-33. pp. 425-453

PART II.

NOTES AND COMMENTS.

CHAPTER I.

THE GROWTH OF EXPENDITURE.

The trade depression has brought into prominence the questions of public expenditure 457 and high taxation, 457 and their relation to the national income, a recent estimate of which has been made by Mr. W. H. Coates. 457 A Table is given showing changes in National Income, Taxation and Debt, 459 followed by details of local debts 459 which have been rapidly increasing. 460 To get the total annual burden, we must add local rates 461 which have recently fallen 462 and part of employers' insurance contributions, 462 which bring the total close to £1,000 million. 463 What proportion is this of the rapidly falling income of this country, 463 the most heavily taxed in the world ? 463 That the proportion was too great was the opinion of the May Committee 464 and subsequent events seemed to confirm this. 465 Two distinct schools of thought have emerged, that of inflation 466 and that of economy. 466 In the progress towards public economy 467 the chief landmarks are the reports of the Geddes and May Committees 467 and the Economy Bill of 1926, 468 which was caustically criticised by Mr. Snowden. 469 Expenditure continued to increase, 469 as the May Report showed, 470 both on what it termed National Development 470 and the Social Services, 471 the latter increasing sevenfold since 1911, 471 as is shown in the Drage return 471 which raises important questions. 472 An Economy Debate in the Lords in June, 1932, 472 was followed by a speech from Mr. Chamberlain, who announced the appointment of a Committee to consider local expenditure 473 and assured the House that expenditure was being continuously and carefully scrutinised, 474 but deprecated hasty and unnecessary interference. 475 The necessity for securing expenditure on capital goods as the real object of economy was stated by Mr. H. Macmillan. 475 That expenditure on the social services 477 will be unduly cut is unlikely, 477 but their continuance must depend on the capacity of the taxpayer. 477 Such a recovery of national prosperity as took place after the Napeolonic wars is unlikely to be repeated, 478 and there seems no alternative but to reduce expenditure in consonance with the altered economic condition of the country. 478 Note on Local Expenditure and some Financial Provisions of the Local Government Act of 1929. 479 - - - - - - - - - - - pp. 457-483

CHAPTER II.

INLAND REVENUE.

Changes in the income-tax included alterations of the standard rate, 484 and in the system of differentiation and graduation, 484 in earned and children's allowances, 485 and in the exemption limit, 485 increasingly relieving the smaller incomes, 485 but a reversal took place in September, 1931, 486 when the income-tax net was extended, 486 the changes being displayed in a table. 488 Up to £800, the actual rate paid now varied from Nil to 3*s*. 10*d*. in the £. 488 There have also been important changes in the surtax 488 and in the death duties, 488 bringing increasingly steeper graduation. 489 What has been the economic effects of high taxation ? 490 The Colwyn Committee 490 held that working-class standards had not been reduced, 490 and gave a valuable table analysing tax burdens. 491 Direct taxation has played a large part 492 in reducing the incomes of the well-to-do. 493 The Colwyn Committee realised that high direct taxation might have marked effects on industry and employment, 493 but their belief that income-tax cannot generally be shifted 494 has probably had greater effect on practice. 494 The Colwyn Committee, if reporting to-day, would probably give this theory less support. 495 Some details are given of the distribution of direct taxation on various classes. 496 The recent crisis indicated the connection between heavy taxation 497 and an adverse trade balance and currency failure. 498 The effects of heavy taxation 498 in different directions, 499 and on savings, 500 with a possible shortage of capital 501 and its effects in the future are considered. 502 A revision of the whole direct tax system may eventually become unavoidable. 502 - - - - - - - - - - - pp. 484-503

CHAPTER III.

CUSTOMS AND EXCISE.

Our period has seen changes in the financial structure 504 and in wages and prices. 504 The decline in the relative importance of Customs and Excise up to 1931-32 505 is shown in a table, 506 and internal changes 506 in a further table. 507 Alcohol and tobacco are still the mainstay, but the relative importance of the breakfast-table duties, 507 the other pre-war, 508 the war-time, 508 and the new post-war duties has varied. 509 Some details are given of the spirits, 509 beer, 510 tobacco, 510 tea and sugar, 511 and the oil, entertainments, and silk duties. 512 The relapse into Protection really began with the Safeguarding of Industries Act, 1921, 512 which provided for the key industry, 513 depreciated currency and ordinary dumping duties. 513 Tariff policy, reversed by the Labour Government, was again reversed by the Conservatives in 1925, 513 but Protection was only furtive 514 until the crisis of 1931, 514 which sealed the fate of Free Trade. 515 Steps taken to deal with the " terrible risks " of the adverse trade balance included 515 the Abnormal Importations (Customs Duties) Act 515 which resulted in duties of 50 per cent *ad valorem* on, say, 15 per cent. of Class III imports, 516 the Horticultural Products (Emergency Customs Duties) Act 516 which resulted in duties varying with classes and seasons, followed by 517 the introduction of the Import Duties Act 517 with a general duty of 10 per cent. *ad valorem*, 518 and an Advisory Committee to recommend additional duties not exceeding 100 per cent. *ad valorem*, or extension of free list. 518 Following the Cabinet's " agreement to differ," the Bill became law, 519 and the Advisory Committee set to work. 520 With the growth of Protection, Imperial Preference developed 520 almost hand in hand. 521 The 1923 Imperial Economic Conference brought results 521 in 1925. 521 Imperial Preference developed further in 1926, 522 in 1927, 522 in 1928, 522 and rapidly with the recent tariff expansion, finally culminating, in 1932, in differentiation 523 between different parts of the Empire. 523 The chapter concludes with details of the changing proportions of dutiable imports from the Empire. 524 . . . . pp. 504-524

CHAPTER IV.

THE NATIONAL DEBT, INTER-ALLIED DEBTS, AND REPARATIONS.

The great war 525 increased the national debt twelve-fold, and until recently conversion has helped but little in reducing debt. 525 Much more effective have been sinking funds, of three broad types, the specific type, 526 the Old Sinking Fund, 526 and the planned type (like the classic Sinking Fund of 1875). 527 Here follows a brief history of the national debt. In 1920, a surplus of £234 million was budgeted for, 527 and was almost realised. 528 The following year, the same policy was followed but with less happy results, 528 while in 1922, no provision at all was made for debt redemption, but a huge unexpected surplus was realised. 528 In 1923, Mr. Baldwin instituted the New Sinking Fund (1923), 529 which had many weaknesses, 529 but debt redemption did not proceed according to plan, particularly under Mr. Churchill's régime. 530 In 1928, Mr. Churchill abolished the Baldwin sinking fund and reintroduced a fixed annual charge (of £355 million), 530 and the first year specially and successfully increased it, but the following year a deficit appeared, 531 which Mr. Snowden decided to make good, 531 but without success, 532 and in 1931, the crisis came. 532 The debt total has not fallen very rapidly. 532 The interest charge—the best criterion of the debt burden—533 has during the last twelve years 533 similarly shown no satisfactory diminution. 533 Passing to the story of Reparations, the Treaty of Versailles 534 outlined the reparation bill 534 but left the amount to be settled by the Reparations Commission 535 within two years. 535 There followed innumerable Allied Conferences. 535 In March, 1921, sanctions were enforced 536 and in April, the Commission announced a total of £6,600 million as the bill for reparations, 536 but gave no details of how it was calculated. 537 A few days later, the London Conference presented an ultimatum 537 which Germany accepted and for a time met her obligations. 537 Some of the subsequent trouble was due to the incompatible demands 538 of political man, the taxpayer, and of industrial man. 538 Germany's eventual failure to pay resulted in the occupation of the Ruhr. 539 The history of war debt funding really starts with the setting up of the United States Foreign Debt Commission. 539 Then followed the Balfour Note 540 with its various implications 540 which were resented, the Note probably doing more harm than good. 541 Great Britain was the first to fund her debt to America 541 on terms which have been bitterly criticised. 542 The other American debt settlements showed variations 543 which were explained by Mr. Mellon. 543 The amount of cancellation varies 544 according to the assumed basic rate of interest 544 as is shown in the Table. 545 After funding her debt, Great Britain turned for relief to her own debtors, 545 agreements being eventually reached with Italy, 545 France, and others on relatively generous terms, 546 the cancellation varying, as before, 546 according to the basis of calculation. 547 A Table, based on a rate of 5 per cent., 547 serves as a rough guide to the relatively different treatment meted out to our Allies. 548 Resuming the story of Reparations, we come to the Dawes plan 548 with its more lenient terms, 548 which for a time Germany complied with—on paper. 549 Then followed the Young Committee, 549 which, with a new outlook, 550 evolved new terms, 550 based, however, on gold, 550 and provided for a Bank for International Settlements. 551 But Germany had been continuously borrowing heavily from abroad, 551 and then came the world crisis 552 and Lausanne, 552 with its uncertainties. 552 The whole story is a sorry one 553 and it is to be hoped that there may soon be a complete wiping of the slate. 553 - - - - - - - - - - pp. 525-553

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PART I.

BUDGET STATEMENTS, DISCUSSIONS AND TABLES.

SIR ROBERT HORNE'S BUDGETS.

FIRST BUDGET, 1921-22.

April 25, 1921.

THE year 1921 was not a happy one for a Chancellor of the Exchequer. The war had left a heritage of hate and suspicion, confusion and ferment, which two years of peace had aggravated rather than diminished. What the future held none could foretell. At home and abroad, socially and morally, in commerce, industry, and finance, everything was in the melting-pot. The financial problems were endless. With a national debt of over seven thousand millions and an annual expenditure five or six times the pre-war level when measured in a depreciated and fluctuating monetary standard, with trade and industry engulfed in an unprecedented depression from which there seemed little hope of emerging for some time to come, with many nations on the verge of war or bankruptcy, or both, the outlook was black indeed. Such was the position in April, 1921, when Mr. Austen Chamberlain, in the Cabinet changes following Mr. Bonar Law's temporary retirement, became Lord Privy Seal and Leader of the House of Commons, and handed over the post of Chancellor of the Exchequer to Sir Robert Horne. The latter was not destined to open his first budget in person, for the coal strike was reaching a critical stage, and as Sir Robert had to devote so much time and attention to the negotiations then proceeding, it was decided that the budget speech, fixed for April 25th, should be made not by the newly-appointed Chancellor but by his predecessor who had left the Treasury only a few days before.

It had been stated in some quarters that Mr. Chamberlain had prepared the budget and would therefore have no difficulty in making the financial statement, but in his opening sentences he definitely denied this. The budget, he declared, was the work of Sir Robert Horne and not of himself, for at the time he himself left the Exchequer, the current year's revenue estimates were not available, and although naturally aware of the current financial problems, he had taken no decision with regard to any of them except the decision, announced in February, that the excess profits duty would not be renewed. With that he plunged into a review of the preceding year's finances.

The 1920 budget estimates, in spite of unparalleled economic depression, had proved surprisingly accurate—in the aggregate—expenditure, estimated at £1,184 million, having reached £1,195 million, while revenue, exceeding the estimate by £17½ million, amounted to £1,426 million, thus leaving a surplus of £230½ million, compared with an estimated surplus of £234 million. This sum, together with amounts included in expenditure for debt reduction and certain sums lying in Exchequer balances making a grand total of £259½ million, had been applied within the year to the reduction of debt. Mr. Chamberlain, generously acknowledging that " no Finance Minister in the world has wiser or more prudent advisers to help him to frame estimates," could point with satisfaction at the accuracy of his budget estimates as a whole, but there were wide discrepancies in the constituent items.

Expenditure on the Fighting Services had exceeded the original estimates by nearly £62 million, whereas, on the other hand, Civil Services showed a substantial saving, Pensions having been over-estimated by £13 million, loans to Allies and Dominions by £12 million, and Health by £11 million, while the termination of the bread subsidy had saved a further £5 million. On the revenue side, Customs and Excise showed a deficit of £15 million, over £2 million being attributed to the direct effects of the coal strike in the autumn ; spirits were down by £15½ million, tobacco by £7 million, and wine by £3 million, but these deficits had been partially counterbalanced by an excess of £11 million from beer, a beverage which in spite of economic depression and disturbance had contributed to the year's revenue the surprising sum of £123 million. Inland Revenue had exceeded the estimates on practically every head. Income- and super-tax had provided an excess of more than £8 million, and death duties an excess of £2¾ million, while excess profits duty, in spite of post-budget concessions valued at nearly £5 million, fell short of the original budget estimate by less than a million. The only real disappointment was the new corporation profits tax with a yield of only £650,000 instead of £3 million, but this was regarded as a merely temporary failure attributable to difficulties experienced by an overworked revenue department in starting a new tax.

Special miscellaneous revenue had been rather disappointing, largely owing to the depression and the lower prices at which sales could be effected. £155 million from the Ministry of Munitions, £34 million from the Ministry of Shipping, £35 million from sales of meat and bacon by the Ministry of Food, £16 million from the Board of Trade, and numerous other items brought the Special Miscellaneous Revenue total to £288 million, or £14 million less than had been expected. There were other divergencies, including a deficit of £3½ million on postal services, and a surplus of £21 million under the head of special receipts from sundry loans due to unexpected payments of interest and repayments of capital by the Dominions and Allies, but leaving these to explain themselves, Mr. Chamberlain proceeded to review the effects of the year's finances on the National Debt.

On March 31st, 1921, the total dead-weight debt was "estimated" at £7,573 million, a reduction of £256 million within the year. The reduction, substantial as it was, would have been still greater but for the additional cost of repaying foreign debt through adverse exchanges. The practice was still followed of excluding from the total of debt outstanding the amount of accrued interest on savings certificates, the additional premiums (£44 million) due on maturity of National War Bonds, and the interest, due but temporarily in suspense and amounting at that time to £65 million, on our debt to the United States.

Internal debt had been reduced during the year by £139 million, although if allowance be made for accrued but unpaid interest on savings certificates, the net reduction was only £128 million. One of the disappointing features of the year's finances was provided by the floating debt, for instead of an anticipated reduction of £70 million, the amount outstanding had declined by only £37 million. This disappointingly small reduction was attributed by Mr. Chamberlain to the larger reduction of foreign debt, to the amount of Exchequer Bonds maturing during the year, to large obligations under sinking funds, to the amount of stocks and bonds tendered in payment of taxes, and, lastly, to the failure of savings certificates to produce the estimated amount of new money. This failure was accentuated by the concession—granted during the year in deference to representations of local authorities and the National Savings Committee—under which one-half of the new money obtained from the sale of savings certificates was made available for local housing finance.

Mr. Chamberlain gave some interesting figures relating to external debt, pausing for a moment to comment on the disadvantages of such debt. Internal debt, he maintained, transfers wealth, whether by interest payment or capital repayment, from one pocket to another but it does not lessen the pool of national wealth, whereas foreign debt is a drain upon the national resources, adversely affects the exchanges, reduces our purchasing power, and affects our world credit. Difference of opinion might and did exist as to the innocuous character of internal debt, but few would deny the disadvantages attaching to a heavy external dead-weight debt, and general satisfaction was expressed at the reduction of our foreign debt by £117 million during 1920-21. The repayment of our half of the

Anglo-French loan in New York and other payments had reduced our debt in the United States by £75 million, our debt in Canada had been reduced by £20 million, and we had paid off debts in Japan, Spain, the Argentine, Uruguay and Holland, so that with the exception of relatively small amounts owed by us, and an eight million loan from the Straits Settlements and Mauritius, the only foreign debt outside the United States and Canada now outstanding was a loan of less than a million owing in Sweden which was repaid at maturity within a month or two.

The failure of the national accounts to distinguish between ordinary and extraordinary revenue, and between ordinary expenditure and exceptional charges arising out of the war, had in the past given rise to a good deal of criticism. Mr. Chamberlain pointed out that as the termination of these special items of revenue and expenditure approached, the more important it was to distinguish the transient from the permanent for it was only in that way one could obtain a true picture of the financial position. He then explained how Sir Robert Horne had expressed the desire " that I should make this distinction in my statement to the Committee this year and I propose accordingly to do so," in an Ordinary Budget and an Extraordinary Budget, the revenue side of the latter consisting of " Special Revenue arising from the realisation of War Assets," and the expenditure side of " Liquidation of War Commitments."

The estimates for 1921-22 of ordinary expenditure, including Debt Services totalling £345 million, other Consolidated Fund Services amounting to £26 million, and the Supply Services less £66 million for transitory War Services, amounted in all to £974 million. Against this there was an estimated ordinary revenue of £1,058 million, consisting of £964 million from taxation, £60 million from postal services, and £34 million from Crown Lands, sundry loans, and ordinary miscellaneous receipts. The current tax estimates—which were criticized at the time as being far too optimistic and for once the critics proved to be right—were based on existing rates of taxation, for, apart from the abolition of the excess profits duty, there were only two minor changes in rates, neither of which had caused any change in the estimates. It is interesting, therefore, to compare, in the following table, Exchequer receipts for the previous year with the estimates for 1921-22, and to note the substantial differences under the various heads of revenue, owing to or in spite of the widespread economic depression.

ESTIMATED REVENUE FOR 1921-22 COMPARED WITH THE EXCHEQUER RECEIPTS FOR THE PREVIOUS YEAR.

Revenue.	Exchequer Receipts, 1920-1921	Estimates, 1921-1922 (On existing basis of taxation.)	Estimated Revenue 1921-1922, more or less than Exchequer Rects. for 1920-1921.
Customs	£134,003,000	£126,800,000	– £7,203,000
Excise	199,782,000	196,200,000	– 3,582,000
Total Customs and Excise	£333,785,000	£323,000,000	– £10,785,000
Motor Vehicle Duties	£7,073,000	£9,000,000	+ £1,927,000
Estate, etc., Duties	£47,729,000	£48,000,000	+ £271,000
Stamps	26,591,000	21,000,000	– 5,591,000
Land Tax	650,000	600,000	– 50,000
House Duty	1,900,000	1,900,000	—
Income-Tax and Super-Tax	394,146,000	410,000,000	+ 15,854,000
Excess Profits Duty, etc.	219,181,000	120,000,000	– 99,181,000
Corporation Profits Tax	650,000	30,000,000	+ 29,350,000
Land Value Duties	20,000	500,000	+ 480,000
Total Inland Revenue	£690,867,000	£632,000,000	– £58,867,000
Total Tax Revenue	£1,031,725,000	£964,000,000	– £67,725,000
Postal Service	£36,100,000	£43,000,000	+ £6,900,000
Telegraph Service	5,200,000	5,000,000	– 200,000
Telephone Service	8,200,000	12,000,000	+ 3,800,000
Total Post Office	£49,500,000	£60,000,000	+ £10,500,000
Crown Lands	£660,000	£650,000	– £10,000
Receipts from Sundry Loans:			
Ordinary Receipts	991,500	1,000,000	+ 8,500
Special Receipts	29,779,500	11,000,000	– 18,779,500
Miscellaneous Revenue:			
Ordinary Receipts	25,389,000	21,500,000	– 3,889,000
Special Receipts	287,940,000	158,500,000	– 129,440,000
Total Non-Tax Revenue	£394,260,000	£252,650,000	– £141,610,000
Total Revenue	£1,425,985,000	£1,216,650,000	– £209,335,000

The estimates of Customs and Excise, as well as Stamps, were down several millions, as might be expected at such a time, but the Income Tax estimate, largely owing to the system of assessment, showed an advance of nearly sixteen millions over the previous year's receipts, and critics did not fail to point out the defects of a system which, during a period of acute depression, demanded additional millions from the harassed taxpayer. The corporation profits tax which in its first year had been expected to produce only £3 million, or one-tenth of a full year's yield, was estimated this year to produce £30 million, while the defunct excess profits duty, the repeal of which would swell the yield of income-tax and corporation profits tax, was estimated to produce £120 million from arrears during the current year. The post office increases anticipated the fruition of the proposals embodied in the previous budget, while the decreases in the remaining non-tax estimates were due mainly to the gradual but inevitable disappearance of transient war and post-war revenue.

If the estimates were realized, there would be a surplus of ordinary revenue over ordinary expenditure of £84 million, but Mr. Chamberlain warned the committee that against that surplus there would be large claims. The coal stoppage, affecting revenue directly and expenditure both directly and indirectly—directly through the increased expense incurred by the Government, and indirectly through the serious losses to the Railway Companies for which the Government, under the existing agreement, was liable—would, he suggested, wipe out a substantial portion of the credit balance.

There was a further balance on the extraordinary budget, extraordinary revenue—mainly from sales by the Disposal Board—being estimated at £158½ million and extraordinary expenditure at £65 million, liquidation of various war commitments accounting for £27 million, the payments under the Railway Agreement already provided for in the estimates came to £30 million, while relief loans and minor miscellaneous charges explained the remaining £8 millions. No credit was taken in the budget for any reparations payments, Mr. Chamberlain remarking that although these sums were overdue and might possibly soon be paid, it would be wiser to exclude them until they were actually paid.

Summing up the estimates for 1921-22, Mr. Chamberlain said that in view of the further substantial liabilities to be set against the surplus in both the Ordinary and the Extraordinary Budget, the ultimate surplus available for debt redemption might be £80 million, but was not likely to exceed that figure. As the estimates of ordinary expenditure included £23½ million for statutory sinking funds, there would be, on his calculation, possibly £103½ million for debt reduction in the current year, a substantial total but small in comparison with the previous year's figure of £259½ million. But, explained Mr. Chamberlain, depression had succeeded a period of apparent prosperity and the fact of having done so well in the year just closed when trade was booming might be reasonably "pleaded as a justification for moving more slowly in our present difficulty." Could we afford to divert any part of the surplus in relief of taxation? The answer to that question was, he said, bound up with the pressing problems of the debt.

It was desirable, he maintained, to redeem as much debt as possible while prices, although lower than they were, still remained above the permanently lower level he expected them soon to reach. And some redemption was inevitable, for while Chancellor of the Exchequer he had already undertaken to repay at maturity, in November, the 5½ per cent. five-year United Kingdom notes falling due in New York, and to repay in monthly instalments 125 million dollars of Canadian debt, and to meet these and other foreign obligations £80 million in all would be required in the current year. Adding the statutory and contractual obligations in respect of internal debt brought the total required to £113 million. It was proposed to wind up the special contingencies fund instituted under the 1919 Act, and from this and other sources an additional £15 million were expected to be available for debt redemption, but even so, Mr. Chamberlain suggested "it will be clear to the committee that the whole surplus will be required to meet these obligations, and even then will be insufficient without renewing a portion of the internal debt. The expenses and loss involved in the coal strike and the large terminal liabilities under the railway agreement make it impossible for us to do more, but common sense and prudence make it impossible that we should do less."

In further support of his thesis that taxation could not safely be reduced, Mr. Chamberlain analysed the year's revenue and considered the possibility of making ends meet the following year if there were now any reduction of taxation. Special revenue, estimated at £158½ million in the current year, would the next year be comparatively small, while ordinary revenue, which this year included an estimate of £120 million for arrears of the repealed excess profits duty, would be reduced by the much smaller arrears from this duty, and treating as a windfall properly applicable to debt redemption any special miscellaneous revenue still receivable and any surplus of excess profits duty arrears over special expenditure, the ordinary revenue available to meet ordinary expenditure in the following year would not, in Mr. Chamberlain's opinion, exceed £950 million. On the other hand, Ordinary Expenditure in 1922-23, including at least one new and considerable item in the shape of interest on the American debt, could not be estimated on the existing basis at lower than £950 million, a figure which he admitted was too high and must be reduced. He then announced that the Chancellor of the Exchequer, with the authority of the Cabinet, was setting up Treasury machinery to co-operate with the Departments in drastically reducing next year's estimates, but, he said, even if these efforts were successful, the most sanguine could not expect to obtain from ordinary revenue more than £100 million for debt reduction in 1922-23. Mr. Chamberlain suggested that that figure could hardly be regarded as excessive, or even as sufficient, were there no special sources to supplement it, and that, in any case, taxation could safely be remitted only when economies had been secured and expenditure actually reduced.

There were, however, one or two changes which he preferred to call, not reductions of taxation but matters requiring adjustment. His proposal in the last budget to impose *ad valorem* surtaxes of 50 per cent. on sparkling wines and cigars (reduced in the case of sparkling wines to 33⅓ per cent. during the passage of the Bill) had proved to be unremunerative. "The failure of the duties," he said, "has not been due to the additional duties alone. These duties are, of course, amongst the most sensitive of those affected by the sharp depression in trade and my attempt to raise them certainly fell at an unfortunate moment. There is nothing at first sight more reasonable and nothing more universally popular than luxury taxes, but the trouble is that when a thing is really a luxury, and not so deeply ingrained a habit that it has almost become a necessity, if you put heavy taxation upon the luxury, people cease to indulge in it and you lose revenue instead of gaining it. Let others learn by the mistake which I committed."

Mr. Chamberlain said he estimated in 1920 that doubling the existing specific duty on sparkling wines of 3s. 9d. per gallon and imposing a surtax at the amended rate of 33⅓ per cent. would increase the yield from £240,000 to £1¼ million, but the actual receipts for 1920-21 had been only £570,000. It was now proposed to replace the specific and *ad valorem* duties by a single specific duty of 15s. per gallon which, although in effect a lower rate, was estimated to increase the revenue. The Customs surtax on cigars had been even less satisfactory, producing only £325,000 instead of an anticipated yield of £1,360,000, and taking into account its effect on the ordinary cigar duty, had lowered instead of raising the revenue. Consideration had been given to the possibility of modifying the surtax so as to increase consumption, and thus revenue, but it was finally decided, in the interest of the revenue itself, to abolish the surtax altogether, thus leaving imported cigars liable only to the specific duty of 15s. 7d. per lb. This was estimated to produce £570,000, or £245,000 more than the total receipts from both specific and *ad valorem* duties in 1920-21, and more than would have been obtained in the current year had the surtax been continued.

The budget brought no change for the general income-tax payer, but a proposed new clause declaratory of the law gave rise to considerable discussion. Traders, assessed on a three years' average, found themselves faced with heavy income-tax assessments at a time when profits were falling or had entirely disappeared, and it was perhaps hardly surprising that under such circumstances they should scan the statutes for possible loopholes. And they found, or rather hoped they had found, one or two ways of escape. Hundreds of claims for relief had been made by traders whose profits had fallen below the three years' average, some basing their claims on a novel interpretation of an old provision while others maintained the Clause drafted to repeal certain war-time reliefs in the Finance Act of the previous year had failed to do so. Such contentions, Mr. Chamberlain declared, conflicted with both the spirit and the letter of the law, and, in order to avoid protracted litigation which would give rise to much uncertainty and, if successful, derange the year's finances, a clause was to be inserted in the Finance Bill removing all doubts. This was subsequently denounced by critics as retrospective legislation, but Sir Robert Horne speaking at a later stage roundly denied this, saying that in his opinion the Finance Act was perfectly clear upon the point, and that the new clause would in no wise alter the law but would merely prevent confusion and expensive litigation.

The winding up of the excess profits duty emphasised once again the complications and defects of this type of taxation, which by its productivity had become popular during the war in hard-pressed Treasuries throughout the world. In this country the duty was based, broadly, on the principle of taxing the difference between war-time and pre-war profits. It was, therefore, unfitted to form a permanent part of the tax system, and as the years passed, it became more and more difficult, inexpedient and unjust to base taxation on the level of pre-war profits. Mr. Chamberlain remarked that while the circumstances in which the tax originated and which justified its continuance had passed away, its renewal was now unjustifiable on its merits and would deal a heavy blow at any sign of returning trade and prosperity. There was a further important factor—the provision that where a firm charged with duty on its excess profits should in a subsequent accounting period be unfortunate and fail to reach the level of pre-war profits, the Treasury would, so long as the duty remained in force, make repayments to such traders, in certain cases up to the amount of duty paid. Under the existing conditions of depression, the continuance of the duty would, therefore, have entailed enormous repayments in addition to those already incurred during the preceding year.

Further promises made by previous Chancellors of the Exchequer remained to be redeemed. All businesses were to be liable to the tax for the same period, namely, seven years from the beginning of the first taxable accounting period, save in the exceptional cases of new or amalgamated businesses. In the case of amalgamated businesses, the Government proposed that the last accounting period should end on whatever would have been the earliest date, under the other provisions of the Bill, for constituent parts of the amalgamation, but it was recognized that this would have been unfair in certain cases where very large businesses had amalgamated with very small businesses, and a more equitable arrangement was subsequently agreed to and embodied in a new Clause. Another promise to be implemented was that although the rate of duty had been changed in certain years and at different dates in those years, the average of the rates of duty charged was to be the same in all cases.

There remained the question of the valuation of stocks, the subject of much discussion since 1917 when the duty had been raised to 80 per cent. Where a duty has been charged at very high rates on excess profits accruing from rising prices, there is clearly a case for considering the effect of falling prices if the duty terminates during a period of depression. The Government had accepted in principle certain reliefs debated in 1917, but at the time of the budget, the Chancellor was still considering the need for modifying those reliefs in the light of existing conditions. The proposals afterwards put forward by the Government gave rise to considerable criticism which was eventually silenced by substantial concessions. It may be added that the repeal of the excess profits duty carried with it the termination of the corresponding duty on excess mineral rights, but relatively little duty was involved.

The only real surprise in the budget was the announcement concerning the Conversion Loan. Conversion in some form or another had become inevitable, for in addition to floating debt to the tune of £1,275 million, there were Exchequer Bonds and other domestic and foreign obligations amounting to £300 million maturing during the year 1921-22, while in the following year or two, hundreds of millions more of Exchequer Bonds would fall due. After taking expert advice, official and unofficial, Sir Robert Horne had decided that while it was not yet practicable to raise cash to redeem the floating debt, the time had arrived to convert into longer dated securities some of the National War Bonds approaching maturity. He therefore proposed to offer to holders of such Bonds maturing not later than 1st September, 1925, a new 3½ per cent. Conversion Loan, the amount of loan offered for each £100 nominal of War Bonds varying from £163 to £160 according to date of maturity. The Conversion Loan was to be redeemable at par, not earlier than 1961, at the option of the Government. A special sinking fund of not less than 1 per cent. of the loan outstanding was to be applied to purchase for cancellation, whenever the average daily price during any half year fell below 90.

The terms of the loan were subsequently criticized as being too generous, but Mr. Chamberlain, foreseeing such criticism, asserted that it was impossible to drift on in the hope of getting better terms, and that while loan holders were guaranteed £5 12s. or more per cent. for forty years, "the operation of the sinking fund on the stock below par will reduce the real cost to the State very materially." In spite of the alleged extravagant terms, it may be noted that for various reasons, the loan did not prove a success, for of the £632 million of outstanding Bonds convertible under the offer, only £164 million was surrendered, the holders receiving in exchange £266 million of Conversion Loan. On the question of the resulting increase in the nominal debt total, Mr. Chamberlain, while regarding such an increase as unfortunate, declared that the taxpayer was most concerned with the annual cost, and that although there would be a slight increase in the interest charge, the proposal would clear a way for dealing with the floating debt at the proper time, would probably cheapen the cost of doing so, and would permit a saving of interest on the floating debt still outstanding.

Mr. Chamberlain's peroration is worth quoting verbatim. He said, "I have completed my task. I hope I have been able to make the proposals of my right honourable friend clear to the committee. It is unusual for an ex-Chancellor of the Exchequer to expound instead of to criticize the work of his successor. I cannot promise my right honourable friend that on that ground he will escape criticism, but I can promise him the support of his colleagues, and I hope I may tender to him the sympathy and good will of the committee. I should like also, if I may be permitted, to say a word or two of a personal character. I look back on the two years during which I have been primarily responsible for the national finances not without a certain measure of modest, I hope modest, satisfaction. They have been two years of unexampled difficulty, but in the course of them something has been accomplished. We have reorganized and re-equipped the Treasury, never since I first entered it adequately staffed or properly organized for the work it had to do, and infinitely less so for the immense burden that falls upon it in present-day conditions. We have re-established Treasury control, abandoned, and necessarily abandoned, during the war. We have ceased to borrow. We have begun to repay debt. The deficit of the first year has been converted into a surplus, and the foundations have been laid for steady recovery when industrial disputes are laid to rest and trade can begin a new revival. Finally, we have wiped off a large portion of our foreign debt. We have restored our international credit, and we have made it clear to those who doubted our capacity or our will, that we can hold, and that we shall hold for this country and this city the very proud position as the premier financial centre of the world."

The first to rise was Mr. Asquith, who, strangely enough, had been the last person other than a Chancellor of the Exchequer to present the annual financial statement. That was in May, 1908, when having only a month earlier become Prime Minister, it was arranged that he, and not Mr. Lloyd George who had followed him at the Exchequer, should open the budget. The intervening years had brought many changes. Now, leader of a band of some thirty Independent Liberals in what he describes in his "Memories and Recollections" as a "Torified and ossified House," Mr. Asquith followed the usual custom and complimented Mr. Chamberlain on his lucidity and adroitness. In a brief but comprehensive speech, he emphasized the seriousness of many outstanding debt problems and the urgent need for immediate and drastic economy, two subjects which formed the core of the subsequent short debate. The attack on Government policy and expenditure was renewed at later stages by other Independent Liberals, including Sir Godfrey Collins who had played a prominent part in previous economy campaigns.

The Labour party's attitude to the budget was expounded on the following day by Mr. William Graham, whose speeches now commanded attention in all quarters of the House. One of the disappointing features of the budget speech, he said, was the reference to possible reduction of expenditure, drastic but discriminating reductions in which were necessary, with consequent reduction in taxation. He denounced subsidies as being " uneconomical and financially a disease," and criticized the corporation profits tax on the grounds that it ignored ability to pay and, being merely a refinement of income-tax, violated the principle that taxes should be few and simple. A Member had previously suggested that the Labour party's policy was that workers should bear no taxation at all and that taxes should be piled as heavily as possible on other classes, but Mr. Graham denied that any responsible Member of his party had ever advocated such a doctrine. What the Labour party stood for, he said, was such a distribution of taxation " as will make it easiest and best for all sections of the people, as will contribute to economic efficiency, and as will maintain some kind of reasonable standard of life for the community." Few would or could differ from the Labour policy—as thus stated with that ability to cover controversial points in a kindly cloak of widely-accepted principles and that mastery of phrase which contributed not a little to Mr. Graham's rapid parliamentary success.

His party, he went on to say, endorsed the Government policy of debt redemption, but, far from accepting the theory that there was no real burden in a National Debt, they maintained that it was a very great and onerous burden on industry and commerce which should be reduced at the earliest possible moment, and he suggested that many Members of all parties would regret that a capital levy or some form of tax on accumulated wealth had not been adopted, a subject which did not give rise to much discussion this year but became an important political issue a year or two later. Mr. Graham dealt with other points, including the harmful effects of the Government's foreign policy on expenditure, and the need for further refinements in tax reliefs and prevention of evasion, concluding with a reference to falling wages and the two million unemployed which, he urged, made it essential that all possible reductions should be made in indirect taxation. It was interesting to notice that he held the view—not unanimously accepted by his party—that as the result of the war, some reduction in the standard of life was inevitable, but he maintained there were innumerable devices we might adopt to make the reduction comparatively easy and something which might pass almost unnoticed by large sections of the people.

The passage of the budget proposals into law was not marked by any debates of an outstanding character, but this was hardly surprising in view of the prosaic character of the budget. There were the now customary discussions on the McKenna duties, Imperial Preference, and that hardy annual the tea duty, but little that was new emerged. The retention of the McKenna duties was defended on the ground that the reasons which prompted their introduction in 1915 were in the main still valid. Furthermore, money was urgently wanted, said Sir Robert Horne, and the more he obtained from these luxury duties, the less taxation he would have to impose on things of more vital necessity to the country.

The underlying theme of a large part of the subsequent discussion was the need for Government economy ; every day and on almost every Motion the subject came up in one way or another. Some, perhaps, may have regarded it as a stick to beat the Government, others could not distinguish between economy and parsimony which Burke tells us " is not economy. . . . Expense, and great expense, may be an essential part in true economy. . . . Parsimony requires no providence, no sagacity, no powers of combination, no comparison, no judgment. Mere instinct, and that not an instinct of the noblest kind, may produce this false economy in perfection." But there was undoubtedly throughout the House and the country a persistent belief that Government policy and administration were still characterized by serious and inexcusable extravagance. In the House speakers demanded reductions in the expenditure on the fighting services and education, and demanded the scrapping of the Insurance Acts and many post-war services, while even the thousands being spent on the League of Nations did not escape the hostile eyes of the critics, but the main attack was centred on our various military adventures in the Middle East and elsewhere, and on the failure to reduce Government staffs. Sir Robert Horne, replying to the iterated and reiterated cry of " Ration the Departments," gave many figures purporting to show a steady reduction, in spite of additional social and other services, in both expenditure and staffs since the armistice, and described much of the criticism as misleading, unhelpful, and unfair.

Evidently believing in the virtues of attack as a method of defence, Lieut.-Commander Hilton Young, the Financial Secretary to the Treasury, delivered at another stage an able sermon on an old text. " Our finances," he said, " must be reduced to some level at which we spend no more than we can afford, and no more than we get. To achieve anything in this direction is a great task. No task so great as this could possibly be achieved by any Government, however strong, unless it was supported and carried along by the public opinion of the nation as a whole. There can be no task so great as to persuade people to do without things, good in themselves, which they are accustomed to have. Nothing less than that lies before us, so far as finance is concerned. Failure cannot always be imputed to the follies and incompetence of the Government. No Government, however wise and strong, can achieve these higher objects, with great difficulties involving self-denial, unless supported throughout by strong public opinion, interpreted into practical action in the way of self-denial in this House. There is where aid must be prayed. If all combine to call for and to aid economy it is good. But what use is it if, while all are exercising their forces of economy over the whole field of expenditure, each is exercising a little personal force to maintain expenditure in his own immediate region ? "

Bound up with the question of economy was that of the burden of taxation. Many eminent authorities, including Mr. McKenna and Mr. Chamberlain, were quoted by the Opposition in an endeavour to prove that the limits of the country's taxable capacity had been exceeded, that the country was " being bled to death by taxation." The tempting but dangerous practice of comparing *per capita* figures of taxation in different countries gave striking, if not strictly accurate results. The Englishman, said one Member, was being taxed almost as much as one Frenchman and one American together, for, said he, *per capita* taxation amounted in the United States to 56·5 dollars, in France to 34·6 dollars, and in Great Britain to 87·9 dollars.

Reduction of taxation, at the cost of suspending all debt reduction, was held by some to be necessary and desirable in order to hearten the people and enable industry to recover, while one speaker went so far as to suggest that the Chancellor should have deliberately budgeted for a deficit. Another plan to permit tax reductions attained a good deal of popularity. The Royal Commission on the Income-Tax had the previous year made recommendations for preventing evasion estimated to produce additional revenue amounting to seven, eight, or more millions a year. Quite a number of speeches, demanding reduction of taxation in different directions, finished up with the same suggestion that the proposed changes need entail no loss to the Exchequer if only the Royal Commission's recommendations were adopted.

Other recommendations of the Royal Commission to give rise to discussion were the abolition of the three years' average and certain alterations for bringing income-tax law more in accordance with practice, which had been embodied in the Revenue Bill. That Bill, containing provisions to come into force in 1922-23, had been dropped, ostensibly owing to the violent opposition aroused. Revenue Bills were notoriously short-lived, for, dealing with administrative matters, their importance was departmental rather than political, and when opposition arose, governments found the additional demand on parliamentary time inconvenient, and, as in this case, the proposals were withdrawn. Henceforward, the Treasury avoided the difficulty by embodying all necessary clauses in the Finance Bill for the year. The campaign against the Revenue Bill had been directed against the administrative clauses, which were described as bureaucratic attacks on the privileges of the people. But Mr. Holmes, who put down the whole of the administrative clauses from the Revenue Bill as new clauses to the present Finance Bill, showed that they would merely bring law and practice into agreement, emphatically denied that they would in any way whatever be disadvantageous to the taxpayer, and asserted that the real reason for the withdrawal of the proposals had been the Government's realization that the abolition of the three years' average—in his opinion a much-needed reform in the interests of trade—would have seriously affected the 1922-23 income and super-tax yield.

Sir Robert Horne, avoiding the question as to the real reason for the withdrawal of the Revenue Bill, asked the House to keep in mind the fact that during the recent period of high profits, taxpayers had had the benefit of the three years' average, and he suggested that it would not be inequitable if the same taxpayers were asked to take the fat with the lean and to suffer the results of the three years' average being kept in force. With regard to the proposed new administrative clauses, he naturally agreed with provisions copied from a Revenue Bill for which he himself was partly responsible, but, pointing out that there was no time to provide for them in the present Finance Bill, he promised that at some future and more suitable time, the administrative provisions would be presented to the House again.

The year-old corporation profits tax, which on the whole had little to commend it, appeared to have gained few friends, and many objections were raised to its continuance. It was described, with varying degrees of truth, as a serious drag on industry, as an unfair burden on a certain class of company and shareholder, as a double income-tax divorced from ability to pay, and as a tax likely to drive capital abroad. Sir Robert Horne defended its retention on the grounds urged in its favour the year before by Mr. Chamberlain, namely, that it was some acknowledgment for the privileges of limited liability and that it might be regarded as a composition in lieu of the liability to super-tax, to which the undivided profits of a private partnership were, and those of a limited liability company were not, liable.

This tax gave rise to one of the most interesting divisions of the session. At the report stage of the Bill, Mr. Kidd moved an amendment to exempt from corporation profits tax the profits or surplus arising from the trading with its own members of a society registered under the Industrial and Provident Societies Acts, and there ensued a lengthy debate with the usual arguments and counter-arguments concerning the taxation of co-operative societies. The amendment appeared to be getting a rather surprising amount of support from Conservative Members, when Sir Robert Horne rose to speak against it. He suggested that the sum involved—£150,000—was not too much to ask the societies to pay for the privileges of limited liability, but offered to meet representatives of the societies later, and on that understanding asked the House to reject the amendment. The Government whips were put on, but the division resulted in a Government defeat, 137 voting for and 135 against the amendment.

The Government's decision to proceed with business, in spite of its defeat, met with much adverse criticism, to which Mr. Chamberlain replied that many factors, such as the occasion, the character of the subject under discussion, whether the House intended to inflict a defeat on the Government, and whether the Government had lost the confidence of the House, had to be considered by the Government in deciding what to do when an unfortunate accident of the kind happened. He said that on this occasion he had decided, in consultation with the Chancellor of the Exchequer, to accept the decision of the House as the money involved was relatively insignificant, and denied there was anything contemptuous to the House in the course they had adopted.

In addition to concessions already mentioned, the Chancellor of the Exchequer agreed to many other minor changes. There were in fact no less than twenty or more new clauses added to the Bill in its passage through the House. The duty on mechanical lighters, originally imposed in 1916 when the match duty was introducted and at no time very productive, was now alleged to have killed the industry. Sir Robert Horne, remarking that the duty on lighters had "ceased to have any efficacy," agreed to its repeal, but pointed out the possibility of match manufacturers having something to say in the future if the sale of matches were seriously reduced by the use of tax-free mechanical lighters, as indeed eventually happened and led to the reimposition of the duty in 1928. Other new clauses in the Finance Bill extended the school and children's entertainments exemptions, amended the allowances on spirits, provided for part-year licences on motor vehicles, and dealt with the taxation of such dissimilar subjects as public utility companies and male servants, articles of artistic interest and sewers, and many others of no great financial importance.

As the Finance Bill passed through its successive stages, the financial outlook became darker. The coal strike, which commenced on April 1st and gave rise to the unfulfilled threat of a Triple Alliance strike, was not brought to an end until the close of June. During this period, the number of registered unemployed rose from 1,414,000 to considerably over two millions, in addition to nearly a million on strike. The effect throughout trade and industry was calamitous. At the third reading of the Finance Bill, Mr. Mosley moved an amendment, which secured a good deal of support, that " in view of the serious decline in public revenue, which has occurred during recent months, this House desires, before proceeding with this measure, that a fresh statement of the financial position of the country should be laid before it." Mr. Mosley maintained that the fall of 50 per cent. in our foreign trade during the first five months of 1921 compared with the corresponding period of the previous year, the decline in revenue, the increase in expenditure, and the consideration of a budget whose bottom had fallen out in the first three months, were more than sufficient to justify such a motion. The nation, he said, had for years past been living on its capital which was still being reduced by Government extravagance, the taxable capacity of the country had been deliberately exceeded, but the Government was at last up against its financial Nemesis.

The Chancellor of the Exchequer, replying at an early stage in the debate, admitted that events since the budget had altered his attitude to the figures then presented, but, although revenue might possibly be somewhat disappointing, he did not think there was much to withdraw or correct. He felt it was unnecessary to assure the House that the Government had done, and was doing its utmost to cut down expenditure to the lowest possible limit, and claimed that we had done very well indeed in comparison with other countries, expenditure in the United States being five times, in France nine times, and in Italy nine and a half times what it was before the war.

As the Debate neared its end, Mr. Thomas, who as General Secretary of the Amalgamated Society of Railway Engineers and Vice-Chairman of the Parliamentary

Labour party had played a prominent part in the strike just ended, rose and in a characteristic speech commented on the number of industrial disputes since the war, expressing the conviction that nothing would be so likely to revive trade or improve the lot of the workers as what he called a settling down in these industrial matters. He then attacked what in his opinion was the most dangerous of all doctrines, namely, that the financial stability of the country was a matter of concern only for one section or one class. "It is no good," he said, "for the worker to say that the 6s. in the £ income-tax does not matter to him. It does matter to him, because people cannot spend the money which is paid in that way in the development of trade and industry." On the question of economy, he declared that while his party were against all useless expenditure and maintenance of unnecessary staffs, they wished to distinguish between real and artificial expenditure. They believed, he continued, that the Government's foreign policy was responsible for most of the waste, and if the Debate brought home to the people of all classes the seriousness of the situation, and above all, brought home to the Government their responsibility, the Debate would not have been in vain.

After the final division, in which the Ayes outnumbered the Noes by 194 to 43, the Bill was read a third time and sent to the Lords, where, with a few minutes' debate on the second reading, it passed through all its stages in three days, and received the Royal Assent on August 4th, 1921.

The great weakness of this budget lay in the expenditure side. Some attempt had no doubt been made to cut down waste but there were no signs of that drastic pruning which the times demanded. Habits of thought born during the war, when monetary considerations were often ignored, still persisted in many quarters, and explain in a large measure the defects in the policy and administration of the period. The revenue side of the budget was singularly uninteresting, such changes as were proposed being almost inevitable. The repeal of the excess profits duty had been definitely promised weeks before, while the changes in the relatively unimportant cigar and wine duties were desirable from the point of view of the Treasury and had been foreseen by the financial prophets. But it is not surprising that at such a time of uncertainty, surrounded by hitherto unparalleled depression which was being aggravated by a bitterly-fought industrial struggle, the Chancellor of the Exchequer should have decided to postpone tax changes until a time when the future could be more easily read. The budget was described at the time as humdrum. The use of such a word in connection with a budget five or six times as big as those of pre-war days was significant and denoted a permanently changed attitude to the size of the budget. No one now hoped for a return to the pre-war budget of two hundred millions, a figure regarded in those seemingly far-off days as stupendous. A huge debt and other war commitments, together with a higher price level, had removed that beyond the range of probability, and the most ardent anti-waste critic now hardly dreamed of a budget much smaller than four times the pre-war size. History had once more repeated itself. The war, like almost every other war of the two preceding centuries, had left behind it an increase in budget and debt which years of peace might reduce but were not likely ever to wipe out.

SIR ROBERT HORNE'S SECOND BUDGET, 1922-23.

May 1, 1922.

THE 1922 budget was opened by Sir Robert Horne on May 1st. He commenced with the customary review of the previous financial year, a year of extraordinary difficulty for industry, commerce, and finance, a year when the evil effects of an unparalleled trade slump were spreading everywhere, impoverishing our customers overseas and damping down our industries at home, with the inevitable concomitant of widespread unemployment and all the troubles, social, economic, and financial, it brought in its train. That we should have passed through such a period without worse calamities than had actually befallen us was in Sir Robert's opinion an eloquent testimony to the stability of the country, the solidity of its financial position, and, in no small measure, to the soundness of an admirable banking system, and he asserted that the country might justly pride itself, in view of such a crisis, on the out-turn of the year's finances.

The 1921 budget estimates had provided for a nominal surplus of £177 million, but, in view of heavy liabilities not precisely calculable at the time, Mr. Chamberlain had anticipated in the budget speech that the nominal surplus would be reduced to £80 million. The actual surplus for 1921-22, Sir Robert now announced, amounted to only £45½ million, revenue for the year totalling £1,125 million or £91 million below the estimate, while the total expenditure amounted to £1,079 million or £57 million "less than estimated."

The Customs and Excise estimates, although originally regarded in some quarters as being too optimistic in view of the coal strike and acute economic depression, had been exceeded in the aggregate; sugar, tobacco, beer, and tea showing surpluses, and spirits and entertainments relatively heavy deficiencies.

Inland Revenue had been most disappointing, having failed to reach the anticipated total by £110¾ million. Death duties had provided a surplus, but income-tax showed a deficiency of £11½ million, corporation profits tax was somewhat worse, while excess profits duty had produced only a quarter of the estimated total of £120 million. A deficit of £90 million obviously could not be passed over lightly, and the Chancellor explained the position at some length. Unpaid arrears of the duty, amounting on March 31st, 1921, to £287 million, had increased during the year to £296 million, as the net amount assessed during the year totalled £131 million while the gross amount collected was only £122 million. The gross receipts had been almost wiped out by repayments which reduced the net receipts to £30 million. As regards the £296 million outstanding, he said that although assessments were subject to adjustments on appeal or otherwise, the payments ultimately to be received by the Revenue were considerable, a somewhat guarded prophecy proved by the meagre receipts of the next few years to have been none too conservative.

Miscellaneous receipts, in spite of the critics' dismal prophecies of the previous year, had more than justified the estimates. Of the £197 million received from this source, £17½ million came from excess interest on currency note account, £42¾ million from the Disposal Commission, £29 million from the Ministry of Shipping, and £19 million from the Ministry of Food. A further noteworthy item was a welcome payment of £44½ million in respect of the army of occupation in Germany.

On the expenditure side, a saving of £11 million had been effected on the Consolidated Fund Services owing to the more favourable rates at which Treasury Bills had been sold. Supply Services showed a considerable increase over the nominal budget estimates, but, taking as a basis "the adjusted budget estimate of £765 million" (the Supply Services estimates of £668 million together with the £97 million set aside for contingencies), a saving of £46 million during the year was claimed by the Chancellor, and this was due, he said, to the pressure exercised by the Government in cutting out all avoidable expenditure.

Strangely enough, this saving was almost identical with the surplus of revenue over expenditure. The £25 million included for debt redemption on the expenditure side of the budget and certain other repayments, including a reduction of the Civil Contingencies Fund, brought the total available for debt redemption during the year 1921-22 to £88,466,000, yet in spite of this, the debt total had not been reduced but had actually increased by £80 million—owing to the issue of the Conversion Loan below par. But, claimed Sir Robert, the real burden of the debt had not increased, and, apart from the interest on our debt to the United States, he had found it possible, partly owing to the cash payments for redemption during the past year, to reduce the estimates for debt interest and management by £17 million. And he contended that, in spite of the increase in the nominal debt total, there was considerable reason for satisfaction in improvements effected in both the internal and the external debt.

External debt, he said, had fallen during the year by £71 million, and now stood at £1,090 million as compared with £1,365 million on March 31st, 1919. In Sir Robert's opinion, the improvement which had taken place in the exchange value of sterling was "one of the first fruits of our redemption of debt," and he illustrated its importance in the case of the debt due to the United States amounting to 4,166 million dollars which, had the exchange been at par, would have been equivalent to £856 million. On the basis of 3 dollars 20 cents to the £—the rate prevailing two years earlier—the debt would have been equivalent to £1,302 million, whereas at the current rate of 4 dollars 40 cents to the £, it represented a debt of only £947 million. Having enlarged on the effects of exchange fluctuations upon the price of imported food and other goods, the Chancellor passed to the question of internal debt.

He expressed satisfaction at the reduction in both the floating debt and the amount of debt maturing at an early date. Floating debt had been reduced during the year from £1,275 million to £1,030 million, and £260 million of debt maturing during the next four years had been converted into longer-dated securities. Owing in no small measure to the economic depression, the market price of British Government securities had substantially improved, and, while the burden of the floating debt had already been considerably alleviated, hopes were entertained that, before very long, conditions would improve still further and render possible such conversion operations as would substantially reduce the annual drain on the Exchequer for debt interest.

Passing to the current year's estimates, Sir Robert dealt first with the Supply Services. Once again the policy was adopted of making special provision in the budget for contingencies. Much as he deprecated supplementary estimates, he explained, it was obviously necessary, under existing conditions, to make provision for them, for there were many matters still unsettled, as for example, in connection with the Irish settlement, while the new unemployment scheme had already brought forth a supplementary estimate of £3½ million. For these and similar contingencies, therefore, he proposed to provide £25 million, which brought the total Supply Services estimates to £546½ million. Apart from special grants, the estimates no longer provided for Southern Ireland or for transferred services in Northern Ireland, which represented a reduction of about £24 million, but the total Supply Services estimates of £546½ million were £218½ million below the "adjusted budget estimate" of 1921-22, and £242½ million below the final estimates for that year, and Sir Robert declared that, even when due allowance had been made for Ireland, the estimates were more than enough to "furnish a sufficient reply to those who, with a persistence which now almost amounts to malevolence, reiterate the statement that the Government is doing nothing for the reduction of expenditure."

He reminded the committee that the figure now given and the reduction referred to during the debate on the Geddes Report were not strictly comparable, seeing that the former excluded Ireland and covered both ordinary and special expenditure. The Government, he said, had been unable to accept all the recommendations of the Geddes Committee for reasons acceptable to both sides of the House, but in view of approaching additional burdens, alternative methods of economizing must be discovered and pursued.

The total estimated expenditure for 1922-23 amounted to £910 million. Debt Services accounted for £335 million, including £25 million for interest on United States Government debt, but, apart from certain terminable annuities, the total included no provision for redemption of debt. Following the practice adopted in the previous budget, estimated expenditure was subdivided into ordinary expenditure (£824 million) and special expenditure (£61 million), together with the special item of £25 million for contingencies.

On the other hand, the 1922-23 revenue estimates—which no longer included revenue attributable to the Irish Free State or revenue transferred to Northern Ireland—amounted to £957 million, "special revenue" accounting for £90 million, and "Ordinary Revenue" for the remainder. The Customs and Excise estimates were down considerably, for in addition to the loss of about £18 million of Irish revenue, nearly every item of indirect taxation had shown a decline during the preceding three or four months and the estimates had been framed accordingly. The Chancellor remarked that while consumption of dutiable goods had been maintained in a remarkable degree during the preceding year, the savings of the people had gradually become exhausted, so that until economic conditions improved, there was little hope of increased revenue from Customs and Excise. This was in the main true, although a surplus at the end of the year was destined to prove that the Customs and Excise estimates had been framed on too pessimistic a basis.

The Inland Revenue estimates, like those for Customs and Excise, reflected the depressed economic outlook, the total of £481 million comparing unfavourably with the previous year's estimates (including Ireland) of £632 million and actual receipts of £521 million. A still more substantial decline appeared under the head of miscellaneous revenue, which, owing to the gradual drying up of temporary sources of receipts, was estimated to produce only £112 million in 1922-23, or £85 million less than the receipts of the previous year. Once again it was thought wiser to include in the estimates nothing in respect of reparation payments from Germany, and to regard any such payments as windfalls.

Having concluded his review of the financial situation, the Chancellor proceeded to disclose his proposals in connection with tax and legislative changes. The first proposal, of little revenue importance, was a tightening-up of the law relating to the entertainments duty. The next proposal was of more financial importance and gave rise to some discussion. When the corporation profits tax was introduced in 1920, statutory companies, such as railway and other public utility undertakings, had been exempted, by a clause inserted on report, for a period of three years, ending on December 31st, 1922. It was now proposed, on the ground that the conditions which led to such exemption still existed, to continue the exemption for a further period of three years.

Several legislative changes were to be made in the income-tax system. Some ingenious person had recently found that where interest on securities was paid without deduction of income-tax, the Exchequer, owing to a loophole in the law, must forego income-tax on the interest for one year out of any period of years for which the security was held by an individual taxpayer. The matter was of some importance, particularly in the case of certain war-time Government loans, and as the House of Lords had recently given a decision on the subject against the Government, a clause was to be introduced to remove the anomaly.

Another recent decision of the House of Lords led to a change—already recommended by the Royal Commission on the Income-Tax—in the sixty-year-old method of assessing employees for income-tax purposes. In most cases, persons employed by Government departments, municipalities, and public companies, had been assessed under Schedule E—on the income of the year of assessment, whereas employees of private firms or individuals had hitherto been assessed under Schedule D—on the average income of the three preceding years, a manifestly unjust and anomalous state of affairs resulting from the application of laws and regulations formulated when the economic structure of this country was relatively simple. In the case in question, a railway clerk, whose salary had increased during the preceding three years, claimed the right to assessment under Schedule D on the three years' average instead of under Schedule E, and had won his case.

The Chancellor, therefore, decided to adopt the recommendation of the Royal Commission that all incomes from employment should be assessed under Schedule E on the basis of the remuneration of the employee for the year of assessment. Such a policy had much to commend it on the grounds of justice, uniformity, and ease of administration, and was generally advantageous to the taxpayer in that the tax payable was in proportion to the salary earned in the year of assessment. When a man's earnings were increasing, he would be at a loss since his taxable income for the year would be higher than the average of the preceding three years, but owing to the existing economic depression, such cases were in the minority, and the class of taxpayers concerned derived on the whole a substantial pecuniary benefit from the change, the loss to the Revenue being estimated at £200,000 in 1922-23 and £500,000 in the following year.

This year, attention was again focussed on the question of evasion. Under the urge of heavy income taxation, new forms of legal evasion were continuously being evolved, and further steps were to be taken to stop the leaks. Such devices, said the Chancellor, had recently become so prevalent as to create startling inequalities in tax incidence as between different taxpayers, and it was not fair that those who were clever enough to find methods of evasion should benefit at the expense of others. One method of evading income-tax, which he now proposed to counter, was that of temporarily handing over income to children or others under revocable and certain other dispositions.

Another form of evasion, of comparatively recent growth but now rapidly spreading, was the evasion of super-tax by the formation of so-called one-man companies. As company reserves, although liable to income-tax, were exempt from super-tax, the whole of the company's income instead of being distributed would be put to reserve, and then withdrawn as required in the form of a loan which would never be repaid, or, if desired, the company could at any time be wound up and the reserve fund appropriated without any liability to super-tax being incurred. The Chancellor now proposed that where " a reasonable proportion " of the actual income of any private company was not distributed in the usual manner to the member or members, " regard being had to the normal requirements of the business," the actual income should be deemed to have been so distributed, and be taxed accordingly. The clause embodied later in the Finance Bill applied to all private companies, and critics declared that it would give rise to unjustifiable interference and harmful repercussions in the case of such companies formed for *bona-fide* trading purposes. The clause, said Mr. A. M. Samuel, struck at the policy of keeping back profits for reserve funds, the very basis of our commercial system.

The long discussion on the clause made only too clear the difficulties of constructing a net fine enough to catch the tax evaders and wide enough to let *bona-fide* companies escape, and Sir Robert agreed to re-draft the clause in wider terms so as to give to *bona-fide* companies a wider discretion in the control of profits. One objection raised to the clause was that it could and would be evaded by registering the company abroad, but he suggested that most people would shrink from such an " overt act of a particular and ostentatious character," while the Financial Secretary to the Treasury went further and asserted that such evasion was practically impossible in that foreign or colonial registration would not exempt unless at the same time the practical administrative control of the company's affairs was also transferred abroad.

Strong objections were raised to the phrase " normal requirements of the business," and the clause was accordingly amended so that the Commissioners, in determining whether any company had distributed a reasonable part of its income, should " have regard not only to current requirements of the company's business but also to such other requirements as may be necessary for the maintenance and development of that business." There were at that time about 66,000 private companies operating under our Company Law, and speaker after speaker objected to the extension of bureaucracy entailed, so in order to minimise interference with industry, the Chancellor proposed to exclude from the clause the 25,000 companies registered before April, 1909 (when the super-tax was first introduced), and as at least 30 per cent. of the remaining companies had an annual income of £1,000 or less and did not come under the clause at all, the number of companies to be subjected to investigation was reduced to a minimum. At the suggestion of Sir Frederick Banbury, the Member for the City of London, the Chancellor agreed, at a later stage, to exclude from the provisions of the clause all private companies registered before April, 1914, " the time when the super-tax really became heavy," on the assumption that few or no evasion companies would have been registered before that date, and he also agreed, on the ground that the clause involved retrospective legislation, to postpone its operation until 1923-24, a concession denounced by the Opposition as an unjustifiable gift of £400,000 to tax evaders and a flagrant illustration of the fact that this was a rich man's budget.

One of the best-founded objections to the clause was that it would unjustly render companies liable to both the super-tax and the corporation profits tax, although the latter was introduced partly on the ground that companies were not assessed to super-tax, and the Chancellor, admitting the justice of this criticism, accepted an amendment exempting from the corporation profits tax any company held liable for super-tax on undistributed profits.

The numerous caustic and scornful references to tax dodgers from the Labour benches appeared to indicate an absolute unanimity of opinion on the question in that quarter, but on the other side of the House there was an interesting divergence of opinion as to the morality of these attempts at tax evasion. Sir William Joynson Hicks held that although the word crime was not properly applicable, it was undoubtedly a case of criminal intention. Mr. A. M. Samuel, on the other hand, declared that the word evasion should not be used in this connection as implying an unworthy act, and claimed the authority of the late Lord Macnaghten for the statement that any action with which the law did not deal was neither illegal nor immoral, a rather sweeping assertion not likely to meet with general acceptance. Sir Leslie Scott agreed that when the law required a tax to be paid under certain conditions, a man avoiding those conditions was not committing a criminal act, but added that there was a sort of decency in regard to the tax burden each person ought to bear, and that if he shifted an undue amount of his share on to other people's shoulders, it was not playing the game.

Not the least important of the budget announcements was one relative to Schedule A assessments. Income-tax under Schedule A in respect of income arising from the ownership of property, assessed in the majority of cases on annual value, had been widely assessed on obsolete figures for some years. In England and Wales—outside the Administrative County of London which received special treatment—a re-valuation was made at intervals usually of five years, and a periodical re-valuation had been due in 1915, but, owing to the war, it had been postponed indefinitely. As there had been a considerable upward change in the value of property, assessment on pre-war values had meant a very substantial loss to the Exchequer.

Sir Robert now proposed to remedy this by instituting a new re-assessment. Owing to the length of time and the many changes in conditions and values since the previous re-assessment, an immense amount of work was involved, and although returns were to be issued and the valuation work commenced almost at once, it was not proposed to apply the new assessments until the year 1923-24. New rates of allowances were to be brought into force at the same time in respect of repairing and maintaining property, a question debated a good deal the previous year ; the normal flat rate repair allowance for small houses was to be increased and claims for the actual cost of maintenance, till then allowed only in certain cases, were to be permitted in respect of all lands and houses irrespective of value.

The Chancellor now turned to the question of the tax burdens on agriculture, another subject which had given rise to much discussion the previous year. Various speakers had presented figures to the House purporting to show the burdensome character of the taxation imposed on occupiers of land, and Sir Robert had promised to look into the matter. Enquiries since made, he now said, had convinced him that the facts had not been exaggerated, and he proposed to take measures to put agriculture " on the same footing " as other industries as regards the tax burden. Before discussing whether or not he did put agriculture " on the same footing " it may be as well to give a brief historical sketch of the matter.

In this country, income under Schedule B, that is, income arising from the occupation of land, has always received special treatment for income-tax purposes. Save in exceptional cases, tax was charged not upon actual profits but upon profits assumed to have been made and taken to be some given fraction of the annual value of the land occupied. At one period, the farmer was assessed on the annual value of his land but income-tax was charged only at a certain fraction of the normal rate ; at a later period, the same result was achieved by reversing the method and charging the normal rate of tax but charging it only on a fraction of the rental value. For twenty years before the war, profits were assumed to be one-third of the rental value of the land, but owing to the increase in agricultural profits under war conditions, a change was made in 1915, and tax became chargeable on the whole, instead of on one-third, of the annual value. Farmers' profits continued to give rise to comment with the result that, in 1918, a further change was made, and tax under Schedule B was assessed on double the rental value. The farmer had the option, where he could produce satisfactory accounts, of being assessed on actual profits instead of on rental value, and this meant, of course, in practice, that wherever proper accounts were kept, a farmer was never assessed higher than his actual profits, and, in good years when his actual exceeded his presumed profits, he invariably chose to be assessed on the latter.

The system, with its many anomalies, was defended on the ground that farmers as a class did not keep proper accounts and that to make them do so would involve hardship for them and considerable trouble and expense to the administration. The Royal Commission on the Income-Tax, declaring that such an arbitrary basis of taxation tempered by concessions should not be tolerated any longer than was absolutely necessary, had recommended in 1920 that all the persons concerned should be transferred to Schedule D and charged on actual profits, but that reasonable notice of the change should be given in order that they might have time to institute a proper system of accounts. The report added that as the additional work for the department would be considerable, it would be advisable not to make the change in one broad sweep, but to commence by transferring assessments to Schedule D in the case of farms exceeding £300 in annual value and farms devoted to the breeding of pedigree stock or to the growing of special crops such as hops.

But the change proposed by Sir Robert Horne in this budget did not follow the lines of the Royal Commission's recommendations. For some time, agricultural prosperity had been declining very rapidly, and in some cases, farms were being carried on at a loss. Sir Robert proposed to reduce the basis of assessment in the case of the farmer from twice the annual value to once the annual value, which, he asserted, was as much as it should be under existing conditions. In the case of land not used for husbandry and yielding no pecuniary profit to the occupier, usually termed amenity land, the Schedule B assessment on which had since 1915 been once the annual value, he proposed to return to the pre-war basis and charge tax on one-third the annual value. These proposals meant a loss to the Exchequer in a full year of £300,000 from amenity land and £2,150,000 from agricultural land.

These changes did not encounter any very serious opposition. Mr. William Graham, who had been a member of the Royal Commission, said he did not criticize, in view of existing conditions, the proposal to halve the Schedule B assessment, but he declared that the whole basis on which farmers were assessed to income-tax was thoroughly unsound and the recommendations of the Royal Commission should be adopted without further delay. At the report stage, Sir Godfrey Collins moved that the reduced rate should be restricted to farmers occupying land of an annual value not exceeding £200, thus encouraging if not compelling the others to keep proper accounts. It was suggested that it would be a good thing if the great industry of agriculture were based upon proper book-keeping, and that the limit of £200, while still relieving the farmer inexperienced in account-keeping from possible injustice, would only affect the men who ought to be keeping accounts and ought to be paying income-tax on accurately computed profits. The Solicitor-General's reply was far from convincing. He declared that although there was much to be said in favour of agricultural accounts, they were concerned with a Finance Bill, not an Education Bill, and that while the farming class was passing through the worst crisis it had known since the 'eighties and 'nineties of last century, it was a misuse of taxing powers to pass an educational clause with a punitive provision against farmers who would not undergo the educational process. Two further arguments advanced by him were that the proposal would mean an enormous amount of trouble for both the farmers and the Inland Revenue, and that to take a hard and fast arbitrary amount of £200 annual value would lead to a form of disparity between man and man that was particularly distasteful to the House and to taxpayers.

The proposal to reduce the Schedule B assessment on amenity land to one-third the annual value was described as a concession to the landed interests and a bonus for all who refused to allow parks and similar land to be used for agriculture. It may be mentioned that the taxation of amenity land under Schedule B was in addition to taxation under Schedule A on the basis of the annual letting value, and was thus an exception to the general income-tax principle of taxing actual income seeing that amenity lands in many cases yield no pecuniary profit whatever to the occupier.

A further income-tax change announced in the budget was a minor concession to charitable institutions. A House of Lords decision had laid it down that a charity could claim exemption in the case of income from residuary estate only from the time the residue was actually paid over, and although no large amounts were involved, considerable hardship had in some cases been experienced, hence the proposal to remedy the grievance. The whole of the foregoing proposals relating to income-tax, some meaning a loss and some a gain to the Exchequer, were estimated to involve a net loss of £700,000 in 1922-23 and £1,700,000 in a full year.

Concessions were announced for the excess profits taxpayer. A considerable amount of duty was still outstanding, but it was clear that under existing conditions nothing would be gained by undue severity on taxpayers in arrears with their payments. It had been officially announced two or three months earlier, and it was now confirmed in the budget, that they would, in approved cases, be allowed to pay the excess profits duty arrears in instalments spread over five years, interest being charged at the net rate of 5 per cent. per annum on outstanding balances. No deduction was to be allowed for income-tax, so that the 5 per cent. was really equivalent to $6\frac{2}{3}$ per cent., and this, the business interests subsequently urged, was too high in view of prevailing interest rates. The Chancellor, accused of giving undue latitude to the capitalists and excess profits makers, and faced with the dilemma that if he fixed the rate too high the concession would be nugatory while a rate fixed too low would unduly encourage traders to postpone payment, decided later to reduce the rate to $4\frac{1}{2}$ per cent. (equivalent, with income-tax, to 6 per cent.), a rate not too low to encourage postponement of payment, not so high as to be harsh on the taxpayers concerned, and yet high enough to encourage them, whenever possible, to borrow from their banks in order to pay up the tax arrears.

Another matter in connection with excess profits duty which had given rise to agitation was the decision in what was known as the Gittus case and its effect on firms which had paid duty on excess profits and in a subsequent period suffered trading losses. The privilege of setting off such losses against previous profits and of obtaining repayment of a corresponding amount of duty was restricted by the Gittus decision to cases where the personnel of a firm remained unchanged throughout the period in question. Such a decision would obviously lead to a great deal of hardship; to mention an extreme case brought to the notice of the House, a man turning his business into a limited company would, even if he retained all the shares himself, lose all right to balance subsequent losses against profits previously made.

The cost would be prohibitive, the Chancellor said, to meet all the cases put before the Treasury by the Federation of British Industries and various Chambers of

Commerce, but he announced in the budget speech his intention to remove, at a cost of £3,000,000, the particular hardship arising when a business passed to a husband, wife or lineal descendant. This, critics subsequently maintained, was not only insufficient but quite illogical. The Solicitor-General admitted the truth of this criticism, but pleaded that owing to the cost involved, a line had to be drawn somewhere. In the course of his speech, he referred to the excess profits duty as an artificial tax, arbitrary, capricious, in many ways bad, which had gone but had left a heritage of trouble behind it, an opinion likely to meet with almost unanimous approval, but when in resisting an amendment to extend the concession he declared that Parliament imposed the excess profits duty as a personal tax, he was on much more debatable ground. The clause met with considerable criticism at various stages of the Bill's progress, but the furthest the Chancellor would go was to extend the concession to cases where businesses were transferred to an ancestor of the proprietor.

This budget introduced many changes in post office charges. The previous year, rates had been increased in order that the post office should not be carried on at a loss, but a promise had been made that the rates would be revised if and when the deficit disappeared. The Chancellor, convinced of the vital importance of cheap communication to industry and trade, declared his wish to make the fullest possible concessions, and announced that he had agreed with the Postmaster-General to make changes costing £5,650,000 in 1922-23. Sunday collections were to be restored, at a cost of a quarter of a million, but Sunday deliveries, likewise discontinued during the war, were not yet, if ever, to be reintroduced. Postcards were to be carried for 1d. instead of 1½d., which meant a loss of £550,000 in a full year, while the rate for printed matter not exceeding 1 ounce in weight was to be reduced, subject to certain conditions as to posting, from 1d. to ½d., at a cost of £1½ million per annum. The minimum charge for letters, which had been increased by Mr. Chamberlain in his 1920 budget to 2d. for 3 ounces, was now to be reduced to 1½d. for letters not exceeding one ounce ; the annual cost of this change—£3½ million—was a striking indication of the huge number of letters dealt with by the Post Office in the course of a year.

Telephone users were also to benefit to the extent of £1 million a year in reduced charges. The changes were not to come into force until May, but in a full year they were estimated to cost £250,000 in increased expenditure and £6,550,000 in decreased revenue, and Sir Robert made it clear that unless the Post Office paid its way in 1922-23, postal charges would be once again increased. There could be no question, he said, of a subsidized service ; the Post Office must, like an ordinary business firm, be able to meet its expenses, including the taxation which such a business would pay.

After provision had been made for the concessions already disclosed, the Chancellor was left with a surplus of £38,300,000, on the basis of the budget estimates. These included no provision for debt redemption, but there were, of course, certain statutory and contractual obligations which he had to meet. There was, first of all, the new sinking fund instituted in 1875 by Lord Iddesleigh, then Sir Stafford Northcote, the first Chancellor of the Exchequer to realize the importance of a sinking fund applicable to the whole of the national debt as distinct from sinking funds for particular loans. His scheme provided for an annual fixed debt charge for interest and repayment, and this, after interest charges had been met, had provided in 1921-22 about £9 million for repayment of debt.

A somewhat similar sum would be required during the current year, and, in addition, there were the depreciation fund for 4 and 5 per cent. War Loan and the amounts required for Government securities tendered in payment of death duties or excess profits duty. In view of the rise in the price of Government securities and the decreasing tendency for taxpayers to take advantage of the privilege of paying duties with stock instead of money, the sum required under these heads was not expected to exceed £10 million or £15 million. A further £10 million would probably be required for the specific sinking funds attached to Victory Bonds, Funding Loan, and the $3\frac{1}{2}$ per cent. Conversion Loan. These various sinking funds and other obligations would, therefore, have amounted during the current year to £30 million or £35 million, and would have practically wiped out the surplus. The Chancellor, however, had other plans in store, but before disclosing them, he endeavoured to meet in advance the criticism which the suspension of all debt repayment—the policy he proposed to adopt—was certain to arouse.

Widespread unemployment, he said, was breaking the hearts and embittering the lives of hundreds of thousands of the working classes, while the professional and middle classes were enduring privation such as they had never known, but although unparalleled depression was everywhere, there were hopeful signs of a revival which, with a little encouragement, might develop into solid progress. Was it not possible, he asked, to give that much-needed stimulus to trade by reducing taxation, and, the following year, if not this, gain some revenue as the result of the increased profits of reviving industry. The policy of debt redemption, he said, for which £322 million had been provided in the preceding two years, had no doubt been the right policy, but now, after the superhuman efforts of the last few years and with unparalleled depression almost overwhelming them, no sound canon of finance would be infringed if the Government were content merely to raise sufficient revenue to meet expenditure. A policy of suspending all debt repayment would obviously involve the suspension of the new sinking fund, and render necessary new borrowing to meet special sinking funds and other obligations, but such re-borrowing, Sir Robert emphasized, would in no way add to the general burden of the debt.

Suspension of all debt redemption left the Chancellor, as we have seen, with a surplus of £38,300,000 for the reduction of taxation and the problem of how it was to be allocated. "I have not been without advice on this subject," he said, referring to the widespread agitation in the Press and elsewhere for tax reductions, "I have received numerous deputations and innumerable letters and the Press have not been lacking in suggestions, but it is now a long time since I made up my mind as to what direction such a reduction should take. I hesitate to make that statement. I am very reluctant to disclose the fact that my mind has not been made up for me during the last few days by letter writing, and petitions organized by active journalists. I do not wish," he added, as a parting thrust, "to discourage these petitions because they help the revenues of the Post Office." The income-tax, he went on to say, was the tax bearing the heaviest burden and having the most effect on trade, and he accordingly proposed to reduce the standard rate from six shillings to five shillings in the £, at a cost of £52 million in a full year and £32½ million in the current year.

He did not, he said, attach great importance from the point of view of ultimate incidence to the time-honoured distinction between direct and indirect taxation, but, nevertheless, he thought that, particularly in view of the high cost of living, he ought to make some reduction in indirect taxation at the same time as he reduced the income-tax. He therefore proposed to use the remainder of his surplus in reducing the duty on non-Empire tea from 1s. to 8d. per lb., with a corresponding reduction of the rate on Empire tea, with its preferential rebate of one-sixth, from 10d. to 6⅔d. Although approximately 90 per cent. of our tea came from India, Ceylon and other parts of the Empire, which meant that on the greater part of tea consumed there would be a duty reduction not of 4d. but of 3⅓d. per lb., the Chancellor said that the odd fraction would cause no trouble and the trade had assured him that, owing to the keen competition prevailing, the full extent of the remission would reach the consumer, the benefit being felt even down to those who bought their tea in pennyworths.

In accordance with the policy adopted a few years earlier, the remission of the tea duty was to be accompanied by corresponding reductions of one-third in the duties on cocoa, coffee, and chicory. With the avowed purpose of allowing traders to get rid of their stocks on which duty had been paid at the old rates, the application of the reduced rates was deferred until May 15th, except in the case of imported cocoa preparations, where the new rate was not to apply until July 1st. These reductions together with that on tea were estimated to cost £5½ million in a full year and £5 million in the current year.

The final budget totals were, therefore, £910,775,000 for revenue, and £910,069,000 for expenditure (including the £25 million for contingencies), leaving an estimated surplus of £706,000. "This," said Sir Robert, in conclusion, "is the budget which I present to the committee for acceptance, and I claim for it this merit, that in a very trying, anxious, and critical time for the commerce and industry of this country, it provides within the limits of legitimate and prudent finance as much relief from the burden of taxation as is possible, and in a form in which it is thought will be most efficacious. It is in the belief that it will do something to create new hope throughout the vast organization by which the nation's business is done, and upon which the prosperity of our finances depends, that I venture to commend it to the committee."

The budget met with a mixed reception. Mr. Asquith, the first to rise, complimented the Chancellor on his lucidity and terseness, remarking that holders of the office were seldom able to resist the temptation presented by a somewhat scenic occasion and often had a habit of indulging in a general discourse *de omnibus rebus* and sometimes *de quibusdam aliis*, with interpolations of flashes of more or less extemporaneous humour redolent of midnight oil. Mr. Asquith, in accordance with custom, refrained from any detailed examination of the budget, and contented himself with attacking it on two broad grounds, namely, that the 1s. off income-tax and 4d. off tea, although in themselves very desirable, were unjustified since they were based on an artificially created surplus, and, secondly, that the budget embodied a short-sighted policy which would make it almost impossible for the next budget to be balanced without further borrowing. The only legitimate ground, he said, for the remission of taxation, however heavy and burdensome, was an excess of estimated revenue over estimated expenditure. A fictitious surplus could, he added, be created in three ways: firstly, by borrowing, the method followed in the present budget; secondly, by over-estimating revenue, an impossible expedient under existing conditions; and, thirdly, by under-estimating expenditure, quoting in illustration the £25 million allowed for contingencies which in his opinion would probably have to be increased by one-half or even be doubled. In brief, the budget was a gamble, based on a short-sighted view of national needs and finance.

Mr. Clynes, at that time chairman of the Parliamentary Labour party, speaking later, appeared to be uncertain whether the budget had been dictated by national necessity or by political strategy. An election budget, he hinted, could remit taxation, but with the certainty the following year of a considerable deficit, consequent alarm in trade circles, further business dislocation, and a probability of new taxes. The short-sighted view, he declared, had often been taken in the House of Commons, whereas if Labour opinion on national finance had been followed, much more of our war expenses would have been paid out of current revenue, war fortunes would have been prevented, wealth which had been improperly acquired during the war would have been appropriated just as life had been demanded for national use, and the burden of the National Debt would in consequence have been immeasurably less. Although congratulating the Chancellor on having reduced the tea duty, he asserted that far greater reductions should have been made in indirect taxation, while on the question of the effect of income-tax on industry, he suggested that it was not taxes on persons such as the income-tax but taxes on businesses such as the excess profits duty and the corporation profits tax that severely handicapped trade, adding that taxes should be imposed more and more upon the individual and less upon the occupation. He was afraid, he said, in conclusion, that when twelve months later the year's finances came to be reviewed, few if any of the budget estimates would prove to be correct, a prophecy which was literally fulfilled although not quite in the manner Mr. Clynes expected.

The Finance Bill passed through its various stages without any undue delay, although at times debates continued until the early hours of the morning. There were the usual speeches by the usual people on the capital levy, on economy, on imperial preference and the McKenna duties, but the traditional speeches on the tea duty had to be revised this year in view of the 4d. reduction in the duty. Many complaints were raised against the continuation of the unpopular corporation profits tax, and several speakers denounced the high rate of the beer duty as an injustice to the working-man and a contributory factor to labour unrest, but these criticisms, which were not confined to one party, were not to bear fruit until the following year.

There were, however, many minor concessions granted during the passage of the Bill. In addition to those mentioned elsewhere, there were concessions in regard to private brewers, British films, entertainments duty exemption, and stamp duty. The duty on intoxicating liquor consumed in clubs was reduced from 6d. to 3d. in the £, and income-tax allowances were granted to owners of mineral rights in respect of expenses and to war widows in respect of children.

The critics of the budget devoted a good deal of attention to the Chancellor's estimates of expenditure, some following Mr. Asquith in declaring them to be grossly under-estimated, while Mr. Holmes and one or two others, their prophetic instinct possibly deflected by their desire to prove the practicability and necessity of reducing the income-tax by more than one shilling, ventured to assert not only that expenditure had been over-estimated but also that revenue had been under-estimated. Particular attention was paid to the provision of £25 million for contingencies, and here almost everyone seemed to be in agreement that the sum was entirely inadequate, arguing from the huge supplementary estimates of recent years. To this, however, Lieut.-Commander Hilton Young replied that there were three reasons why, in spite of previous years' figures, the provision for supplementary estimates might be regarded as reasonable : firstly, because financing by votes of credit was now unnecessary, while financial control, unavoidably loosened during the war, was returning to the normal; secondly, although political and economic conditions throughout the world were still far from stable, the extreme instability of war conditions and consequent budget dislocation had lessened; and, finally, as the great size of supplementary estimates in the early post-war years was mainly due to the difficulty of making estimates under conditions which were entirely unprecedented, so now, as the abnormal became the normal, the experience gained enabled estimates to be prepared with an accuracy more nearly resembling that of the pre-war years. This explanation makes strange reading in the light of the actual expenditure for 1922-23 which showed a divergence from the estimates of no less a sum than £98 million.

The policy of suspending all debt redemption encountered the almost unanimous disapproval of the Opposition. Mr. Oliver Mosley, the Independent Member for Harrow and a persistent critic of the budget, accused the Chancellor of having adopted a deliberate policy of borrowing in order to reduce taxation. He was borrowing, argued Mr. Mosley, in order to meet sinking fund and contractual obligations, and by that borrowing he created a fictitious surplus, by means of which he was able to reduce taxation, hence it followed that in the current year the Government was actually borrowing in order to reduce taxation. In reply to Mr. Asquith, who deprecated the absence of provision for debt redemption, and others who declared or implied that debt should be paid off regularly each year, Mr. Bonar Law ridiculed the idea that debt must be paid off within a certain period, maintaining that there was only one real principle to follow, namely, in a period of good trade and expanding revenue to devote to debt redemption every penny that could be given without destroying trade, and the corresponding corollary that when trade was bad, it was not only justifiable, but it was the Government's duty, to take into account what had been done and to slacken in their efforts. On several occasions, critics reiterated the time-worn argument that if due regard were paid to the amount of war assets realized, there had been no real debt reduction, but Mr. Bonar Law asserted that the post-war debt reduction had been prodigious and had not been carried through without great sacrifice and harm to trade, the evil effects of which were now being felt.

The budget policy of reducing income-tax as a remedy for trade depression and unemployment met with a varying reception from the Opposition benches. Mr. Asquith, declaring that there was no greater fallacy than to suppose that the burden of income-tax was confined to those on whom it was directly assessed, said its repercussions were innumerable, affecting as it did the whole reservoir from which the industry of the country was fed and draining it at the source. A tax of 6s. in the £, he maintained, was a most serious clog in the springs of industry, as injurious to Labour as to Capital, and he accordingly welcomed the reduction of one shilling.

Mr. William Graham emphasized the psychological effect of the reduction which, after all, was not actually very large in comparison with a budget total of £1,000 million, but expressed the opinion that a reduction of from £35 million to £50 million was a "very important contribution towards the improvement of the conditions of taxation," and would have an important bearing on the conditions of industry and employment. Mr. J. H. Thomas, on the other hand, appeared to doubt whether the reduction would affect unemployment, suggesting that there was little chance of a revival of trade and industry until our impoverished customers were in a position to pay for goods. His party, he said, did not object to reducing the income-tax, but he considered that a reduction of indirect taxation, spread over a larger number of people and permitting increased spending on essential things, would give a greater stimulus to trade than a shilling off the income-tax. Mr. Naylor, controverting the argument that the £32 million remitted to taxpayers by the shilling reduction would be free to be used in trade and commercial development, argued that it would be better to repay debt as in that case the £32 million, being repayment of investors' capital would be wholly re-invested, thus improving trade, commerce, and employment, whereas in the case of tax remission, the £32 million would be returned, in the form of increased income, to people of varying interests in different classes of the community and would not necessarily be re-invested.

That the theory of reducing taxation to improve trade was a complete piece of humbug was the opinon expressed by Mr. Hopkinson, the Independent Member for Mossley, who contended that what constituted the burden on industry and trade was Government expenditure, and it did not matter twopence whether the expenditure was met by robbing sinking funds, by raising fresh loans, or from taxation, the only way to reduce the burden on industry was to reduce the non-productive expenditure of the Government, an opinion which met with support in many quarters of the House. The pressing need for economy was indeed a favourite subject with the Opposition, and there was scarcely a speech during the budget debates which did not deal at some length with the subject. Sir Robert Horne made pointed references to Members who spoke so ardently in favour of economy but refused to vote against expenditure, and observed that the section of the Press which persistently accused the Government of gross extravagance, refrained from informing its readers whether or not the Geddes Committee's recommendations for cutting down expenditure on the Navy, the Army, and Education, ought to be implemented.

The budget was widely stigmatised as "a rich man's budget." Mr. J. H. Thomas said that while giving a bonus to the farmer and others, and a bonus to the landlord which would have the effect, of vital importance to the working classes, of keeping land out of cultivation, the contribution the budget gave to the overwhelming mass of the population was a miserable 4d. on tea. Another Labour speaker declared that the budget utterly reversed the whole principle of just taxation, those who had most getting most, the man with £150 a year getting 7s. 6d. relief while the man with £150,000 would get £7,400, an argument described by the Chancellor as one of perverted ingenuity. Mr. William Graham, with characteristic moderation, took a less extreme view, admitting that if the sugar duty had also been reduced, he would have been prepared to say that the budget was broadly just as regards direct and indirect taxation.

Mr. Bonar Law indignantly repudiated the idea that it was a rich man's budget. During the war, he said, the so-called better classes were subjected to terrific taxation, and the way in which it was paid without a grumble was something of which the nation might well be proud. Now, after the changes proposed in the budget, indirect taxation would amount to only 36 per cent. of the total tax revenue, and this, he suggested, was sufficient proof in itself that the budget had been prepared not in favour of one class or another, but in the best interests of the country as a whole. There still lingered in some quarters the idea—exploded but not yet utterly destroyed by studies of tax incidence—

that there was some particular virtue in having direct and indirect tax revenue equal, and one Member, maintaining that the indirect taxpayer had been benefiting unduly at the expense of the direct taxpayer, welcomed the budget on the ground that it was a step towards keeping that even balance between direct and indirect taxation which was kept by the great Chancellors of the Exchequer of the 'eighties and 'nineties.

The official attitude of the Labour party towards the budget was expounded at length by Colonel Wedgwood at the second reading, when he moved the rejection of the Bill, maintaining that his party's objections were sufficiently strong to justify such a course. He accused the Chancellor of having reduced taxation not by reducing expenditure but by the thoroughly unsound financial expedient of discontinuing debt redemption, and asserted that the tax reductions made were almost entirely for the benefit of vested interests and not for the common people. The reduction of farmers' income-tax, he declared, would benefit not the farmers but the landlords, and, together with the reduction on amenity land, would raise the capital value of their land by fifty millions. The fundamental principle of the budget was in his opinion wrong, for the best way to improve trade, he said, was to retain the sinking funds and to reduce indirect taxation, such as the sugar and beer duties, which fell mainly on the workers, rather than income-tax on the well-to-do, a substantial part of whose incomes is spent abroad or squandered in ways not essential to the welfare of the community. The Coalition believed in sound finance, he declared, for had they not talked about repaying the whole of the debt in fifty years, but the Press—their master—was for the first time against them, and although their principles were sound, the *Daily Mail* could break any principle, with the result that income-tax was reduced, and the debt not at all. The Labour party believed, he said, that taxation should be so altered as to fall upon vested interests and monopolies in such a way as to prevent it being passed on to the consumer, and that a determined effort should be made to pay off the national debt by a general levy on capital.

At the third reading, he returned to the attack, moving that the Bill be read " upon this day three months," on the ground that its passage through committee and report stage had intensified his party's hostility to it and amplified their reasons for its rejection. With the exception, he said, of the Labour amendment to reduce the club duty by one-half, the Chancellor had refused on the ground of expense to grant any concession to the poorer classes, had refused—because it would cost £140,000—to grant an increased allowance for the widower's daughter keeping house for her father after her mother had died, yet could afford to make a gift of £400,000 to super-tax dodgers. What a budget, he exclaimed, to take a penny off the poor man's quarter of a pound of tea, and a shilling off the income-tax of the rich, and to make all those additional gifts to railway shareholders, farmers, millionaires, excess profiteers, super-tax dodgers, and royalty owners. It was, he concluded, without doubt a rich man's budget, benefiting the rich at the expense of the poor.

Sir Robert Horne, rising later, made his final reply to the critics. On the question of the accuracy of the estimates, he said the experience of the first three months of the financial year had given no indication that the estimates ought to be revised. He informed the House that two Cabinet committees had been set up, one to deal with civil expenditure and the other with expenditure on the fighting services, and said that the Government were having sketch estimates prepared that month—a very much earlier period than usual—in order that the departments might be guided and advised, and, if need be, warned and admonished in regard to their expenditure. As regards the reduction of the income-tax rate, he asked the Labour party why, if they considered it concerned only the wealthy classes, they had thought it desirable to move forty-one amendments dealing with that tax. Controverting the argument that the shilling reduction was an unnecessary and unjustifiable gift of £18 million to holders of Government loans because the basis upon which they had lent their money was a six shilling income-tax, he pointed out that the greater part of the war debt was created before April, 1918, and, therefore, before the period of the six shilling income-tax.

The Chancellor then turned to the gloomy prophecies as to the effect of the suspension of debt redemption, and contended that the national credit was not only higher than it had been a year earlier but higher even than it had been at the time of the budget three months earlier, while the value of our currency was higher than at any time since the war. He referred in general terms to many pressing financial problems, both national and international, and concluded by asserting that so far as our financial affairs were concerned, we were in a much stronger position than at any time since the armistice, and there was much less cause for apprehension and anxiety than was the case a year earlier, and still more, than was the case three years earlier. A couple of speeches brought the debate to a close, and the Finance Bill was read the third time. Passing through the House of Lords without comment, it received the Royal Assent on July 20th, 1922.

The fundamental defect of this budget was the extraordinary inaccuracy of the expenditure estimates at a time when, according to the Financial Secretary to the Treasury, financial control was being regained, the extreme instability resulting from the war had lessened, and greater experience of post-war conditions enabled the Treasury to estimate more closely. Some of the difference between estimated and actual expenditure was due to economies affected during the year and some to other and less predictable factors, and a substantial part was undoubtedly attributable to the fact that the estimates were not adjusted in accordance with the change in the price level. The departments prepared their original estimates when prices were decidedly higher, but before the budget was opened prices had dropped to the level they were approximately to maintain for some years. The Treasury, however, who were in a position to predict the general trend of prices, failed apparently to ensure that the departments' estimates were suitably adjusted to the new price level. Some of the difference between estimated and actual expenditure may conceivably have been due to deliberate over-estimating. But whatever the cause or causes, it is clear that a divergence of nearly a hundred millions in the expenditure estimates undermines the foundation stone of the national financial system and reduces the greater part of the year's financial debates to a farce. And if account is taken of the £21¾ million devoted to sinking fund payments for which no provision was made in the budget estimates the divergence between estimated and actual expenditure was not one hundred but one hundred and twenty millions.

MR. BALDWIN'S BUDGET, 1923-24.

April 16, 1923.

THE Coalition had been tottering for some time and, in October, 1922, it broke up. Parliament's five years of life were running out, and with a General Election imminent, Conservative dissatisfaction with the Coalition —in the constituencies rather than in the House—came to a head, and led to the historic meeting of Conservative Members and Ministers at the Carlton Club. Mr. Austen Chamberlain, in the chair, urged the continuance of the existing Coalition. In the next Parliament, he said, an effective working majority would be impossible without coalition of some sort, and the only alternative to the existing Coalition would be one between the Labour party and the " Wee Free " Liberals on terms and for a policy to which Conservatives and their present political allies were resolutely opposed. He was supported by most of the other Conservative Ministers, including Sir Robert Horne, Mr. Balfour, and Lord Birkenhead.

The attack was opened by Mr. Stanley Baldwin, then President of the Board of Trade in Mr. Lloyd George's Government and one of the leaders of the revolt, who demanded an immediate and definite break with the Coalition. He denounced Mr. Lloyd George as a dynamic force which had smashed the Liberal party and would in time have a similar catastrophic effect on the Conservative party. Mr. Bonar Law, lured by the crisis from the retirement to which ill-health had driven him, also spoke strongly against continuing the Coalition.

The meeting, by 187 votes to 87, declared itself in favour of the party leaving the Coalition and fighting the next election under their own leader and with their own programme. Events then moved rapidly. Before the day was over, the Conservative Ministers had withdrawn from the Government, Mr. Lloyd George had resigned, and Mr. Bonar Law had been invited by the King to form a fresh Government. Two days later, Mr. Bonar Law, having been elected leader by a more representative meeting of his party, accepted the invitation and began to form his Cabinet, and on October 26th, seven days after the Carlton Club meeting, Parliament was dissolved.

The election of the following month returned to the House of Commons a considerably increased Labour contingent numbering 142, but the rival bands of Liberals under Mr. Asquith and Mr. Lloyd George together totalled only 117, while the Conservatives, with their programme of "Tranquillity, Economy, and Stability," secured 347 seats—a clear majority of 79 over all the other parties. Mr. Bonar Law's position, however, was weakened by the action of Mr. Austen Chamberlain and many of the other Conservative Members of the late Government who, out of loyalty to Mr. Lloyd George and in accordance with their attitude at the Carlton Club, refused to take office in an independent Conservative Government, and the absence of so many prominent members of the Party led to the gibe that Mr. Bonar Law's Government was one of under-secretaries and second-class brains. Four members of Mr. Lloyd George's Cabinet took office in the new Cabinet, Mr. Baldwin leaving the Board of Trade to become Chancellor of the Exchequer, Lord Curzon remaining at the Foreign Office, Lord Peel at the India Office, and Sir Arthur Griffith Boscawen going from the Board of Agriculture to the Ministry of Health.

Mr. Baldwin opened his budget on April 24th, 1923. Having paved the way with lengthy comments on the absence of the pre-war rhythm in the economic body, the rapid fluctuations in values, and the many other difficulties of budget-making, he commenced a review of the previous year's finances and the numerous and serious divergencies between estimates and actual results. Instead of an estimated surplus of £706,000, revenue had exceeded expenditure by no less a sum than £101,516,000, revenue having exceeded the estimates by £3¼ million while expenditure fell below the estimates by nearly £98 million.

The relatively small revenue surplus covered wide divergencies under the various heads. Customs and Excise showed a surplus of £7 million which would have been two or three millions more but for the fact that amounts due from the Irish Free State were not adjusted until after the end of the financial year. Duties yielding surpluses were the beer (£5½ million), tobacco (£3½ million), sugar (£3 million), and new import duties (£¾ million), while among the disappointing commodities spirits failed by £3¼ million, and tea by over half a million, to reach the budget estimate.

Inland Revenue had produced an unexpected surplus of £36 million. Death duties, always a rather speculative item, showed a surplus of £8¾ million, and stamps, mainly as the result of increased activity on the Stock Exchange, had exceeded the estimate by £4 million, while income-tax and super-tax showed the surprising surplus of £50 million. Explaining this divergence, Mr. Baldwin said the yield of income- and super-tax was the most reliable indication of the gradual recovery of trade and industry from the 1920-21 depression. In 1921-22, tax collection had proved difficult and at the end of the year £99 million of income-tax and £23½ million of super-tax had been in arrear. These arrears were largely cleared up in the early months of 1922-23 but, declared Mr. Baldwin, collection in 1922-23, in spite of the retarding effect of a large volume of arrears, had been more rapid than in the previous year, and more rapid than could have been forecast when the budget estimates had been framed. To this acceleration of collection he attributed more than one-half of the £50 million surplus, the other half being due in a substantial measure to an underestimate of the profits to be brought into assessment.

Two items of Inland Revenue had been disappointing, corporation profits tax showing a deficit of £¾ million, and the excess profits duty, instead of an estimated net total of £27,800,000, had produced a mere couple of millions. The gross receipts from the duty had amounted to £57 million, or £18 million less than had been expected, whereas repayments, totalling £55 million, had exceeded the anticipated figure by £8 million. The system, introduced in the previous budget, of permitting arrears of excess profits duty to be paid by instalments had not so far proved very successful, and of the £3½ million charged as interest during the year, only £1¼ million had been paid.

Another serious divergence appeared under the head of special receipts, which produced not the estimated total of £90 million but only £51 million, of which £26¾ million came from the disposal and liquidation commission, £4½ million from sales of ships and freights, £6 million from the repayment of pre-moratorium bill advances, and £6¾ million from the German Reparation Recovery Act and other German payments. But, as has already been mentioned, these numerous and wide divergencies largely cancelled one another, the total Exchequer receipts for 1922-23 amounting to £914 million as compared with the estimated total of £910¾ million.

The unexpectedly large surplus arose, in the words of Mr. Baldwin, from the best of all possible causes, a reduction in expenditure, and he said he would like to pay a tribute to his predecessor whose persistent efforts during two-thirds of the financial year had contributed so largely to such a striking result. Consolidated Fund Services showed a saving of nearly £10 million, even after providing £21¾ million for sinking fund payments not provided for in the budget estimates, so that there was really a saving of over £30 million, due almost entirely to the reduced volume of Treasury Bills and the cheap rates at which they had been placed. The budget estimate had included £45 million for interest on Treasury Bills (on the basis of £1,000 million at 4½ per cent.), but this had proved very wide of the mark for the actual sum required amounted to only £16,222,000.

The remainder of the surplus was due almost entirely to unexpected reductions of £27 million on the fighting services, and £55½ million on civil votes, including £6 million on the special provision for supplementary estimates. Mr. Baldwin, explaining or excusing these wide differences, said the savings on the supply services were "partly due to over-issues in the previous year which operated to reduce the issues in 1922-23." "It was made clear in the last budget," he continued, "that during the year reductions in expenditure were hoped for, and I suggest it is somewhat ungrateful now to complain because the reductions were large, and were made without waiting for this year's estimates. I, at least, am so far unrepentant that I hope the economies can and will be made on the estimates during the current year, and I certainly intend to do my best to secure them. In so large a figure, the causes are, of course, very various. Among others, I may mention the continued drop in prices and in wages and bonus—a factor which affects all Government expenditure, not only direct, but for instance, grants which depend primarily on the expenditure of local authorities; reduced supplies owing to the contraction of Government activities . . . and changes of policy, such as the postponement of recruitment for the Militia and reduction in the personnel of the Army and Navy."

In the ensuing debates the wide disparity between Sir Robert Horne's budget estimates and the actual results of the year's finances occasioned less comment than might have been expected. Mr. Ramsay MacDonald, with a rare and refreshing blindness towards a political opponent's failings, refused to blame him for his under and over estimates, on the ground that with such colossal figures of expenditure and revenue, scientific accuracy was impossible. On the other hand, Mr. Asquith saw in the enormous and unexampled savings on the estimates during the previous year a proof that expenditure must have been swollen to a degree far beyond the national necessity, and found it difficult, in the light of his own long experience at the Treasury, to understand why the late Chancellor of the Exchequer, when opening his budget or even as late as the passage of the Finance Bill, had not the slightest idea that the expenditure side of his budget would be so completely transformed. One Member, more suspicious than the others, said, "I believe a great deal of the reduction in expenditure of the last financial year must have been foreseen, and I cannot get it out of my head that that huge surplus of £100 million was a deep-rooted plot in order to produce a large surplus which would come in useful when the late Coalition Government thought they would go to the country to persuade the country to renew their confidence in them."

Sir Robert Horne, endeavouring to explain away the surplus, said it was true he had not anticipated it, but it was also true, he added, that if he were wrong in his estimates, there were others far more competent—including, presumably, Mr. Asquith—whose errors were egregiously greater than his own. In extenuation of his inaccurate estimates of excess profits duty and receipts from war assets, he pleaded the difficulty, if not impossibility, of foreseeing in the one case, traders' losses, and in the other, the fluctuations in market conditions. But the difference of £100 million between estimated and actual expenditure he regarded not as something to be explained but rather as a matter for unmixed satisfaction. He reminded the House of his budget pledge to reduce expenditure wherever possible, in consequence of which he had devoted the greater part of his vacation to considering all possible economies, and this, he said, coupled with the enthusiastic co-operation of the departments in the good work explained the great differences in the accounts. Had he been less assiduous, he complained, he would have been less criticized, and it was a good thing virtue was its own reward, for in politics it was apt to produce no other.

In spite of the large and unexpected surplus, the National Debt had not been reduced owing to various factors explained by Mr. Baldwin in his budget speech. The dead-weight debt on March 31st, 1923—on the customary basis of calculating external debt at par, and excluding premiums due on repayment of war bonds and accrued interest on savings certificates—amounted to £7,772 million (gross) as compared with £7,676 million a year earlier. He said it must not be inferred from these figures that there had been an increase in the burden of the debt, the face value increase in which was due, firstly, to a nominal increase of £135½ million owing to the conversion of 5 per cent. war and other bonds into 3½ per cent. Conversion Loan, and, secondly, to the inclusion in the debt total of arrears of interest on our debt to the United States. Mr. Baldwin asserted that if these factors were eliminated, the effective reduction in the debt amounted to over £149 million (face value), and that apart from savings due to actual repayment, the taxpayer had saved, by conversion of bonds, more than £¾ million in interest and £4½ million in premiums which would have been payable if they had been allowed to mature.

Turning to external debt, Mr. Baldwin pointed out that although it amounted on March 31st, 1923, to £1,156 million compared with £1,090 million a year earlier, the apparent increase was more than accounted for by the addition of three years' interest on the American debt. The only important external debts now outstanding were, he said, our debt to the United States, together with our debt to Canada which might be regarded as settled since we held a practically equivalent amount of Canadian Sterling Bonds. Excluding the relatively small amount in respect of Pittman silver, our debt to the United States amounted to 4,600 million dollars. This had been recently funded over a period of sixty-two years—on terms subsequently severely criticized in certain quarters—and Mr. Baldwin, expressing his satisfaction at this step which he declared would be in the interests of both countries, said he hoped shortly to settle the final details of the bonds to be given in replacement of our demand obligations.

Internal debt showed improvements in certain directions. A reduction of £220 million in the floating debt during the year had brought it down to the less dangerous figure of £810 million, while as the result of various conversion operations and the issue of Treasury Bonds, the amount of debt maturing during the current year had been reduced to the not unduly embarrassing total of eighty odd millions.

Dealing with the current year's supply estimates of £436 million—a reduction of £23 million on the actual, and £110 million on the estimated, expenditure of the previous year—the Chancellor invited the House to compare the Government's achievements with the recommendations of the Geddes Committee. Ignoring the special war services altogether, he said the "ordinary" estimates for 1921-22 (two years earlier) came to £668 million, the departments' preliminary estimates for 1922-23 had shown reductions amounting to £75 million, and the Geddes Committee had suggested further economies amounting in the aggregate to £87 million, which would thus have reduced the year's "ordinary" estimates to £506 million. Contrasted with this figure, the actual "ordinary" estimates for 1922-23 (£473 million) had represented a substantial reduction, and the corresponding estimates for 1923-24 (£421 million) a still further improvement, even when allowance had been made for the absence of £20 million of Irish expenditure. While admitting that the Geddes Committee had hoped to secure another cut of £13 million in the course of 1922-23, Mr. Baldwin contended that in spite of certain new charges, an enormous reduction in expenditure had been achieved, adding that the cuts of £247 million in "ordinary," and £82 million in "special" expenditure already made in two years encouraged him to pursue further the policy of economy and retrenchment.

This year, no special provision was made for supplementary estimates, Mr. Baldwin holding that the time had come to revert to the pre-war practice and to the custom of providing for them out of savings elsewhere, without upsetting the general budget total.

In this budget, consolidated fund charges, forming an ever-increasing fraction of the budget total as war charges and prices shrank, amounted to £380½ million, or nearly one-half of the total expenditure estimates. Debt charges were expected to absorb £350 million, interest charges accounting for £310 million, a decrease of £25 million on the previous year's estimate in spite of a new item of £5 million for interest on the American debt, while the £40 million remaining for the new sinking fund was expected to be just sufficient to meet compulsory debt repayments under specific sinking funds, the sinking-fund on the American debt, certain other American and Canadian payments, and—an item of a somewhat different character—the sums required to enable the National Debt Commissioners to purchase from the Inland Revenue Commissioners the Victory Bonds tendered in payment of death duties.

The institution of this new sinking fund was one of the most interesting of Mr. Baldwin's budget proposals. He proposed to include in the Finance Bill a clause providing for a fund of £40 million in the current year, increasing to £45 million the following year, and to £50 million—the maximum—in 1925-26, "and in every subsequent financial year, unless and until Parliament otherwise determines." He emphasized the fact that the provision of these sums was not for the most part optional but was definitely required by contractual obligations. The Government might, he added, suggest borrowing for sinking funds once, as had been done the previous year, but to suggest it for two successive years would seriously endanger our credit since the meeting of all recurrent charges out of revenue had been one of our greatest sources of strength. In his opinion, a steady and recognized policy of debt redemption was essential, firstly, because nothing else would so much facilitate the finding of capital for industrial purposes since money devoted to redemption of internal debt returned at once to the investment market, and, secondly, because the huge debt, unless steps were taken in time, might prove an intolerable burden at a time when our commercial competitors were possibly free from such a handicap. In the ensuing seven years, £1,300 million of bond debt would mature, while in 1929 the Government would have the option of repaying £2,100 million of war loan, and Mr. Baldwin, believing that only an avowed and sustained policy of debt redemption would enable us to re-borrow satisfactorily, claimed that he was taking every step which prudence and foresight could dictate to prepare the way for the successor who would have to deal with these great conversions.

Expenditure for the year 1923-24 was estimated at £816,616,000, made up of £801,013,000 "ordinary" expenditure and £15,603,000 "special" expenditure, and, to meet this, Mr. Baldwin had an estimated revenue, on the existing basis of taxation, of £852,650,000. Customs and Excise were estimated to produce £274 million, or £6 million less than the previous year's actual receipts, the Chancellor explaining that in spite of there being many signs of the lifting of the industrial depression, there had not yet been any appreciable rise in the purchasing power of the great mass of the people on which indirect tax revenue so largely depended.

The Inland Revenue estimates totalled £445 million, a drop of £37 million compared with the previous year's receipts. Death duties and super-tax were expected to yield less, and the income-tax estimate, with the poor year 1922-23 replacing the good year 1919-20 and the absence of the arrears at the six shilling rate which had helped to swell the previous year's revenue, showed a fall of nearly £35 million, but excess profits duty, in anticipation of diminishing liabilities for repayments, was estimated—inaccurately, as it proved—to produce £12 million instead of the disappointing two millions of the previous year.

Income-tax evasion, which had in recent years been the subject of much discussion and to which the Royal Commission on the Income-Tax had devoted considerable attention, was regarded by the Government as an increasingly serious problem, and Mr. Baldwin now proposed to insert in the Finance Bill some, but not all, of the Royal Commission's recommendations, hinting that the remaining recommendations would be implemented when the opportunity arose. Those now to be adopted included the increase of certain penalties, and extension to six years of the existing three years' time limit for the making of income-tax assessments and surcharges and the recovery of statutory penalties. On the other hand, the period during which a taxpayer might claim repayment was, in cases where there was no specific statutory time limit, to be similarly extended from three to six years. There were to be other, less important income-tax changes affecting the assessment of life insurance companies and Crown servants from abroad home on leave, and a flaw in the estate duty law recently revealed in the law courts was to be rectified.

Before disclosing his proposals for tax reductions, Mr. Baldwin examined in some detail the surplus at his disposal. Of the estimated surplus, on the existing basis of taxation, of £36 million, two-thirds was explained by the margin of "special" receipts over "special" expenditure and only £12 million arose on the "ordinary" account. He pointed out that as the war receded into the past, "special" receipts declined and would soon disappear, and, in addition, there would be a further fall in the next year's income-tax yield as there would be three, instead of two bad years in the average, so that he had to budget with his eye on a serious drop in revenue in the following year—amounting probably to £50 million on these two items alone. Such a loss might be partially counterbalanced by savings on expenditure, but, said Mr. Baldwin, in spite of every effort on his part, savings would become increasingly difficult to effect, and he was, therefore, faced with the possibility of a deficit the following year which, when the time arrived, could only be met by increased taxation or by again postponing repayment of debt.

Faced with this dilemma, he had tried to find some source of tax revenue which had been overlooked by his hard-pressed predecessors, and he had been greatly attracted by the possibility of a tax on betting, in his opinion a very suitable object of taxation when so many necessaries of life were being taxed. On the ground that he had not had sufficient time, owing to the brevity of his period of office, the interruption of a general election, and his visit to America, to study the question, he proposed that the whole question should be referred to a select committee. The proposal provoked surprisingly little comment during the ensuing debates except from Mr. Snowden who confessed to a feeling of dismay, amounting almost to horror, that the country should have come to such a pass that recourse should be had to legalising and making respectable what he considered to be the second greatest curse of the country. But as he had described the increased taxation on beer as the greatest agency of temperance reform ever seen in this country, Mr. Baldwin said he could not quite see how the very subtle and acute mind of Mr. Snowden differentiated between the effect of the beer duty and that of the suggested tax on betting.

Introducing his proposals for tax reductions, he uttered the warning that they inevitably involved the risk of a future shortage of revenue, so that additional revenue would probably be required, either from the pockets of the gambling fraternity, or, if his suggested tax on betting did not eventuate, from some other source. He was counting also on still further substantial reductions in supply expenditure, not merely in special war services now dwindling almost automatically but also in normal services where they were more difficult to obtain. Taxpayers, he said, who welcomed reduced taxes must remember that tax reductions were only the fruit of reduced expenditure and that it was only by continuous reductions in expenditure, year after year, that reductions in taxation could be made.

Postal charges were to be lowered once again. The charge for inland letters, substantially reduced the previous year, was now to be 1½d. for the first two ounces, and ½d. for every additional two ounces, a scale destined to remain unchanged for some years. Reductions were also to be made in the charges for colonial and foreign letters and for inland printed papers, while the scale for inland parcels was to be reduced uniformly by threepence per parcel. Telephone users were also to benefit from the budget. The annual rental of ordinary telephone installations was to be 10s. less, the free radius was to be extended for provincial users from 1 to 1½ miles from the subscriber's exchange, the fee for local messages at public call-offices was to be reduced from 3d. to 2d., and there were to be various other minor concessions. In a full year, the Post Office cash revenue would lose £840,000 from the telephone changes and £1,560,000 from the other concessions. There would, of course, be a still greater loss on the Post Office commercial account owing to the reduced charge against Government departments for correspondence carried without payment.

Turning to commodity taxation, the Chancellor, anticipating criticism, explained first of all why he did not intend to reduce the duty on tea or sugar. The tea duty, he said, had been reduced by Sir Robert Horne the previous year, and he did not think any further relief was called for this year, but the critics did not find this reasoning convincing. As regards the sugar duty, he considered that in the existing state of the world market, the consumer would not be likely to retain for any length of time the initial advantage derived from a tax reduction, for the sugar market, he said, was a seller's market, and although a reduction of the duty might result in an immediate reduction in price, the lower price would lead to an increase in demand and this, Mr. Baldwin declared, " would tend further to increase the world price, and the result would be that the money sacrificed by the Exchequer would go straight into the hands of the producers and the dealers in sugar." It was with great reluctance, he said, that he refrained from proposing any reduction of the sugar duty but he sincerely hoped the position of the world's market would be such as to justify a reduction at an early date. Mr. Baldwin's failure to reduce the sugar duty, now fourteen times its pre-war level, led to copious and caustic comments from the Opposition who roundly denied his theory that a reduction of the duty would benefit the consumer little or nothing.

The difficulties in the way of reducing the sugar duty had, the Chancellor said, turned his thoughts to commodities produced mainly in this country and the prices of which were much less dependent on foreign markets. This led up to the announcement of a reduction for the beer drinker, a reduction proposed with the avowed intention of securing a definite and pre-determined reduction (one penny per pint) in retail prices. As the duty is assessed on the standard barrel, that is, thirty-six gallons of a standard gravity of 1,055 degrees, the duty on any given bulk quantity varies according to its original gravity. Stated more simply but less precisely, the beer duty varies—broadly—with the alcoholic strength. A reduction of the duty, therefore, equivalent to a penny a pint on the average would have meant more than a penny a pint reduction on very strong beers, and (as the average gravity is below 1,055 degrees) less than a penny on most of the beer consumed in this country. On the weakest beers, it would have meant only a halfpenny, or even less.

With the declared intention of meeting existing conditions under which the spending power of the poorest classes had so greatly diminished, Mr. Baldwin decided to allow the existing duty of £5 per standard barrel to remain unchanged, and to effect the reduction by giving a rebate not on the standard barrel but on the bulk barrel, irrespective of strength, so that the reduction would be the same for light as for heavy beers, and a uniform reduction in retail prices could be effected.

A rebate of one penny per pint would have meant a rebate of twenty-four shillings per barrel, but the Chancellor proposed a rebate of only £1 per barrel because, he said, the trade might fairly be asked to bear a part of the cost, and after very careful consideration he felt they might reasonably be required to contribute four out of the twenty-four shillings. To allow the full rebate of twenty shillings on the very weakest beers would have meant repaying the whole of the duty, and he accordingly proposed that the rebate on weak beers below 1,025 degrees should be so graduated that the net duty payable would not be less than one penny per pint. The estimated cost to the Exchequer of the rebate was £13 million in the current year and £16,600,000 in a full year.

Another indirect tax to be reduced was the excise duty on sweetened table waters, payable since its imposition at the rate of fourpence a gallon compared with eightpence a gallon on the unsweetened variety, the difference between the two rates having been intended to distinguish roughly between the cheaper and the more expensive kinds of table waters, and to make some allowance in respect of the dutiable ingredients, such as sugar and spirituous essences, used in the manufacture in this country of sweetened varieties and the duty on which was estimated at the time to represent about twopence for every gallon of the finished product. Since 1916, when the table water duty was originally imposed, the sugar and spirit duties had been heavily increased, and were now estimated to represent not twopence but fourpence per gallon of the finished product. In order to restore the margin between the sweetened and unsweetened varieties, Mr. Baldwin proposed to reduce the excise duty payable on the latter from fourpence to twopence, at an estimated cost in a full year, of £175,000. The reduction affected only the excise duty, that is, the duty payable on sweetened table waters manufactured in this country, and no change was made in the corresponding customs duty on imported table waters, the manufacturing costs of which had presumably been unaffected by the increases in our sugar and spirits duties.

The table water manufacturers, who, suffering from the trade depression, had for some time past agitated for the total abolition of the table water duty, were dissatisfied with the twopence per gallon reduction which, they said, was two small to be passed on to the consumer, and they argued, through their spokesmen in the House, that if consumers were to benefit, a further reduction must be made. The only result of their protest was a strong demand in the House that no reduction whatever should be made failing an undertaking—which was subsequently given—that the trade would pass on the concession to the consumer.

With this budget came to an end the duty on cider—one of the least successful of the war-time indirect taxes. This duty, said Mr. Baldwin, was unimportant from the point of view of revenue (the annual yield was about £100,000 a year) but its repeal should be of some assistance to agriculture.

In the case of direct taxation, Mr. Baldwin had come to the conclusion, after much cogitation, that such sum as he could afford must in the main be devoted to a further reduction of the standard rate of income-tax, from 5s. to 4s. 6d., a course which in his opinion would spread the relief over the widest possible area and at the same time give as great a stimulus to trade as any other possible tax reduction. Many and varied were the criticisms of this theory. Mr. Snowden, arguing that the reduction would not stimulate trade and industry, and thus employment, said the remission of income-tax was more likely to be spent than invested, and spent in such a way as would not encourage employment, on parasitical trades rather than on industries giving the maximum of employment. The reduction of income-tax, he concluded, would not stimulate industry, although if it could be reduced at one fell swoop by three or four shillings, it would have that result, but by its psychological effect rather than for any economic reasons.

Mr. Mosley, discussing the theory that direct taxation raises the cost of production, curtails the home market, and handicaps our manufacturers in competing in both home and foreign markets, pointed out that, if true, it meant that manufacturers were not bearing the burden but were passing it on to the consumer. In his opinion, however, it was only partially true, but he asserted that, since the power of labour organisations prevented the debasement of the workers' standard of living, indirect taxation must always be a direct factor in the cost of production, and for that reason, apart from humanitarian considerations involved, the Government should seriously reconsider the readjustment of direct and indirect taxation. Mr. Lees-Smith, taking a different line, argued that the working classes were now sinking to a level of civilization sensibly lower than obtained before the war, and the Chancellor of the Exchequer should, therefore, in distributing relief of taxation, have used a substantial portion of the surplus to take off taxes which directly and without any argument affected the stamina and health of the great mass of the people. The Labour party, he said, had no objection to a reduction of income-tax, but a much smaller sum should have been used and concentrated on those poorer men with family responsibilities in whose case assistance was most urgently needed.

The final concession announced by the Chancellor was the reduction of the much-criticized corporation profits tax. Everyone, he said, admitted it was not a good tax, while many thought it bore exceptionally heavily on enterprise and industry, and although he was unable to abolish it entirely, he proposed to reduce it from one shilling to sixpence in the £ in respect of profits arising after June 30th, a change which would have little or no effect on the current year's revenue and would cost only £2 million the following year but would ultimately entail a loss of £12½ million. On the other hand, there would be a slight compensation in the resulting increase in the income-tax yield. The reduction of the corporation profits tax—not the best hated but certainly the least liked tax of recent years—met with no criticism save from one or two who favoured its entire abolition.

The whole of the proposed tax reductions were estimated to cost about £47¼ million in a full year, and in the current year the smaller but still substantial sum of £34,150,000. The estimated revenue for 1923-24 was, therefore, £818½ million, and this left the Chancellor with an estimated surplus of £1,884,000, a sum which he thought it was only prudent to keep for contingencies.

Bringing his budget speech to a close, Mr. Baldwin said, " I have now laid before the committee as clearly as I am able the financial statement of the year. I can only thank them for the courteous attention they have given to me. I have gone to the utmost of my power to relieve the taxpayer without impairing the credit of the nation, for, after all, the credit of the nation and relief for the taxpayer are in the long run inextricably interwoven. I believe that although we are still in the series of transition years, we have already passed the peak load of taxation, and we may hope soon to have relief, after the calamitous years of trade depression. But our hopes may be frustrated by untoward events on the Continent and they may be shattered by untoward events at home. Industrial peace would do more for trade than reduced taxation. Reduced taxation itself is the offspring of peace. If the people of this country will only unite to take advantage of the better trade that undoubtedly is coming, I can face the financial future with confidence, and neither I nor my successor in this place will then be oppressed by those peculiar anxieties which have weighed so heavily in the framing of this budget and the four preceding post-war budgets."

Rising first, Mr. Ramsay MacDonald commenced by complimenting Mr. Baldwin for having shown on the fundamental point of debt reduction a courage and wisdom not displayed by any of the post-war Chancellors, but criticized the budget as a whole on the ground that it did not balance. When from the following year's revenue, he said, one took the sums really belonging to capital and the excess profits duty debts, and allowed for the full year's reduction of beer duty and income-tax, it was clear that the budget did not balance, but was still depending upon the profoundly unsatisfactory expedient of including as current revenue huge sums that when originally spent during the war were provided out of capital. Questioning the policy of reducing taxation in order to stimulate trade, he contended that the main stimulus from reduced income-tax came from private businesses where the proprietor himself paid the income-tax, and from the increased consumption by professional people and by people with fixed incomes, but maintained that not more than twopence or twopence-halfpenny of the shilling reduction of income-tax the previous year had gone to stimulate trade, the remainder having been spent on unnecessary and parasitical forms of luxury. Even though some capital, he continued, could be supplied by reducing income-tax, the problem before trade was not merely to find capital but also to find an outlet for the goods produced, and concluded that trade could be stimulated only by stimulating consumption on the part of the great mass of the people.

A very large part of the ensuing discussion turned on the problem of the debt and allied questions. Mr. Baldwin's new sinking fund, admirable though it was in some respects, was far from critic-proof as the Opposition proceeded to prove. The proposal was severely criticized by Mr. Lees-Smith, the Labour Member for Keighley and a professional economist, who held that Northcote's sinking fund of 1875—a cumulative fund increasing year by year as the debt diminished—was sounder and better in every way. Mr. Baldwin's fund, he said, providing as it did for a definite sum each year for debt reduction which would not increase, however much the Debt Charge was reduced, would at the best take one hundred and fifty years to pay off the debt. This, concluded Mr. Lees-Smith, meant that the Government had abandoned the problem of the debt and left the Labour party as the only party with a debt policy—presumably the capital levy—to lay before the people.

Mr. E. Hilton Young, speaking with the authority of one having wide theoretical and practical knowledge, coupled with recent experience at the Treasury, and with the outlook—at that time—of a National Liberal, queried the wisdom of making fixed financial programmes for long ahead, contending that the wisest policy was to judge each year on its own merits. Past experience, he said, taught us that fixed sinking funds were, in the emergency of a year, brushed away like cobwebs, sometimes rightly, sometimes wrongly, but such abandonment of sinking funds adversely affected national credit, and, in view of the vagueness of the financial future and the probability that the newly proposed provisions could not be maintained, it would have been far better, he declared, to wait a year or two before proposing fixed provisions. In his opinion, the only effect of trying to bolster up sinking funds by statutory provision was to give them a somewhat ridiculous and conspicuous pre-eminence which might force upon the year's finances—and was to some extent actually doing so—financial measures absolutely unsuited to the time and conditions.

Mr. Asquith also objected to the new sinking fund, but for the somewhat different reason that while perfectly nugatory and not binding on future Parliaments, the impression would be given that the specified amounts were maxima not to be exceeded. And although agreeing that £40 million was probably an adequate amount to devote to debt reduction during the current year, he thought that when normal conditions returned, the country could reasonably afford much larger sums, and it was undesirable for an impression to be given to the world that we intended to limit our efforts in the manner indicated by the proposed new fund.

Replying to these criticisms, Mr. Baldwin declared that the maintenance of national credit depended not only on the balancing of the budget but also on the existence of satisfactory sinking funds, and he was anxious to see the terms embodied in the Finance Bill, firstly, to make plain to the world our constancy in the debt policy outlined in the budget, and, secondly, to make it as difficult as possible for anyone who in the future might be tempted to raid the sinking fund. Without statutory restrictions, he pointed out, a mere stroke of the pen would suffice, but incorporation in the Finance Act would ensure that during the critical years ahead, there would be no tampering with the fund unless the necessity for it was proved beyond a doubt to the majority of the House.

The closely allied question of tax reduction versus debt reduction was never long absent from the budget debates. The National Liberals were the only party definitely in favour of reducing the provision for debt redemption. Sir Alfred Mond argued that taxation was crippling industry, and that until taxation, both direct and indirect, was reduced to a more normal figure, debt reduction might very well be left alone. To crush the country by taxation instead of leaving it to recover, in order to pay off small amounts of debt was, he suggested, as sensible as finding a firm in financial difficulties and instead of giving it time to recover and discharge its liabilities, putting it into the bankruptcy court. He saw no reason, he said, why the country should not develop as it did after the Napoleonic wars, or why, once again, the debt burden apparently so enormous should not with the increase of wealth automatically become a relatively small burden.

Then, turning to the question of the war pensions, he asked what objection there could be to such a simple, natural, and sound operation as funding the pensions, and why people living just after the war should, in addition to other burdens, have to bear the peak of expenditure of a charge which would gradually diminish and eventually disappear. Calculating that funding the war pensions would reduce the year's expenditure under that head from £73 million to £33 million—although it may be doubted whether much more than one-half of that saving could actually have been effected—he argued that as the balance of £40 million was in reality reducing the national burden, the total amount being devoted in the budget to debt redemption was £80 million, and he expressed amazement that under existing circumstances when £100 million a year were being spent in keeping people unemployed, the House and the country should allow £80 million which could be fruitfully used in industry to be diverted to debt reduction.

On the question of taxation versus debt redemption, Mr. Asquith differed fundamentally from the National Liberals, for in large and progressive reductions of debt he saw the best hope for the future rehabilitation of the nation's finances. From 1905 to 1914, while he and Mr. Lloyd George were at the Treasury, the yearly debt reduction averaged £10 million or roughly 1¼ per cent. of the total debt outstanding, and although agreeing that such a proportionate reduction could not be maintained under existing conditions, Mr. Asquith declared that Mr. Baldwin's sinking fund, satisfactory though it might be for the present, did not go far enough, for we ought not to be satisfied until the annual reduction increased to £77 million, or 1 per cent. of the total debt outstanding. At the same time, however, he attacked Mr. Ramsay MacDonald's attitude towards reduction of the income-tax. This tax in Mr. Asquith's opinion was, even at the reduced rate of 4s. 6d. in the £, a bad and pernicious form of capital levy, not merely curtailing the enjoyments and comforts of a large number of the middle classes but also drying up the stream which fertilized the whole field of employment and industry.

The Labour party, differing from both the Liberal schools, were in favour of a considerable and immediate increase in the amount of debt redemption, but, according to Mr. Snowden, they were also in favour of lower taxation.

For what, he asked, was the object of their proposal for a capital levy except to reduce debt and thus to reduce the amount of taxation necessary to pay the interest on that debt. The fallacy, he said, of those who like Sir Alfred Mond and Mr. Hilton Young advocated immediate tax reductions at the expense of debt reduction was that they apparently failed to realize one could not have tax reductions on sound economic lines so long as the national debt remained at its existing level.

Sir Robert Horne appeared to agree in principle with his late colleagues, the National Liberals. Claiming agreement with the policy expounded by Mr. Bonar Law in the previous year's budget debates, he maintained that " when trade is thriving, you ought to pay off every pound of debt that you are able, but that when trade is bad, you ought to slacken your efforts." This was a far sounder principle, he suggested, than that of paying off a fixed sum each year irrespective of trade conditions or of the effect on the taxpayer, and quoted in support some of the great financiers of the past, Sir Henry Parnell, the author of *Financial Reform*, Sir Stafford Northcote of sinking fund fame, and Disraeli. Sir Robert agreed that in a year when so large a surplus was anticipated, Mr. Baldwin was justified in making some provision for debt, but he thought it would have been better merely to have met our contractual obligations and to have devoted the remaining £10 million to wiping out the corporation profits tax.

There was as usual much difference of opinion as to what taxes should have been reduced or abolished. Mr. Snowden contended that the tax remissions embodied in the budget were benefiting the wrong classes, and were going to those who could have continued to bear the burden without unduly feeling the strain. The well-to-do classes, he said, were paying £450 million in taxation, but were getting back £340 million, so were only contributing to the expenses of the country a net sum of £110 million, whereas the working classes were contributing a net sum of £115 million, seeing that they paid £250 million in taxation while only £135 million were devoted to services directly benefiting them. Mr. Snowden explained that his figure of £135 million included old age, soldiers' and widows' pensions, and the State contribution to national insurance, but ignored the sums spent on education and the health services. He complained that while the workers, out of their inadequate and limited means, were contributing more to the expenses of the country than the income-tax paying class, it was the latter, contributing so disproportionately, particularly if regard were had to ability to pay, who were selected by the Chancellor for very considerable relief.

The contention that indirect taxpayers, because they were less able to bear taxation, should be relieved of the whole of the burden before taxes were further reduced, was disputed by Mr. Baldwin. He held that regard must be had not only to ability to pay, but also, as Mr. Snowden had said, to the benefit each class received, and declared there was no doubt whatever that the indirect taxpayer derived from the various services, including education and insurance, far more than he paid in indirect taxation. The dispute was continued by speakers on both sides, but interesting though it was in some respects, an argument in which the disputants divide the nation into two classes, direct taxpayers who hold Government stock and indirect taxpayers who do not, and contrast the so-called benefit derived by the former from debt interest with the benefit derived by the indirect taxpayer from social service expenditure savours too much of the artificial to be convincing.

Wide differences of opinion existed as to the desirability of reducing the tax on beer. Mr. Asquith was of the opinion that amongst indirect taxes, the sugar duty had a far better claim to reduction. Mrs. Wintringham, the Liberal Member for Louth, struck an entirely fresh note in financial debates by stating the case for the working—and voting—housewife, a new factor with immense potential, if at that time little actual, influence on finance and politics. A reduction of a penny a pint on beer, she said, amounting perhaps to a shilling a week in the case of the average working-man, would not benefit his wife at all as the money for beer came out of his pocket, not hers. Women, she asserted, resented the fact that they had been overlooked in the budget, for although middle-class women might benefit from some of the changes, nothing had been done for the most heavily taxed class—the ordinary working housewife who had to make the weekly wage go as far as possible and who, feeling the difficulty of her task, would consider it absolutely indefensible that £13 million should be squandered in reducing the duty on beer.

The attitude of the temperance movement was indicated by one Member who declared that the electioneering value and the possible contentment of a part of the electorate would be dearly purchased at the cost of the social degradation and misery which inevitably followed an expansion of the brewing trade, and accused the Chancellor of sacrificing, possibly for electioneering purposes, the vital and permanent interests of the nation. And Mr. Snowden, a lifelong teetotaller and uncompromising supporter of the temperance movement, said that the increased taxation and high price of beer had been the greatest agency of temperance reform this country had ever known, and, declaring that we could not afford to encourage increased drinking, expressed amazement that business men should tolerate with complacency the existence of such a drain on the country. His assertion that Labour Members would, without exception, have preferred a reduction on sugar rather than on beer provoked Sir William Joynson-Hicks to retort that whether or not that were true, he was certain a majority of working-class voters would take the opposite view.

Mr. Baldwin, replying to the argument that it was immoral to reduce the beer duty, asserted that no Government in this country had ever held the view that taxation should be used to penalize trades deemed to be immoral. Taxation, he said, was imposed for revenue purposes and must be judged from that point of view. Shifting his ground somewhat, he added that every tax subjected to heavy increases during the war deserved fair consideration, as and when the opportunity arose, to see whether it was possible to reduce it for the benefit of consumers, and it was for that reason alone that, in due course, beer came up for review and was selected for a reduction of taxation.

The fact that the reduction of the retail price of beer was to be secured at the cost to the Exchequer of 20s. per barrel while the trade would only be called on to find the remaining 4s. gave rise to forceful comments on the high post-war brewery profits and a demand that, in view of falling costs and the certainty of expanding consumption and profits, the brewing trade should be called on to bear a much larger share of the reduction. The respective shares to be borne by the trade and the Exchequer had been arrived at by the Treasury in consultation with representatives of the trade before the budget, and Mr. Baldwin, silencing critics who objected to such procedure, said that the consumer could have been protected only in two ways, namely, by the politically impossible and in many ways undesirable, reversion to war-time control, or by the method adopted—obtaining by negotiation with the trade a gentleman's agreement to pass on the tax reduction to the consumer. He agreed that some breweries could have afforded to bear a larger share of the reduction, but maintained that, taking all factors into consideration, the agreed figure was fair both to the trade as a whole and to the Exchequer.

Before the Finance Bill had reached the committee stage, Mr. Bonar Law had been compelled to retire, for his health rapidly declined under the strain of office, and on May 20th, 1923, acting on the urgent advice of his medical advisers, he tendered his resignation to the King. Mr. Baldwin was invited to form a Government, and thus, aided by an unusually propitious combination of circumstances, finished his extraordinarily rapid climb to the highest office in the State within a few months of emergence from comparative obscurity.

Mr. Baldwin offered the Chancellorship of the Exchequer to Mr. McKenna, the Liberal statesman responsible for two memorable war budgets, whose advent to office would undoubtedly have been followed by very considerable if not radical changes in the national finances. But it was not to be. He had for some time taken no active part in politics, and it was intended to find a safe seat for him, but owing to the active disapproval of a section of the Conservative party, he eventually decided, some weeks later, definitely to decline the invitation. In the meantime, Mr. Baldwin retained the Chancellorship, and, owing to the manifold duties attaching to the Premiership, entrusted the Finance Bill to Sir William Joynson-Hicks, late Postmaster-General, who now became Financial Secretary to the Treasury, and was given a seat in the Cabinet. One or two other changes were made, but the Cabinet, which included none of the dissident Conservative ex-ministers, remained substantially the same as in Mr. Bonar Law's time.

During the passage of the Finance Bill, the agitation in connection with the property re-assessment announced in the previous budget came to a head. It will be remembered that, owing to the war, there had been no quinquennial re-assessment since 1910, and, in consequence, income-tax payable on property under Schedule A had been assessed for many years on much less than the true annual value. The new assessment obviously meant, in most cases, a considerable increase in taxation for property owners, and sections of the Press, not to mention certain Members of Parliament, had had little difficulty in persuading those affected that the increased assessments were unsatisfactory and unjust. Mr. Snowden, who declared the agitation was nothing but a newspaper stunt, said the vital question was whether or not those who enjoyed income from rents or who occupied their own property should pay income-tax according to the actual benefit received. The principle that income from property ought to be assessed on precisely the same basis as income derived from any other source—accepted by Mr. Snowden as a self-evident truth—was disputed by one Member who asked whether it might not be desirable to make some differentiation in favour of property, particularly small property, so as to encourage the flow of capital into a form of investment which at that time was a great social need.

The property-owners' agitation against the new assessment was not in vain, for in addition to minor concessions giving an extended time limit for appeals, the right to depute an agent to undertake an appeal, and the right to a reduced assessment where annual values fell during the quinquennial period, the Chancellor conceded increased and, on the whole, generous allowances for repairs at an estimated cost of £1 million in a full year.

A question interlinked with the new assessment was that of the inhabited house duty, from which houses of an annual value not exceeding £20 were exempt. The new, increased assessment brought many thousands of houses over this limit for the first time, and, in consequence, demands were made—from all quarters of the House—that the scale should be amended, or the duty abolished. Mr. Lees-Smith denounced the duty on the ground that as a house of certain minimum standard of accommodation was a necessity of civilized life, a tax on houses of low rental was a tax on the health and stamina of the people, and unfair not only to the working classes but also to the poorer section of the middle classes. Mr. Snowden, who thought this anachronism in the tax system should be repealed, and did in fact repeal it in his budget of the following year, realized that the Government were hardly likely to go so far in the current year, and proposed an amended scale raising the exemption limit to £30, with a rate of threepence in the £ when the annual value was between £30 and £60, and sixpence when the annual value exceeded £60.

The Chancellor accepted this amendment, subject to the addition of a further step in the scale—a rate of ninepence in the £ where the annual value exceeded £90. Sir William Joynson-Hicks, addressing both sides of the House, made some pointed remarks on the undesirable practice of encouraging people to agitate against the payment of taxes, and expressed the hope that the substantial concessions in connection with the new assessments, the repairs allowances, and the inhabited house duty would bring this undesirable agitation to an end.

This year the entertainments duty was once again attacked by the critics. Some denounced it as the most flagrant example in modern times of over-taxation destroying an industry and demanded the abolition of the duty, while others would have been satisfied with a reduced scale, but, apart from relief from the duty for certain exhibitions and an extension of the existing exemption for school entertainments, the Chancellor declined to make any change in the entertainments duty. The cinema industry, however, secured a minor concession, worth probably £500 a year, in connection with the importation of cinema films produced abroad by British artistes.

Nothing really ruffled the House during the passage of the Bill until round about midnight on its last day in committee when the ever-inflammatory topic of land values came under discussion. Sir William Bull moved a new clause to abolish a remnant of the machinery created in 1910 to collect the increment value duty, under which particulars had to be delivered to the Inland Revenue Department of all transfers of land. The Conservative supporters of the motion claimed that the return required by that department, although rendering the transfer of land more expensive and troublesome, served no useful purpose, but this the Opposition flatly contradicted, declaring that the return not only very materially increased the yield of death duties but also meant a saving of millions of pounds to local authorities purchasing land for various purposes. According to one Labour Member, the

Inland Revenue valuation of land was the Domesday Book which his party would use when they came into office, and they would not tolerate for one moment interference with the valuation department.

Sir William Joynson-Hicks, although admittedly in sympathy with the proposed new clause, said it would be highly improper for him, after only about three weeks at the Treasury, to attempt to make such a great alteration, and he suggested referring the matter to a departmental committee which was then sitting on the whole question of land valuation. Sir William Bull thereupon asked leave to withdraw his clause, but a few Opposition Members challenged a division, apparently hoping to place the Conservatives in the unhappy position of having to vote against either their beliefs or the Government. Then to the surprise and dismay of the Opposition, who subsequently denounced such action as improper and a breach of faith, the Government whips were taken off with the result that the clause abolishing the return was added to the Bill. In spite of the lateness of the hour, there followed a lengthy and bitter discussion which was resumed at the report stage when many of the principal Opposition debaters, including Mr. Asquith, Mr. Lloyd George, and Mr. Ramsay MacDonald, endeavoured to persuade the Government to relinquish the new clause. Mr. Austen Chamberlain, who had expressly retained the valuation department when he repealed the land valuation duties in 1920, also appealed to Mr. Baldwin to reconsider the question before abolishing a return so valuable to the State.

But Mr. Baldwin was unmoved. He agreed that the valuation department had saved the country considerable sums of money but suggested that these savings had not been solely due to the registration of sales, and roundly asserted that the abolition of the registration would in no way impair the efficiency of the department. He expressed surprise at the feeling displayed in debate on a matter which, dissociated from its historical setting, was of the very smallest importance, and said he saw no reason for reversing a decision taken in an open vote and by a substantial majority.

A clause of peculiar interest to students of taxation was added, at the report stage, providing for relief of shipping profits from double taxation. Double taxation was the subject of discussion as early as the thirteenth century, and political, economic and financial development had gradually but surely increased the importance of the problem, but the unparalleled increase of taxation in recent years was now making it absolutely essential that some remedy should be found. The League of Nations had set up a committee to consider the whole question, but its report was not expected for some time. Shipping is particularly susceptible to double taxation, and this no doubt largely explains why this industry was chosen for the first practical experiment, made by the United States, where, in 1921, a law was passed exempting from their income-tax the shipping of any foreign country agreeing to grant equivalent exemption to United States shipping. The British Government now decided, after two years, to accept the United States offer, and to draft a clause wide enough to cover any subsequent agreements which might be negotiated between this and other countries. The clause, therefore, provided that after negotiations with any country an order in council might be made exempting the shipping of that country from British income-tax. The Financial Secretary, moving the clause, expressed the hope—not likely to be fully realized in our time—that if this experiment proved successful, it would merely be the forerunner of a larger scheme of legislation exempting all trades from double taxation throughout the world.

The Finance Bill reached its third reading on July 4th, when an unusually interesting debate was initiated by Mr. Snowden who, as at the second reading, asked the House to reject the Bill, and took this opportunity of reiterating the Labour party's main criticisms, namely, that the provision for debt redemption was inadequate, that the benefits of tax remission were going to the wrong classes, and that the Bill would do nothing to encourage trade and industry.

Inflation versus deflation was the main theme of an able speech from Mr. Hilton Young, who complained of the Government's failure to make any public pronouncement on their financial policy. In his opinion, although deflation, like inflation, had demerits as well as merits, the ideal to be aimed at, although not perhaps immediately attainable, was the re-establishment of the gold standard, a matter of vital importance to our financial and industrial future. Deflation, he added, must be very gradual, and was best accomplished by the "natural process of the increase of production" rather than by the artificial process of decreasing credit and currency. From this he argued that although it was necessary to make adequate provision for debt redemption, it was equally necessary to make adequate reductions in taxation in order so to refresh industry that it might "fill up your deflation from the bottom end."

Half-way through the debate, Sir William Joynson-Hicks rose to make a vigorous reply to Mr. Snowden. The latter had contended there was all the difference in the world, so far as stimulating trade was concerned, between reducing the income-tax paid by the rich, thus increasing luxury expenditure, and reducing the taxation of persons with incomes below, say, £500, who would spend it in food, boots and clothing, thus directly stimulating trade and increasing the volume of employment. Sir William disputed this, and asked how the purchase of more food and clothing by a poor man could be good for trade if a similar beneficial effect did not result from increased purchases by a rich man, whether of food, clothes, motor cars, or what not. Dealing with the criticism that debt was not being paid off fast enough, he gave figures to show that since the armistice, heavy reductions had been made in the debt total, while the foreign debt, save that owing to the United States, had practically disappeared, and the floating debt had been nearly halved, and he declared that Great Britain had made greater efforts than any other country in the world, except perhaps the United States, to place her finances on a sound foundation.

But the too rapid reduction of debt is not necessarily an unmixed blessing as was pointed out by Mr. Gould, a Unionist back-bencher, who asserted that deflation had been carried to such an extreme as seriously to injure trade and industry, and he expressed the hope that the Government would not be so ready to take credit to themselves for having reduced the floating debt by so large an amount. Turning to the Labour benches from which, he said, one heard so much about the enormous debt burden, he asked who had had the millions raised during the war, and suggested that 75 per cent. was distributed in wages to the working people of this country. The money, he added, came easily and went easily, was not taken care of but was dissipated, and thus engendered in the minds not only of the workers but of every class a careless disregard for the value of money from which everyone was still suffering.

The debate ended with a lengthy speech from the Prime Minister. Dealing with the question of monetary policy, Mr. Baldwin attributed the existing unsettlement in industry largely to the continuous shifting of values, and said the right policy for this country was to endeavour to keep prices steady ; the question as to whether we should be able, within a measurable distance of time, to get back to a gold standard was not, in his opinion, a matter that could at the moment be profitably discussed. " Mere words " was his label for the natural process of inflation through increased production expounded by Mr. Hilton Young, who, keen student as he was, had " never had to run about looking for orders when orders cannot be got."

Mr. Baldwin then gave the House some details of the debt agreement reached during his recent visit to the United states. The total principal with interest accrued and unpaid on December 15th, 1922, had been agreed at the officially precise figure of 4,604,128,085 dollars and 74 cents, and after we had paid off in cash the odd 4,128,085 dollars and the 74 cents, there remained a total indebtedness of 4,600 million dollars to be funded. This sum was to be repaid in sixty-two years, and with the interest rate settled at 3 per cent. for the first ten years and 3½ per cent. in and after 1933, the yearly sums to be paid by Great Britain in respect of interest and capital repayment fluctuated round an average of approximately 160,700,000 dollars for the first ten years, and of 182,700,000 for each of the remaining fifty-two years.

Anticipating criticism, Mr. Baldwin said he was convinced that, regarded as business terms, they were fair and honest, and he asked any Member who might doubt the wisdom of what had been done to remember that had the debt not been funded, this country would have been liable to pay year after year interest at the rate of 5 per cent. on the whole sum outstanding, and, until the debt was funded, the principal would not have been reduced by one penny. Then, striking a different note, he said, "I believe that the settlement of this question, as I said in America at the time, was the first step towards the settlement of the world problem, and I am convinced of this, that no action that the British Government has ever taken with regard to the United States of America has ever had the same effect as this action has had in America in helping her to understand this country better than she has ever done before, and paving the way for a better understanding between the two countries in the years that are to come, or to make America more willing than she ever has been—as we are willing to-day in regard to her—to work hand in hand with us wherever any work has to be done for the regeneration of this world."

The Bill went through the upper House with one brief debate on second reading, and on July 18th received the Royal Assent.

Mr. Baldwin's first and only budget was on the whole a popular one, for after making suitable provision for debt reduction, he had an adequate surplus which he distributed so as to bring relief of some sort to the majority of taxpayers, and in the way foretold by the financial prophets. If it was not an outstanding budget, it was sound and sensible, and among other merits it marks the first post-war attempt to stabilize debt repayments. Mr. Baldwin's new sinking fund indeed was soon to be superseded by a sinking fund scheme more ambitious though perhaps not more permanent than his. But if this budget was not remarkable for originality of design, in its actual results it compares favourably both with those which preceded and those which followed it, and was destined to be the last to give any satisfaction to those desirous of securing substantial and permanent reductions in expenditure. For actual expenditure fell so far below the estimates that, excluding self-balancing items, Exchequer Issues for 1923-24 showed a saving of nearly forty millions compared with the previous year, thus marking the end of the great end-of-the-war shrinkage in public expenditure. After fluctuating round about this level for a year or two, expenditure, instead of falling began to rise rapidly—in spite of falling prices and a shrinking national income—until it culminated in the crisis of 1931.

MR. SNOWDEN'S BUDGETS.

FIRST BUDGET, 1924-25.

April 29, 1924.

THE second half of the year 1923 was a critical period in British fiscal history. Had Mr. McKenna, still a free-trader, become Chancellor of the Exchequer, his powerful personality must inevitably have had far-reaching effects in many directions, but as already mentioned he had felt compelled for various reasons definitely to decline Mr. Baldwin's invitation with the result that the post was given to Mr. Neville Chamberlain, a fervent disciple, like his elder brother who had preceded him a year or two before, of a protectionist and imperialistic father.

At the Imperial Conference held a month or two later, the Government submitted proposals for the extension of Imperial Preference, including the abolition of existing duties on Empire dried fruits and currants, the stabilization of the preference on sugar, an increase in the preferential rebate on tobacco, and the imposition of new duties on foreign canned fish, raw apples, honey, and fruit juices, and, possibly, an increase in the duty on foreign currants. These proposals aroused the passions of the free-traders and protectionists which flamed higher than ever when, a little later, Mr. Baldwin stood boldly forth with a policy of protection as a cure for unemployment. His avowed objects were to raise revenue by methods less unfair to home producers, to give special assistance to industries suffering from unfair foreign competition, to use duties in bargaining for reductions in foreign tariffs, and to develop Empire trade by increased preferences. Under no circumstances were duties to be imposed on wheat, flour, oats, meat, cheese, butter or eggs, but agriculture was to be assisted by a bounty of £1 an acre.

At the last election, Mr. Bonar Law had pledged himself not to interfere with our fiscal system, and Mr. Baldwin, feeling himself bound by that pledge, decided on a general election. One of the results of this definite re-opening of the tariff controversy was the re-union, for the time being, under Mr. Asquith's leadership, of the Asquithian Independent Liberals and the Lloyd George Coalition Liberals. In the Liberal election manifesto, signed jointly by both Mr. Asquith and Mr. Lloyd George, the Conservative remedy of protection and the Labour proposals for socialism and a capital levy were declared to be no cure for unemployment or other evils, and certain to lead only to disaster. The Labour party manifesto was even more anti-protectionist than the Liberal. The Labour party, it said, challenged the tariff policy and the whole conception of economic relations underlying it, for tariffs were not a remedy for unemployment, but were an impediment to the free interchange of goods and services upon which civilized society existed, and fostered a spirit of profiteering, materialism, and selfishness, poisoned the life of nations, led to corruption in politics, promoted trusts and monopolies, and impoverished the people.

The General Election, held on December 6th, 1923, returned 258 Conservatives, 156 Liberals, and 191 Labour Members to the House. Notwithstanding unofficial overtures from the Conservatives and pressure from various sections of the Press, the Liberals decided, when the new Parliament met in January, 1924, to join with Labour in defeating Mr. Baldwin, who thereupon resigned. Mr. Ramsay MacDonald, at the request of the King, formed the first Labour Government. It was a mixed one, consisting of so-called academic Socialists such as Mr. Philip Snowden, who became Chancellor of the Exchequer, and Mr. Sidney Webb, who went to the Board of Trade, several trade union officials including Mr. J. H. Thomas, the new

Colonial Secretary, and Mr. J. R. Clynes, who became Leader of the House of Commons, one or two recent converts from Liberalism, and a couple of Unionist Peers. Mr. Asquith, in his " Memories and Recollections," calls it " for the most part a beggarly array," a rather unkind judgment, but the new Government was certainly the most inexperienced of modern times, for its members, with one or two exceptions, had never previously held office. Mr. Snowden found a very able lieutenant in Mr. William Graham, the new Financial Secretary to the Treasury.

Mr. Snowden opened his first budget—the first British Labour budget—on April 29th, 1924. He was labouring under many disadvantages, for he had only held the Chancellorship a few weeks and, what was very unusual for one holding such high office, he had had no previous ministerial experience whatever—surely grounds enough for the claim for sympathy and indulgence with which he began his speech. Referring to the difficulties experienced by his predecessors when framing their estimates, owing to the post-war dislocation of economic and social conditions, he said these difficulties were gradually disappearing and he hoped that in the future it would be possible to estimate income and expenditure with greater accuracy. It had been alleged in some quarters that the large surpluses of recent years had been deliberately designed, but Mr. Snowden expressed the belief that such allegations were entirely groundless.

Reviewing the past year's finances, he pointed out that of the realized surplus of over £48 million, £18½ million was due to excess revenue and £27¾ million to reduced expenditure. Customs and Excise had exceeded the estimate by more than £7 million ; smokers had contributed an unexpected additional £2 million while a surplus of nearly £6 million had been provided by spirit drinkers, largely owing to the long and cold winter and the increasing popularity of spirits as a specific for influenza.

Motor vehicle duties showed a surplus of nearly £1½ million which might be, as Mr. Snowden said, " a testimony to the growing popularity of the motor," but was also a testimony to the inaccuracy of an estimate differing by ten per cent. from actual receipts, although there was an improvement on the two preceding years when the inaccuracy of the estimate amounted to 23 and 16 per cent. respectively.

Inland Revenue had also shown a surplus. The death duties estimate, fixed at nearly five millions below actual receipts for 1922-23, had been surpassed by £5¾ million. Income-tax, mainly owing to the collection of arrears, showed a surplus of £8¼ million, and corporation profits tax, as the result of higher profits and an improved rate of collection, had exceeded the estimates by £3¼ million, but the excess profits duty had been a dismal disappointment, for with gross receipts much less and repayments much more than had been expected, it showed a total deficit of £12 million.

Non-tax revenue differed very little from the estimates in the aggregate although there were many divergencies in detail, among which may be mentioned the item " Army of Occupation and Recovery Act Receipts " estimated at £5,487,000 which yielded nothing during the year, and, on the other hand, an unexpected £1,967,500 in respect of which no provision had been made in the estimates under the interesting sub-head, appearing for the third year in succession, of " Gold salved from the wreck of the Laurentic."

On the expenditure side, the divergencies between estimates and actual Exchequer Issues, although in the aggregate showing a substantial balance on the right side, were not all in the same direction. The consolidated fund services total had exceeded the estimates by £2½ million, relief of agricultural rates under the Agricultural Rates Act of the previous session had added £3¼ million, payments to the Northern Ireland Exchequer had increased by nearly £1 million, and a further £1½ million had been required for the Road Fund, but these items had been partially counterbalanced by a saving of £2¼ million on Treasury Bill interest.

Supply services showed the very substantial saving of £30 million on the original estimates. Savings had been effected under every head, but the most striking were those under the head of fighting services and were attributed by Mr. Snowden to the fall in prices, delay in commencing work, slow recruitment, changes in policy relating to the Singapore naval base and the Middle East, and other less important items. Civil services, in spite of heavy supplementary estimates, showed a saving of £12 million on the budget estimates.

Mr. Snowden dealt in some detail with the National Debt. During the financial year ending March 31st, 1924, the total dead weight debt had been reduced by £92 million to £7,680 million, and floating debt by £35½ million to £774½ million. Emphasizing the importance of debt reduction, he estimated that the total debt redeemed since December, 1919 (allowing for nominal additions) amounted to over £650 million—a sum equal to the total pre-war debt—in his opinion a wonderful and highly creditable national achievement.

Turning to the current year's finances, and dealing first with the supply services estimates which, he remarked, the Government had inherited from their predecessors, Mr. Snowden claimed a reduction of £31 million in the total and a reduction of nearly £7 million in the fighting services estimates compared with the 1923 budget estimates, but he made no mention of the fact that if comparison were made with actual Exchequer issues of the previous year, the current year's supply estimates showed a reduction of less than a million while the fighting services' estimates were £9 million higher, an omission the Opposition did not allow to pass unnoticed. At a later stage, he stated that although the estimates had been almost completed when he came into office, he had been successful in making a not inconsiderable reduction, declaring that the navy estimates alone would have been £6½ million higher had the Conservatives remained in power, and he hoped without starving any of the essential services to effect further considerable savings during the year.

In framing his estimates of revenue for the current year, Mr. Snowden had looked on the brighter side. Optimism, he said, was justifiable, for wages and employment showed a tendency to rise, there were hopes of a new settlement in Europe, and trade was showing hopeful signs of recovery. His estimate for customs and excise, on the existing basis of taxation, was half a million less than the previous year's actual receipts, but, after making adjustments (as, for example, for forestalments) to compare like with like, the current estimates really represented an advance of £6 million on the previous year's receipts. The Inland Revenue estimates were almost identical with the previous year's receipts in the aggregate although there were divergencies under the various heads. With non-tax revenue amounting to £109 million, the revenue estimates, on the existing basis of taxation, amounted in all to £828,100,000, leaving a surplus of £38 million over estimated expenditure.

Before disclosing what he proposed to do with this surplus, Mr. Snowden dealt at some length with the late Conservative Government's proposals for the extension of Imperial Preference. These proposals, he said, had in the recent election been brought prominently before the electors and the result could not be ignored, but apart from that, he added, the Labour party, though not for a single moment admitting they were one whit behind the other parties in their desire to promote the best interests of the Empire, had never believed such interests would in the long run be best served by a system of tariff preferences, and had repeatedly expressed those views by their votes in the House. Under these circumstances, he said, the Labour Government were unable to endorse the proposals of their Conservative predecessors, although greatly regretting any disappointment this might cause the Dominions and Colonies, disappointment for which not the present but the late Government must bear the responsibility. Referring to the proposed stabilization for ten years of the preference on sugar, he asserted that no Government should attempt to bind future Parliaments or Governments upon such a controversial question as tariff preference and thus raise hopes bound sooner or later to be dashed to the ground.

He then made clear the Government's attitude. "We do not propose," he said, "to endorse or to offer any kind of guarantee in this connection over a period of years. All that we can say is that, so long as we remain in office, we do not propose, in all the circumstances, to ask Parliament to abolish the preferences now accorded, which, we suggest, should remain on their existing statutory basis. But we wish it to be clearly understood that we reserve full liberty to propose to Parliament, whenever we deem it expedient in the general or financial interest, the reduction or abolition of the duties on all the commodities to which preference now applies." In view of the importance of the matter, the Chancellor announced that a day was to be allotted before the Committee stage of the Bill for a discussion of the late Government's preference proposals.

There were two other tax questions arising out of the Imperial Conference but these related to Inland Revenue and not to Customs and Excise, and were less controversial. The first was a proposal relating to the immunity of State enterprises from taxation, and Mr. Snowden, although agreeing in principle, proposed to defer it for further consideration and consultation with the Dominions; the second referred to the extension of the previous year's provisions for the avoidance of double taxation on shipping, and he announced his intention of including in the Finance Bill a clause extending to the Empire the arrangements hitherto applicable only to foreign States.

Mr. Snowden now began to announce concessions. Commencing with the less substantial concessions, he announced that half a million would be devoted to carrying out two interim recommendations of the committee on the taxation of mechanically propelled vehicles, and henceforward the 20 per cent. surcharge on quarterly licences was to be 10 per cent. only, while owners who surrendered licences were to be entitled to a refund for each complete calendar month unexpired.

There were to be several income-tax changes, mainly of a minor character. Persons claiming exemption on the ground that they were not ordinarily resident in this country were to have a statutory right of appeal, and the much-debated limitation of the allowance granted for a housekeeper to a widower or widow with young children was to be removed.

Legislation had already been announced in respect of a recent High Court decision relating to the taxation of war bonus and similar payments received by civil servants and other employees. The retrospective character of the Government's proposals assumed an exaggerated importance in the eyes of a House notoriously antagonistic to retrospective legislation and led to lengthy discussion, but the Government held their ground. Provisions were also to be inserted in the Finance Bill dealing with another matter recently brought into prominence in the Courts, the proper rate of income-tax allowances for personal reliefs in a year when the tax rate changed.

Hopes had been expressed in some quarters of a return to the penny post but no change was to be made this year in post office charges apart from reductions in telephone fees costing a million in a full year. The Post Office was making a profit, but certain charges were subject to litigation and it was impossible to foretell what the profits would be at the end of the year. And in any case, the Chancellor declared, the re-establishment of the penny post was not yet an economic proposition. He pointed out that in spite of the rise in prices, letter postage was only half as much again as before the war, while the rates for printed papers had already been reduced to pre-war level, and he suggested that a policy of subsidizing the Post Office at the expense of the general taxpayer was one which would commend itself to neither the House nor the country. But it appeared to commend itself to many Conservative speakers who again and again urged the necessity of returning to the penny rate. Sir William Joynson-Hicks said that when Postmaster-General he had hoped, if he remained in office, to re-establish penny postage this year and he felt sure that at the present time five millions could not be better spent.

No one was surprised to hear that the bulk of Mr. Snowden's surplus was to be given to the indirect taxpayer. £17¾ million, or a little under one-half, was to be used to reduce the sugar duty from 2¾d. to 1¼d. per lb. War-time increases had raised the duty to fourteen times its pre-war level, the heaviest increase in any duty, and even after the budget reduction the duty would be more than six times the 1914 rate. A year before, Mr. Baldwin, it will be remembered, had refrained from reducing the sugar duty on the ground that the consumer would not, owing to the state of the world market, benefit permanently, but Mr. Snowden now declared that the reason then adduced and which was at the time sharply disputed by the Labour party, had even less weight now that there was every prospect this year's world production would permit an appreciable expansion of world consumption.

Since 1922, sugar made from home-grown beet had been exempt from duty, so any change in the customs duty was of vital importance to the British beet industry. Foreseeing the reduction of the duty, a deputation had made clear to the Government long before budget day that a lower Customs duty would jeopardise the beet industry, while any reduction of the duty below 21s. per cwt. would make it impossible for the industry to carry on unless the Government granted a subsidy equivalent to the difference between the proposed rate and 21s. per cwt. The question was discussed in great detail at the report stage of the budget resolutions, but Mr. Graham announced that the Government, realizing the importance of the British beet industry, were still considering the rival merits of a subsidy, of agricultural credits and co-operation, and of other modes of assistance, but no definite conclusion had been reached.

It seems inevitable in the modern world that Government interference in one section of industry should raise hopes or fears elsewhere, and the Government's fostering of British beet was no exception. Sir Leonard Lyle, reminding the House that there was in this country an industry named the sugar refining industry, said they did not wish to adopt a dog-in-the-manger attitude, but pointed out that up to the budget the British beet sugar industry had had £25 a ton protection over the old-established refining industry, would still get £11 a ton protection, and if that were not enough, he declared, for the industry to pay its way, the Government should bolster it up no further. Maintaining that there was no possible logical justification for protecting a new industry with very doubtful prospects of ultimate success against an already established industry, he said the refiners asked not for special treatment but only for fair play. The problem bristled with difficulties and it was only after months of consideration that the Government decided to re-impose, as from October 1st, 1924, the excise duty on home-grown beet—at the same rate as the customs duty on empire sugar—and to subsidize the home beet industry for ten years, at the rate of 19s. 6d. per cwt. for the first four years, 13s. for the next three years, and 6s. 6d. for the remaining three years.

In the Budget, the tea, cocoa, coffee and chicory duties were also to be reduced, in each case by one-half. In the case of tea, most of which came from India and Ceylon and thus received the preferential rebate of one-sixth, the reduction of the full duty from 8d. to 4d. per lb. meant that the duty on the bulk of the tea consumed in this country was reduced from 6⅔d. to 3⅓d. per lb. compared with the 1914 rate of 5d. The remaining "breakfast table" duty, that on dried fruits, had since 1915 been subject to a surtax of 50 per cent. but this was to be allowed to lapse. Mr. Snowden thus, at a cost of nearly £25 million in a full year, brought the whole of the food duties, except those on sugar and cocoa, down to or below the pre-war level, and very considerably below that level if allowance be made for the preferential rebates and the decreased value of money.

Mr. Snowden next proposed to abolish the duty on sweetened or fermented table waters which, he said, were largely consumed by children and the poorer classes, and yielded only a small revenue—between £200,000 and £300,000 a year. The duty on herb beer was also to disappear but the duty on unsweetened table waters, such as soda-water, was to remain unchanged, while sweetened table waters imported from abroad would still be taxed on their sugar content.

Probably the most controversial feature of the budget was the abolition of the McKenna duties. These duties, imposed it will be remembered in 1915 on imported private motor cars and motor cycles, musical instruments, clocks and watches, and cinematograph films, had been renewed yearly by Coalition and Conservative Governments in spite of determined opposition from Labour and the Independent Liberals. It had been made perfectly clear when the duties were first introduced that they were intended purely as a temporary war measure, and the main argument for their retention after the war was the need for revenue, but, declared Mr. Snowden, the time had now come for the duties to disappear. In order, however, to avoid hardship to the trades concerned, he proposed that the duties should not disappear forthwith but should continue until August 1st and so enable traders to dispose of their duty-paid stocks. As opportunity for full discussion was to be given later, Mr. Snowden did not argue the case for abolition but contented himself with saying that as the Conservatives had made the imposition of duties on imported manufactured articles an issue at the last general election, and the electorate had given a most decisive verdict against them, the Labour Government were bound to give effect to that popular decision.

This was disputed by Sir Robert Horne who asserted that the electorate had done nothing of the kind, that it had rejected a general tariff but not individual tariffs. The budget proposals at once intensified the agitation, fostered by the Press since the early days of the Labour Government, against the repeal of the McKenna duties. Protectionists and free-traders lined up once more to fight the old fight, with the old enthusiasms and arguments ; only the statistics had changed, but these were selected, trimmed, and garnished, in the same old way, both sides showing dexterity in the use, or rather misuse, of figures. It had been rumoured that up to the very morning of the budget, the Cabinet had been undecided whether or not to repeal the McKenna duties, with Mr. Snowden amongst those in favour of immediate abolition, and the remainder, although mainly agreeing in principle, considering whether, on economic or other grounds, repeal ought to be postponed, either for some months or indefinitely. But the policy of repeal, once decided upon, was maintained in the face of persistent and uncompromising opposition in Parliament and Press.

The final indirect tax concession to be announced was the revision of the entertainments duty, modifications of which had been confidently predicted, for the duty was known to be one of Mr. Snowden's pet aversions. He claimed, in fact, to have been the only Member in the House to oppose the duty when it was first introduced, and he regretted that owing to financial stringency he could not now abolish it but had to be content with merely modifying the scale. He added that he had experienced more difficulty in dealing with the entertainments duty than with any other budget question owing to the fact that a large part of the yield was obtained from the cheaper seats, so that relief for these seats involved the sacrifice of a very large amount of revenue. He proposed to give relief on the seats used by the less well-to-do members of the community by abolishing the duty on tickets not exceeding 6d., and by reducing the duty on other payments for admission not exceeding 1s. 3d. (excluding tax). These modifications meant the loss in a full year of £4 million, or nearly one-half the total yield of the duty.

This year, a further attempt was made to repress a little-known form of tax evasion, the drinking of mineralized methylated spirits. This mixture of duty-free spirits and nauseous denaturants has for many years been accessible to the general public for domestic purposes and has offered, either alone or mixed with other liquors, the temptation of a cheap, if vile, method of intoxication to the poor and depraved. The increased taxation and prices of intoxicating liquors had no doubt increased the temptation, and the annual licensing statistics indicated not a serious yet a noticeable extension of the pernicious habit, particularly in certain areas. Mr. Snowden informed the House that provision had been made, under the existing law, whereby all methylated spirits sold to the general public for domestic purposes should contain an additional denaturant which would make the spirits so nauseous and so difficult to swallow, and if that stage were overcome, would make the addict so ill that he or she would not continue to drink them. The new denaturant, however, useful though it was, did not prove quite so efficacious as Mr. Snowden had hoped.

Dealing next with Inland Revenue, the Chancellor said he proposed to make no alteration in the rates of income- or super-tax. Within the past two years, he added, the 25 per cent. reduction in the income-tax rates had meant a total relief of £85 million a year, the main part of which had gone into the pockets of the wealthier classes, and he and the Government considered that these classes, having had their just share of previous reductions, should expect no more relief this year. "I must not be understood to imply," he tactfully added, "that I anticipate the permanent maintenance of a 4s. 6d. income-tax. What I mean is that so far as concerns the relief I can afford to give this year, there are other taxpayers whose claims I must prefer."

But the direct taxpayer had by no means been overlooked, for two direct taxes were to be abolished entirely, the corporation profits tax, a parvenu in the tax system, and the inhabited house duty, an impost of ancient lineage tracing its descent back through the window, chimney and hearth taxes to the " fumeage " of pre-Norman times. Referring to it as a little imitation income-tax, Mr. Snowden declared that as a device for estimating a person's capacity to pay, the house duty was little better than a sham, and, furthermore, was to large sections of the working and professional classes of very moderate means an unnecessary and irritating addition to more necessary and more reasonable burdens. He pointed out that the repeal of the duty, costing £2 million in a full year, would be a greater relief to the married man with an income of £500 a year than a reduction of 6d. in the income-tax. The only opposition to the abolition of this duty came from one or two Conservatives who denounced as improvident generosity the repeal of a tax so easily and cheaply collected and for the withdrawal of which no demand had been made.

But not a voice was raised against the repeal of the corporation profits tax. As Mr. Snowden said, it was unloved by its parents, reviled by its subsequent guardians and condemned by every party, and, sadly crippled in the last budget, it had quite obviously only been awaiting its final doom. Its originators, he continued, never claimed more for it than that at a time when trade was good and taxation heavy, this tax seemed to be less objectionable than other taxes which might have been suggested.

But circumstances were now entirely different, for trade was bad and the tax was, by common consent, one of the factors hindering trade development. He proposed that the tax be repealed as from June 30th, but as there was a considerable interval between profit making and the assessment of the tax, the loss of revenue would be only £2 million in the current year and £5 million in 1925-26, although in a full year the loss would amount to £12½ million.

In a full year the budget concessions would cost over £40 million but in the current year the cost would amount to only £34 million, leaving an estimated surplus of £4 million, and this, Mr. Snowden said, he felt bound to keep, more particularly as he had made no other provision for supplementary expenditure. He admitted, in fact, that the surplus might be exceeded by new expenditure on housing, unemployment, and the removal of the old age pensioner's thrift disqualification. He repeated that the estimates had had to be presented so soon after the Government's advent to power that there had not been time thoroughly to overhaul them, but he felt convinced it was still possible to effect considerable savings to counterbalance the new expenditure, and he assured the House that he would exercise the utmost vigilance to see that all possible economies not prejudicial to efficiency should be effected.

Towards the end of the budget speech, Mr. Snowden, speaking on the subject of land valuation and taxation, announced that he and his colleagues intended, as they had promised before reaching office, to deal with the question as soon as practicable, although no one, he suggested, would expect that they would be ready, after such a short period of office, to present in this budget a full and detailed scheme, but the necessary preliminary work had been begun and would be carried on without delay. In the meantime, he said, there were several things which could and must be done, one of which was to restore to the Land Valuation Office the powers lost at the committee stage of last year's Finance Bill under circumstances giving rise, it will be remembered, to long and heated discussions.

Since the repeal of the land duties in 1920 the work of the Land Valuation Office had consisted of valuations for estate duty purposes, and valuations in the case of sale or purchase of Government property for other departments, or similar work on behalf of local authorities where Exchequer funds were involved. Until the power was lost in 1923, the official valuers had been aided by the receipt of particulars of all sales and long lettings of land, and Mr. Snowden now declared that in the view of the present Government the Land Valuation Office should be a strong one and the valuers should not be deprived of any important sources of information, particularly under existing conditions when the value of land was constantly changing. It would be out of order, he added, to provide in the Finance Bill for restoring to the Land Valuation Office the powers lost the previous year, and a short separate Bill would be introduced for that purpose. Owing to the repeal of the land duties, there had been no recruitment in the Land Valuation Office for some time, but, he significantly remarked, he was having inquiries made as to the strength of the staff, its adequacy for the work that had to be done, and for the work it was hoped would be imposed upon it by a new valuation.

Mr. Snowden then summarized his proposals and brought his speech to a close. "This," he said, "is the first budget of the first Labour Government. This is the best I have been able to do in the short time we have been in office. I think we can confidently appeal for the support of the majority of Members of this House. These proposals are the greatest step ever made towards the realization of the cherished Radical ideal of a free breakfast table. (Cheers.) They will, I am sure—those cheers show—be heartily welcomed by Hon. Members below the Gangway, as well as by those of my own party. They give some benefit to every man, woman and child in the country. The budget is vindictive against no class, and against no interest. Though I have always held and declared that the State has the right to call upon the whole of the available resources of its citizens in case of national need, I have equally held and declared that the State has no right to tax anyone, unless it can show that the taxation is likely to be used more beneficially and more economically. I have distributed the relief that I have been able to afford in such a way as to confer the greatest benefit upon the greatest number. I have done it in a way which, I believe, by increasing the purchasing power of the people, will stimulate trade and industry; and I have kept in mind always the vital necessity of maintaining unimpaired the national credit on which the very existence of the country depends. I am glad to have been able to propose this substantial relief of the burden of taxation which, for the last ten years, has been borne with such commendable fortitude by every class of the community."

Budget night speeches were few and unusually brief. Sir Robert Horne, after making the customary eulogistic comments, foreshadowed the Conservative party's main lines of attack, the alleged harmful effects of the Government's attitude towards Imperial Preference and the McKenna duties. The budget, he added, with very slight modifications might very well have been the work of either of the old parties, but where, he asked, were the grandiose schemes the Socialists had promised to introduce immediately they reached office. He agreed with Mr. Snowden on the questions of national credit and debt redemption, but dryly added that the Chancellor had said nothing of the part played by preceding Governments, to whom the whole of the credit for our improved position was really due.

Mr. Asquith, speaking for the now ostensibly united Liberal party, said there was nothing in principle to which a single Liberal would not heartily subscribe, for here was a free trade budget with substantial provisions for debt reduction and for the reduction or removal of obnoxious duties, including the so-called breakfast table duties. He confessed, however, that he looked with misgiving upon the rather slender provision made for contingent but certain liabilities in connection with housing, unemployment, and the thrift allowance for old age pensioners. Reverting later to the necessity for treating the annual budget not as a thing by itself but as a necessary link in a connected and coherent chain of financial policy—a text on which he had preached for many years—he suggested that the weakest point of the present budget was its failure to comply with that principle. For, he said, even if the modest estimated surplus were realized, he saw very speculative and haphazard provision for the needs, incalculable at the moment, which must inevitably confront the budget-maker in the near future, to whatever party he might belong.

For some years now, critics had devoted a good deal of attention to the estimates, and this year was no exception. The estimates for the fighting services aroused special comment. Sir Godfrey Collins, an untiring advocate of reduced expenditure, once again demanded far-reaching and drastic cuts in all unproductive expenditure so that the tax burden of all classes might be reduced, and he deeply deplored the fact that the Labour party, who for years had stood for reduced armaments, should in their first year of office ask the taxpayer to spend more on the fighting services than was spent the previous year. Many speakers attacked the estimates on the ground that they were too optimistic, and talked of deficits of forty millions or more by the end of the year, but these figures were dismissed by Mr. Snowden as grotesque and arrant nonsense, and in the event he proved to be right.

Sir William Joynson-Hicks' remarks on this question were particularly noteworthy, not so much because his opinion differed fundamentally from those of other critics but because of their possible bearing on the unsettled question, touched on in the budget speech, whether and how far post-war surpluses were premeditated. " I do not know," Sir William said, " whether the Chancellor of the Exchequer—perhaps it is not quite fair to ask him—is budgeting for a surplus again this year, a concealed surplus over and above the £4 million of which he told us," pregnant words coming from one who had piloted the last budget through the House.

A frequent topic of discussion during the subsequent debates was the rival merits of direct and indirect taxation, and their ideal proportions. It was estimated that after the budget changes, direct taxation would provide 66·1 per cent. and indirect taxation 33·9 per cent. of the total tax revenue, compared with 42·5 and 57·5 respectively in 1913-14, and many Conservatives criticized what they regarded as the unduly heavy share now being obtained from the direct taxpayer. Sir Robert Horne, suggesting that if the country's finances were to be managed properly, due regard must be paid to the relation between direct and indirect taxation, pointed out that in income-tax and super-tax alone, a burden of £330 million a year was being borne by 2,500,000 people, or one-tenth of the electorate, out of whose savings the industry of the country was financed, equipment was maintained, and new enterprise was furnished with the necessary capital. Ability to pay was, he conceded, the proper basis of taxation, but although some might believe that taxation was now falling upon those best able to bear it, it was essential to regulate the tax burden so as not to cripple the very springs of energy and enterprise and destroy the chances of increased employment.

To this, Mr. Pethick Lawrence retorted that the reason direct taxation was now proportionately so much higher than before the war was not that the rates of indirect taxation had not been increased heavily—in fact, many of them had been raised much more in proportion than direct taxation—but that during the war such large fortunes had been made that the yield of direct taxation had very much increased. He added that in the last two budgets, the work of Conservatives, £88½ million had been taken off direct taxation and only £22 million off indirect, in his opinion and the opinion of his party, a grossly unfair distribution. He declared that even with the reductions now made by Mr. Snowden, the total reductions during the last three years in indirect taxation would be only £51 million compared with reductions of direct taxation amounting to £103 million, and. therefore, "the reduction which largely falls upon the poorer section of the community is only half as much as that which falls upon the well-to-do, while the proportion in which they pay is as three to five." This, he said, entirely disposed of the idea that the Chancellor had shown class bias, for all his budget had done was to redress in part the great inequality perpetrated by the two Chancellors who had preceded him.

On the other hand, Sir John Marriott, denouncing as a complete fallacy the theory that indirect taxation was paid only by consumers and so-called direct taxation only by those upon whom it was assessed, asserted that recent reductions of direct taxes had been immediately reflected in improved unemployment figures and nothing would so benefit the masses of the people as a reduction of direct taxation which was now pressing so hardly on industry. Assuming that one-fifth of indirect tax revenue was paid by direct taxpayers, he calculated that four-fifths of the total tax burden fell in the first instance, in the form of direct or indirect taxes, on 2,500,000 persons, and, complaining that the budget would still further increase the already glaring disparity between the two forms of taxation, he asked whether on a broader view of national finance it was either politically or economically sound that so large a proportion of the whole fiscal burden should fall on a relatively very small class.

Sir Arthur Samuel, apparently undecided as to the ideal proportions of direct and indirect tax burdens, deprecated dealing with the matter by rule-of-thumb, and made the rather puzzling suggestion that it was " a question we ought to have fixed down by some accounts rule so that we know what the proper relation should be between direct and indirect taxation, no matter whether the proportion is 50 to 50, or 40 to 60." And there were still Members ready to declare that " the old system of 50 per cent. of direct and 50 per cent. of indirect was the right and proper way."

But one cannot resist the conclusion that these lengthy and ever-recurring discussions as to the ideal proportions of two forms of taxation, one labelled " direct " and the other " indirect," each of which is a heterogeneous and perpetually changing conglomeration of imposts, must of necessity be wide of the mark and entirely barren. Mr. Neville Chamberlain, who, incidentally, said he was not disposed to quarrel over the particular remissions of indirect taxation in the budget, was nearer the mark when he pointed out the difficulty of finding any logical foundation for drawing a line, seeing that circumstances changed and the proportions must change with them, and declared that the exact proportions obtained could only be determined after a general survey of all the conditions and of the result likely to ensue from any particular taxation.

Again and again during the course of debate, Conservative speakers declared that the Chancellor, instead of endeavouring to reduce unemployment, had, by certain of his budget provisions, definitely aggravated the problem. But Mr. Snowden asserted that, on the contrary, so far as it was possible to devise a budget that would do something for unemployment, he had done more than had been done by any budget for a generation. He had, he said, repealed the corporation profits tax, alleged to be one of the chief hindrances in the way of improved trade, and had, by reducing indirect taxation, given an additional purchasing power of £30 million a year to the working classes. Good trade, he argued, depended upon the prosperity of the stable industries of the country, and it was only by the encouragement of these great industries, like the building trade and agriculture—industries producing and providing the necessaries of life—that employment could be made stable. To apply expenditure, he went on, not continuously, but at one time to one particular article and at another time to another article, upset trade, caused oscillation, and added to the floating army of unemployed, and that was why the budget concessions to the poorer classes would be more likely to reduce unemployment than would relief to the income-tax paying classes, who had already quite enough means to support the stable industries and would, in nineteen cases out of twenty, divert any tax relief to luxuries.

During the passage of the Bill, certain concessions were made but the estimated cost was in no case very serious. The income-tax allowance for housekeepers was increased and extended in scope; there was a concession relating to farm buildings permitting allowances in respect of certain capital expenditure—an important departure from British income-tax practice, seeing that nothing in the nature of an allowance for capital expenditure had hitherto been permitted; and, as the result of a defeat in Committee, entertainments duty exemptions were materially extended. The Government also accepted an amendment extending the exemption from death duties of estates of soldiers, sailors, and airmen dying on, or as the result of, active service, and an amendment increasing the rebate on black beer, a liquid falling within the legal definition of beer but, in reality, a sweetened cordial used, mainly in Yorkshire, as a specific for colds.

The debate on the Conservative party's Imperial Preference proposals commenced on June 17th, and, in view of the importance of the question, the Government agreed to concede an additional day for discussion. The debate was opened by Sir Philip Lloyd-Greame, President of the Board of Trade in the late Conservative Government, who, with an avowed desire to avoid anything of a party or controversial character, ably expounded the aims of the resolutions. They fell, he said, into three classes, the first class proposing abolition or reduction of existing duties, and the second class the stabilization of an existing rate of preference, and these, he thought, would be assented to readily by anyone who did not challenge the whole principle of Imperial preference. Turning to the third class, which involved the imposition of new duties, he contended that indirect taxation, whatever its amount, should be so adjusted as to maximize its general and indirect advantages, and suggested, as an example, the reduction of the tea duty and the raising of an equivalent amount of revenue by taxing some of the commodities mentioned in the resolutions.

In that way, Sir Philip maintained, "you would not be adding by a fraction of a penny to the aggregate of indirect taxation; you would, possibly, almost certainly, be actually reducing the aggregate amount of duties collected; you would be effecting a substitution by reducing the duty at present levied upon an article of more general consumption and imposing a duty upon another article which, if of Empire origin, would be admitted free; and you would thereby obtain indirect advantages in increased settlement and in increased trade." In a very short space of time, he declared, there would be no difficulty in producing within the Empire more than enough to meet our requirements, and as Empire produce was to come in free of duty, it meant there would be an ever-increasing import of commodities duty-free. Under these circumstances, he said, it could not seriously be contended that any one of these proposals coming from the Imperial Conference would involve any fundamental change in our fiscal system.

Mr. J. H. Thomas, who spoke next, declared that any disappointment caused by the dropping of the resolutions was due not to anyone on his side of the House but was due entirely to the deliberate act of the late Conservative Government. The Colonial Ministers, he said, were invited here to discuss this question, were led to believe these preference proposals represented the mind of the country, were told that the then Government, having a majority, intended to submit the proposals to the House and carry them through, and now, the Conservatives, having deliberately placed them before the electorate and received an adverse verdict, had the audacity to ask the House to reverse the mandate the people had given. Referring to the assumption that on these Empire questions one party alone was the patriotic party, he said the Labour Government resented such an idea, and, outside these fiscal controversies, were prepared to consider any question without party bias or prejudice, and were seriously considering what steps could be taken to make the Imperial Conference more representative of all parties and more effective than in the past. The Government, he said, were observing the promise given to the Opposition that on these resolutions a free vote of the House would be taken, and that verdict would be accepted, but the Government themselves proposed to vote against them.

The Prime Minister, the Chancellor of the Exchequer, and other members of the Government subsequently spoke denouncing the resolutions. Mr. Snowden, confining himself mainly to their financial effects, said that he had in the budget made the biggest reduction in food duties ever made at one stroke, and hoped eventually to abolish food taxes altogether, but if these resolutions were carried, the Government had promised to embody them in the current Finance Bill, and that would mean tying the hands of all future Chancellors of the Exchequer and saying good-bye to any hope of seeing the taxes removed for a generation at least. He gave a final warning to the House that we lost one Empire by taxing the Colonies for the benefit of the Mother Country, and that if the preference proposals were adopted, we should run a grave risk of losing another by taxing the Mother Country for the benefit of the Colonies.

The Conservatives unanimously supported the resolutions while the Labour Members were almost as united against them, but the crack in the Liberal party, cemented temporarily by the free-trade issues of the general election, once more began to show. Mr. Asquith and Sir John Simon denounced the resolutions in unmeasured terms, but Mr. Lloyd George was not present at the debate, and, in fact, paired in favour of some of the resolutions. Mr. Asquith derided the idea that the Empire would be imperilled by the rejection of such trivial resolutions, which were " an attenuated, emasculated, anæmic, and even apocryphal version of the full-blooded gospel of Imperial preference." But he attacked them on the ground that they were put forward as the thin end of the wedge of full-blooded preference which inevitably implied import duties on a very large proportion of imported food and raw materials. He pointed out that for many years, with very little variation, three-quarters of our imported food and one-half of our imported raw materials had come from countries outside the Empire, and as no one could hope that Empire produce would for many years be sufficient for our needs, the taxation of foreign supplies of food and raw materials would so handicap our manufacturers as to exclude them from competitive world markets. There was, he concluded, a great deal still undone in the development of Imperial resources, but the Empire must develop on other lines than these so-called preferences, which, disadvantageous to this country without being really advantageous to the Dominions themselves, would constantly give rise to bickering and friction, and would weaken, not strengthen, the Imperial tie.

Among the more prominent ex-Coalition Liberals who, to a greater or less degree, supported the resolutions were Major-General Seely and Mr. H. A. L. Fisher. The former, speaking as an unrepentant free-trader, said that to reject proposals solemnly reached at an Imperial Conference summoned by the Prime Minister and attended by the Prime Ministers of the great Dominions, and to do it simply in order to cling to some particular idea, would be a policy all would eventually bitterly regret. He reminded his Liberal colleagues that in 1917, under the presidency of a Liberal Prime Minister, with representatives of both the Labour and Conservative parties, it was decided that within the framework of our free trade policy we might give as much preference as we could to the Empire, a policy carried into effect in 1919. The principle of preference having been conceded, and being in operation and not challenged, he failed to see how anyone could object to the first four resolutions which involved no additional taxation. The Dominions, he declared, would feel very real distress if the resolutions were rejected, and incalculable harm might result, just at a moment when gratitude for what they had done in the war and since, and a profound esteem for them, should make us hesitate to do anything to hurt them.

Mr. Fisher said he realized that there were sound economic objections to the resolutions, that the concessions would involve a sacrifice of revenue without producing a fall in prices to the consumer, and that an exaggerated emphasis on preferential duties diverted the mind from the more intelligent to the less intelligent ways of developing the Empire. Nevertheless, when he considered how slight the concessions were, and how much importance appeared to be attached to them by the public in the Dominions, he suggested that it would be wiser to allow them to stand for the present, until the next Imperial Conference when the whole question could be again reviewed, and when alternatives less questionable from an economic point of view and more acceptable to the Dominions could be formulated by the Home Government.

Mr. Baldwin, opening the debate on the second day, referred to the tendency throughout Europe to raise, not lower, tariff barriers, and to the certainty that a reconstructed Europe would become a far more formidable competitor than the old, and declared that with our pressing need for markets, Imperial preference in some form or another, giving us privileges in Dominion markets, was absolutely essential to the well-being of the trade and people of this country. He maintained that the recent General Election had been fought on the sole question of a tariff on manufactured goods and had had nothing to do with preference, so that no one need hesitate to support the resolutions on the ground that they had been rejected by the electorate. The Government, he continued, did not realize the gravity of the situation, for if the resolutions as a whole were defeated, the Dominions, believing that the people of this country did not care for preference, would reluctantly look elsewhere for what we should have given them, and the future of the whole Empire would be gravely imperilled.

In the course of his speech, Mr. Baldwin made the interesting confession that his ideal had always been an Empire or Commonwealth with free trade within its boundaries and a tariff for revenue only round the outside of the whole ring, and he held that although that ideal was not practical politics, it was an ideal which could be far sooner realized than any idea of internationalism in Europe. To him, he said, the greatest value of the British Commonwealth of Nations was " not necessarily an area in which to make money, but it is space in the world for the spreading and the increase of our own race, because I believe our own race to be the best in the world, and I believe that the progress of the world, morally and spiritually as well as economically, is bound up with the spread of our people with their ideas and with their ideals."

One Labour voice, that of Dr. Haden Guest, was raised in defence of some of the resolutions. The Labour Front Bench and other opponents of preference had, he said, made few or no constructive proposals and advocated a policy of mere negation, but it was perfectly obvious that this country could not indefinitely pursue a purely negative policy, and it was only by developing the enormous resources of the Empire that we should be able to face the dangers of the future. Preference, he added, must be a part of a very much bigger scheme of Imperial organization, and if, coupled with that, there was some guarantee to improve the standard of life of the working people of this country, a very definite advance would be made.

Mr. Austen Chamberlain, having the privilege and responsibility of the last word, wound up the debate with a final appeal on behalf of the Conservative proposals, and then the House divided on the first four resolutions. The division on the first resolution, involving exemption from duty of Empire fruit and currants, was very close, the " ayes " numbering 272, and the " noes " 278. On the next two resolutions for increasing the preferential rebates on tobacco and wine, the adverse majority crept up to thirteen and seventeen, and in the next division, on the stabilization of the existing sugar preference, the majority increased to twenty. The remaining resolutions, involving new or increased duties and therefore certain to meet with greater opposition, were thereupon withdrawn by Mr. Baldwin. This, for the time being, settled the fate of the Imperial preference proposals laid before the Imperial Economic Conference by the Conservative Government in 1923, but, as we shall see, within the space of a few months the whirligig of party politics brought the Conservatives back to power and an ex-Liberal to the Chancellorship of the Exchequer, and entirely reversed the decisions now reached by the House.

The Finance Bill was read for the third time in the House of Commons on July 23rd, and, passing through the Upper House almost without discussion, received the Royal Assent on August 1st.

Many and varied were the descriptions applied to this budget. It was termed an electioneering, a poor man's, a Liberal, and a housewive's budget, while Sir Henry Buckingham went so far as to dub it a cunning and insincere budget, recalling the fact that only a year before Mr. Snowden had moved a resolution declaring that "In view of the failure of the capitalist system this House declares that legislative effort should be directed to the gradual supersession of the capitalist system." Mr. Neville Chamberlain, in a speech afterwards described by the Chancellor as a superabundance of intended spite and spleen, agreed that the budget might justly be called a Liberal budget for " in some of its most conspicuous features, it is characterized by that narrow pedantry that adheres to doctrinaire opinion divorced from all reality, and by an utter inability to understand the feelings of our kinsmen overseas, coupled with a keen sense of electioneering possibilities."

Many termed it a moderate budget, but others were moved by their objections to high flights of oratory. Sir John Marriott, one of the most vocal of the Chancellor's critics, suggested there was all the difference in the world between adherence to economic principles and persistence in financial pedantry—a difference rather reminiscent of that between strong-mindedness and pig-headedness. Whether one looked, he said, at the gratuitous, meaningless abandonment of duties of proved benefit, or at the disastrous refusal to meet the legitimate and reasonable wishes of our kinsmen overseas in regard to inter-Imperial trade, one could not escape the conclusion that the main outlines of the budget, so far as they had not been dictated by electoral and political considerations, were rooted in an obstinate refusal to look economic facts in the face and still more in an obstinate and pedantic persistence in outworn shibboleths and doctrinaire philosophies.

On the whole, the budget met with a fairly good reception. The Liberals saw a budget after their own heart and bringing what they had so long desired—the abolition of the McKenna duties, while the chief emotion aroused among the Conservatives and wealthier classes was one of relief. Looking back now, it is a little difficult to understand the widespread fears of extreme Socialistic measures amongst certain sections of the people. Admittedly the Labour party election manifesto had declared the intention of removing inequalities in the distribution of wealth, and had urged "the immediate adoption of national schemes of productive work, with adequate maintenance for those who cannot obtain employment to earn a livelihood for themselves and their families. The flow of young workers from the schools must be regulated to relieve the pressure on the labour market and full educational training, with maintenance, must be provided for the young people who are now exposed to the perils and temptations of the streets." The party had also proposed "to restore to the people their lost rights in the land, including minerals," while "a Labour Chancellor of the Exchequer in consultation with Treasury experts, would at once work out a scheme to impose a non-recurring, graduated War Debt redemption levy on all individual fortunes in excess of £5,000 to be devoted solely to the reduction of the debt."

At that time, the City, whose opinion changed considerably in the course of the next few years, looked upon Mr. Snowden with the gravest suspicion, for in the not distant past he had advocated measures seemingly impracticable and immoderate, and in a recent work, *Labour and the New World*, had declared "the instrument of taxation must be deliberately used for the purpose of effecting a better distribution of wealth. Such better distribution must be effected by the taxation to extinction of unearned incomes. But such taxation must be accompanied by other reforms which will make adequate provision for the young, the infirm, the aged, and for the suitable employment of the able-bodied. . . . The right of inheritance will be strictly limited, the proceeds of death duties being divided between national revenue and the extension of national ownership of land and industrial capital. The great financial corporations, like banking and insurance, will be nationalized, thereby giving the State complete control over national finance and the rates of interest and monetary matters generally." The proposed nationalization of banking was a topic raised more than once during the budget debates by Opposition speakers who denounced such theories as certain to prove disastrous, and demanded that they should be immediately and definitely renounced by the Government.

In a more recent work, *If Labour Rules*, published in 1923, Mr. Snowden had said, "A Labour Government would be expected at once to reduce materially the food taxes and as quickly as possible abolish them altogether. . . . Some relief, too, would have to be given to the income-tax payers in the lower ranges of income. . . . On the other hand a Labour Government would look for increased revenue, when it was required, to the unappropriated incomes of the very wealthy." Claiming the support of a very orthodox economist, Professor Cairns, he had declared that the taxation of the wealthy was justified even to the social appropriation of all the fruits of their exploitation, and that, at current rates, although an unearned income of £50,000 paid £23,866 in income- and super-tax, the taxpayer was left with £26,134, " and nobody can maintain that there is not a surplus there for further taxation." The rate of income-tax, he had admitted, was too high on earned incomes and should be reduced, but there was an unexhausted source of revenue in the death duties, while, solely for debt reduction, the Labour party advocated the capital levy.

The accomplishment, however, of the programme outlined in such passages as these required not only that the country should be converted to it but also that the party committed to it should have a majority in the House of Commons. The Labour party in 1924 was not in that position for it could only command a majority with the assistance of the Liberal party. Mr. Asquith said in December, 1923, that trembling minds might be reassured by the fact that if a Labour Government was ever to be tried, it could hardly be tried under safer conditions, for the Liberals were not going to become a wing or adjunct of any other party, but would cherish their unfettered freedom and unconditional independence. Under these circumstances, Liberal views could not fail to colour the whole budget. The capital levy, one of the main planks in the Labour financial policy yet unacceptable to the Liberals, was obviously outside practical politics, but it was definitely damned a few days before the budget when the Liberals seized the opportunity of expressing their formal disapproval by joining with the Conservatives in a division of 325 to 160.

A well-known foreign observer writing on this budget has declared that Mr. Snowden deserves the highest credit in that he did not sacrifice national interests to party considerations. " His budget did not cause him to abandon a single one of his convictions, and, viewed from the political standpoint, it is, if not a Socialist budget, at any rate a left-wing budget." It is idle to speculate whether Mr. Snowden, with his strong convictions and prejudices but equally strong practical ability and common sense, would have been willing and able to translate into action the ideas he had advocated before reaching a responsible position, if he had been a free agent. As it was, in the clash between the views of his extremist and inexperienced supporters in the Cabinet and outside, and the critical attitude of his Liberal allies, it was inevitable that he should give prominence to Liberal principles in the framing of his budget.

This budget was notable in many ways : it was, if not the first Labour budget, the first budget to be produced by a Labour Government in this country ; it created a record by its sweeping reductions in indirect taxation ; it reduced the total indirect tax burden to the lowest level it was likely to reach for many years to come ; and, finally, it marked a turning point in British tariff history, for with the repeal of the McKenna duties, the automatic lapse of the depreciated currency duty, the reductions in preference entailed by the reduced import duties, and the defeat of the Conservative preferential resolutions, the British tariff was nearer the free-traders' ideal than it had been for many years. Protection and Imperial preference seemed to have lost nearly all the ground gained during the war and post-war period, but the pendulum was soon to swing in the other direction.

MR. CHURCHILL'S BUDGETS.

FIRST BUDGET, 1925-26.

April 28, 1925.

THE return of Mr. Winston Churchill to the Conservative party, which he had left twenty years earlier, and his appointment to the Chancellorship of the Exchequer in the administration which Mr. Baldwin had formed after the sensational defeat of the Labour Government in the autumn of 1924, had been hailed with mixed feelings, but on the whole with the expectation that his brilliant abilities would justify so bold a selection. He had served as a Liberal or a Coalition Minister from 1906 to 1922 in most of the great departments of State, his reputation as an orator and debater had steadily increased, and it was hoped by many even of his critics that his courage and originality would be utilized in this new field of finance to the great advantage of the country. He was destined to hold his high and responsible post during five successive budgets, and their story as it unfolds itself supplies an answer to such hopes. It was at all events with quite exceptional interest that the House of Commons listened to the speech in which he opened the first budget of the series on April 29th, 1925. It may be said at once that, to quote Sir Robert Horne's congratulatory phrases, Mr. Churchill in this speech " rose to the heights we all anticipated," and " afforded the House demonstration of the fact that figures need not be dull, and that a budget need not be drab, if only it is enlivened with a sufficiently picturesque fancy " ; while Mr. Snowden, who was to prove his most formidable critic in this and subsequent years, spoke of the great rhetorical and argumentative triumph which Mr. Churchill had achieved, and made graceful allusion to the high satisfaction which his father, Lord Randolph Churchill, would have felt if the "spirit of former occupants of the Treasury Bench still hover round the scenes of their earthly conflicts."

The Chancellor of the Exchequer began with the usual review of the revenue of the past year, and mentioned that the great remission of the sugar duty made by Mr. Snowden in that year had fully reached the consumer, while the remission on tea had been "almost entirely extinguished by larger price movements in the world market." He added that the consuming power of the people studied quantitatively had been maintained; and that with the exception of the moribund taxes, excess profits duty and corporation profits tax, the yield of the Inland Revenue duties was satisfactory, income-tax, super-tax and death duties, and in a lesser degree the stamp duties, having between them yielded £16 million more than estimated. Expenditure was £5¾ million above the budget estimate; the service of the debt, chiefly on account of the increased cost of the floating debt, had cost £7 million more than had been expected, while supply services were £3 million below the estimate. In the end "there emerged to vindicate the prescience of the late Chancellor of the Exchequer a surplus of £3,659,000" which corresponded very closely with his estimate of £4,024,000, and although there had necessarily been variation within the total which showed that "the right honourable gentleman had been fortunate as well as far-sighted," the result was creditable to the "careful and scrupulous finance by which his administration of the Treasury had been distinguished."

Mr. Churchill concluded his survey of the past year by describing the progress of debt redemption. The nominal dead weight of the National Debt had been reduced from £7,680 million to £7,646 million; floating debt by £32¼ million and external debt by £4 million. Savings certificates showed a net increase of £3 million and

Savings Bank deposits of £11 million. Taking a wider view, he said, the interest on the National Debt had been reduced in the five years since 1920 by upwards of £70 million a year, and the rate of Government borrowing had fallen from 6½ per cent. to 4½ per cent. which had enabled a "whole series of conversion operations of a highly profitable character to be undertaken or envisaged." Mr. Churchill insisted on the necessity of continuing the policy of debt repayment, and it fell to him to provide the final £5 million to bring the new sinking fund up to £50 million, at which Mr. Baldwin had statutorily fixed it two years previously. Finally he drew attention to the rapidity with which the liability of the country for war pensions was being reduced. From a maximum annual charge of £110 million it had now fallen to £67 million; and by perseverance in the policy of paying for these pensions every year instead of funding them, there would be a relief to the taxpayer year by year of two or three million pounds.

On the whole it was a not unfavourable prospect which the Chancellor of the Exchequer unfolded to his hearers. But the prospect was clouded almost at once by the estimates which he proceeded to put forward for the expenditure of the current year 1925-26, namely, £799,400,000, that is, £9,400,000 more than the previous year's budget estimate, and £3,700,000 more than the previous year's actual expenditure. This "disappointing result" was excused or explained by the recent rapid changes of Government, three Autumn General Elections, and the shortness of the time since the last for the searching and comprehensive scrutiny of expenditure which was required. But he committed himself unfortunately to a statement of his belief (which was to prove wholly illusory) that a net reduction in the supply expenditure of not less than £10 million a year each year progressively ought to be arrived at and should be possible.

The revenue to meet the increased expenditure he estimated as follows. He was not, he said, able to count on any sudden or brilliant improvement in trade, but he budgeted for half-a-million increase in Customs and Excise, an increase of £1¼ million in the motor vehicles duties, and an increase in the yield of Inland Revenue to £459 million from the realized yield of £439 million. His total tax revenue was put at £711½ million which was raised by non-tax revenue (including £30 million "special receipts") to £826 million, a surplus on the existing basis of taxation of £26,600,000.

If Mr. Churchill had been content to leave things as they were, he would have had enough to meet the common expectation of a reduction of 6d. in the income-tax; but more grandiose schemes were in his mind, and the interest of his first budget was enhanced, not only by the announcement which he made almost at the commencement of his speech that the prohibition of the export of gold coin and bullion would cease from that moment instead of terminating automatically on December 31st—or in other words that the gold standard was to be immediately re-established—but also by a full account of the legislation which the Government had determined to introduce on the subject of widows' and old age pensions. Both subjects were excrescences upon the budget since they were not to affect the financial provision of the year, and both were to be discussed at length on Bills introduced to give effect to the budget announcements, though of course the Chancellor's very interesting disquisition on the manner in which widows' pensions and old age pensions were to affect the beneficiaries, the employers and the State in future years had an important, though indirect, reference to the financial situation.

The return to the gold standard, though not to the internal use of a minted gold coinage, was the most momentous decision of post-war financial policy and it is worth noting in view of subsequent developments that it met with no really serious opposition in the House of Commons. Fears were indeed expressed in some quarters that industry was being sacrificed to the financial interests, but on the introduction, on the following May 4th, of the Gold Standard Bill which was passed through all its stages in two days without a division, the Opposition amendment did not oppose the ultimate return to the gold standard, merely deprecating undue precipitancy which might aggravate unemployment or trade depression. Mr. Snowden when Chancellor of the Exchequer had committed himself to the measure, for which lengthy preparation had been made by the Treasury and the Bank of England by the deflationary policy followed since the report of the Cunliffe Committee, and Mr. Churchill was able to make out a strong case for immediate action instead of postponing it till the expiry of the Act forbidding the export of gold on the following December 31st—which was the only real question at issue. In the course of a long and skilful speech Mr. Churchill's apologetics for a high bank rate gave Sir Alfred Mond the opportunity of demonstrating the disastrous effect upon industry of dear money, and of quoting Sir Josiah Stamp who was from the first a convinced opponent of the return to the gold standard.

The plan of the budget, then, was not affected by these extensive digressions, but Mr. Churchill suggested that the surplus of £26,600,000, however satisfactory, would not be adequate for the needs of public policy, the "twin supreme objectives" of which at the present time he proceeded to state. These were "security of the home of the wage earner against exceptional misfortune and the encouragement of enterprise through a relief of the burdens resting upon industry"—a statement which covered the introduction of the insurance schemes, though it laid the speaker open to the charge of trying to divert the attention of his audience from the relief he was giving to the income-tax payer. In the same spirit, he placed in the forefront of his proposals a somewhat serious addition to the rates of the estate duty in the "range of medium wealth," *i.e.*, between estates of £12,500 and £1 million, estimated to produce £10 million in a full year.

The next proposal was the imposition of customs duties "of different kinds and of various origins" with the avowed object of broadening the basis of taxation and of compensating to some small extent for the reduction he was later to propose in various other taxes. There was first of all a new revenue duty upon silk—"natural, artificial, raw, semi-manufactured, manufactured or made-up silk," with a "countervailing duty in connection with the very large volume of home-production" of artificial silk, but "deliberately giving a certain advantage to the home producer." The terms of this proposal, which were complicated, were considerably modified before the Finance Bill was introduced, but it was estimated at the moment to produce £4 million in 1925-26 and £7 million in 1926-27. A small duty on hops next found its place—"very small but very shocking; it is nakedly protective"—which would produce £130,000 in the first year and £250,000 in a subsequent year; "as much, or almost as much," as Mr. Churchill added with characteristic ingenuity, "as the additional grant which he had been able to give to the Universities of the country for higher education." For the last five years hops had been rigorously controlled, but the Act would expire in August, and faced with the "utterly sterile" alternative of renewing the control, or agreeing to a protective duty, Mr. Churchill chose the latter, for although the estimated yield was small, he said, "I cannot afford to disdain any revenue and even the most modest contributions are thankfully received."

Finally, still on the "task of fortification," he came to that "celebrated group of duties for ever associated with the name of the eminent free-trader and Liberal Chancellor of the Exchequer, Mr. McKenna." "To some," he said, "they are a relish, to others a target, and to me a revenue." He maintained that every one of the reasons why the duties had been introduced in 1915 held good now: if the articles were luxuries then, they were now; if there was a need to reduce luxury importation from America on account of the dollar exchange, that need was no less urgent on the morrow of our return to the gold standard; and if such comparatively small receipts of revenue counted in the Great War budgets, surely they counted much more in the meagre period to which he had succeeded. He believed a large majority of Members in the House won their seats on a clear view that these duties ought not to have been taken off, and as we could not afford the loss of this revenue, the duties must be restored. They would bring in £1,600,000 in the first year and nearly £3 million in a full year. None of the new duties fell on the mass of the people, none touched the necessaries or even moderate common comforts of daily life, and together they would, he said, yield £10,230,000 in 1925, and what was far more important to him in the policy he proposed to outline, they gave (the estate duty increase was included here) " more than £20 million a year of permanent revenue in 1926 and in future years." The surplus of £26,600,000 was now raised to £36,830,000, which he went on to allocate, beginning with the first of his two avowed objectives, " security for the home of the wage-earner."

We shall deal in this place with the Widows' Pension scheme and the revised Old Age Pensions scheme, which had been under examination for two years by an expert committee and which occupied so predominant a place in the budget speech, only so far as they explain the Chancellor's desire to " fortify the revenue " on this occasion for the new charge which would fall upon it in future years. He insisted that before the committee could be asked to sanction so formidable a load as £750 million, the present capital value of the additional liability to be undertaken by the state, " we must look not only to the next few years, but we must let our minds roam forward into the remote periods of the future "—a somewhat unprofitable exercise, it may be admitted, when liabilities of this nature are subject to extension in each succeeding Parliament.

Mr. Churchill first drew attention to the enormous and automatic growth in the cost of the existing non-contributory scheme of old age pensions, arising not from the recent improvements or relaxations made by the late administration but from the changing age distribution of the country which would more than double the annual cost of old age pensions, even on the present basis, in 50 years' time, raising it from £27 million to £60 million. That is to say that the "country will have more than double its present number of old and feeble people to support with an active population little larger than it is to-day," a consideration, as he justly remarked, which raised "disturbing and anxious reflections in the mind of every serious person."

It would take us too far to follow Mr. Churchill in his calculations of the burden imposed by the new pension scheme on the workpeople and on the employers (based on the optimistic assumption that the "deficiency period" would not be of long duration), and upon the State. But the prospect was held out that in 80 years when the majority of the contributors would have contributed from the age of 16 the "complete scheme, the new and the existing Old Age Pensions schemes, would be on a self-supporting basis . . . and the State would still be called upon to pay nearly £90 million a year in perpetuity." That, however, "would not be on account of the cost of running the scheme; it would represent the interest on the cost of bringing these schemes into immediate operation." The "guiding principle" was that the contributors would pay for the benefits, and the State would pay in perpetuity for making these benefits immediately available in our own time.

The charges on the State, already amounting to £27 million for the existing old age pensions scheme, would be in the tenth year, old age pensions £36 million, and the new scheme £15 million, total £51 million; in the twentieth year, old age pensions £46 million, new scheme £24 million, total £70 million. In the thirty-fifth year, old age pensions £56 million, new scheme £21 million, total £77 million. Against the rising cost of these schemes Mr. Churchill triumphantly set the falling cost of war pension charges—from £67 million to £43 million in ten years, to £32 million in twenty years, and so on till they were virtually extinguished in fifty years, so that "at the worst we have no need to expect greater burdens than those we are supporting at the present time."

It is perhaps improbable that these somewhat unsubstantial calculations of the burden which future generations might have to bear were taken much more seriously by the House than they were by their author. At all events they aroused but little comment in subsequent discussions. But the cost during the next decennium was a practical matter, and the Chancellor of the Exchequer, while stating that the "new scheme" would cost nothing in this first year, told the House that when the charge began to operate in the third year it would start at £4 million and rise in the tenth year to £15 million. In order that this Parliament should not be generous at the expense of other Parliaments, the Government had decided to spread the payments evenly over the whole of the first decennial period, in instalments of about £5¾ million a year beginning from the year 1926. This would be the new charge to be met out of the "fortified" revenue.

So far, however, the £36 million surplus was untouched, and the Chancellor of the Exchequer now submitted recommendations for distributing it which he thought would be "most effective and most helpful to the country at the present time." First came Imperial preference. And following certain proposals at the Imperial Economic Conference of 1923 he proposed the removal of the existing duties on Empire dried fruits and an increase in the Empire preference on tobacco from one-sixth to one-fourth of the full duty, on heavy wines from one-third to two-thirds, on sparkling wines from 30 to 50 per cent., and to restore the preference on sugar to the level prevailing before the duty was reduced the previous year, and to stabilize it at that figure for ten years, the loss to the Revenue, including the resulting Excise loss on sugar, being £1,470,000 in the first year and £1,720,000 in a full year.

The main relief, however, was to be given in direct taxation, but here also the concessions to be granted were carefully guarded and qualified. Mr. Churchill asserted with great force the opinion that the " burden of direct taxation fell with injurious effect upon the enterprise of the nation " and pointed to the undoubted fact " that the country with the highest rate of unemployment was also the country where the taxes on income were at the highest level, and where at the highest level they were collected in full." He singled out the super-tax as constituting an excessive burden both on enterprise and on the saving power of the nation, and stated that, while the Royal Commission on Income Tax had contemplated a certain relation between the income-tax and the super-tax, income-tax had since been reduced without a corresponding reduction of the super-tax. He therefore proposed to relieve super-tax payers to the extent of £6,700,000 in the current year and £10 million in a full year—exactly the same amount as that which he was imposing in the form of increased estate duty rates, and as near as possible over the same range of taxpayers. The benefit, therefore, in so far as it was a benefit, consisted in the alleged transfer of this burden from " income to capital," no doubt a measure of relief to the highly-paid brainworker with an earned income. Mr. Churchill believed that such a transfer would be beneficial to enterprise and industry to the extent to which it relieved the " pressure upon the highly creative faculties of the community."

The next concession which Mr. Churchill announced, the reduction of the standard rate of income-tax by sixpence (4s. 6d. to 4s. 0d.) was accompanied by the same consideration for earned income and further differentiation against investment income. He proposed to increase the relief given to earned income since 1921 from one-tenth to one-sixth, and to increase the maximum allowance from £200 to £250 ; and he showed by instances how considerable a reduction this would effect in practice on such sample incomes as £300, £500 and £750 per annum. Over the whole mass of income-tax payers with incomes under £1,000 per annum (90 per cent. of the whole) this relief to earned income would be equal to an average reduction of another sixpence ; and the cost of it would be in the current year £3 million and £7½ million in a full year. It was, however, a reduction in the standard rate which would be likely to affect business and the accumulation of reserves, and the Chancellor made something like an apology for not having been able to do more than reduce this by sixpence at a cost of £24 million in the current year and £32 million in a full year. An interesting innovation was the proposal to treat as earned income and entitled to relief as such the investment income of taxpayers aged 65 years or more whose total income did not exceed £500. This breach in income-tax principles was justified by Mr. Churchill on the ground that the small-scale savings of old people are virtually earned income.

" I have tried," he concluded, " to present on behalf of this new Parliament and the large Conservative majority a scheme which has both unity and combination, which is national and not class or party in its conception or intention, which seeks to give to every class the assistance it most requires in the form most acceptable to the individual and most useful to the State."

The discussion which followed was as usual a mere preliminary skirmish, and Members were perhaps a little bewildered by the variety of the topics presented in a budget speech which Mr. Lloyd George described as having fascinated and enthralled the House, but the next day, in the debate on the budget resolutions, Mr. Snowden opened his attack upon most of Mr. Churchill's proposals in uncompromising fashion.

Mr. Snowden appreciated Mr. Churchill's kind and generous reference to the financial achievement in the close estimate he had made of the previous year's surplus, and said he had deliberately estimated to cut things fine. He had desired to avoid the huge surpluses of recent years and had much sympathy with the dictum that any Chancellor of the Exchequer who had a surplus of more than half a crown ought to be put in prison for obtaining money from the taxpayer by false pretences. Not to have reduced taxation last year, he said, would have been to violate every canon of sound finance, and he contradicted the assertion, which had been made, that his concessions on sugar and tea had not reached the consumer, though in the case of tea the benefit had been obscured by variations in the price due to other causes. Mr. Snowden incidentally made the remark, interesting in view of later Customs alterations, that the public demand for tea, sugar and other dutiable articles had been satisfied and that there was very little possibility of increased demand. He hinted that his friends behind him would draw certain conclusions from the very large estimated increase (£25 million on the existing basis) in the field of income-tax, estate duties and super-tax, and then proceeded to criticize the increased estimated expenditure which Mr. Churchill had admitted was " unsatisfactory " but for which Mr. Snowden held there was " no justification."

He doubted very much whether during the next few years Mr. Churchill would be able to effect the progressive annual reduction of expenditure of which he had spoken, but thought that it was mainly in the direction of debt conversion schemes—£2,000 million of debt would become convertible in 1929—that a reduction of expenditure might be possible, and for this reason he applauded the Chancellor's financial orthodoxy in the maintenance of the public credit.

Turning to the taxation proposals he made the suggestion, which he feared might be regarded as offensive, that Mr. Churchill's reason for devoting nearly one-third of his speech to the question of widows' pensions, which had "no relation whatever to his budget," was that, shorn of this scheme, the Right Honourable Gentleman's budget would have " lost all its glamour and would have appeared to everybody, what it really was, the worst rich man's budget that was ever proposed." He did not on this occasion embark on detailed criticism of the scheme beyond asserting the position of the Labour party on this question, which was one of opposition to any contributory scheme—a position which he had taken in the debate on Mr. Lloyd George's first Health Insurance Bill in 1909. He insisted particularly, as Sir Alfred Mond was likewise to do, on the very heavy burden which it would impose upon industry in a time of unparalleled depression and which he estimated at £14 million per annum, a loss for which Mr. Churchill proposed to compensate the employers by the reduction of the income-tax. " He is reducing income-tax by £20 million a year to stimulate industry and is going to take £14 million of it back in contributions to the pensions scheme."

Eliminating the pension scheme, what was left? He characterized the reduction of the super-tax and addition to the estate duties as " robbing Peter to pay Paul," Peter being the dead and Paul the living super-tax payer. He objected to the scale chosen in both cases as leaving " millionaire " incomes and estates untouched, and asked why the Chancellor could not have left the super-tax alone and kept the £10 million, which he would certainly need in future years, in his pocket.

Mr. Snowden could not withhold his hearty support from the concession which had been made to the small income-tax payer in regard to earned income, and reserved his most biting criticism for the " gleeful cynicism " towards his old free-trade colleagues with which the Right Hon. Gentleman had used the present opportunity to institute a considerable measure of protection by the imposition of the silk duties and the revival of the McKenna duties—questions which were to be very fully discussed at subsequent stages. Mr. Snowden then ridiculed the contention that high taxation adversely affected industry and that reduction of sixpence in the income-tax would do aught to stimulate trade. " There is only one way to stimulate trade and that is to increase the purchasing power of the working people who are the main support of the staple industries of the country."

Mr. Snowden concluded his attack by stating that the Chancellor had established a record by having, for the first time for many years, imposed additional taxation and given relief entirely to the direct taxpayers, who would now not contribute a penny to the cost of the supply services and the general administration of the country.

Sir Alfred Mond, who was to cross to the Government side of the House early in the ensuing year, took a prominent and highly critical part in the financial discussions of the session. He began by hinting doubts about the return to the gold standard, but reserved his comments, as Mr. Snowden had done, for the discussion promised for the following Monday on the introduction of the Bill. Speaking as a Liberal, he reinforced Mr. Snowden's remarks on the burden of the new social legislation upon industry and making industry so largely responsible for widows and old age, and pointed out that already under the National Health Insurance scheme industry contributed £28 million and the Exchequer £6 million, while under unemployment insurance industry contributed £32 million and the Exchequer £10 million. He made a very strong attack on the revival of the McKenna duties, although, as Mr. Churchill pointed out, he had been a Member of the Government which supported their continuance after the conclusion of the war, and he thought there would be great difficulty in working a rebate on export in so complicated a manufacture as artificial silk. He gravely questioned the wisdom of introducing new duties and thought it a very doubtful proposal to tax capital to relieve income. Sir Alfred controverted Mr. Snowden's proposition that heavy taxation had no relation to industry and pronounced the budget, though ingenious, to " lack any foundation of constructive idea of finance."

Sir Robert Horne was much more favourable. He made light of the outcry about the silk and the McKenna duties, and considered that the preferential system had been of immense benefit to our export trade, stating that, while our foreign trade had declined, trade with the Empire was increasing. He repeated the warning of previous speakers about the burden which insurance schemes were adding to industry and observed that the return to the gold standard emphasized the vital necessity of recovering our export markets. " The stability of our exchange must in the end depend upon our ability to export." Mr. Pethick Lawrence, continuing the debate, viewed with considerable concern the precipitate decision to reimpose the gold standard and its possible effects upon trade conditions already so serious, and with regard to the widows' and old age pensions insurance, held with Sir Alfred Mond that these contributory schemes would place a burden upon industry which would be reflected in reduced wages or in increased cost to the consumer, and would in no way be compensated for by the reduction of the income-tax.

Mr. Runciman in a well-thought-out speech disagreed with both Sir Alfred Mond and Mr. Pethick Lawrence on the gold standard question. The action of the Government in his opinion appeared to be both " cautious and well-guarded, calculated to re-establish London as the financial centre of the world without throwing undue burdens on the poorer classes or the trading community." He condemned root and branch all the proposals which tended in the direction of protection, and applying what he called a trade test to the budget as a whole, he unhesitatingly declared that, so far as industry and commerce were concerned, it would give no relief. Certainly the insurance scheme would not do so for it would add to the already excessive burdens of contributions and rates ; and even the reduction of the income-tax would not, when insurance contributions were taken into account, give the same benefit to the export trades as to the *rentier*. All that had been done in the budget was to shuffle the burden and leave the country to bear the £800 million of taxation with which it began.

Mr. William Graham made a judicious contribution to the debate, arguing that it was in debt charges, war pensions, and armaments—the £470 million attributable to war—that the only possibility of economy arose, and suggesting that as regarded the cost of the social services something might be done to "improve the mechanism which connects the State with the local authorities in our financial arrangements, and get a better return in the locality for the assistance which we are giving." He expressed doubts, as others had done, as to the possibility of further deflation and its effects, but he was strongly in favour of increasing the sinking fund and paying off debt. The Chancellor of the Exchequer, whose reply on the debate was cut short by interruption from the Labour benches, dealt with the point, urged from various quarters, of the burden which would be cast upon the employed and, more particularly, the employers by the new contributions to the pensions scheme. He urged that the present high rates of 10d. and 9d. respectively would fall to a common 6d. "when the deficiency period ended" and that when this happened the additional burden of the new scheme would not appreciably add to the contributions now being paid. Somewhat cold comfort, for even Mr. Churchill could not deny that the rate of unemployment kept "very ominously high" and was still growing. On the second reading Mr. Churchill, evidently perturbed by the representations made on all sides, endeavoured to reassure the House by hinting that the Government had plans in reserve for minimizing the difficulty and asked it to extend to them their confidence in this matter.

The various proposals of the budget were all discussed at great length both on the resolutions and in the committee on the Finance Bill. The full-dress debate on the second reading of the Bill took place on May 25th, and by this time the views of the chief speakers had matured. The gravamen of Mr. Snowden's opposition on this occasion was that the Chancellor had taken off taxes here and put them on there—incidentally " setting one of the greatest of our industries in turmoil and unrest " with the result that as far as revenue was concerned he was just where he was when he started. But in doing all this he had "materially altered the basis of taxation" with the averred object of transferring taxation from his " hard-pressed income-tax payers and especially the richer of them to the general body of the community." Mr. Snowden referred to the various reductions of taxation by succeeding Governments in the last four budgets, stated that there had been reductions of £150 million in direct taxation and only £51 million in indirect, and suggested that Mr. Churchill wished to return to the 50 per cent. direct and 50 per cent. indirect which had been the old rough and ready rule in taxation—a " yard stick " as fallacious in fiscal as in other concerns. Mr. Snowden, however, ignored the fact—of which the Prime Minister (Mr. Baldwin) reminded him at the close of this debate—that he had in his own budget speech a year ago distinctly intimated he did not anticipate the permanent maintenance of a 4s. 6d. income-tax though on that occasion he must prefer the claims of other taxpayers.

Mr. Churchill in reply contended that in this country where direct taxation had reached dimensions unparalleled in any other, the phenomenon of unemployment had manifested itself in the most distressing form, and ridiculed the theory of the Opposition that, as he put it, " the more taxes you put on wealth the greater will be the benefit to the working classes." The theory upon which he had acted was the opposite, and he claimed that he had given substantial relief from taxes on income to the extent, taking the whole scale throughout, of something approaching 1s. in the £ over nearly " the whole area of individual income-tax payers except the very richest class who do not get relief on that scale." And he had done this with an inappreciable alteration in the percentages of direct and indirect taxation. Mr. Snowden had reduced indirect taxation from 36·54 per cent. to 33·9 per cent., he himself had increased it to 34·06 per cent.; Mr. Snowden had increased direct taxation from 63·46 per cent. to 66·1 per cent., while he had decreased it to 65·94 per cent.

Mr. Hilton Young dismissed this "familiar argumentation" about direct and indirect taxation as of secondary importance in comparison with the "real vital question of the budget... The position is such and competition is so bitter that if you relieve any national burden it will inure rapidly into the benefit of the country as a whole." The real question was, "Is the size of the budget a fit? Is it too big for the resources of the country or too small?" Comparing the present conditions with pre-war days, he showed that we had consumed one-third of our national wealth during the war, whereas France "with her terrible ravages" had consumed only one-fifth of her whole national wealth and America one-tenth. Our national income had already been cut down to 15 per cent. less than before the war, and we were now only able to save 10 per cent. of our national income for reinvestment in fresh industry as opposed to 25 per cent. before the war. Our effective customers in the world had been reduced by two hundred millions by the increase of foreign competition and creation of new industries in other European nations, and we had lost to the United States our position as controller of the world's credit. Finally our national burden in this budget was now, allowing 75 per cent. for the rise in prices, two-and-a-half times what it was before the war, and our national income 15 per cent. less. The irresistible conclusion, he declared, was that we were carrying too great a burden, and the proof was that we were unable to compete with foreigners because the cost of production here was too high, made so by scarce capital and high wages. Reduction of the national burden both in direct and indirect taxation was the only remedy for this state of things. Mr. Hilton Young spoke of the reduction of the "revenue burden" in the first four years after the war by 43 per cent. as a wonderful achievement, but asked whether there was anything in the present or future state of affairs to justify a cessation of the effort to reduce burdens. Yet the great national effort was fading and dying away and the tide fatally turning. Expenditure had risen in the last two years by £10 million. Mr. Hilton Young thought the possibility of saving £5 million over conversion highly speculative, and all the more on account of a return to the gold standard—while the annual £10 million saving on supply services was very much a "bird in the bush." But the necessity for "getting down to the essential work of economy" was reinforced by the sacrifices which had been made of regular ordinary revenue. It would not be an easy matter to increase such imposts as the income-tax or tea duty. He thought that of the £200 million of standing revenue which had been cut down, it had been quite safe to let £120 million go—but he had serious doubts about the remaining £80 million. It was unsafe to cut down revenue to the bone without equivalent reductions in expenditure. The Government could help the passing away of bad times by reducing expenditure, they could hinder it "by allowing these burdens to continue, by inertia, by failure to comprehend the necessity. A financial scheme based upon no realized economies and which saw an actual increase in the burdens of the country" was not in the present condition of this country entitled to support. Mr. Hilton Young's speech, which in wisdom and foresight stood far above all others in this debate, seems to have met with no response of any kind from subsequent speakers, and had no more effect than a forcible appeal in the same sense by Mr. Lloyd George, who contrasted our position with that of our trade rivals in the matter of national liabilities and public expenditure.

The most interesting point which arose from the discussions on Mr. Churchill's proposals in regard to income-tax, super-tax and death duties was the question raised on more than one occasion in these debates whether high taxation was so detrimental to trade and industry as it was generally assumed to be. All parties agreed, though for different reasons, that the contributions levied for unemployment and health insurance purposes were, like the rates, a real burden on industry. But a serious attempt was made by the newer school of Socialist Economists, of which Mr. Lees-Smith and Mr. Hugh Dalton were the leading exponents in the Commons and Lord Arnold in the Upper House, to prove that high direct taxation did not constitute a burden on industry. Mr. Snowden himself, as we have seen, committed himself to this doctrine. It was pointed out that income-tax being a tax on profits could not affect the price level of British industrial products. "If there is no profit, there is no tax." And it was asserted with equal apparent truth that only a small part of any reduction in the income-tax could go to the active elements in the business community, the rest going to *rentiers* and big limited companies to whom the rate of the tax was a matter of comparative indifference, and that the stimulus to industry was, therefore, insignificant. Further, the theory was asserted that the only way to stimulate industry was, as Mr. Snowden had said, to "increase the purchasing power of the working people," even presumably if this purchasing power was increased by contributions from the Exchequer without reference to any increase in their capacity as producers. There was, of course, an element of truth in such contentions as these. The Colwyn committee was later to develop the arguments on the effect of income taxation on industry, though with admissions and qualifications which considerably altered their emphasis; and the income-tax statistics, as Mr. Runciman mentioned in a speech in the following year, showed that the only prosperous section of our trade was the home trade, which undoubtedly benefited from public expenditure on social services. But these did not prove that prosperity due to State subsidies could in the long run be anything but illusory if it did not raise the productivity of the workers. And there can be little question but that the views of those whom Mr. Hilton Young described as the representatives of the "new light of the economic sun " have had some considerable influence in breaking down the defences of the income-tax paying classes and weakening the response both in Parliament and the country to the warnings of the danger of our growing expenditure. It is evident that the amount of taxation which industry can bear without discouraging industrial activity and reducing savings and the supply of capital must be a question of degree which only practical experience can answer. Taxation is only one, perhaps not the most serious, of the evils which handicap British industry to-day ; but experience certainly does not favour the idea that it can support an indefinite increase in the burden of taxation. There was, indeed, the weight of much business and other opinion behind those who contended, in Lord Hugh Cecil's words, that " if you can diminish taxes—anybody's taxes—you increase the spending power of the community and, therefore, you help both the demand for labour and the resources of capital; and in that way you are certain to help industry."

The reduction of the super-tax, counterbalanced though it was by increased death duties, lent itself naturally to the kind of attack which represented a relief of £43 15s. which an income of £3,000 per annum would obtain as an amount which would pay for the pension and allowances of a widow with two children, and which described this relief as a " dole to the rich and super-rich " which would be immensely fruitful if devoted to the development of the public health services. Even more obvious appeals to popular sentiment were Mr. Lansbury's strictures on luxurious expenditure, the " display of jewellery and diamonds at Court," the " brilliancy of Ascot " and the evidence of the picture papers of the manner in which the " idle rich disported themselves while a couple of million people cannot get jobs to earn their bread." Underlying all this was the conviction that the accumulation of income and capital in private hands was not to be encouraged. A different line of argument came from those who, disclaiming crude socialist aims, contended that the "joint stock system of industry had to a large extent eliminated the need for wealthy men in the sense in which they might be said to have played their part in the organization of society fifty years ago," and that it was not so much lack of capital that was the source of the difficulty as its diversion to investment abroad to assist, for instance, "Chinese sweated labour to compete with the cotton mills of Lancashire."

The rich men had their defenders; it was alleged that much super-tax was paid out of capital, and that death duties retarded production only less directly than the super-tax which they were now to relieve. Sir Alfred Mond was the most vigorous opponent of the theory that heavy taxation was not a burden on industry, appealing to the teachings of common sense and common observation and to historical examples, and he pointed out that public companies were equally subject with private traders to income-tax which *pro tanto* diminished the amount of the sum put to reserve. Finally, Mr. Churchill, while not justifying the transference of taxation from income to capital as a matter of general principle, and agreeing that death duties must not be further raised, adhered to his original plans and reaffirmed his belief that what was required at the moment was the stimulus to enterprise which a diminution of income-tax and super-tax could produce.

The only point of interest in the discussions in Committee on the motion to reduce the tea duty was the contention that Mr. Snowden's reduction had not reached the consumer in a reduction of the price. We need not linger on this occasion on the well-worn arguments for and against indirect taxation, the free breakfast table and so on. The tea duty had very obvious merits if it was desired to impose any form of taxation on classes which do not pay income-tax, or drink or smoke, and it was an important bulwark of the preference policy.

The debate on preference was of interest as having been, on the whole, conducted in a non-party spirit—many members of the Labour party, including Mr. J. H. Thomas, supporting the budget proposals—and for the general recognition, even among their opponents, of the importance of developing the trade with the Dominions. Mr. Pethick Lawrence considered preference one of those " border-line questions in which the fundamental issues of free-trade and protection were not essentially involved " ; and Mr. Churchill, who had been accused both of a change of opinion and of indifference to the subject, delivered an important speech in which he explained once again that the proposals of the Government were in fulfilment of the pledges given at the Imperial Economic Conference two years previously. He gave an outline of the history of the question from the date when Mr. Joseph Chamberlain had initiated it in 1904, with proposals for the imposition of taxes on corn, meat and dairy produce, as part of the scheme, to the resolution of the Dominions Conference in 1917 during the war when, with the consent of all parties the principle had been adopted that, without our being committed in any way to the taxation of the basic food-stuffs of the people, we should do our best to develop imperial trade by means of differential duties. Much had happened since, including the election of 1923, but Mr. Churchill was right in regarding it as a " tremendous advance " that the broad policy of fostering the development of trade with the Empire should, to judge from the discussion that day, appear to be passing increasingly out of the realm of ordinary party controversy.

No such description would apply to the numerous and rather acrimonious discussions, distinguished by the " fierce and unrelenting opposition " of Captain Wedgwood Benn, on the various items of the budget which had a protectionist complexion: the reimposition of the McKenna duties, the imposition of the silk duty, the hop duty and the duty on lace under the Safeguarding of Industries Act which was introduced as a new clause in the Finance Bill. The last was debated at some length and opposed both by Mr. Lloyd George and Mr. Snowden as the advance guard of a general tariff and, therefore, as a stultification of Mr. Baldwin's pledge. A more convincing argument was that the falling off of employment in this industry in Nottingham was due less to stimulus given to imports from foreign countries by the condition of the exchanges and their cheaper labour than to the fact that this small and decaying industry was suffering in this country and abroad from a change of fashion. But the policy of the Safeguarding of Industries Act, as interpreted by the Government's recent White Paper, was not destined during their term of office to receive the extension to the greater industries pressed for in some quarters and feared in others, which might undoubtedly have revolutionized the commercial policy of the country.

Mr. William Graham in his third reading speech, referring to the strictures of Liberal and Labour members on the protectionist character of these budget proposals, remarked that we were getting a great deal of "tariffism in politics" without even the advantage "of what used to be called in other days a scientific tariff." The renewal of the McKenna duties was certainly an instance of this rather haphazard procedure, for an odder collection of objects for a tariff could hardly be conceived. The only reason for reïmposing them was that they had been in existence since 1915 and had been removed by the Labour Government in response, as Mr. Snowden showed, to pledges given in the free-trade campaign of 1923. They were undoubtedly protectionist, and this was the ground of the violent attacks of Mr. Snowden and his followers and the occasion of a piquant exchange of personalities between Sir Alfred Mond and Mr. Churchill. But the latter based his defence on the history of the duties which had not been protectionist in origin and which had been introduced and acquiesced in for years by Liberal leaders of unimpeached orthodoxy, and he insisted that he was reimposing the duties for revenue purposes only, and that he could not do without the £3 million which they would produce and which he set against the cost of the preference concessions. These arguments were not convincing, and it may be surmised that his desire to please his new party by an act of retaliation on Mr. Snowden had something to do with his decision. But the parade of free-trade principles by his opponents was overdone ; it was certainly an exaggeration to describe this as the first protectionist budget for 100 years.

The motor industry, the only one which counted from a fiscal point of view, was so progressive and flourishing that a Customs duty did not seriously affect it one way or the other, and there was no reason to assume that a trade which had taken no harm from the abolition of the duty would unduly benefit by its reinstatement. There was sound sense in Sir Alfred Mond's view that you might be free-trade or you might have a tariff, but that you could not possibly carry on any industry in a country which alternated between the two.

It was around the new silk duty, however, that the fiercest and most prolonged discussions raged. Mr. Churchill had averred his wish to " broaden the basis of taxation " and find new sources of taxation, which had been the aim of Mr. Goschen, certainly with no protectionist intent, more than forty years earlier. He now maintained that he had been successful in discovering a permanent revenue duty which would produce seven million pounds.

Mr. Snowden and his followers replied that broadening the basis of taxation merely meant the relief of the income-tax payer and putting the burden on the working classes. Mr. Runciman spoke in strong condemnation of taxing a raw material in the textile industry at a time when the main object should have been to increase the facilities for our export trade ; and Mr. Snowden challenged the Chancellor to put a similar import duty on raw cotton and an export duty on cotton goods if his object was revenue. Mr. Churchill's contention that we were taxing a luxury was disputed by critics, who pointed out that artificial silk at all events entered into the material of the jumpers and stockings which were a necessity of the working classes, as of all others—" taxing the poor girl's finery," in Mr. Snowden's bitter and appealing phrase. Sugar was the analogy upon which he relied more especially when attacked as to the complications of the system of drawbacks on exportation ; but all the official machinery in such cases as these undoubtedly detracts from their merits as indirect taxes compared for instance with the duty on tea.

The duty on natural silk was a tax on an article not produced at home and, therefore, no corresponding excise was required as in the case of the duty on artificial silk, which was a British industry. The countervailing excise duty which Colonel Gretton, as a protectionist, had deprecated, was a necessity, because it was impossible to separate the tax on natural silk from a tax on artificial silk, and the users of raw natural silk had to be protected from the competition of artificial silk users and the balance held fairly between them. The countervailing excise would also vindicate the revenue character of the duty and produce a substantial addition to the revenue. The schedule of duties and drawbacks ultimately proposed was the result of much negotiation and discussion during many weeks with the Silk Association, the London Chamber of Commerce, the British Celanese, Courtaulds, and many other bodies. From having been designed to give a slight turn of advantage by way of compensation for any disturbance that intervened, it ended by giving an appreciable advantage to the British silk manufacturer, and was likely to give a distinct stimulus to the export trade.

As one of the speakers remarked, Mr. Churchill had surprised everybody by his new duty. He had surprised the free-traders no less than the protectionists on his own side but he obtained his revenue ; and in his concluding speech in Committee he argued that though it was true that foreign importation in ordinary circumstances must be paid for by exportation, yet, owing to the existence of enormous reparations and indebtedness affecting the exchanges you may now have importation which unfavourably affects your own industries without giving rise to exportation in return. Hence the production of a larger proportion of luxury and quasi-luxuries at home might be stimulated by these duties without detriment to the general productive energies of the country, and with no reflection upon the fundamental doctrine of free trade. He proceeded to express his belief that the natural silk industry would receive a very considerable stimulus from these duties, that the production of artificial silk would be increased together with employment in the industry, and that the prices ruling for artificial silk would not be found after a temporary interval to have increased by the amount of the duty. He claimed that during detailed discussion which had taken place since the budget announcement great progress had been made in removing many of the apprehensions which both Lancashire and Yorkshire representatives had felt in regard to the drawbacks. With less justifiable optimism he asserted that no difficulty would be found in working the system of drawbacks smoothly and without any appreciable addition to the staff or large development of official accommodation, and again instanced the sugar duties where the whole administration was carried on in the most simple manner without any trouble to the exporters.

"There are possibilities in this industry which even a tariff cannot kill. But a tariff can hamper." These words of Mr. Snowden's towards the close of the discussion, when the opposition to the duty both in the country and in the House was clearly petering out, fairly summed up the position. Like the motor industry, this was a developing industry which moderate taxation would not gravely affect one way or the other.

Whether from a mere revenue point of view, for the purpose of an infinitesimal benefit to the direct taxpayer, it was worth all the risk and disturbance involved and the cost and worry of the Customs and Excise officialdom from which it had been the glory of the free-trade budgets of the mid-nineteenth century to liberate commerce, is another question. It was certainly a roundabout method of attaining a simple revenue object. Mr. Churchill had triumphantly balanced his silk duties against the relief given to earned income-tax payers of the smaller classes ; and there is no reason to question his genuine desire to find a new source of revenue. But another more significant aspect of the case developed during the discussions of the session with the emergence of an unmistakably protectionist tendency in these duties. If it were to appear in future years that the home industry and the employment of British labour had been appreciably increased, that prices had not risen and that the export trade had not only not been reduced but on the contrary considerably augmented, these results would certainly be attributed to the imposition of the duties, and their success would become a powerful argument for further experiments in the same direction. Once established, history would repeat itself and it would be found that the vested interests both of employers and of labour in the industry would make it difficult, if not impossible, to repeal them. Free-traders were therefore right in detecting in this speciously introduced and speciously argued proposal a real menace to the cause which they had at heart.

The tariffism then of this budget, and the alleviation of the burden upon the income-tax paying classes were its distinctive features, although Mr. Hilton Young on the third reading again urged that in the lengthy discussions which had taken place too much attention had been given to what he called the question of machinery and too little to the principal ground of criticism, which was that the budget was based on a scheme which made no allowance whatever for a reduction of expenditure. He warned the House of the difficulty and serious psychological effect of increasing permanent taxation ; and of the danger of raids upon the newly established Baldwin sinking fund if expenditure continued to increase, which would certainly injure the national credit and prejudice the pending conversion operations. Mr. Snowden's position has been sufficiently indicated in preceding pages. No point in the budget escaped unfavourable comment from the Labour and Liberal benches. The scheme for widows' pensions, which formed part of the Labour programme, was assailed like the new old age pensions proposals for being based on the contributory principle, and much was heard on all sides of the grave addition this measure would make to the burdens already borne by industry.

There was a grave note of doubt in many influential quarters as to the wisdom of so early a return to the gold standard, with the risk of renewed trade depression and aggravation of unemployment. Mr. William Graham, in the wise speech in which he wound up the debate for the Opposition on the third reading, emphasized the point of the extraordinary financial achievement of the country since 1914, how in the six years between March, 1914, and March, 1920, we had spent more in public expenditure in Great Britain than in the whole two and a quarter centuries since the Revolution of 1688, how this was the explanation of a great deal of our social and economic distress, and how the country had stood the strain of a budget of four times the pre-war revenue and the definite effort to restore the national credit. The price we had paid was a very considerable price for millions of our people and for a good deal of our commerce and industry as well, and it was our duty to say and write nothing which could aggravate our difficulties or damage British credit.

Mr. Churchill characterized this speech as "helpful, thoughtful, powerful, and constructive," and having promised careful consideration of Mr. Graham's remarks, proceeded to a general and not ineffective defence of his proposals regarding Imperial preference, safeguarding duties, the silk duties as *bona-fide* revenue duties, and the policy of substituting optional taxation in the region of luxury for compulsory taxation. He characterized the "steady stream amounting almost to a drone" of class prejudice, abuse and criticism of wealth and of attempts to depict it as something like a crime to make any remission to the direct taxpayer, as inspired by the wish to substitute for private ownership a universal system of State control of production, of distribution and of exchange. He devoted the end of his speech to serious consideration of the " most damaging criticism " he had had to meet, that concerning the volume of our expenditure, and, while not disguising the immense difficulties of the task, promised a searching inquiry into all branches of expenditure by a Cabinet committee under the direct authority of the Prime Minister. The result of this was to appear in the following session.

The Chancellor of the Exchequer had experienced some vicissitudes in the progress of his first budget. It had been received at first in the House and outside with a " chorus of approval, of modified approval or, at the very worst, of mild detachment." This had been followed by a period of vehement and indiscriminate opposition, in which Captain Wedgwood Benn had played a leading part, of considerable unfriendly agitation in the popular press, and of vigorous denunciation by the official Opposition. It had ended after many weary days, during which the Chancellor had shown remarkable resource and pertinacity, in what might almost be described as a triumphant verdict. A considered judgment would perhaps reflect some of these varying opinions and would in any case depend to some extent on the character of subsequent financial and economic developments, and the steps taken to meet them in subsequent budgets. In one respect they were all to carry out the promise of the present budget, namely in their ingenuity. We shall not find in Mr. Churchill's budgets the simple directness which characterized the budgets of the great masters. This budget, as Mr. Churchill himself explained early in the Report stage of the proceedings, " consisted of a series of balances nicely adjusted . . . You have the death duties and the super-tax marching hand in hand. If you had not the one you could not have the other. Then we have the silk tax paying for the remission of the income-tax on small incomes. We have the war pensions declining and the new pensions extending, and the McKenna duties paying for the fulfilment of the pledges for Imperial and Colonial preference and the development of Imperial trade in this country. . . ."

It was a memorable budget and was to be followed by others equally distinguished by boldness, fertility of resource and felicity of expression, one of which, even more ambitious in scope, will stand out as pre-eminent among the budgets of this century. It was unfortunate, however, that at a time when a reduction of the national commitments was all-important, Mr. Churchill's first budget should have given an impulse to fresh expenditure by a great extension of pension and insurance schemes and thus laid the foundation of difficulties, both for himself and the country, which only good fortune, not destined to be his lot, could have enabled him to surmount with success. Even in this respect an impartial survey will be sparing of censure. It is obvious enough, in the light of after-events, that five years of strict public economy would have been the path of wisdom. But no one could have foreseen the tremendous financial and industrial cataclysm which was to succeed Mr. Churchill's years at the Treasury; and it is doubtful whether any Chancellor of the Exchequer, least of all one whose position in his new party was so little assured as his, could have stood up against the pressure of colleagues and the sentiment of the vast majority of the House of Commons at that time, in favour of the policy of bidding for popular support by the easy-going, if not lavish, expenditure of public money.

MR. CHURCHILL'S SECOND BUDGET, 1926-27.

April 26, 1926.

MR. CHURCHILL opened his second budget on April 26th, 1926, in a speech which, as he expressed it, lay in a " smaller, simpler and more sombre sphere " than his first effort—but which drew even from his opponents compliments upon its " conspicuous clarity," its " glamour and fascinating rhetoric." Interest however had been somewhat discounted by the speech he had delivered little more than a month earlier (March 16th) on the second reading of the Economy (Miscellaneous Provisions) Bill in which he not only gave a forecast of the expenditure for the coming financial year but surveyed the whole field of public expenditure. By their statement in the King's speech of December, 1925, that " economy in every sphere was imperative if we were to regain our industrial and commercial supremacy " the new Government had laid upon themselves an obligation which, with some reason, they had been taunted with neglecting in a budget increasing the national expenditure by some ten million pounds ; and moved by the appeals and criticisms which had been addressed to him the Chancellor of the Exchequer, in the course of his speech on the third reading of the Finance Bill of 1925, had, as we have seen, promised a searching inquiry into all branches of expenditure by a Cabinet committee under the direct authority of the Prime Minister.

Mr. Churchill at Leeds on January 20th and Mr. Baldwin shortly afterwards to the London branch of the Union of Conservative Associations had both emphasized the necessity of substantial economies if increases of taxation were to be avoided, and the serious difficulty of effecting such economies; and the Economy Bill had been the result of the work of the Cabinet Committee assisted by a second

Committee under the chairmanship of Lord Colwyn on the fighting services.

The details of this Bill do not, in view of subsequent developments, call for a full description here; but it is of great importance as marking the utmost extent to which a Government deeply pledged to the cause of economy felt able to go in comparatively favourable circumstances and before the disaster of the coal stoppage had introduced a further element of demoralization into the national finances.

Mr. Churchill in the speech on the Economy Bill above referred to took a figure of £800 million, "formidable and tremendous," as he termed it, as that to which the public had become accustomed as the annual public expenditure which had to be provided for, and endeavoured to approximate his budget estimate to this amount, taking both increases and all possible retrenchments into account. Automatic and other increases already approved by Parliament amounted to no less than £38,750,000; and the Economy Bill contained proposals for effecting a saving of from £8 to £10 million in the ensuing financial year and from £7 to £9 million in the year after, £3¾ million or more on unemployment insurance and the rest derived mainly from reductions in the State contributions to Health Insurance, including a transfer of £1,100,000 from the Army, Navy and Air Force Insurance Fund to the Exchequer—provisions which were to excite the fiercest opposition of the Labour party. The significant fact was that savings were to be derived from one class only of public expenditure, the £165 million from which was defrayed the whole national administration, the fighting services, the Civil Service, the National Insurance Fund, Judges, Civil List and so on. In no other branch was economy considered possible, neither in the interest on the National Debt nor on Pensions (£476 million) which were an "obligation of honour"; nor on the grants from the Exchequer to local authorities, £90 million, (though the intention was intimated of altering the percentage system into a block grant system) because the expenditure was " necessary for the mental, moral and physical welfare of the people " ; nor on the Post Office or the Road Fund (£67 million) which produced a more than corresponding revenue.

The result of all this, Mr. Churchill said, was that the £800 million mark would be exceeded in the coming year only by some £3 million, the amount of the coal subsidy during April. Mr Snowden unkindly described this attempt at economy as the " greatest joke which had ever been perpetrated in the House of Commons " ; and in the discussion on the budget resolutions not unnaturally contrasted an " increase of taxation of nine millions " with the hope Mr. Churchill had held out of an annual net reduction in supply expenditure of not less than ten millions. Sir Robert Horne on the same occasion drew attention to the fact that whereas the actual expenditure in 1924-25 was £795 million, it had risen in 1925-26, leaving the coal subsidy out of account, to £805 million, a rise of between £9 and £10 million. He commiserated with the Chancellor of the Exchequer on the difficult position in which he was placed, though he thought that he and his colleagues had brought some of these troubles on themselves ; and observed " he is faced with an expenditure which is not only undiminished but seems to be undiminishable."

Many weighty speeches continued to be delivered during the session on the subject of Economy, and unfavourable comment was passed by Sir Frederick Wise and others on the cost of running this country as compared with much larger countries like the United States and Germany, the explanation of which was however in large part the immense burden of our debt. The supreme necessity of economy if only for the purpose of improving the national credit and making possible a reduction of the Debt Charge was generally recognized ; as was also the disquieting truth that the greater part of the expenditure voted in supply, owing to the vast expansion of the social services, was as completely beyond the control of Parliament as the debt charge itself.

Mr. Hilton Young in another impressive, warning speech on the budget resolutions this year, insisting that over-taxation was mainly responsible for the evils affecting our trade, was led to speculate whether something like an " electric shock " might not be administered to the state of paralysis into which we had fallen by a " steady refusal on the part of this House and the instruments of Government further to use public money for the sake of any form of subsidy to trade or for the extension of any further assistance to the individual."

Mr. Snowden in this very discussion observed that the Labour party had never subscribed to the principle of national economy as understood and advocated by the " party opposite " ; and applauded expenditure through the State and Municipalities upon social services as an " economical and beneficial way of spending money."

Mr. Snowden indeed added that he could see only one way in which the burden of taxation could be reduced—to " double the amount of the national production ; double the amount of the wealth produced each year " which would reduce the burden of taxation by 50 per cent. Mr. Kidd contrasted this aspiration with the gospel preached by the Labour party in the country, if not in the House, which tended not to double production but to paralyse it ; and it certainly begged the question asked by Mr. Hilton Young and the leaders of industry in the country whether even the maintenance of the actual level of production was compatible with an increasing burden of taxation.

With the Labour party unwilling to admit that taxation, at all events of the richer classes, was excessive, and the Conservative party little behind their rivals in the practical application of the doctrines expressed in Mr. Snowden's words, it is not to be wondered at that any serious attempt to reduce the obligations of the State was thenceforth tacitly abandoned ; and though Mr. Churchill again solemnly undertook " on behalf of the Prime Minister and himself and every single member of the Government " that " even after these recent dreary experiences they would continue in the matter of economy to do their utmost," his attention during the remainder of his term of office was confined to expedients—justified in part by the circumstances, but open to damaging criticisms from financial purists—to meet those obligations without an ostensible increase of " onerous compulsory taxation."

The Chancellor of the Exchequer began his budget speech with the usual survey of the revenue of the previous financial year. The estimates both of the Customs and Excise and the Inland Revenue had proved remarkably accurate, though they had each failed to realize expectations by about £1 million. Both beer and spirits showed a decline partially owing to changing habits " at which the reformer might rejoice though the revenue suffered." Tea, the cocoa group, and sugar on the other hand showed healthy compensating expansion, the last named especially having responded to Mr. Snowden's large reduction of the duty and to an exceptionally cheap world price to the extent that, for the first time, a larger quantity per head had been consumed than before the war. In spite of high taxes, " and I must add high profits," the consumption of tobacco had substantially increased, and while it would be necessary to budget for a further fall in spirits, in tobacco Mr. Churchill hoped for a further modest increase. The consuming power of the people was maintained and more than maintained, but Customs and Excise generally showed only moderate resiliency and did not improve as might have been expected. A notable point was that the immense sum paid by the National Exchequer in social services for the mass of the people had apparently a tendency to average good and bad times as far as Customs and Excise revenue was concerned.

Coming to Inland Revenue the picture was the same, and the nation appeared to be somewhat richer than it was a year earlier. Important sections of the general trade were in an extremely prosperous condition and large profits had been made in rubber and tin ; but the basic industries employing the largest number of work-people and requiring very large amounts of rateable property continued " obstinately depressed under their heavy burdens." The picture was " not black, it was not grey," but " piebald, and on the whole the dark patches were less prominent this year than last." The black shadow of the coal industry was however in the background, though it was scarcely alluded to in this speech.

The two moribund taxes, excess profits duty and corporation profits tax, practically balanced each other, one being down and the other up on the estimate by some two millions. Death duties, in spite of last year's increase in the middle rates, had fallen below the estimate by £5 million, the falling off having occurred in the very large estates of over one million. Super-tax on the other hand was £5,200,000 above the estimate, not, as the Chancellor explained, in response to the reduction in rates, but to stricter and more efficient collection and the overtaking of arrears. Income-tax was £2,500,000 less than the estimate.

Non-tax revenue, contrary to the opinion expressed by Mr. Snowden, had yielded £13 million more than was estimated ; and the revenue as a whole had therefore yielded a surplus over the estimate of £11 million. But for the coal subsidy of £19 million paid in the past year there would have been a net surplus of revenue over expenditure, in spite of the additions which had occurred, of nearly £5 million. As it was, there was a deficit of £14 million, an addition to the Debt which would normally have gone to swell the total of the floating debt, but had been actually funded—one of the results of the Conversion Issue effected the previous autumn.

The position was " not so good as it looked " ; special receipts would undergo heavy continuous diminution in spite of reparation and war debt payments which might be anticipated. Tax revenue was not likely to do more than hold its own, and there was a " strong swelling tide " of expenditure. The outlook therefore was " somewhat bleak." And here Mr. Churchill, renewing his assurance that the Cabinet Committee would pursue its work unceasingly of inculcating upon all branches of the public service the extreme importance of saving money in every possible way, announced that the substitution of block grants for the present percentage grants to local authorities was under consideration, and that it was not intended to renew the Trade Facilities Act next year.

Mr. Churchill then " lingered for a few moments in the regions of silk and gold " before proceeding on the " more severe stages of our journey," and gave a favourable report on the results of the two special departures in last year's budget. As regarded gold the dollar exchange had returned immediately to parity and remained virtually stable ever since. The bank rate was no higher than last year, and there had been no sensational exodus of gold ; there had been no need to use the credit which had been provided in the United States, and the real value of wages had increased, the cost of living index having declined seven points. Finally the country now stood on a basis of reality with no need to contemplate contraction or deflation in any form, and a sound and solid basis had been provided for any further return of prosperity. Subsequent speakers repeated their doubts of the timeliness of this measure, Mr. Lloyd George, for instance, enlarging on the restrictive effect it had had upon important export industries, such as that of coal, and pointing out how it had undoubtedly in this way helped to precipitate the coal crisis, an argument the force of which was by no means weakened by subsequent events. Sir Robert Horne gave the only possible answer to such strictures when he reminded the Committee that the determining consideration in the decision of the Government had been the fact that the Act which placed an embargo on the export of gold was coming to an end, and if at that stage this country had said that we were not ready for a return to the gold standard when other less important countries had already reached it, we should have placed ourselves at a serious disadvantage, and led the world to believe that it would be long before we could hope to put our finances upon a proper footing.

As regards silk, Mr. Churchill announced that the duty in its various aspects had worked with unexpected smoothness, that the trade had continued to progress, though there had been recently a check in the consumption of artificial silk, and that, in spite of heavy forestalments between the announcement of the tax and its enforcement, the expected revenue had actually been collected. He declared that the Excise duty had been paid out of Courtaulds' profits without apparently reducing them to a discouraging level while the Customs duties on artificial silk had been paid by the foreigner, and he claimed that the effects on the motor car industry in this country of the reimposition of the McKenna duties were that imports had declined, re-exports, a comparatively small branch of the trade, had fallen substantially, and the British export of cars had made a marked and substantial expansion. But Mr. Churchill admitted —and the admission was seized upon by his adversaries —that though the cost to the consumer had not been increased by the artificial silk duties, they had "probably intercepted to a very large extent a reduction which would otherwise have reached the consumer in this country"; and that in the case of both motor cars and artificial silk, "the conditions observable were those which applied to trades in a rapid and general state of expansion." It would therefore be imprudent to attempt to draw a general and unchanging rule from the facts which had been experienced in these cases.

A full statement of the estimated expenditure of the year having been presented in connection with the Economy Bill, the Chancellor of the Exchequer added only a brief summary on this occasion. The supply services totalled £417,241,000 and the Consolidated Fund services £395,400,000, and the estimated expenditure therefore amounted to just over £812,500,000. From this total, in order to make it comparable with the original estimate of last year, he made various deductions which brought it down to £799,500,000, approximately that of the previous year; but included in this total, he said, there was nearly £19 million of new expenditure either from automatic growth of pensions and other statutory charges or from decisions of policy taken by the House and Government last year, such as widows' and old age pensions £5,750,000, automatic growth of the original old age pensions £1,250,000, the new cruiser programme £3,750,000, Education grants £1,100,000, health and housing grants £750,000, net increased cost of beet sugar subsidy £1 million, Empire marketing £500,000, and steel houses £370,000. On the other hand there was the net reduction of £7 million on national administrative services promised on the Economy Bill; and Mr. Churchill congratulated himself on having compressed the £19 million of new expenditure within the total of the expenditure last year "without," on his reading of the figures, "any appreciable addition." Still, as the estimated revenue of the coming year amounted, with heavy decreases in the expiring excess profits duty and corporation profits tax, and in spite of a payment on account of debt of £4 million from Italy, only to £804,700,000, there was a prospective deficit of £7,900,000; and as the probability was that in the following year increases in expenditure would go far to offset any normal increase of revenue or further economies, it became necessary, Mr. Churchill announced, that he should seek additional resources both temporary and permanent in every direction open to him.

After announcing certain changes in the income-tax, including the abolition of the three years' average, which however could not come into effect until 1927, and a settlement of the problem of double income-tax, as between Great Britain and the Irish Free State, Mr. Churchill said that being very reluctant to add to the existing burdens of compulsory taxation, he had examined various methods of "luxury" or, as he preferred to call it, "optional" taxation. The only one, however, he put forward at the present time was the imposition of a betting tax of 5 per cent. on every stake made upon a racecourse or through a credit bookmaker, most of which would be collected on returns furnished by the latter. Cash betting on racecourses would be taxed by a system of tickets to which he believed the race-going public and the ring would readily accommodate themselves. The duty was estimated to produce in a full year £6 million, but in the present year, as it could not come into operation till the flat race season was ended, only £1,500,000.

The next proposals were a duty on wrapping paper, temporarily omitted from the Safeguarding of Industries Bill last autumn on account of Parliamentary pressure, which, at 16⅔ per cent. *ad valorem*, would produce £400,000 this year and £550,000 in a full year, and an extension of the McKenna duties to cover commercial motor cars which would yield £300,000 this year and £350,000 in a full year. This extension of the McKenna duties, Mr. Churchill said, could not be justified within the limits of the safeguarding policy, as only one-tenth in value of the commercial motors in Great Britain were imported, and exports exceeded imports, so that there was "no case for the protection of the industry nor is that in any way my object," the reasons for withdrawing the exemption of commercial cars from duty being increased revenue and administrative simplification. Another still smaller addition to the revenue, £50,000, would be gained by slight modifications of the Key Industries duties under Part I. of the Safeguarding of Industries Act, which would otherwise have expired this year, but were to be re-enacted for a further ten years.

The experiences of the preceding year in respect of the silk and McKenna duties had suggested the necessity of two minor proposals. A variety of works of art had been found to be exposed to taxation on their importation, and it was therefore decided to exempt from Customs duties from the next May 1st all goods more than 100 years old except wines and spirits. Further, to avoid in future such dumping of goods as had taken place between the announcement of the new duties and the final passage of the Finance Bill, which had caused not only loss to the revenue but injury and disturbance to the trades affected, a record was to be kept when new duties were introduced of all the relative goods imported in the intervening period, and traders would be required to pay the duty as from the original date as soon as the Bill passed into law.

As regarded Imperial preference, the Chancellor of the Exchequer announced that the result of the extended preference given last year had been satisfactory, the flow of Empire sugar into this country had been greatly stimulated, and Empire importation both of wines and tobacco had increased. An important step forward was now to be taken by the stabilization for ten years, as had been done last year in the case of sugar, of the preferential rebates on all the numerous articles which now formed the subject of Imperial preference—subject, of course, to the unfettered discretion of Parliament to vary or abolish any tax. A minor change not a matter of Imperial preference but solely in the interests of the British producer, was the repeal of the Excise duty on chicory, involving a loss of £500 a year to the revenue.

Mr. Churchill then proceeded to deal with the Road Fund and motor vehicles duties and made proposals which, together with the betting tax, were to excite the main controversies of the budget. He spoke with sympathy of the question of substituting a motor spirit tax for the existing scale of licence duties, but rejected it on the present occasion on account of the financial difficulties of making the transition from the one system to the other. He proposed instead an increase in the taxation on heavy vehicles and hackney vehicles, which in a full year would yield about £2,300,000 and in the present year £1,500,000, raising the total estimated revenue from these duties to £21,600,000 in 1926-27. Out of the existing balance of £19 million in the Road Fund, he proposed that £7 million should be transferred to the Exchequer, and that for the future the revenue from motor taxation should be divided between the Road Fund and the Exchequer on the broad principle that what was raised on account of wear and tear should go to the roads and the balance "from the luxury or pleasure aspect of it" to the Exchequer. In the coming year, therefore, out of the "immense sum," £21,600,000, expected to be realized from these duties, the Exchequer would take one-third of the duties on private motor cars and cycles, or approximately £3,500,000, a proportion which would grow with the general yield of the duties. After deducting the statutory payments to local authorities payable in lieu of the old carriage licence duties, the sum of £17,500,000, a slight increase over the previous year, would be available for the Road Fund. In addition the fund would have an available balance of nearly £12 million, and "in all the amount provided for road purposes in the present year would be £21 million, or £3,500,000 more than was spent on the roads last year." In dealing with the Road Fund in this manner the Government had sought to secure four objects, a fair adjustment of heavy traffic between the roads and the railways, a new source of revenue to the State, the largest programme of road development ever undertaken, and further special assistance to rural roads.

Mr. Churchill then announced what he described as a "peculiarly refreshing windfall" of £5,500,000 derived from the shortening of the three months' credit allowed to brewers for the payment of the beer duty to two months, by which thirteen months' revenue from beer would be collected in the financial year. And he stated that as a result of the negotiations which had been proceeding with the French Government he had received an assurance, without prejudice to the eventual debt settlement, of a minimum payment of four millions during the current year.

The search for fresh resources resulted therefore in turning a prospective deficit of £7,900,000 into a surplus of £14,150,000 ; but of the £22,250,000 of new revenue the £7 million from the Road Fund surplus and the £5,500,000 from the beer duty were not annual revenue —only " windfalls produced not only by the wind but by a certain judicious shaking of the trees "—and in view of much prospective shrinkage in the yield of the moribund taxes and of special miscellaneous receipts, the Chancellor felt bound to resist the temptation to give away any portion of it in relief to the taxpayer. Instead he turned to the question of the sinking fund.

Early in his speech Mr. Churchill had enlarged on the reductions which had been effected in the annual interest charge of the debt (excluding American) from £325,500,000 in 1920 to £278,500,000 in 1926, while the floating debt had been reduced from £1,412,000,000 in 1919 to £704,250,000 in 1926. This was a great achievement, although, as Mr. Runciman asserted in relation to the floating debt, the reduction had been made entirely out of the sale of surplus war stock, and Mr. Hilton Young spoke gravely of a floating debt of £700 million—9 per cent. of our total liabilities as compared with 2 per cent. before the war—as a " constant threat to the solvency of the nation."

The fact of the deficit of £14 million having been incurred last year meant, as Mr. Churchill remarked, that the statutory new sinking fund of £50 million was in effect reduced to £36 million ; and this reduction he decided to make good. The deficit had been incurred by the coal subsidy, and while stating that he had been " strongly in favour of it " as right and prudent in the preceding August, and shared in full the responsibility for it, he held that the only check on such easy expedients as subsidies was to find the money for them out of revenue, " annual or occasional." He would, therefore, he said, pray in aid the surplus of £4 million which had resulted from Mr. Snowden's 1924 budget. As this sum had already been devoted to redemption of debt, this "raiding" of the old sinking fund, as Mr. Snowden labelled it, was in any case not a redemption out of current revenue. The remaining £10 million was to come out of the revenue of the year and the new sinking fund for 1926-27 was accordingly to be increased from £50 to £60 million. Mr. Young spoke of this as a "right and courageous decision" but pointed out that seven millions of the repayment came out of the Road Fund balance, a capital asset invested in interest-bearing securities, and five millions from beer in anticipation of revenue which "should be looked on as a capital asset." Mr. Churchill's action therefore was hardly of such fiscal virtue as at first sight appeared.

Much stress was laid by many speakers on the necessity of economy and of the maintenance of the sinking fund for the purpose of improving British credit and facilitating a profitable conversion of the debt. Mr. Hugh Dalton in particular urged that the sinking fund should be increased even beyond the £60 million proposed for the present year, as every sinking fund liberated a large sum of money for investment in industry, whereas remission of direct taxation to wealthy people too often merely increased luxurious expenditure. He maintained however that the real burden of the debt, in spite of sinking fund operations, had increased in recent years owing to the fall in the price level. Owners of War Loan, even if they received the same amount of money as before, were receiving a higher purchasing power, and he thought that a period of years in which the debt must be paid off should be fixed as in the case of Local Loans and as in the case of the sixty years during which our debt to the American Government would run. If we were to hope for its extinction in less than 150 years some speeding up in any case was essential. Both he and Mr. Snowden agreed that the prospect of converting maturing debt to lower rates of interest was highly problematical in the near future, and pointed out that during the régime of the present Government the national credit had depreciated as compared with the level at which it had stood under the late Government. It was also argued that, with the existing rates of income-tax and super-tax, on every £4 saved to the State by conversion £1 was lost to it in tax revenue.

All this was discouraging, but short of some measure of repudiation there was nothing for it but to persevere in the efforts which had substantially reduced the debt in the earlier years after the war. Conversion on any serious scale would not be possible until there was a substantial fall in interest rates, and that would depend upon the world movements of trade no less than upon thrifty administration at home.

The preliminary discussion on the budget day was of the usual rather formal and discursive character but the discussion on the budget proposals in committee on the two following days, April 27th and 28th, ranged over the whole field of the year's finance. It was opened by a speech from Mr. Snowden which was largely concerned with the question of economy, already dealt with in a preceding passage, and was exceptionally intemperate in tone. He contrasted Mr. Churchill's promise last year to reduce expenditure progressively by £10 million a year with the fact that he had raised expenditure this year by £30 million and imposed new taxation of £20 million. Mr. Churchill had, he said, lowered Government credit by 1 per cent. and destroyed any immediate possibility of debt conversion at a reduced rate of interest. He had robbed the sick, the disabled, the unemployed. He had raided the Road Fund. "Twelve months ago," he concluded, "I described the budget as a rich man's budget, to-day I describe this budget as the budget of a profligate and a bankrupt." Mr. Churchill was, perhaps, to be excused when he subsequently referred to this effort as "Parliamentary Billingsgate."

Another notable speech came from Sir Robert Horne who was critical on the subject of economy and took a gloomy view of the condition of foreign trade and the main industries of the country, but he approved of the three main features of the budget, the proposals as regards the Road Fund, the betting tax and the preference policy.

Mr. Runciman was opposed to all three proposals and spoke impressively on the vital necessity of maintaining the national credit by setting our face against subsidies and credits of every kind. Sir Frederic Wise was equally emphatic on this point and stated that the only way to improve credit was for the Chancellor of the Exchequer to put down his foot and stop all credits, grants, guarantees, subsidies and so on. But no one, not even Mr. Graham, had any practical suggestion to make as to the control of the House over expenditure except by the appointment of some special committee or commission to examine the estimates as they came before the House. Mr. Lees-Smith was emphatic on the tendency to alter the balance of taxation to the disadvantage of the poorer classes, and Mr. Wallhead, in a moderate and impressive speech from the Labour side, contested the alleged necessity of relieving the taxation on the small minority of the population which owned the larger share of the national wealth. Mr. Churchill had little difficulty in replying on this debate, which was conducted under the shadow of negotiations on the coal question, and remarked that he did not remember any budget which, at the outset, seemed to encounter "such a weak, disunited, discursive or contradictory opposition."

Enough for the moment has been said on the questions of credit and economy with which he again dealt in his speech, while the Road Fund, the betting duty and the stabilization of Imperial preference, on which he also spoke, will be considered in their place at the committee stage of the Finance Bill. One general point may, however, be mentioned, which he took in opposition to the glorification of compulsory direct taxation by the Opposition. Was it right "to overlook minor or novel sources of taxation, which were derided as fancy or optional taxes, at a time when, in contrast to the days of Mr. Gladstone, direct taxation had been pressed to an unprecedented high figure and when all the primary comforts and indulgences of the masses were also taxed to the utmost limits ? If," he said, "the present proposals were assented to we should have added, last year and this year, £15 million of permanent revenue to the country by means of taxes which no one need pay unless he buys a foreign motor car or musical instrument ; unless he makes a bet or unless she adorns herself with silks and satins . . . . Can anyone doubt where wisdom lies in this matter ? " For his own part he would persevere in the direction of relieving the great basic sources of taxation by every reasonable optional medium, expedient or experiment which he could discover.

What with the loss of revenue by remissions of taxation and by the shrinkage in miscellaneous special revenue, and the increased items of expenditure sanctioned by Parliament including the coal subsidy, he had had to find a total of £64 million from one source or another; either from economies, from the normal growth of existing taxes or by additional resources. He had accomplished that task while the social services were maintained at an unprecedented level, while expenditure on education and roads had been provided on a larger scale than had been previously known, without impairing the enormous provision for the debt redemption or imposing any tax of the slightest consequence on the comfort, vigour or health of the national life.

Between the conclusion of this debate and the introduction of the Finance Bill on May 19th the coal stoppage had taken place as from April 30th ; a royal proclamation declaring the existence of a state of emergency had been issued on May 1st, and the general strike had begun on May 4th to continue until the 12th. A great gulf had been fixed, by these grave occurrences, between the financial debates of the Session. "How quickly," remarked the Chancellor of the Exchequer, "any real trial effaces imaginary troubles ! When you are hurtling along in the rapids of Niagara you do not worry very much about the rate at which you hired the canoe. . . . When we read the debates which took place only a month ago the language of indignation, real or simulated, appears to me as though one saw a number of revellers coming home from a fancy dress ball in broad daylight."

The tone of the debate reflected the impression which had been made. Neither Mr. Graham, who moved the amendment for the rejection of the Bill, nor Mr. Runciman, in the important speech which he delivered, made any effective attack on the actual budget.

Mr. Snowden's speech was more conciliatory and constructive than his earlier effort, and in particular he took occasion to deprecate making party capital out of the issue of debt conversion or of saying or doing anything which would make harder the "terrible problem" of dealing with it. Mr. Graham dwelt largely on reforms in the income-tax which still remained to be effected, such as the question of evasion and the placing of the agricultural community on a basis of assessment in line with that of other taxpayers. On the question of expenditure he thought that an annual reduction, for three years, of £5 million upon armaments should be possible, a suggestion with which Mr. Churchill seemed to agree, and he made an important contribution on the policy which the Government had apparently adopted, of throwing increasing obligations upon the local authorities in connection with the social services. He returned to a point which he had urged on previous occasions, that of the importance of getting a better return for the money expended on these services while protecting the position of the local authorities, and considered that this could be done better by a reform of the percentage grant system than by substituting some form of block grant by the State for it. He concluded with some observations on the necessity of finding a method of criticizing and examining expenditure on the supply services.

The interest of Mr. Runciman's speech lay, first of all, in his very emphatic vindication of the return to the gold standard which he had favoured from the first, and in his observations on the cost of the strike. Mr. Churchill had estimated the "direct extra charge" to the State on this account at £750,000. Mr. Runciman attempted to arrive at some sort of estimate of what had so far been lost in industry which he thought might be put at something like £30 million. Though the indirect effects, by loss of contracts and foreign trade in the future, might be very serious, on the whole he took an optimistic view of the future. He pointed to the rapid recovery, both in trade and in finance, after the thirteen weeks' stoppage in the coal mines in 1921. The stabilization of our exchange had been of great advantage. There had been no disturbance of the American deposits in London during the strike and the amazing capacity of our invisible exports had been maintained. The good temper and good feeling which had been maintained during the terrific strain of the strike would certainly maintain the reputation upon which the status of Great Britain, in the financial world, depended. Mr. Snowden re-echoed this sentiment when he said that if we could get a spirit of goodwill we should see a great revival of British industry, for the British workman had not lost his skill. He said he had never shared the feelings of gloom and pessimism in regard to the future of British credit or trade, and ended impressively with the words "I pray that we may all have learnt the lessons of the recent upheaval; that we may get back and begin a new era and, in a spirit of co-operation, try to make the best we can both of the labour and of the capital of this country in the interests, not of one section of the community, but of the country as a whole."

Mr. Churchill was more guarded in his hopes for the future. The coal conflict and dispute, he said, still continued. Two or three weeks' stoppage was recoverable; eight or ten weeks would make a deep mark upon the livelihood of the whole people; twelve or fourteen weeks would probably mean that it would be two or three years before the country could recover. "A prolonged stoppage of the coal trade meant that a process of decay was at work on every vital economic process in this country. Our industries were not like healthy growing plants but like cut flowers in a vase." The outlook was "not only grave but grim."

For the rest a great deal of discussion on the second reading of the Finance Bill turned upon the betting tax. This proved to be the most controversial item in the budget. The Chancellor of the Exchequer, in his financial statement, told the House that he had selected this tax from his reluctance to add to the existing burdens of compulsory taxation. "Betting," he said, "is certainly a luxury and it is certainly optional." The law, in fact, as regarded betting was full of anomalies. "Credit betting," he said, "is legal everywhere. Cash betting is legal on a racecourse, but everywhere else cash betting is illegal and the police are charged with the duty of repressing it." He proposed to levy the new tax on legal betting only and leave illegal betting in its present position. The tax of 5 per cent., therefore, was to be imposed on every stake made upon a racecourse or through a credit bookmaker.

The proposal to tax betting had been in the air for some years, Mr. Lloyd George having appointed a committee to consider it, when Prime Minister, and a second committee had been set up in the preceding year, which had come to the conclusion that while it was practical, it was not desirable. It was, therefore, not a proposal of startling novelty. Mr. Baldwin, it will be remembered, spoke favourably of the suggestion in his budget speech in 1923, but it required a Minister of Mr. Churchill's boldness to bring it forward, in view of the opposition from various quarters that it was likely to excite.

Mr. Snowden, who had already indicated strong disapproval of the new tax in the first discussion on the budget, attacked it with great vigour in committee on the Finance Bill on June 9th and made the most of the opposition which it had excited in various quarters; opposition on the part of racing and betting interests, who naturally disliked taxation, and of the Churches and all those agencies which were working for the moral welfare of the people. As Captain Cazalet remarked later in the debate the Chancellor of the Exchequer seemed to have fallen between the angels on one side who disapproved of betting and devils on the other side who got their livelihood out of it. Mr. Snowden, in his speech, disclaimed the idea that the practical difficulties in the way of the tax would be insuperable. " I do not doubt," he said, " that the Chancellor of the Exchequer will get his revenue." It was the moral issue deprecated by Mr. Churchill in making his proposal which furnished the basis of Mr. Snowden's speech. He considered that the proposal would " outrage the most sacred feelings of a vast number of the people in this country," and that to tax what many people consider to be a vice would make it respectable and give it a prestige which it did not at present possess. " You are making the bookmaker," he said, " into a State servant. You are making him a tax collector."

Sir John Simon took a similar though more moderate line, and opposed the tax on the ground that it was the reversal of the view of betting which the State, as a matter of high policy, had taken for the last seventy or eighty years, from the Act of 1853 for the suppression of gaming houses until the Street Betting Act of 1906. This line was followed by many Members and no doubt represented a strong body of opinion, though in the end the bookmakers were to prove more obstructive to the success of the new tax than the " nonconformist conscience." The answer given was that all attempts to stop or check betting had been an absolute failure. Credit betting and cash betting on racecourses had not been prohibited by the gaming Acts, and illegal betting had grown up to such an extent that every city in the country was infested by bookmakers, some 50,000 in number was the estimate, supported by an army of touts and outlookers and sometimes with the police in their pay. The evil undoubtedly existed but the public did not regard betting as a crime.

Their sympathy was always with the offender and against the police in any attempt to interfere with it, and no Member of Parliament was in favour of any attempt to prohibit it. In these circumstances, was there any moral wrong in the State attempting to derive some revenue from the practice ? If taxation involved moral approval, then such approval was already given by the receipt of income-tax and super-tax from bookmakers on their profits while the telegraph and telephone services were freely at the disposal of those desiring to wager.

The analogy of the tax on drink was irresistible, although Sir John Simon, in what Mr. Churchill described as a "dialectical egg dance," disputed that analogy on the ground that if no tax already existed on alcoholic drinks the present attitude of public opinion on this question would not allow the evil of drink to be recognized by taxation. A more serious contention was that the betting tax would increase betting. This rather curious idea was drawn from the fact, quoted by Government speakers, that wherever taxes on betting existed, as they did in most English-speaking and other countries, the revenue from this tax had shown a steady increase. The answer was that although this had happened in countries where racing had only just begun, or in countries where the population and wealth were increasing, there was no reason to suppose that in this country, where betting had already reached such disastrously large proportions, a tax which would certainly diminish the fund devoted to betting could in any shape or form increase betting. The bookmakers' profit, as Major Courtauld stated, in one of the most sensible and well-informed speeches in this discussion, was not large—something like 3 per cent. of his turnover—and a tax imposed on him would certainly be passed on to his clients. This would mean that the odds would be somewhat shortened. It was highly improbable, Mr. Churchill thought, that the youth in this country would be encouraged to bet by the fact that it would cost them more and pay them less.

Mr. Churchill's estimate of the revenue from this tax was, indeed, based on the expectation that the tax would diminish the total volume of money spent in betting by something like £50 million. He had estimated the so-called legal betting at a turnover of £170 million a year. Major Courtauld thought this was an under-estimate and that the real amount was probably three or four times larger and that, therefore, the Chancellor of the Exchequer would get the revenue of £5 or £6 million which he desired by a duty less than the 5 per cent. which he had proposed and which Major Courtauld thought would defeat itself by very largely stopping betting in this country.

Some opponents of the tax considered that under the new proposal illegal street betting would be given an advantage, as not being subject to the tax and would, therefore, become more difficult to suppress, and that if betting was taxed at all, all betting—legal and illegal—should be taxed. The answer, which seemed sufficiently conclusive, to this argument was that people at present accustomed to bet on credit would not run the risk of having to appear in the police court for illegal cash betting, and, also, that owing to the manner in which the odds were calculated in this latter case there would be little advantage to backers.

On the whole, Mr. Churchill was justified in congratulating himself at the conclusion of this debate that the main structure of his arguments and proposals had emerged intact and unimpaired. Not much had been made of the moral issue, and Mr. Churchill countered the opposition of the betting fraternity by taking Major Courtauld's advice and reducing the tax from 5 per cent. to 3½ per cent. on credit betting and 2 per cent. on cash betting on racecourses. Perhaps the strongest argument in favour of the tax was the satisfactory manner in which it had been found to work in other countries, without perceptibly impairing the moral character of their populations as compared with ours. If there was anything to be said for what Mr. Lloyd George had described as "fancy" or " freak " taxes of this kind, the country was certainly not in a position to neglect a new source of revenue upon a form of luxury, and the betting tax could be proved a useful addition to our fiscal system.

The discussion on the Road Fund proposals of the budget took place on June 16th and had the same effect of stimulating speeches from Members anxious to contribute their personal feelings and experiences on the subject as had the debate on the betting tax. On previous occasions during this Session much had been made of the iniquity of encroaching upon a fund which had been created and set aside for a special purpose and the words " stealing," " larceny " and " highway robbery " had been freely used. Mr. Snowden on this occasion rather destroyed the force of such arguments by the admission that a bargain once made was not necessarily irrevocable ; and it is, of course, true that the word " bargain " in this case merely meant a declaration of the intention of the Government and Parliament about the disposal of certain items of taxation. The question, therefore, resolved itself into one of expediency. Were the circumstances such as to justify a departure from the understanding which had been acted on since 1909, with the exception of the period during the war ?

Mr. Lloyd George, as the creator of the Road Fund, was irreconcilably opposed to any diminution of it ; and Mr. Snowden was an equally vehement advocate of expenditure upon the creation and improvement of roads. He said that it might be possible to " spend usefully tens of millions, scores of millions, perhaps hundreds of millions on the roads," and he justified his contention by the arguments very familiar to all advocates of expenditure in any particular direction, but which were somewhat startling in the mouth of so determined an economist.

Mr. Churchill's answer was that which he had given as justifying his proposal in the budget speech, that the roads were better, and that more money had been spent on them in this country than in any other ; that more money was being spent this year than last year and more this year than ever before. The £21 million to be spent in the present year was more than the total estimate for the Air Force, two-fifths of that on the Navy and half the expenditure from Imperial revenue on education. It might be true, as the Financial Secretary said later, that we could spend fabulous sums upon our roads, " but we have not got the money to spend." There was much to be said for recalling the country to some sense of proportion in road-making and road expenditure and for questioning the sanctity of a fund which might easily grow to extravagant dimensions. Such arguments were listened to, if not with satisfaction, at all events with acquiescence, for an agitation which at one time appeared to be formidable had collapsed.

Many Members joined in the discussion on such points as the relief which road expenditure would give to unemployment, complaints of the allocation of the present expenditure which appeared not to have been met by the budget proposal to spend a million and a quarter on unclassified rural roads, and grievances of an administrative kind in different constituencies. These were matters which might more properly have been discussed on the vote for the salary of the Minister of Transport. As Mr. McNeill remarked, if the present proposal to divert these sums from the Road Fund to the Exchequer were dropped, it would only be a drop in the ocean compared with the demands which one member or the other had put forward. In the actual position of affairs, with the coal strike still dragging on, which was likely to embarrass seriously the finances of the year, there was little substance in the opposition to this method of adding to the revenue at the disposal of the Exchequer.

On June 7th Mr. A. V. Alexander undertook this year what had become the routine duty of moving for a reduction of the tea duty, leading of course to the usual discussion about the relative incidence of direct and indirect taxation. Mr. Churchill had little that was new to say in dealing with this question, but he refused to consider taxation like that which he was imposing on motor cars, silk and betting, as taxation on the same footing as taxes on tea, sugar, beer or tobacco. The former class of taxes, which as he said he was advancing into year after year " with a good deal of trouble and exertion but still not without substantial reward," was almost exclusively raised out of the luxuries of the richer classes and was in the nature of " optional " taxation.

Mr. Runciman stated quite bluntly what was only the fact as regards the whole controversy when he observed that " the alteration in rates and the growth of the national revenue had made the 50 to 50 or the 64 to 36 or whatever it may be, quite impossible as a guide. The only true guide was how far the section of the community which had to bear the bulk of the taxes was capable of bearing it." That, unfortunately, can only be determined by experiment which may have unforeseen results.

The Chancellor of the Exchequer was, of course, unable for revenue reasons to give relief either on tea or sugar in the present session, but he was distinctly sympathetic on the subject of tea and said that it would be a " grateful thing " if any Chancellor of the Exchequer, whatever his party, should be able to exempt Empire tea, because the overwhelming mass of the tea consumed in this country was derived from the Empire, only a proportion too small to influence the general price came from foreign sources. The phrase " free Imperial breakfast table " which he used on this occasion excited the suspicions of Mr. Benn, who saw in it a covert defence for the old policy of taxing food in order to give a preference to the Colonies.

As regards sugar, there was probably a stronger case for relief on the ground of the various complications and anomalies with which this duty was surrounded. Both Mr. Alexander and Mr. Runciman urged these points with some force. It was true that the consumption per head of sugar was larger in this country than in any other and that the price had declined ; but sugar was the raw material of a number of important exporting industries such as biscuits and jam, which gave employment to considerable numbers. These speakers enlarged upon the difficulties caused by the existence of drawbacks on the export of manufactures of which sugar formed a part, and the position created by the duty in regard to the home sugar industry. The advantage given to this industry by the difference between the excise duty and the import duty together with the beet subsidy, which Mr. Alexander described as "stupid financially and on general economic grounds," amounted to something like 22s. per hundredweight.

The stabilization of Imperial preference for ten years was the third of the debatable points mentioned by Mr. Churchill in his reply on the budget statement. It was discussed in Committee on June 7th. The Chancellor of the Exchequer had justified his proposal by the advantage to traders and producers in the Dominions of continuity in preference policy which would assist them in investing capital and running their business, and it was hoped that such a declaration would act as a deterrent to future changes. It was hotly opposed on the grounds that it was unconstitutional to attempt to tie the hands of future Parliaments and unfair to attempt to embarrass the action of any future Government, and that it was impolitic interference by one State with the internal affairs of another State of the British Commonwealth. Such arguments were not taken too seriously, as no Parliament or Government had the power even if they had the wish to limit the freedom of action of their successors. The policy of Imperial preference had been accepted by all parties; preference in the case of sugar had been stabilized in the previous session, and the Government undoubtedly hoped to make it difficult to give up without full notice a system upon which a growing imperial trade could be built up.

The debate turned largely into one on the general policy of Imperial preference, and gave fresh opportunities to Members like Mr. Benn to re-assert their free trade position.

The same may be said of the debate on the proposal to re-enact Part I. of the Safeguarding of Industries Act, 1921, relating to key industries such as optical glass, electrical apparatus, and chemicals, to the number of some 5,000 or 6,000 separate articles. It was proposed to increase the protection afforded in some cases to 50 per cent. and to stabilize the duties for ten years, although Mr. Baldwin in proposing the measure as President of the Board of Trade in 1921 had suggested that the period of five years was sufficient to enable these industries to flourish in free competition. It was now found that though some of these industries had at least been kept in being by the duty, protection was still required, and that the preservation of these key industries was equally important in peace time as in war.

Objection was taken to the fact that in re-enacting Part I., the Board of Trade had acted on the recommendation of a committee of experts appointed to advise them, and not through the usual machinery of the Safeguarding of Industries Act. There was no convincing proof that these duties had done or were likely to do what was intended and make this country independent of foreign supplies of certain articles necessary for its defence in war, and the Government proposals were certainly open to the criticisms of the free trade stalwarts like Mr. Snowden, Mr. Runciman and Mr. Lees-Smith.

The wrapping-paper duty was a good specimen of this rather futile piece of protectionist finance. The wrapping-paper industry employed something like 7,000 people who might possibly be benefited by protection against the importation of Kraft paper from Sweden and Germany, whereas there were the 300,000 or 400,000 people employed in industries to which a cheap supply of wrapping-paper was important. Sir John Marriott as Member for York, the centre of the chocolate and sweetmeat industry, made a strong case against this duty, and there was really no argument in its favour except the general argument in favour of protective duties. Whatever might be said in favour of a general tariff against imported manufactured goods, there was little to be said for what Mr. Lloyd George described as "this kind of leaping protection; this kangaroo protection, jumping here and there, making little advances here and there." This proposal certainly appeared to be an abuse of the principles of the Safeguarding of Industries Act.

On the third reading on July 21st, the indefatigable Captain Wedgwood Benn returned to the charge on the subject of protection and preference on which he drew a weighty response from Sir Robert Horne. Mr. Dalton, Mr. Pethick Lawrence and Mr. Lees-Smith, all protagonists in these discussions in Socialist economics, made interesting speeches. Mr. Dalton insisted again on the vital importance of reducing the debt charges and held that we should aim at fixing a term, even suggesting the impossibly short period of thirty years, within which the whole of the internal debt should be redeemed. He also put forward the view that the taxation of the wealthier classes was much too low, having regard both to the increase in their wealth and to the necessities of the country; and complained that the policy of the Chancellor of the Exchequer had been to give the rich a helping hand "on their road to greater riches and to give the poor a helping hand on their road to greater poverty." Mr. Pethick Lawrence set out to give the Socialist point of view on the theory of Government expenditure and on the amount which it is justifiable to levy on the community. In the course of the argument he proceeded to minimize the burden entailed on the community by the expenditure of £800 million a year. He maintained that scarcely half of this was spent on what he described as the "communal activities" of the country, the rest—£326 million for debt charge and £122 million for pensions—being merely in the nature of redistribution of income. This had been a common contention in previous debates and derived some support from the Colwyn report. Sir John Marriott replied to this argument with the question whether a charge for the most part incurred in defending the country during the late war was not "communal" expenditure of the most obvious kind.

Lord Arnold dwelt on the same point, on the second reading of the Finance Bill in the House of Lords on July 26th, and maintained that while both rich and poor receive more from the national expenditure now than they did before the war, yet the increased share going to the richer classes was the larger, because of the large payments made for War Debt interest and sinking fund. They were, in fact, getting back out of the national expenditure not far short of the total amount which they paid in direct taxation. The late Earl of Balfour, who replied for the Government, took exception to much that Lord Arnold and other Opposition speakers had said about the incidence of taxation and the crude assumption that indirect taxation was always taxation of the poor and direct taxation taxation of the rich. He held that this method of looking at taxation was a profound fallacy, and that it was impossible to state with precision the class upon which a particular impost would ultimately throw the greatest burden. He threw ridicule upon the strange application of the doctrine that as our creditors have been so often among the wealthier classes in the country the payment of debt is really a "form of boon to the rich." "I do not think," he said, "that is a form of argument which the Chancellor of the Exchequer is in the habit of using when he appeals to the people in moments of necessity, and says, 'Please lend your money to the nation, for the nation's purpose and necessities.'"

Mr. Runciman on the third reading in the House of Commons continued his calculations of the amount which the country had lost by the coal stoppage. He put this at £160 million, which, however, did not cover the whole ground, for every one of the industries included had other industries dependent upon it. He still, however, maintained his confidence in the enterprise and capacity of his countrymen, and believed that the lost ground would be made up with comparative rapidity. The injury, however, to trade and finance was so serious that Mr. Churchill considered the introduction of a second Finance Bill in the autumn and only refrained from doing so because of the difficulty of estimating the extent of that injury.

The discussion of the budget proposals had no doubt been affected by the anxieties connected with the coal stoppage which had distracted attention from them. But the proposals of this budget, the only novel feature of which was the betting tax, did not lend themselves to very lengthy discussion. The arguments against protective duties, owing to Captain Benn's pertinacity, had been repeated on every possible occasion, but the truth was, as Mr. Runciman had put it, that the Government had fallen back on the " obsolete machinery of protection in a very small, insignificant and almost contemptible form " and that no ingenuity could make out that these taxes in the total were going to do very much harm in themselves. They may have been significant of greater changes to come ; but the Prime Minister by his pledges and the Chancellor of the Exchequer by his political past were both debarred from any serious break with the free trade tradition of the country.

The real interest of the financial discussions during this session had been in their treatment of the question of economy. There had been a perfectly frank statement from Labour and Socialist leaders of their belief that expenditure on what they considered as social uplift was justifiable up to almost any amount ; that " collective " expenditure was more beneficial to the country than expenditure by individuals ; and that taxation, at all events of the richer classes, was in no way excessive. Nothing had occurred to impress upon the masses of the people that such taxation might react unfavourably on themselves. The Conservative party, while conscious of the inconvenience of high direct taxation, had made no serious effort to check the growth of expenditure, and had been little behind the Labour party in the practical application of the doctrines enunciated by Labour politicians. The old Liberal doctrine that money should be left to "fructify in the pockets of the people" had long been dead and buried. No progress therefore was made in stemming the growing tide of expenditure. The only support for economy came from the Chancellor of the Exchequer who had to find the money. The vast majority, both in the House of Commons and out of it, still remained indifferent; and the forces which were driving the country down the road of ever-increasing expenditure again proved too strong for any Government or party to resist. It looked as if the only restraining influence—the only "electric shock," to quote Mr. Hilton Young's expression—which would produce any effect would be an actual failure of those sources of the national income upon which Parliament increasingly relied to supply the insatiable demands of government, a failure which some speakers were already beginning to discern.

MR. CHURCHILL'S THIRD BUDGET, 1927-28.

April 11, 1927.

Mr. Churchill, in opening his third budget on Monday, April 11th, 1927, at once reminded the committee of his statement a year before that his estimates had then been framed on the assumption of a peaceful issue from the industrial situation, and that a prolonged paralysis of industry would involve supplementary estimates and substantial increases in both direct and indirect taxation. The disaster which he had feared had occurred, but, as we have seen, he had decided against the introduction of a second Finance Bill in the autumn mainly because it was then impossible to measure the extent of the damage which had been done to our trade and our finance.

The effects of the general strike and the seven months' stoppage in the British coalfields were now becoming only too clear. Customs and Excise had fallen short of the estimate by £9¼ million, of which about £8 million, principally on beer and spirits, was attributable to the strike or stoppage. Income-tax and super-tax losses would be felt not only in 1926 but in 1927 and to a lesser extent in 1928 and 1929. In 1926 £3¼ million had been lost through remission of tax on account of trading losses, and a loss of £4¼ million in income-tax alone was attributable to retardation of collection which, however, would be recovered in 1927. The profits of the year 1926 had been more than £150 million below the original expectation, and the resultant loss of income-tax and super-tax in the current and future years would be not less than thirty millions. For the year 1927 the loss would amount to eighteen millions, for the trade of 1926 had now to be taken as the basis without the mitigating average of three years.

Additional expenditure had been incurred in several directions; nearly £6 million extra had been paid on more and dearer Treasury Bills; the exceptional encashment of savings certificates had been £5 million, of which £3 million was attributable directly to the industrial dispute; relief of unemployment and distress amounted to £4,325,000, and an emergency vote to £400,000 (including £10,000 for the British Gazette). Summing up the effects of the general strike and the coal stoppage upon last year's budget, he said there had been a decrease of revenue of about £17½ million and an increase of expenditure of about £14½ million, or a total loss to the Exchequer of approximately £32 million attributable to the industrial trouble, which confronted us with an additional loss of £18 million in the current year, and of nearly £9 million in subsequent years. These, he said, were the direct losses and the direct effects alone; the indirect could not be computed.

The revenue though "mauled and wounded" had, however, in the main, survived last year's "shocking breakdown in our island civilization" for the basic industries most smitten by the stoppage had already been in a bad way and the non-basic industries had come to the rescue. The Exchange had "stood like a rock," the bank rate had never risen beyond 5 per cent., and the reserve of gold had even increased over last year. The consuming power of the masses "under our humane laws without parallel in any community, ancient or modern" had been little affected. The money expended in relief had enabled the people to spend about as much on tea and more on sugar and tobacco, and beer and spirits had alone reflected the results of the social and industrial struggle in which so many millions had been engaged. The trade of the country had, moreover, flowed on in a "manner scarcely conceivable." Apart from coal exports, our trade had rivalled, through many months during the coal stoppage, the corresponding months of the preceding year. The balance of exports and imports had indeed turned still further against us, but "our economic vitality and financial strength were not yet impaired, though cruelly and needlessly strained," and our fortune was "still in our own hands to make or mar."

The main feature of the revenue in 1926 had been the failure of the income-tax, for after deducting all loss due to the strike it had yielded about £12 million less than the estimate. But estate duty and super-tax between them showed an increase of £2¾ million, and sundry loans and miscellaneous revenue exceeded the estimate by £8½ million. In the result the revenue, apart from the strike, was rather more than £1¼ million below the estimate, but with the stoppage it was about £19 million below.

The expenditure of 1926 exceeded the budget estimate by £22 million, of which £15 million was due to increased debt interest; the revenue and expenditure of the year, taken together on the basis of a sinking fund of £60 million, showed, instead of a surplus of £4 million, a deficit of £36½ million, which Mr. Churchill took to represent roughly the "cumulative short-fall" during the whole Parliament from the statutory sinking fund of £50 million.

Mr. Churchill framed his estimate of expenditure for the current year, 1927-28, on a conservative basis at a total of £818,390,000—more by £28 million than the corresponding estimates in Mr. Snowden's budget of 1924. In an ingenious disquisition on the subject of the national expenditure Mr. Churchill sought to minimize the significance of these figures, pointing out how the whole increase could be accounted for by the automatic working out of the decisions of previous Parliaments and Governments and by the effects of economic causes. They had themselves added new expenditure, mainly on widows' pensions and improved old age pensions and the sugar subsidy, amounting to £17 million, against which they had made economies of £13¼ million, and reduced the payments to the Road Fund by £4 million, thus almost exactly balancing the increased charge. An interesting point made by Mr. Churchill in referring to the cost of the national administrative services—the services comprising the whole controllable expenditure of the central Government, Imperial defence, civil service, etc.,—was that, making allowance for the changed value of money, this expenditure was actually lower by nearly ten per cent. than in 1914. He protested again that a cut of forty or fifty millions in the expenditure was impossible without a financial dictatorship inconsistent with the whole system of constitutional Cabinet Government, that the position was no longer similar to that which prevailed at the time of the Geddes committee or even a year ago at the time of the Economy Bill, since which the whole field had been "gleaned and re-gleaned"; but he held out a hope that after 1928 the automatic increase of expenditure (apart from self-supporting and remunerative expenditure) would cease, and an automatic decrease take its place. Nothing was more expensive than general elections, as "every new administration, not excluding ourselves, arrives in power with bright and benevolent ideas of using public money to do good." Mr. Churchill, however, hoped that we had now ploughed our way through the consequences of these changes of Government, and urged that it was the moment to make new efforts at economy in spite of previous ill success. Following the suggestion, therefore, made by Lord Oxford in the other House that the new departments created since the war should now be abolished, he announced that arrangements would be made during the year to abolish the Ministry of Transport as a separate department, to distribute the functions of the Mines Department and to terminate the separate existence of the Overseas Trade Department. Not even these proposals were destined to be maintained in the face of the criticism which arose of their economic insignificance.

The estimate of the revenue of 1927-28 came to £796,850,000, leaving a prospective deficit of £21,540,000 without allowing for the replacement of the sinking fund short-falls. The current year was expected to prove a little better than 1926 would have been if there had been no dispute, but there were one or two disappointing items. The spirits duty estimate was substantially less by £1,700,000 than that of the year before, which had itself not been realized by £4¾ million; and income-tax, in view of last year's over-estimate and the loss from the coal dispute, was put at nearly £23 million less than the previous year in spite of the £4¼ million arrears carried over. The only bright spot was the receipt from motor licence duties which were advancing by leaps and bounds.

The Chancellor noted that since he had taken on the Treasury there had been added to current annual revenue a total of £73 million made up as follows:

Luxury, McKenna and Safeguarding duties	£16,000,000
Road Fund and Post Office	18,000,000
Reparations	13,000,000
Super-tax (apart from remissions)	11,000,000
Increases in other sources of revenue	15,000,000

Most of the increase had been off-set by remissions granted by himself and his predecessor, and by the fall in revenue from sales of war stores. " But for the coal trouble these remissions would have been fully justified and the revenue would have expanded to meet all needs."

The amount available in the preceding year for paying off debt had been only £23½ million instead of the £60 million, which had been exceptionally intended for 1926, and if the Chancellor of the Exchequer had been willing to " let the dead bury their dead " by a partial suspension of the £50 million sinking fund, he would have had a deficit of £21½ million only to deal with on this occasion. He was faced with the dilemma of imposing taxation which might have the effect of checking the revival of trade and employment, or of deferring the repayment of debt which might damage the financial prestige of the country and tend to mar the opportunity of the conversion operations which would be open in the near future. Mr. Churchill stated that in these circumstances he had never considered the possibility of a raid upon the sinking fund, and he even conceived himself bound to pay off in the present year, 1927, at least a substantial part of the inroad upon the sinking fund which had been made by the coal troubles of 1925 and 1926. It was therefore not merely with a deficit of £21½ million that he had to deal but with something very much larger, something between £35 million and £40 million.

Before indicating the methods by which he proposed to scale the " formidable precipice " of the deficit, the Chancellor of the Exchequer developed plans for the simplification of the income-tax which included the transfer of the Schedule E assessment to the basis of the preceding year, and the assignment of the super-tax (till then charged on the same basis as income-tax of the previous year) to the year prior to that in which it is paid, thus making it really an additional graduation in the higher range of income, and merging (See Table X) income-tax and super-tax in one graduated scale instead of leaving it as an additional income-tax for the previous year. Finally there was to be a single assessment return to serve as far as possible for all purposes based on the taxpayer's total income for the preceding year. A promise was given of the codification of income-tax law, and proposals were to be made to strengthen the law against avoidance, through the medium of one-man companies and otherwise, of super-tax, income-tax, and estate duties, while additional revenue was to be obtained from minor Inland Revenue changes. But as far as rates were concerned, Mr. Churchill set his face against any increase of the burden of direct taxation, and as regards indirect taxation he confined his attention to " duties which would not affect the basic comforts of the masses of the people."

A new duty was to be imposed, under the Safeguarding of Industry procedure, on translucent pottery which would yield £150,000 in the current year, and a further £700,000 was to be obtained by imposing a 33⅓ *ad valorem* duty on imported motor tyres which had hitherto been exempted from the McKenna duties. The duties on matches were to be revised on a plan submitted by the British match industry which, while producing an increased revenue of £700,000 in a full year, would be " more satisfactory to them in relation to foreign competition than the existing scheme."

The duty on tobacco, the consumption of which had been surprisingly unaffected by the depression, was to be increased by 8d. a lb. Mr. Churchill said that he had no reason to believe the whole increase would be passed on to the consumer, a statement greeted with cries of " Rubbish " from the Opposition benches.

Wine was another commodity naturally attracting the attention of an embarrassed Chancellor, for consumption, in spite of the doubling of the duty in 1920, was about 50 per cent. above the level of 1914 and 1921. In the existing scale of duties, there was a dividing line at 30 degrees of proof spirit, intended to differentiate between the stronger wines artificially fortified with spirit and the wines containing no spirit other than that produced by the natural process of fermentation, but it was generally agreed that the dividing line was so high that fortified wines in large quantities came in at the lower rates. In these circumstances and in view of the existing need for revenue, Mr. Churchill decided to lower the dividing line for foreign wines to 25 degrees, but to favour Empire wines by fixing their limit at 27 degrees, because, he said, "Empire dry wines appear to develop naturally a higher alcoholic content than foreign wines." In addition to lowering the dividing line, which would make a much larger proportion of imported wine subject to the higher rate of duty, Mr. Churchill proposed to increase the basic rates of duty, so that in all £1¼ million additional duty was to be obtained in the current year from imported wine.

It was also proposed to obtain a further £80,000 from a new Excise duty on British wines. The high duties on wines and other alcoholic liquors had helped artificially to stimulate the consumption of the wines manufactured or finished in this country, which had hitherto been free from taxation, and to avoid this loss of duty, an Excise duty of one shilling per gallon was to be imposed.

These various increases of ordinary indirect taxation, in a full year producing £6½ million, were expected in the current year to yield £5,880,000, thus leaving £30 million still to be found. To cover this Mr. Churchill resorted once again and for the last time, he warned the House, to the field of windfalls or "once for all receipts" which he justified on the plea that the present emergency was temporary and might properly be met by temporary expedients. Firstly the Road Fund reserve, amounting to £12 million, was to be pooled with, and transferred to, the general funds of the State; and the Exchequer would thenceforward assume the responsibility of financing the expenditure of the road department. The income of the fund was increasing by about £3 million a year, and there was no doubt that this growing income from motor licence duties would amply suffice to carry out all necessary undertakings, and in addition provide an ever-expanding total for general purposes. Next, the period of credit allowed to brewers which had been reduced last year from three months to two months, providing £5,200,000 for the Exchequer, was to be now reduced from two months to one, which would yield another £5 million. Lastly, the practice of payment by the tenant of the Schedule A tax (the landlord's property tax) in a single instalment on January 1st in each year—which had prevailed until 1918 when income-tax was raised above 5s. in the £ and one quarter's rent was no longer sufficient to meet it—was to be restored, and the concession by which it had since that date been paid in two instalments (in January and July) would disappear, thus bringing another instalment of the tax, amounting to £14,800,000, into the finance of the present year. The Exchequer would receive in the following January the instalment which would not have fallen due, had the law remained unchanged, until July 1st in the next financial year. This operation resembled the action taken in respect of the brewers' credit, but the Chancellor contended that it would not damnify the taxpayer except in so far as the latter would lose the interest on his tax for six months.

On the whole the budget proposals were estimated to produce increased revenue amounting to nearly £38 million, and to convert a prospective deficit of £21½ million into a prospective surplus of £16,400,000, which enabled the new sinking fund to be revised to the unprecedented level of £65 million, and thus made it possible to " pay off nearly half the arrears into which we had fallen through the disasters of 1926." The budget was balanced with a revenue of £834,830,000 and an expenditure (including £65 million sinking fund) of £833,390,000, giving a final prospective surplus of £1,440,000.

Mr. Churchill concluded his speech, subsequently described as "Two and a half hours of extraordinarily brilliant entertainment," with a warning that he was at the end of his " adventitious resources," that unless expenditure could be reduced as revenue grew there was no chance of a reduction of taxation, and rather than reduce the sinking fund he would unhesitatingly resort to an increase of the staple forms of revenue if expenditure, apart from self-supporting expenditure, should grow.

The subsequent debate on budget night presented few features of interest, with the exception of a forcible speech by Mr. Oswald Mosley on the return to the gold standard, to which he attributed the coal strike and all our subsequent troubles. Deflation had meant an enormous transfer of purchasing power from the producer to the "idle and useless portion of the community," the *rentier* class. For the rest the House appeared rather nonplussed, when not relieved, by the ingenuity with which the Chancellor of the Exchequer had extricated himself from a very tight place, and even Mr. Snowden was reduced to not perhaps wholly ironical compliments on his "courage and audacity," and his "gift for seeing a swan in every goose and a silver lining to the blackest cloud."

The recent publication of the report of the Colwyn committee gave fresh material for the general discussion of the incidence of taxation on the richer and poorer classes respectively which arose on the annual motions for the reduction of the tea duty. Mr. Gillett for instance referred to the tables published in the report showing that a taxpayer with wife and three children under sixteen and an earned income of £100 per annum paid 11·9 per cent. in taxation; one with £150, 11·6 per cent.; one with £200, 10·2 per cent.; and one with £500 only 6·2 per cent. It was true that the significance of these figures was greatly diminished by the fact that they included the taxation of alcohol and tobacco and would not apply to a teetotaller and non-smoker. But it was argued that the 11s. per annum calculated to be the cost of the tea duty on the lowest range of income constituted a burden which should not be allowed to continue; and Mr. Snowden again repeated his intention of removing both the tea and sugar duties at the earliest opportunity. Nothing, or next to nothing, was now heard of the argument that it was unsafe to remove all taxation from large classes of the population having great political power, but Mr. Churchill, in his reply, while admitting that the "attempt to analyse the burden between rich and poor in terms of direct and indirect taxation had become more and more unreal and illusory," contended that over the last twenty years the burden had been increasingly and enormously shifted, apart from the war pressure, off the "basic comforts upon which the household economy depends," and stood to-day at a figure within 0·3 per cent. of the lowest figure ever achieved. He subsequently pointed out that the duty upon tea was actually lower than it was before the war "after eight years of enlightened Liberal and Radical administration," and that the consumption of tea, sugar, tobacco, and also of bread and meat, had not been seriously affected by the industrial troubles of last year and compared favourably with that of every other European nation. But his final and conclusive reason against abolishing the tea duty was the impossibility in present circumstances of sacrificing over £5 million of revenue.

On the resolution for the inclusion of motor tyres in the McKenna duty on motor cars, Major Crawford, Mr. Lees-Smith and other speakers raised a discussion covering the whole free trade issue. Mr. McNeill refused to follow them on this ground and declared, as Mr. Churchill had done, that tyres had been omitted from the original scheme of the duties in 1915 for political reasons in connection with the blockade which had made necessary a friendly arrangement with the tyre producers of the United States. The duty having last year been applied to commercial vehicles, it had now become possible to complete the scheme by removing the exemption of tyres, and in the eyes of the Government the fact that it would produce £700,000 of revenue was an unanswerable argument in favour of the proposal.

The debate was renewed on the committee stage of the Finance Bill and led to a passage of arms between the

Chancellor of the Exchequer and Mr. Snowden. The former protested that there was no protective intention behind the imposition of the duty. It was a revenue duty and, to a very considerable extent, a luxury duty, and he contested the assertion that it would necessarily lead to a rise of prices. He referred to the depressing effect upon the industry of the declared intention of Mr. Snowden to sweep away the McKenna duties at the earliest opportunity, and appealed to him to remove the uncertainty which hung over the industry and not to commit himself to their repeal regardless of the success or failure of the duties from the revenue, as well as other points of view. As might have been expected, Mr. Snowden's reply was uncompromising, and he imputed to Mr. Churchill a deliberate intention to place difficulties in the way of a future Labour Government which would have to " spend perhaps one or two sessions in undoing the mischief which the Government had done," and he repeated his intention to repeal these and other protective duties at the first practical opportunity.

On the resolution respecting the wine duties the Chancellor of the Exchequer gave further details of the proposed changes which secured the general assent of the committee. It was, he maintained, unfair to tax other articles of alcoholic consumption and to omit from taxation the rapidly increasing production in this country of wines (technically termed " sweets ") which occasionally achieved a strength of nearly 30 per cent. of proof spirit. With the new Excise duty, there would be three stages of differentiation, the heaviest duties falling on foreign imports, a much reduced duty on Dominion productions and the lightest on domestic production. With the exception of some complaint of the comparatively heavy increase of taxation on so-called " Tarragona Port," an article of popular consumption, these proposals appeared acceptable to the committee.

A very full debate occurred on the resolution for the proposed addition to the tobacco duty, much the most important of these increased duties from the revenue point of view. This was in line with our system of indirect taxation which has in recent years been based largely on the almost penal taxation of popular luxuries—apparently not falling within the definition of "basic comforts." The produce of this duty had been increased from £18 million at which it stood in 1913 to £53 million. In spite of a heavily increased duty the consumption of tobacco was more than one-third greater than in 1913, partly owing to the growth of smoking among women. The proposal now was to raise the main rate on imported unmanufactured tobacco by 8d. in the lb., from 8s. 2d. to 8s. 10d., and the rates on other kinds of tobacco proportionately, which should produce an additional £3,100,000 in 1927 and £3,400,000 in a full year. Mr. Dalton in opposing the resolution reminded the committee that before the war the main duty stood at 3s. 8d., that the Colwyn committee had calculated that the duty per head of the population including children and other non-smokers was about 24s. per annum, and that the duty borne by the normal consumer with an income of £150 to £200 ranged between £3. 10s. and £5, which was equivalent to an income-tax of 6d. in the £ on such incomes. The duty shared the unavoidable defect of other indirect imposts in that it fell most heavily on the smaller incomes.

The Financial Secretary, Mr. McNeill, had no easy task in defending the increased duty. In reply to the assertion that the great tobacco combines should have been required to bear the taxation instead of the consumer, he pointed out quite justly that their "fabulous" profits were the subject of direct taxation, and further supplemented Mr. Churchill's observation in his budget speech that "he had no reason to believe that the whole of the duty would be passed on to the consumer" by quoting published statements from the Imperial Tobacco Co., Carreras and other great companies, that no alteration would be made in the price or quality of cigarettes, which accounted, according to Mr. McNeill, for between 70 and 80 per cent. of the whole tobacco consumption. The Government had no doubt relied largely on such statements and on the competition between tobacco companies to prevent a rise of price, but it was asserted on the other side that the companies would certainly find means to pass on the increase of tax to the consumer; and Mr. Snowden, who was vehemently opposed to the proposal, gave ocular demonstration of this to the House by producing two cigarettes, one of which had been reduced in length by an eighth of an inch. Whatever was the case as regarded cigarettes it was not denied that the price of pipe tobacco, the remaining 20 per cent. or so of the consumption, would be increased, particularly in the less expensive sorts, and Mr. Snowden, calculating—wrongly—that something like seventeen-twentieths of the tobacco price was duty, quoted against the Government the case of agricultural labourers with 30s. or 32s. a week being charged an extra ½d. per ounce on "what is practically the only comfort these working men have." The point was also of course made that the price of Havana cigars would not be raised.

On the alteration in the match duty, from which Mr. Churchill hoped for an additional £600,000, Mr. Gillett, Mr. Lees-Smith and Mr. E. Brown asked for information as to how far it was protective in character, and objected to it on the ground that it was an additional burden on the consumer—and the consumer of the poorest class. Many seemed surprised to hear that since it had been introduced by Mr. McKenna in 1916 more than £30 million had been raised by this tax with hardly any public notice or discussion, and that it would, with the proposed alteration, produce over £4 million next year. Major Hills gave a clear explanation of the changes which, he said, were in no sense protective because the countervailing excise duty was only 2d. below the customs duty; the new rates were designed to protect the public against being sold boxes containing thirty-five or forty matches instead of the fifty which they were supposed to contain. He asserted that the increased duty would fall only to a very limited extent on the public or the consumer but would be divided between the manufacturers, the wholesalers and the retailers, and Mr. McNeill confirmed this, arguing that competition which was keen at the various stages would prevent the tax falling to any considerable extent on the ultimate consumer.

The third day of the debate on the resolutions was taken up by two subjects—the duty to be levied on articles of translucent or vitrified pottery and the Road Fund. On the first of these the Government appeared to have laid themselves open to damaging attacks led by Sir John Simon, Mr. Harris and Mr. Pethick Lawrence. The inquiry had been set up under the procedure of the Safeguarding of Industries Act no doubt because of unemployment in the Staffordshire pottery area where it was stated that the men were only working two or three days a week. The avowed object was to give protection to the bone china industry, employing about 8,000 people, whose seat was at Longton and whose products were expensive and of a high class character. The duty however would affect the cheap felspar china imported from abroad which was not in competition with " bone china " but with the earthenware industry, a larger and more important Staffordshire industry which had not asked for protection. The opponents of the duty complained that the committee of three, two men and one lady, whose report was carried by a majority of one, had not acted in a judicial spirit; that there was no evidence of any serious increase in the importation of foreign china; nor of wages conditions in Czecho-Slovakia being so inferior as to make competition unfair. Sir John Simon contended that the conclusions of the majority report were not supported by the material produced at the inquiry and ought never to have been passed by the Board of Trade or the Treasury; and Mr. Churchill's brief and disdainful reference to the new duty in his budget speech, and his absence from the discussion of it in the resolution debate and in Committee on the Finance Bill were greeted as evidence of his personal opinion of the matter. The committee had, it was stated, gone beyond their reference in proposing a tax on vitrified china as well as translucent pottery ; and they had recommended instead of the usual *ad valorem* duty of 33⅓ per cent. a new form of tax in the shape of a specific duty of 28s. per cwt. which would amount, at all events in the case of the rough ware used by the working classes, to something like a 70 per cent., or even 100 per cent., duty. The President of the Board of Trade showed annoyance and discomfort in his reply, but did little to answer the criticisms which had been made. The effect of this further petty application of the Safeguarding procedure—a revenue of £150,000 only was involved—was to throw some discredit on the method to which the Government had confined themselves of introducing protective measures piecemeal.

The proposal to revert to the practice of the payment of the Schedule A tax (the landlord's property tax) in a single instalment, although, as Commander Williams remarked, it was the backbone of the budget, led only to a somewhat perfunctory discussion, and Mr. Snowden, who was himself to resort to a similar expedient on a subsequent occasion, observed that he had no objection on principle to the annual payment of the tax but that the fact of the income-tax being so high made a difference to the question, and he, like some other speakers, considered that the proposal might lead to hardship in the case of the poorer taxpayers.

On the question of the Road Fund, Mr. Snowden reappeared in his now familiar role of an advocate of increased expenditure upon roads by the State. Mr. Macpherson quoted the description of the two Conservative raids on the Road Fund as "sheer confiscation," "petty larceny" or "highway robbery," and repeated the arguments, for which there was some justification, against the diversion to general revenue of any part of the very large annual contributions from motor vehicle owners intended for the specific purpose of developing the roads of this country. Mr. Churchill, in offering a few general remarks in anticipation of further discussion of the subject, refused to admit that the motorist had any right to prescribe conditions as to the method of disposition of funds raised by compulsory taxation, and asserted that last year he had " smashed " all the arguments about the pledge of his predecessors as to the spending of these funds. The strongest parts of his speech, as last year, consisted in the demonstration that there was no country in the world which had better roads than ours or spent so much and so large a proportion of its revenue on them, and in his plea that we must consider our expenditure on roads in relation to other expenditure, and also in relation to the position of the railways. To take £12 million from the Road Fund reserve which, if found elsewhere, would be equal to 3d. on the income-tax, would not in any way hamper development; and there would be available for the finance of the roads in each year of the present Parliament a larger sum than was available in the present year which itself far exceeded the sum provided in any other past year.

The second reading debate on May 19th was somewhat discursive and raised questions which had become familiar from repetition but which had been given some fresh life by the recent publication of the report of the Colwyn committee, questions such as those connected with direct and indirect taxation and the manner in which industry and employment were affected by high direct taxation and by local rates respectively. Mr. McNeill opened by referring to these controversies as having been worn threadbare; he was prepared for renewed condemnation of the McKenna duties and criticisms of the transfer of the Road Fund surplus as robbery, larceny and the violation of pledges; but he showed how little importance he attached to these matters by devoting the bulk of his speech to a technical explanation of the clauses dealing with an amendment of the law in regard to the manufacture of spirits, and those designed to simplify the income-and super-taxes, and to stop up certain loopholes in the legal avoidance of taxation.

Mr. Lees-Smith brought the discussion back to the broader issues which Mr. McNeill had put aside. He made great play with the report of the Colwyn committee, and accused the Chancellor of the Exchequer of treating it as a joke. The budget should have assisted depressed industries by reducing rates and standing charges, it should increase the sinking fund to the £75 million recommended by the committee, and it should provide the financial margin which was essential for the social expenditure necessary to raise the people's standard of civilization and of life. With the latter object in view he insisted that the difference between earned and unearned income should be marked, not by a " mere differentiation," but by a special difference in taxation, and advocated the proposal put forward by the minority report of the Colwyn committee, as an alternative to the capital levy, of a special graduated tax on all unearned incomes of over £500 per annum, which was estimated to give a yield of about £85 million.

Economy was the theme of several weighty homilies ; the absence of a Gladstone or a " Black Michael " powerful enough to exercise effective control over expenditure was lamented by more than one speaker, but no very original or practical suggestion emerged. Mr. Grenfell, a Member for the City of London, contributed an important pronouncement on orthodox lines on the vital necessity of maintaining and increasing the sinking fund and of enabling the Government to get back to the pre-war position when a Chancellor of the Exchequer could call the tune as regards debt, and not be completely at the mercy of the lenders—a pronouncement which earned the praise of Members differing as much as Mr. Pethick Lawrence and Sir Philip Pilditch. The first named of these deplored the introduction of " pettifogging taxation " (like the new pottery duty), and the " complexification " of the Customs regulations of this country, and Mr. Wheatley made a characteristically interesting discourse on the need to "organize the trade of the country." This was to be done by increasing the purchasing power of the people—the governing factor in trade. Industry was to be relieved of the burden of local rates and of all taxation now imposed on the daily lives of the people. The taxes on tea and sugar and the "piffling and pilfering things that are done in this Finance Bill" were to be swept away. The "surplus national income" was amply sufficient to take their place, but Mr. Wheatley went further than most of his Labour and Socialist colleagues were prepared to do when he told the House, logically enough, that they could not raise the standard of living in this country and control prices under a system of free competition, and that they would have to prohibit, not merely restrict by import duties, the importation of undesirable goods or goods likely to interfere with the conditions at home.

Mr. Churchill's reply to all this was that he had never known a more favourable consensus of opinion in favour of the Government's proposals in any budget. Beyond a warning in answer to Mr. Lees-Smith that there are limits to the discrimination in favour of earned income, and that in the interest of capital accumulation "you simply cannot proceed on the basis that all earned income should be cherished . . . and all invested income, which is the fruit of savings, should be, in some way or other, stigmatized", he did not enter on any discussion of Socialist theory. The growth of expenditure was a more immediate issue—and on this he repeated the analysis by which he accounted for the increase which had taken place since 1924, showing that of the £54 million increase, the sinking fund, the Road Fund and the Post Office accounted for £34 million. For his treatment of Schedule A of the income-tax Mr. Churchill quoted the precedents of Mr. Gladstone in 1860 and Mr. Lowe in 1869 which he described as "anticipatory plagiarism." And he ended by claiming that a budget which raised £30 or £40 million of revenue from the taxation of motor cars, from brewers' profits, and from the landlords' tax, could not be stigmatized by the abusive term of a class budget. But he did not claim that the budget had been more than an attempt to turn a difficult corner by the help of expedients for which there were most respectable precedents.

The committee stage of the Finance Bill began on June 28th, when most of the topics above discussed came in for further review. Mr. Pethick Lawrence spoke on the preference aspect of the wine duties, his general line being "We do not like this matter of bargaining between blood relations." Mr. Churchill insisted that the concession given on these wine duties had been gratefully received in Australia and had encouraged the consumption of Australian wines in this country, and Mr. William Graham, disclaiming any intention of pressing Mr. Pethick Lawrence's amendment to a division, said he was inclined to favour preference as against tariffs because preference involved a reduction of duties on certain classes of articles —a statement neither necessarily nor universally true. On the tobacco duty Mr. Stephen Mitchell, an acknowledged expert on the question, contributed a very informative speech in the course of which he corrected mistakes which had been made on both sides on the question of added moisture and other points. He fully confirmed the statement which had been made, and contested by Mr. Snowden, that there would be no alteration in the size, quality or price of cigarettes, about 75 per cent. of the total tobacco consumption. He calculated that on the popular brands of cigarettes sold at ten for 6d. the amount of duty was nearly 3d. per packet, and the action of the manufacturers, whether due to patriotism or to competition, would indubitably cost the trade some millions a year. He deplored the unavoidable fact that on the remaining 25 per cent. of tobacco consumption, the pipesmoker would have to bear the increased duty, and declaring that heavy taxation had greatly retarded the consumption of expensive cigars as well as of whiskey and expensive wines, he hinted that it would not be difficult by further taxation to exhaust the vitality of tobacco as a revenue-producing agent.

The pottery duty gave occasion for another full free trade discussion in which Mr. Snowden again took a leading part ; and the methods and findings of the committee of three which had recommended it were severely criticized without, however, affecting the action of the Chancellor of the Exchequer, who took no part in the debate. On the same day Sir Edward Iliffe raised the question of the co-operative societies and the income-tax on an amendment to substitute 3s. 6d. for 4s. as the rate of income-tax. Lord Hartington animadverted on the injustice inflicted on the taxpayer by the unintelligibility of the enactments with regard to the collection of income-tax, and pleaded that in cases where the Crown appealed from the decision of the special or general commissioners the Crown should bear the costs of both parties. Mr. Churchill replied that he was setting up an expert committee to endeavour to consolidate income-tax law, and simplify its terms, but declined to consider the question of allowing costs in the cases submitted by Lord Hartington, denying that it was the practice of the Inland Revenue to wear down appellants by carrying cases from court to court. As regards co-operative societies, he gave the official view that, under the present system, these societies paid within £100,000 of what the strict working of the ordinary law would exact from any other similar trading body, and that to obtain this small sum it would be necessary to overturn the long established system by which trade discounts were exempt from income-tax. It was evident that no Government would be willing to antagonize a very large body of working-class citizens for a comparatively small result.

On Monday, July 4th, a long debate took place on the Government proposals to strengthen Section 21 of the Finance Act of 1922 dealing with the avoidance of super-tax through the medium of one-man companies. Mr. Churchill intervened early with a full explanation of the new clauses which had excited a good deal of apprehension amongst those concerned. Fears had been aroused that the inquisitional powers of the Inland Revenue were to be increased, and power given to them to interfere with the internal management of every company, and thus strike at the foundations by which the reserves of companies are built up just when the growth of reserves ought to be encouraged, and enterprise and initiative fostered. Mr. Churchill set himself to remove such misconceptions. He showed that the new clause of the present Bill only extended the range of the powers given in 1922 to a somewhat larger number of companies, at the same time affording certain safeguards which were not present in the legislation of 1922. About one half of the existing private companies, which numbered about 80,000, had been brought within the scope of the earlier legislation and the new clause would bring in about 35,000 of the remainder.

Instances were given of cases in which the controlling shareholder of one of these companies drew out of the profits large sums by way of loan, and thus escaped the super-tax which he would have incurred if he had taken his profits in dividends. Action such as this was becoming more common, and the discussions in Parliament and in the press which had taken place would certainly increase the knowledge that a safe and easy method of avoiding super-tax existed. Legislation was therefore imperative. But the figure quoted of the number of cases in which action had been taken under the Act of 1922 showed how baseless was the fear that the ordinary course of business would in any way be interfered with. Ninety per cent. of British business, and eighty-five per cent. by volume of company business was absolutely outside the scope of the clause, subject to the amendments he had put down.

These considerations did not remove the objections felt by the representatives of business interests in the House, and most of Mr. Churchill's support came from political opponents like Mr. Graham, Mr Pethick Lawrence and Mr. Gillett. Sir Robert Horne and Sir E. Hilton Young, who were responsible for the original legislation of 1922, expressed doubts as to the method they had originally adopted of stopping evasion—based as it was on the assumption that somehow or other the placing of money to reserve was wrong and should be watched. It was by the use made of the reserve afterwards that the evil should be tackled. Mr. Runciman, speaking as a shipowner, insisted very strongly on the danger of any legislation which would hamper the placing of surplus revenue to reserve. Sir E. Hilton Young thought it a weak point in an income-tax system that all funds of a company put to reserve beyond what is necessary for deterioration and maintenance of the business are subject to tax, and deprecated placing a fresh burden on such funds by subjecting them to super-tax.

The Attorney-General succeeded in showing that such fears as had been expressed were exaggerated, and the Chancellor of the Exchequer, who had a difficult task in steering a course, in face of these objections, which would not weaken his power of dealing with "a dangerous and growing abuse which as it developed could not fail to be seriously injurious to the revenue and grossly unfair to the general taxpayer," succeeded in carrying his clauses with various amendments to safeguard the taxpayer against gross ill treatment. He observed also that, as a general financial resolution covering the income-tax and super-tax would have to be passed next year, Parliament would retain control of this legislation till then, and he would be ready to consider any better way of achieving the purpose of the Government which business men or Members of the House might be able to devise.

The following day was occupied by a discussion on the Road Fund and the betting tax. The Road Fund discussion was signalized by the usual complaints of the increase of local rates caused by expenditure on roads and the usual demands for further assistance from the Road Fund. More should be done, said Colonel Gretton, "to maintain the roads we have and less money spent on extravagant schemes for the creation of new roads." More should be given from the fund for second class and unclassified roads. Mr. Lloyd George gave a general disquisition on the importance of roadways, and both he and Mr. Snowden harped again on the iniquity of diverting money from the Road Fund to general purposes. The former described the Chancellor's proposal as "anti-social and anti-economic" and the latter spoke of it as "discreditable and reprehensible." Mr. Churchill made an effective defence of his action and explained that he had adopted this and other expedients as the only alternative to increasing direct taxation. To put up the standard rates of income-tax to meet a temporary difficulty would be a "serious step in view of the immense and utterly disproportionate additions which were made during the war to our direct taxation." As regards expenditure on the roads, he gave an account, which he thought fair-minded people would accept, of what the Government had done to assist the development of rural roads. Members of the House seemed to lose all sense of proportion in discussing the question of the roads. There was never a suggestion that if the local rates could not afford the expense an attempt might be made to do without improvements till better times came.

Mr. Snowden then moved the repeal of the betting duty on the ground that it had failed as a fiscal instrument, though neither he nor others who spoke receded from the non-financial objections they had raised to it in the previous year. It had so far in seven months realized £1,300,000 and it was alleged that there had been evasion on a large scale on the part of the bookmakers. Mr. Churchill admitted that the tax was not going to produce the estimated six millions in its first year, it would only realize between three and four millions, but even that amount was a welcome contribution to the revenue, and steps could be taken later on to revise the rates if that should prove necessary. The tax had not injured the sport of racing, and it had certainly not, to judge from certain advertisements which he quoted, ruined the bookmakers.

The sugar duty came up for consideration on July 7th and Mr. Dalton based a motion for its repeal on the Colwyn committee which considered that the sugar duty was relatively high, and recommended that if any relief of taxation were found possible in the next few years this duty should be the first to be reduced. Consumption which had substantially increased since Mr. Snowden had halved the duty in 1922 was still only fractionally above what it had been in 1913 : and the burden which had been 6s. per annum on an average family of five persons in that year was now somewhere in the neighbourhood of £2 5s. per annum.

A stronger argument was that sugar (in contradistinction to tea), besides being a necessity of life was an ingredient and raw material in a great number of manufactures such as jam and chocolate. Mr. Hannen, Sir Godfrey Collins and Mr. A. V. Alexander insisted on the serious position of the sugar refining industry which they attributed to the preference given to sugar from the Dominions, not now confined to raw sugar, and to the policy of subsidizing the beet industry. Thus other forms of sugar production and refining were being subsidized as the result of the Government's policy which had contributed to the financial ruin of the old-established refining industry in this country. Mr. Hannen's remedy was to reduce the duty on sugar refined in the United Kingdom—others pressed more convincingly for the abolition of the sugar bounty which now amounted to £4 million and which was enriching the companies engaged in the beet industry so that they were completely recouping themselves to the extent of their share capital plus the profits distributed. The Government's reply to the argument for the repeal of the sugar duty was the simple one that the Exchequer could not sacrifice £19 million per annum. Gas mantles and wrapping paper were other questions considered, and Mr. Macquisten moved to reduce the duty on whiskey from £3 12s. 6d. to 30s. in a forcible and amusing speech which merely caused Mr. McNeill to remark that if he had to choose between losing £18 million on sugar or whiskey, he would a great deal rather do away with the sugar duty.

The committee stage of the Bill ended with a spirited but unsuccessful attempt by Major Hills and Commander Kenworthy to interest the House in the eugenic aspect of heavy direct taxation on the middle classes. They moved to increase the allowanc for the education of children, given by the Finance Act of 1920, to allow the father to deduct from his income-tax return the cost of his wife's confinement, and finally to double the allowance granted in 1920 in respect of children. With the tax at 4s. in the pound, that allowance had lost one-third of its value. These attempts were received unsympathetically and somewhat unintelligently on this occasion by the Financial Secretary, who denied that it was a function of taxation to encourage family building, and there seemed to be little appreciation of the social danger arising from the differential birth rate. But they were to have some partial success in the following session.

The Finance Bill as amended was debated on July 18th and 19th, and among the many topics discussed, Mr. Lees-Smith moved to increase the relief to earned income from one-sixth (to which it had been increased from one-tenth in 1925) to one-fifth. This would have cost £3,100,000 per annum, and had been rejected on two or three previous occasions. Mr. Gillett raised the question of the duty on lace. Captain Brown moved to reduce the stamp duty on cheques from 2d. to 1d., and Colonel Day to reduce the entertainments duty further, to which Mr. Churchill replied that though he had never liked the duty he could not afford the concession. Sir F. Meyer moved that holders of off-licences should be allowed to sell a reputed pint of spirits as a minimum, but Mr. Churchill refused on the ground that it would be unfair to holders of on-licences.

The third reading on July 22nd was redeemed from being, in Mr. McNeill's phrase, a " feast of stale cakes and flat ale " by some speeches dealing with the larger interests raised by the Finance Bill. Mr. Gillett, in opening the discussion, thought that the only principle which appeared in Mr. Churchill's speeches was the belief that the " great thing to do was to reduce the income-tax." He discoursed on the effects of deflation, on undue consideration for the *rentier* class, and asserted that " Tory " finance showed no consideration for the manufacturers or the working people.

Sir Frederick Wise and Sir John Marriott contributed able disquisitions on economy, the sinking fund and other matters, and Mr. H. Williams made an interesting comment on much deflation talk when he declared that the restoration of the gold standard in 1925 was no dramatic act but only the culmination of a continuous policy since 1920 in which every Chancellor of the Exchequer had played a part with general assent and with results which need not be deplored, and which it was at all events too late to criticize. Mr. Edward Grenfell made some weighty observations on the sinking fund and on economy, Sir Robert Horne intimated that the amendments to the clauses dealing with super-tax evasion had removed some of his difficulties, and Mr. William Graham made a speech characterized, as Mr. McNeill said, by the lucidity and sagacity which the House had learned to expect from him on matters of world-wide economics but having no special relation to the topics of the Finance Bill.

Mr. McNeill, replying on the debate, admitted and defended what had been described as the makeshift character of the budget ; he gave the percentages of increases since 1924 in indirect taxation relative to total tax revenue, which in the case of sugar, tea, coffee, and matches only amounted to 0·03 per cent. on an increase of 3·49 per cent. for all indirect taxation, including the McKenna duties, the silk duty and the betting tax. He concluded that the distinguishing features of this budget which would make it " historic " were, firstly, the measures for simplification of the income-tax, last year's provision that Schedule D was to be based, from the present year, on the previous year instead of on the three years' average, and the basing of Schedule E this year on the previous year—changes which were leading to the ideal of "one man one return," and, secondly, the clauses intended to prevent evasion of super-tax by certain companies.

Historic is hardly the term to apply to this budget which was, however, remarkable for the extremely dexterous manner in which a very awkward situation was tided over by resort to temporary expedients and without fresh taxation. Mr. Snowden was not complimentary when he said, alluding to Mr. Churchill's description of himself as a public executioner, that he was "rather in the position of a condemned criminal who by an artful device had obtained reprieve."

The Bill was given a second reading in the House of Lords on July 26th after a critical speech from Lord Midleton on points connected with the treatment of agricultural settled property and on the relation of Somerset House to the taxpaying public, and a reply from Lord Salisbury covering some of the objections which had been raised in the course of the debate.

The Royal assent was given on July 29th.

MR. CHURCHILL'S FOURTH BUDGET, 1928-29.

April 24, 1928.

THE budget opened by the Chancellor of the Exchequer on April 24th, 1928, presented wider and more controver sial issues than those connected with the financial requirements of the two past years. He had a more satisfactory account to give of the late year than had been anticipated by his critics in the previous session. Instead of a third successive deficit a "modest but not unwelcome" surplus of about £4¼ million had been secured: "the corner of recovery from the strike stoppage period" was in process of being fairly turned; and in spite of the loss of £34 million of "windfall" revenue no additional taxation would be required in 1928 "to pay our debts or to pay our way." But success in the past year had been achieved in the face of many adverse factors. Short-falls of revenue or additional expenditure had amounted to nearly £26 million; and the fact that in spite of these disappointments the anticipated surplus had been more than doubled was mainly due to the death duties having yielded £9½ million more than the estimate, to windfalls such as repayments from Kenya and Palestine which had swollen the miscellaneous revenue by £4½ million, and to a continuous economy campaign which had resulted in a saving of £10½ million from estimates which had already undergone their annual scrutiny and from moneys which had actually been voted by Parliament.

Mr. Churchill next proceeded to deal with the position of the debt in some detail. He stated that repayment during the year had been satisfactory, the full sinking fund of £65 million having been realized, and that, in addition, a payment of more than £15 million had fallen on his budget for accrued interest upon savings certificates. But the effect on the nominal dead-weight debt figure, and even on the interest charge for the funded debt, had been somewhat disappointing on account of the necessity which had arisen of converting the 3½ per cent. War Loan raised at the beginning of the war to higher interest rates, and of meeting a large volume of maturities of National War Bonds involving sums repayable at a substantial premium.

In the previous session attention had been drawn by Sir Frederick Wise and Mr. H. Williams to the position of National Savings Certificates. During the last year or two the amount of interest accruing had greatly exceeded the provision made in the budget for meeting the liability for interest on certificates encashed and, to the extent of the difference, constituted a direct diminution of the sinking fund. The Colwyn committee had fully considered the matter and had not recommended any change in the practice which successive Governments had followed, but the growth of these interest liabilities made it necessary to place the whole business on a sound foundation without further delay, and the Chancellor of the Exchequer decided, therefore, to include the necessary sinking fund provision for savings certificates in his new proposal for a general treatment of the problem of the National Debt.

This proposal was to recur to the policy instituted by Sir Stafford Northcote in 1875 of a fixed debt charge for all the services of the debt, including the sinking fund. Mr. Churchill established this charge at £355 million a year (compared with Sir S. Northcote's figure of £28 million) which was to "comprise all our assets" and "cover all our liabilities," and would provide the £51 million a year required to meet the specific sinking funds on certain Government stocks and also provide (when reinforced, as will shortly be explained) an average until 1934 of £20 million per annum for the interest on National Savings Certificates. The interest saved on the annual repayment of debt would be automatically added to the sinking fund; and this was calculated (on a basic rate of 4½ per cent.) to extinguish our whole debt, internal and external, in a period of exactly fifty years.

The occasion of the amalgamation of the Treasury currency notes with the Bank of England note issue, which was to be carried out in the present financial year, would free the reserves, which the Treasury had accumulated against possible depreciation, amounting to £13,200,000. This sum, which obviously could not properly be used to meet current expenditure, Mr. Churchill proposed to use as a special means of strengthening the sinking fund for the year and inaugurating the new debt redemption scheme. Adding to this, as he proposed to do, £800,000 from the general resources of the budget, he would carry the sinking fund again to the record figure of £65 million. Mr.

Churchill proceeded to analyse the six-year forecast of the provision which would be available in each year from the fixed Debt Charge for the new sinking fund and the interest on the savings certificates. He hoped that on examination of these figures the committee would féel that it was a prudent and reasonable arrangement.

Coming to the estimate of expenditure and revenue for 1928-29, Mr. Churchill stated that he had adopted a new form in the presentation of the national accounts. They were henceforth to be presented net instead of gross, and items which exactly balance and cancel each other were to be removed from both sides of the account. (See p. 425.) The contributions, for instance, received towards the cost of teachers' pensions would be shown as an appropriation in aid of the education votes, and sums received from the sale of fee stamps were to be appropriated in aid of the respective votes instead of being brought into the Exchequer. Such minor accounting changes affected about £7 million of revenue and expenditure, but this was not all. The growth of the self-balancing expenditure of the Post Office and the Road Fund grant ought not, it was generally agreed, to appear in the accounts on precisely the same footing as an increase in ordinary burdensome expenditure. And it was still more misleading to show, as if they were extravagances, increases made in the sums allotted to the sinking fund. In future only the surplus of the Post Office revenue and the excess of the motor vehicle duties over the Road Fund grant would appear in the statement of ordinary revenue and expenditure ; and the amount of the sinking fund provision would be kept outside the total expenditure and shown, in its proper place, beside the prospective surplus for the year.

These changes gave a much less unfavourable appearance to the figures. The Chancellor of the Exchequer cast former budgets from 1923 in the new form, and in particular called the attention of the House to a special paper prepared by the Treasury, comparing item by item the expenditure of 1924 with that of 1928, and showing that instead of the increase of £30 million or £40 million with which he had been taunted there had been an actual reduction of expenditure amounting to £12 million. Mr. Snowden took up the challenge later on with much asperity, pointing out, for one thing, the fallacy of comparing the audited expenditure of 1924 with the original estimated expenditure of 1928, which was millions below the actual expenditure. It cannot be said that Mr. Churchill's special paper emerged unscathed from this attack, but it was not disputed that the change in the form of presenting the accounts gave a more accurate and reasonable representation of the actual cost of government than the old.

The expenditure for 1928-29 was estimated as follows: Consolidated Fund Services[1] £398,700,000, Supply Services £407,495,000, or a total of £806,195,000, which was £32 million below the actual expenditure of the preceding year. Restated in its altered form, Consolidated Fund Services, excluding Road Fund grants and sinking fund, came to £326½ million; and Supply Services, excluding Post Office, to £350 million, or a total of £676½ million. Mr. Churchill insisted that it was imperative to persevere in reducing expenditure, and took credit for a reduction in the number of officials in three years by over 7,000, to be followed by a further reduction during the next five years of 11,000.

The Chancellor of the Exchequer then proceeded to estimate the revenue on the existing basis of taxation, with the addition of certain small changes in Customs and Excise which he described as he went along. He put Customs and Excise at £113,667,000 and £139,018,000 respectively. The consuming power of the people was increasingly being directed into new channels, but the two together moved forward slowly by £2 million or £3 million a year in accordance with the growth of the population and the general maintenance of the consuming power of the people. The increased duty on tobacco had

[1] These figures, and certain others in the budget speech, varied slightly from those in the White Paper.

much more than realized expectation, but the betting duty had only brought in £2,669,000, and was estimated to produce £3¼ million in the current year if the extensive evasion could be checked. Minor changes in Customs and Excise included the raising of the new duty on British wines from 1s. to 1s. 6d. a gallon, which would yield an additional £65,000, and the re-imposition of a Customs duty on mechanical lighters of 6d., with a corresponding Excise duty on home-made lighters, to yield £40,000, the object being to protect the revenue from matches. A small change was to be made in the Customs duty on cinematograph films in the interests of British Empire films, and a duty was to be imposed, under the Safeguarding of Industries procedure, on buttons used for fastening or decorating apparel. This would produce £130,000 in the current year and £200,000 in a full year.

Turning to the Inland Revenue, death duties were put at £72 million, excess profits duty at £1 million and another expiring tax, the corporation profits tax, at £1½ million, and stamps at £28 million. The recovery of the income-tax from the general strike and coal stoppage had by no means come up to expectation, and the yield could not be put at more than £235 million. The acceleration of Schedule A payments last year had succeeded beyond all expectation, the extra moiety having been collected with an almost complete absence of complaints and more rapidly than in any previous year when only half of the tax was paid in January. Super-tax was put at £60 million, and the total estimate for the Inland Revenue was given as £398,350,000. With the receipts from the motor vehicle duties, £26½ million, the total (gross) revenue from taxes would be £677,535,000. Among sundry loans and miscellaneous revenue, the increased receipts arising from the settlement of allied debts and from the payment of reparations under the Dawes Scheme were specially noted. These amounted in the current year to £32 million, not far short of the £33,164,000 to be paid by us to the United States. On the old form of accounts we should thus have £812,497,000 gross revenue and £806,195,000 gross expenditure.

Adopting the new form of accounts which omitted the Post Office and Road Fund, so far as they were self-balancing, there was a revenue of £733,683,000 available to meet an expenditure of £727,381,000 and a prospective surplus of £6,302,000, without of course taking into account the extraordinary item of £13,200,000 from the currency note reserve which would be used for the further cancellation of debt. From this had to be deducted the £800,000 to go to the new sinking fund in order to raise it to £65 million, reducing the prospective surplus to £5,502,000.

It looked indeed as if the revival of the revenue, coupled with strict supervision of expenditure, was beginning to do its work, and Mr. Churchill observed that "the future finance of this country was freer of difficulty and stringency" than in any other budget which it had been his duty to open. He looked forward to a further improved situation in 1929. But the Government were not content to rest upon their oars, and decided that the time had at last arrived when they could attempt to deal with the evils of the burden of the local rating system upon industry, and to undertake a reform which had been pressed upon them in every session of Parliament and which was admittedly overdue. The position of the basic industries of the country and the continued existence of unemployment at the existing high figure, which was, however, extremely moderate in comparison with that of two years later, made it imperative that an effort should be made to give an impetus to productive industry by the removal of invidious burdens.

The rest of Mr. Churchill's speech, therefore, and the most important and controversial part of it, was devoted to an exposition of the scheme of derating and of the manner in which it was to be financed, which substantially modified the plan of the budget.

In the view of the Government a clear distinction could be drawn between productive industry and the distributing trades. Productive industry was exposed to world competition, employed three-fourths of the weekly wage earners and accounted for not far short of nine-tenths of the one million unemployed.

The distributing trades had on the whole prospered during the last ten years and it had, therefore, been decided, on Mr. Churchill's proposal, that he should try to form a "mass manœuvre of £20 to £30 million a year for a great operation upon the rates and that this effort. . . should be concentrated upon the relief of the sector occupied by the producers in town and in country." Relief was to be afforded by the reduction of the rates upon all premises used for the purpose of production from the heaviest basic to the most complex and finished form, whether prosperous or not, and in addition the freight carrying railways, the canals and the harbours and docks. On all these undertakings the rates were to be reduced from October, 1929, by three-quarters, while agricultural land and farm buildings, already relieved of three-quarters of the rates by Agricultural Rates Acts, would be permanently relieved of all rates. In addition to this direct relief, the scheme provided for further indirect relief, since the reduction of the rate burden in the case of railways, etc., was to be conditional on those undertakings making equivalent reductions in their transport charges wherever practicable. The entire rating relief accorded to the railways amounting to an estimated £4 million a year was to be re-distributed on certain heavy traffics, one-fifth to be given to agriculture and the remaining four-fifths to coal, coke and patent fuel, mining timber, iron-stone, iron ore and manganese ore, and limestone for blast furnaces and steel works.

The policy thus outlined was to be accomplished in three stages. The first was the provision of the necessary funds to which we shall return immediately. The second was the definition of the scope and direction in which the relief was to be given, for which purpose a Valuation

(Ascertainment) Bill was necessary and was to be at once introduced. Finally, while the new valuation was proceeding the Local Government Bill would be introduced dealing with the reimbursement of the local authorities. But the opportunity of this Bill would be taken to carry out a drastic reform of the Local Government system, the most important of its kind since the Act of 1888, or "perhaps since 1834." A leading feature of the Bill would be the establishment of a system of block grants, subject to a quinquennial revision, which would include not only compensation to the local authorities for loss of rates but also the existing percentage grants for certain health services, grants under the Agricultural Rates Acts, and other moneys provided by the assigned revenue system, other than that allocated for education and police purposes.[1]

Other important features of the Bill to be introduced by Mr. Neville Chamberlain in the autumn would be the creation of wider areas for such purposes as Poor Law and Highways, and it was held, without warrant as the future was to show, that lower rates would be one of the results of these far-reaching changes.

The estimated surplus of £5,502,000 would, of course, be totally inadequate to finance so grandiose a scheme as that adumbrated by Mr. Churchill, and as a first step he proposed, by a clause in the Finance Bill, to increase it to £9,741,000 by carrying forward the realized surplus, £4,239,000, of last year which should have been devoted to reduction of debt. But the total cost of the rating relief and the incorporation of the new local government scheme was estimated at £29 million, the relief of industry being estimated to cost over £21 million per annum, the derating of agriculture £4¾ million, leaving £3 million to start the local government reform.

The Chancellor, therefore, announced his intention to impose a tax of 4d. a gallon on imported light oils with a

[1] See note on page 479 for a fuller account of the financial provisions of the new Local Government Act.

series of mitigating reductions of the licence duties upon goods and hackney vehicles. The new oil duty would yield in the current year £14 million and in 1929 £17,800,000, and would rise year by year by about £1¼ million. He justified this petrol tax on the ground that it might promote scientific developments to produce oil from our coal deposits, and make us less dependent on foreign oil supplies; that it would help to rectify the handicap on railway transport; and that it would give an undoubted stimulus to the production of Scottish shale oil and other British oils. There had been much talk of the substitution of a petrol tax for the existing licence duties which were alleged to be detrimental to the export of British cars, and a widely signed petition in favour of this course had been presented to the Government. The only reply was the imposition of the new petrol tax in addition to the licence duty; and Mr. Churchill was reduced to appeal to the patriotism of the motoring community, who, as he said, had been much favoured by the recent downward movement of petrol prices, to "form their opinion on the policy of the budget as a whole, as citizens and not as motorists." In order to balance the extra burden which the tax on kerosene (soon, however, to be exempted) would throw on the consumer, Mr. Churchill made certain readjustments of the sugar duty which would, he said, ensure a reduction of a farthing per pound in the retail prices, and also afford assistance to the British sugar refining industry, the scheme of duties being designed to encourage the importation of raw sugar which must undergo a refining operation in this country, rather than the importation of white sugar refined abroad.

One final change which was universally approved was the raising of the children's allowance from £36 for the first child and £27 for any others to £60 and £50 respectively, and these allowances were, henceforward, to be allowed from and including the first year of the child's life. These remissions would affect 650,000 households and more than one million adults. A married taxpayer with three or more children and an earned income of £400 would be freed entirely from tax, one with £500 would have his tax more than halved and get a reduction equal to 2s. 9d. in the standard rate, a man with £600 would get relief equal to 1s. 6d. reduction in the standard rate, and so on. The total cost of these remissions would be £2,100,000 in the current year and £4½ million in a full year. The final balance sheet left a prospective surplus of £14,502,000 to be carried to the suspensory fund with the £4,239,000, last year's surplus, making a total of £18,741,000, to be used either to meet unforeseen contingencies of 1928 or later on to make payments to the local authorities in the general plan for relieving industry.

Mr. Churchill invited the fullest suggestive and constructive criticism of these ambitious plans, but made it clear that the scheme held together, and that while it was no doubt capable of modification in detail it must be supported or opposed, accepted or rejected, as a whole. He concluded a notable speech, lasting some three hours and a half, during which a suspension of half an hour was allowed to Mr. Churchill by the courtesy of the House, with an expression of his conviction that these great measures of relief to productive industry and the modernizing of our system of local government were urgent and necessary for the national well-being and would, if carried into law, " win for the present assembly some honourable distinction among the Parliaments of our time."

This speech, which placed before the House far-reaching and complicated proposals with the utmost lucidity and dexterity, was undoubtedly, as Mr. Snowden observed, a great Parliamentary triumph. But even more than most budget speeches it placed those who followed it in a difficult position, for there was much besides the generally satisfactory result of the budget provisions of the previous year which discouraged criticism and discounted Labour and Liberal opposition. The speeches of Mr. Snowden and Mr. Lloyd George were, therefore, almost entirely confined to compliments and congratulations upon so fine a performance. But as usual a night's reflection enabled both statesmen to find many points of attack, and on April 25th Mr. Snowden opened, as Sir Alfred Mond remarked, with a pontifical lecture on finance which left little credit to Mr. Churchill for the favourable balance of last year's accounts except such as was due to good luck. He was particularly critical, as mentioned above, of the White Paper by which the Chancellor of the Exchequer had endeavoured to explain away the growth of expenditure since 1923. He asserted that the recent conversion operation showed that the national credit of the country had declined, while that of most foreign countries had been rising ; and that the new fixed Debt Charge actually reduced the contribution for the next few years to the sinking fund and would certainly not be continued when the proportion between the sum apportioned to the reduction of the debt rose automatically to a very large figure. It was a violation of all sound financial principle to raise from taxation money which was not to be spent during the current financial year; and he strongly condemned the petrol tax as one on the raw material of a vast number of industries in the country. Mr. Snowden gave little time to the derating scheme outlined in the budget speech, which he described as a "fantastic half-baked monstrosity."

Mr. Lloyd George on the other hand devoted his speech to a detailed criticism of this scheme. He began by saying that there was no dispute between any sections in the House as to the extreme desirability of lowering the rates upon industry. This had indeed been the theme of constant speeches in the existing Parliament from Members of all parties, particularly of the Opposition parties who had harped upon the doctrine laid down by the Colwyn committee that rates and not income-tax were the real burden, and had protested against the policy which placed on the rates instead of on the general taxpayer the cost of the increased contributions to the social services. A proposal to reduce the rates on industry was, therefore, not one to which any party, least of all the Labour party, was in a position to offer direct opposition. But the manner in which the relief was to be afforded gave ample ground for attacks in which Mr. Lloyd George led the way, when he described it as a "thoroughly vicious method" of dealing with the matter. It was true that the scheme would give relief to industries whether prosperous or the reverse, and this would be at the expense of the whole community, but it would do nothing to help depressed or necessitous areas who would get no larger contribution than the prosperous areas. He thought that the methods propounded in the Liberal Yellow Book would have avoided the injustice which he discovered in the Government scheme. He would have dealt temporarily and at once with the necessitous areas, either by temporary grants or by taking over certain burdens, and he would have placed on the general taxpayer the burden of the able-bodied poor, which was really only part of the unemployment problem, and in addition have made a larger contribution to the cost of the roads; by some such means the whole of the ratepayers in a distressed area, and not merely particular industries, would have been relieved.

Sir P. Cunliffe Lister's reply amounted to a reiteration of the Government's policy which was to concentrate on effecting relief to productive industry in order to increase employment and stimulate every branch of trade rather than to fritter away relief without any principle on a dole distributed to as many recipients as could be found.

Mr. Neville Chamberlain on the following day gave a fuller exposition of the scope of the proposed reform in local government and met some of the points raised by Mr. Lloyd George, particularly in regard to the necessitous areas problem. He explained that the ultimate aim in the allocation of the block grants, which were to include compensation for the rates the local authorities were to lose, was that the distribution of the money should be not in proportion to the expenditure of the local authority but in proportion to its needs. This was the solution of the problem which would gradually be attained.[1]

Mr. Runciman took the same line of criticism as Mr. Lloyd George, accepting the necessity of mitigating the great burden upon productive industry—the increase of rates, he said, since the war had represented, in the building of tonnage on the Tyne, the Wear and the Tees, no less than 7s. per dead weight ton—but disagreeing as to the method ; pointing out that the relief would have to come from industries not within the productive class, and objecting to the petrol tax as a tax on the raw material of motive power. Without minimizing the usefulness of such changes in the incidence of rates or other artificial parliamentary arrangements he observed truly that the salvation of industries must depend in the main on their power to reorganize and re-equip themselves, and upon the possibility of money rates being lowered. He proceeded to a detailed and powerful analysis of the policy of the Chancellor of the Exchequer in the redemption of debt, and traced to his shortcomings in this respect the fact that the national credit of this country had not improved as rapidly as that of the United States, Canada, Holland, Switzerland, or indeed any country except China, Chile and New South Wales. Unless the sinking fund was made operative the credit of the country would continue to wane ; and if Mr. Churchill was going to make his fixed charge of £355 million entirely effective he would have to succeed, by

[1] It was not till some weeks later that a White Paper was published (Cmd. 3134) setting forth the proposals for reform in Local Government and in the financial relations between the Exchequer and the local authorities. It stated that it was intended ultimately to fix the block grants, which were to take the place of percentage grants and to include the compensation for the remission of rates, according to a formula based on the general characteristics of the district, such as population, proportion of children under five, amount of unemployment, and rateable value per head of the population ; but to avoid the disturbance which would be caused by a complete allocation of the grant at one step it was proposed for the next five years to base only a proportion (roughly one-third) of the grant on the formula, and to increase the proportion on each revision until by 1945 the whole grant would be distributed entirely on the basis of the formula.

hook or by crook, in making his revenue, raised in the normal way through the taxing authorities and not by mere realization of assets, exceed his expenditure.

Sir Robert Horne, while approving generally of the Chancellor's proposals and thinking that the present budget "marked the turning point in our post-war fortunes," fell foul of the tax on petrol as well as the existing power tax, which, he said, was both inequitable in its incidence and a great handicap to the motor industry in their competition with American cars in the Dominion markets. Colonel Howard Bury was emphatic in his opposition to the new tax, and other speakers drew attention in the course of these debates to the very considerable burden which the petrol tax would place upon owners of small cars—from £5 to £10 additional per annum—while the burden on vehicles used in commerce and agriculture would often go far to neutralize the relief given in rates.

Lord Hartington, speaking as a warm personal admirer of the Chancellor of the Exchequer, made a useful and thoughtful contribution to the debate, laying stress both on the wasteful expenditure of many local authorities and on the part played by the Ministry of Health in forcing expenditure on them. While considering the percentage system as vicious he doubted whether the block system would prove workable. He thought that, though the incidence of the burden was of very great importance, the amount of the expenditure mattered far more, and he would have preferred to see the Government take over certain services, such as the police, which would relieve the rates to the extent of about £10 million, and the main roads of the country. Such a policy would relieve all ratepayers and would have the great advantage of finality. He feared there would arise great pressure under the Government scheme to extend the relief given to productive industries to heavily rated working-class homes. He did not think that for a permanent commitment like rating it was wise to rely on petrol with its violent oscillations of price, which would prevent it being a steady, reliable producer of revenue, so that the new charge was likely to become eventually a charge on the general body of the taxpayers. It was the fear that, however carefully guarded, the new scheme would place the purse of the taxpayer to so large an extent at the disposal of the local authorities as to lead in the end to increased expenditure that caused this speaker to give only qualified support to the Government's proposals ; and it is probable that he expressed the private opinion of many of the Government supporters when he hinted a regret that, just when the Chancellor of the Exchequer seemed to be getting back into the sound path of financial solvency, he should have advanced on ground which might prove to be a " boundless and bottomless morass."

The debate on the budget resolutions was continued on May 1st with the annual Motion for the reduction of the tea duty, moved this year by Mr. Barr. The Chancellor of the Exchequer was reminded of the aspirations he had expressed to free the breakfast tables of taxation, there was the usual exchange of amenities between beer and tea drinkers, and the usual decision that the money was not available for the abolition of the duty. And as usual, the discussion gave the opportunity for a consideration of the question of the incidence of taxation on the richer and poorer classes of the community, illustrated by statistics drawn from the Colwyn report.

The sensation of the day was, however, the announcement by Mr. Churchill that, having been advised that a line could be drawn between petrol and paraffin used for domestic and other purposes, he had decided to exempt kerosene from the scope of the new duty at a cost of nearly £3 million in loss of tax. This announcement fell with somewhat startling effect on Mr. Snowden and other Members of the Opposition as well as on Conservative Members who had taken fright at the political effects of this duty ; the concession, which was received with a mixture of jeers from some quarters and gratitude from others, undoubtedly eased the passage of the resolution.

But the debate was continued on the merit of the petrol duty itself, and many protests were registered against a tax which would fall with severity on small car owners, on farmers, and on the public through the rise in price of public motor vehicle transport.

On May 2nd the modification in the sugar duties, which Mr. Churchill had introduced primarily to assist the British refining industry but also as a set off against the imposition of a petrol tax, was shortly debated. The Opposition denied that the farthing per pound reduction on imported raw sugar would reach the consumer, Mr. Alexander asserting that, owing to leakage of information regarding the budget proposal, the market had been manipulated to his disadvantage.

A mild excitement occurred in the debate on the Customs and Excise duty of 6d. to be placed on mechanical lighters in order to protect the duty on matches, to which lighters—four millions of which had been imported in the last year—were becoming a serious competitor. The argument was that if you tax matches you were justified in taxing substitutes for matches. But the Opposition insisted that the duty was being imposed at the request of the big match combines, that it was a novel principle to impose a tax which admittedly could bring in only a trifling revenue in order to defend another tax, and that such a tax could not be defended unless the manufacture of matches was a Government monopoly.

In 1916 Mr. McKenna, when imposing a duty on matches, had imposed one also on mechanical lighters which was taken off five years later. Major Hills, an expert on the question, put the case for the new duty moderately and it would have gone through without further difficulty if Mr. Samuel, Financial Secretary to the Treasury, who in Mr. Churchill's absence from illness was in charge of debate, had not first refused and then accepted an amendment by Mr. Ramsden to halve the Excise duty on British-made lighters. Major Hills pointed out that whether lighters were British or foreign they equally caused a loss of revenue from the match duty and caused unemployment in the match industry, that the match duty was a revenue duty with no protective element in it and that to reduce the Excise duty would be to set up a protected competing industry. Sir John Simon described it as a "clear piece of protection," a breach of the Prime Minister's pledge not to inaugurate any form of protection except under the safeguarding procedure. Mr. Snowden and Mr. Runciman declared that the Financial Secretary had no authority to make a concession of this kind without reference to the Chancellor of the Exchequer, and two hours were wasted on a motion to adjourn the debate until the Chancellor of the Exchequer could be present before it was agreed that Mr. Ramsden's motion should be withdrawn and raised again later on the Finance Bill. On June 26th accordingly another debate took place on the new duty and the Chancellor of the Exchequer announced that, though there were arguments on both sides, he had decided to adhere to the original form in which it had been imposed.

The House next dealt with another trivial measure, a duty on buttons, under the safeguarding procedure. If an industry employing 3,600 work-people was to be considered one of substantial importance there was no reason why the duty should not go through on the accepted lines, but it was not clear how far the admitted decline in employment was due to changes of fashion, and the whole issue was so petty as to make the proposal appear a *reductio ad absurdum* of the safeguarding policy. Mr. Dalton indeed unkindly remarked that he could not understand why so utterly futile and contemptible a proposal should be brought before the House when there were so much graver questions calling for their attention.

A notable discussion took place on the resolution giving effect to Mr. Churchill's decision to suspend the old sinking fund for the current and succeeding years in order to increase his proposed "suspensory fund," intended primarily for the rating relief scheme. A very damaging attack was made on this treatment of the old sinking fund by Mr. Lees-Smith, Mr. Pethick Lawrence, Mr. Runciman, Mr. Snowden and Mr. E. C. Grenfell. The first-named speaker, while not objecting to the scheme of a fixed charge, held that it did not provide enough money and that the Chancellor of the Exchequer had been driven to "adopt a whole series of wangles" with regard to the Treasury note reserve and the savings certificates and also to raid the old sinking fund in order to balance his accounts. Mr. Pethick Lawrence spoke of "shady window dressing" in this connection, and considered it improper to raise more money than was required in the financial year in order to spend it in some subsequent year. He went so far as to impute to Mr. Churchill the intention of raising an unnecessarily large amount of money in the current year in order to be able to make popular reductions of taxation in his next budget on the eve of the General Election.

It was Mr. Runciman, however, who, resuming the tone of criticism which he had taken up a day or two before, made the most penetrating analysis of the sinking fund operation. It was his opinion that the £65 million sinking fund in the past year had been whittled down to such a small sum as to be almost negligible, on the one hand by the means by which the money had been raised (transfer from the Road Fund, Schedule A manipulation and sale of assets which had been purchased out of loan money) and on the other by issues or guarantees entered into which tended to depreciate the credit of the Government. As regarded the new fixed Debt Charge for the coming year, the nominal sinking fund provided in it would be much less than the smallest figure of the Baldwin sinking fund in the past. It could not reach £50 million unless Treasury Bills were floated at a cheaper rate than any of the experts anticipated, and £40 million was a more likely figure. All the more reason, therefore, for not tampering with the old sinking fund. The result of the failure in recent years to maintain the sinking fund at a sufficient amount was reflected in British credit which had risen with great rapidity up to 1927 but had seriously sagged since.

Both the chance of converting to a lower rate of interest the £2,000 million of War Loan and the prospect of recovery in British industry depended on our approaching the lowest interest standard in the world instead of being fifth or sixth on the list. Mr. E. C. Grenfell entirely endorsed Mr. Runciman's and Mr. Snowden's strictures and considered the suspension of the old sinking fund was the most unwise step that could be taken if the credit of the country were to be raised.

Sir Laming Worthington Evans, who, in Mr. Churchill's absence from illness, ably took his place in defending the Government position, maintained that the calculations by which Mr. Runciman had arrived at the conclusion that last year instead of having redeemed something like £65 million through the sinking fund, we had, in fact, only redeemed £1 million and that in the two previous years, instead of having redeemed anything we had added £93 million to outstanding indebtedness, were wholly fallacious.

He declined to admit that the loans created under the British Government's guarantee under the Trade Facilities Act, the Local Loans Act, the Palestine Loan and similar " investments " should, as Mr. Runciman had contended, be set against the reduction of debt through the sinking fund, since such loans were redeemable by the borrowers out of the undertakings and created no charge on the Imperial Exchequer, though no doubt they had their effect in rendering other loans dearer. Sir Laming met the charge that capital assets had been taken into the revenue account rather summarily by saying that for some years every Chancellor of the Exchequer had dealt with so-called capital assets in exactly the same way, and that if they were excluded from the revenue account, capital liabilities like war terminal charges and war pensions which were their counterparts should also be excluded. The actual net redemption of debt in four years had been £172,900,000, or, on a less favourable manner of treating the accounts, £155,700,000, a result not very materially differing from that aimed at by Mr. Snowden. If these calculations were accepted as sound there had been a substantial reduction of debt even in three bad years when millions of revenue had been lost, but it was admittedly well below what had been aimed at even by Mr. Baldwin's £50 million sinking fund, and there remained, when all had been said, ample ground for the fears which previous speakers had expressed as to the condition of the national credit.

On a subsequent resolution Sir Laming Worthington Evans took occasion to reassure the House as to the new sinking fund for the current year. It had been maintained that the estimated £65 million could not be realized. It will be remembered that for the year 1928-29 the Chancellor of the Exchequer increased his new fixed charge of £355 million to £369 million by the addition of £13,200,000 from the Treasury Note reserve (a proceeding the financial propriety of which was questioned by Mr. Pethick Lawrence) together with £800,000 provided in the budget. Deducting £290,400,000 which, he showed, would suffice this year to meet the interest on the debt and £13½ million interest on savings certificates, there would be left £65 million which would certainly be available and would be as much as the country could afford. Sir Laming made a telling point against Mr. Snowden by showing that in 1924 he had provided for redemption of debt and savings certificates £52 million, only £45 million for actual debt redemption and £7 million for savings certificates, but that was before Mr. Gillett and others had once more called attention to the irregular and insufficient manner in which the savings certificates interest had been dealt with in all the former budgets.

On the motion for the second reading of the Finance Bill which was made and carried on June 5th, Mr. Snowden moved an amendment for its rejection in a speech studiously temperate in tone in which he recapitulated the argument that the rating changes proposed were "fundamentally on wrong lines" and would do nothing to reform "the present archaic and unsuitable system of local rating." The burden of his argument was that no relief of the rates was possible as long as land values were allowed to be appropriated by private individuals and that all relief of the nature proposed went back ultimately into the pockets of the landlords. Relief afforded to the community by public expenditure or by improvement in transport services which conferred benefit on the workers of a particular district, only increased the pressure of population in the favoured area and raised the value of the land so that the ground landlord and the landlord were able to charge more and more to the community for the privilege of living there. The real solution, therefore, was to reform the rating system by levying rates upon site values. Mr. Snowden supported his argument by several quotations from a speech by Mr. Churchill in the earlier years of the century in which, as a Liberal, he had strongly advocated the taxation of undeveloped urban land on its true value.

The Chancellor of the Exchequer, perhaps for this reason, replied without waiting for further speeches in favour of the amendment. While not disavowing his former opinions on the subject, Mr. Churchill reminded his hearers that since he had given expression to them a whole group of land taxes directed to absorbing what was called the unearned increment of the land had been imposed by Mr. Lloyd George, when Chancellor of the Exchequer, and after eleven years had proved so utter a failure that they had been abolished with their author's own acquiescence as Prime Minister in 1921. Not only so, but the valuation itself, which had employed 4,000 officials, had been shortly after abandoned and would have to be restored if similar legislation were to be attempted. The experiment had proved that there was very little money in this policy and it was a delusion to suppose that it could be a substitute fiscally for the "fruitful engine" of the petrol tax. To enter on exciting but sterile debates on site values would be the surest way to stop the rating relief of industry. The rest of the speech was devoted to the criticisms of the derating scheme which Sir John Simon, Mr. Lloyd George and other Liberal speakers had been making in the country since the introduction of the budget. Mr. Churchill set himself to disprove the assertion that the bulk of the relief would go to the flourishing industries. A complete investigation had been carried out by the Inland Revenue as to the ratio of rates to profit in productive industries (other than transport, public utilities and agriculture), and it had been found possible to draw a clear line of demarcation between depressed and flourishing industries. In the first group the ratio of rates to profits was 20 per cent. and in the second 4·6 per cent., and of the £26 million available for relief, £14¼ million, including the railways and canal relief, would go to the depressed basic, unsheltered, exporting and large man-power employing group and £5½ million to the other. Further calculations were quoted as to the distribution of this relief to firms within those industries which might be depressed or flourishing and Mr. Churchill felt justified in declaring that the overwhelming mass of relief would go to those who needed it most.

Sir John Simon, who followed, made no allusion to these estimates and calculations but reverted to the question of necessitous areas and doubted whether, during the first five years, at all events, any relief would accrue to them under the scheme of the Minister of Health. He believed the whole intention was fundamentally vicious and wrong and would have the result of conferring favours upon individuals. He insisted that this extremely elaborate and quite unnecessary scheme should be scrapped in order to give relief more promptly and that it should be done " not by giving relief to individuals but by selecting those local burdens which the State itself could shoulder, by defining necessitous areas and by giving these, as necessitous areas, the relief which every ratepayer in them, whether shop-keeper or co-operative society or manufacturer, is justly entitled to expect."[1] Sir Robert Horne delivered a distinctly critical speech advocating that, instead of the three-fourths relief in all districts irrespective of whether the rates were high or low in these districts, an attempt should be made to have an equal rate on industries throughout the country and urging that the relief should be given at once instead of waiting till next year.

The contention that relief should be confined to necessitous areas was renewed during the committee stage of the Rating and Valuation Bill (June 18th) when Mr. Chamberlain made a point of the difficulty of defining such areas. Lord Hugh Cecil remarked on the acerbity with which Sir John Simon had complained of the speech of the Chancellor of the Exchequer, who had failed to recognize that the plan of the Liberal party was to relieve areas instead of industries, and pointed out that Sir John had omitted to show that by contributing to the relief of local rates in a particular area he would necessarily help the distressed industries within that area. It might quite well happen that it would not do so if, for instance, a local authority were to take the opportunity afforded by the assistance given from the Treasury to carry out some desirable improvement and to raise the rates in proportion. He went on to read the House a lecture on the theory of value, a piece of courageous abstract reasoning which no other Member could have addressed to it. Lord Hugh Cecil declared that after listening to the debate, the most vivid impression left on his mind was that nobody,

[1] The chief feature of the Rating and Valuation Bill, the second reading of which took place on June 6th, was that it separated for the first time the hereditaments to be rated into various categories, distinguishing the agricultural, industrial, and freight transport from the others and instituting a separate valuation for them. The Minister of Health admitted that the definition of industrial hereditaments had been left somewhat vague owing to the difficulty of drawing a hard and fast line between productive and non-productive establishments. Mr. Snowden, in the debate, took the line that derating would do little to make industry capable of competing in foreign markets. Rates added little proportionately to the cost of production.

except himself, understood economics, certainly neither Mr. Snowden nor Colonel Wedgwood had any grasp of the principle which underlies value. The strange theory that the site value of land was the creation of the community in a sense different from anything else was sheer economic nonsense. A better principle than that of taxing site values was to tax always in proportion to wealth. The real solution of this local taxation problem was to tax all wealth in a particular area and not merely real property.

Mr. E. C. Grenfell, speaking from a more financial standpoint, again expressed strong disapproval of the proposed application of the old sinking fund and thought that the fact of the difficulty which had been experienced since the war in making accurate estimates—in the last year for instance there had been over and under estimations which had amounted to a total of £50 million—strengthened the argument for using the old sinking fund for debt redemption when a surplus occurred. He was critical of amalgamation as a cure for industrial depression ; high local rates and, in the coal and steel industries, heavy railway rates undoubtedly contributed to it, but incompetent management arising from the ages of the men in control was, he thought, more responsible for real harm to industry than anything else. The Rating Bill would be of assistance, but it was also necessary that more latitude should be given to trading concerns in deciding what should be put to reserve before a profit was declared. There was a danger under the income-tax of hindering the accumulation of sufficient reserves against depreciation and for the re-equipment of industries, a subject which had been fully discussed in the previous session in connection with the provision for preventing evasion of the super-tax.

Mr. Dalton replied to the argument that want of money prevented the new scheme—bad as he considered it—from coming into operation for eighteen months by a vehement assertion that in the higher range of super-tax and death duties there remained ample revenue to deal with necessitous areas, to do something to revive industry and to diminish the burden of poverty and existing rates. He suspected that the fixed Debt Charge was a "fraud from the start." He complained that the increase in the children's allowances applied only to income-tax payers (with no corresponding benefit to those below the income-tax level) and enlarged on the theme that the present Chancellor of the Exchequer's budgets had had the effect of making the rich richer and the poor poorer, whereas the engine of finance should be used to redress social injustice. Sir Laming Worthington Evans dealt with what he described as this characteristic speech; he again explained the provisions made for the sinking fund in the fixed Debt Charge and then proceeded to reply to Sir John Simon's attack on the derating proposals.

The committee stage of the Finance Bill began on June 25th with a motion by Mr. Riley to reduce the duty on tea from 4d. to 1d. per lb. The motion was supported by sincere speeches from Members of the Opposition, like Mr. Viant, Mr. James Hudson, Mr. Hardie, Mr. Ernest Brown, and Mr. Groves, laying stress on the burden of this and other indirect taxes on the poor man's family budget, but nothing very new emerged except the point made by Dr. Vernon Davies that the idea that tea was a food had at last been dropped. His contention was that, from the health point of view, the drinking of stewed tea three or four times a day was bad for the community and was producing a race of nervous dyspeptics and that to increase the consumption by lowering the price was, therefore, contrary to public policy. The reply was that working-class homes with small incomes could not afford to make tea as it ought to be made. If the tax were removed and the price lowered they would be able to avoid the necessity of stewing their tea to make it go further. Another interesting point made was the remarkable increase in the consumption of non-British tea in spite of the preference first given in 1919. Mr. Churchill while repeating his view that he would gladly see the duty mitigated or removed, pointed to the reduction in the cost of living in the last four years and pleaded inability to face the loss of the duty in the present year.

Mr. Snowden next moved the reduction of the petrol duty from 4d. to 1d. in a very strong speech in which he opposed it as a real burden upon industry which would increase the cost of distribution, as a tax on motive power as unjustifiable as would have been a tax on coal at the beginning of the industrial revolution, as a tax imposed on one class of the community for the benefit of other classes, and as an illustration of one of the very worst classes of indirect taxation which would take out of the pockets of the people far more than it would bring into the State. In support of this he quoted the raising of fares by omnibus companies all over the country, as a proof that the tax was a burden which would ultimately rest on the consumer of taxed petrol, the majority of whom were the people who used motor omnibuses. Mr. Churchill met these arguments by quoting the Treasury estimate that one-third of the duty would fall upon the owners of private vehicles and two-thirds on commercial vehicles, but that only 16 per cent. of the consumption of petrol could be traced to public vehicles, including omnibuses and charabancs, while only 50 million gallons out of 850 million gallons of imported petrol were used for non-road purposes, so that there was no heavy burden on industry in this respect. He defended the additional taxation of commercial vehicles on the ground that in spite of the tax they bore at present they were virtually subsidized as against rail traffic owing to the wear and tear they caused to the roads. Still, of course, the new tax was a burden, but one which was necessary if the rating relief were to be carried through, and Mr. Churchill expressed his belief that the general good sense of the country had accepted the tax as reasonable and had endorsed the view of the Government that it would be far less burdensome than the rating which it was destined to relieve. Several speakers who followed emphasized the onerous nature of the new tax, though there was not much evidence that it was widely resented, perhaps because of the fall which had taken place in the price of petrol, but it would be rash to assume that the very heavy taxation imposed upon it has had little or no effect in checking the growth of motor transport in this country, great as its growth and popularity have been.

The hardship inflicted upon agriculture and the fishing industry was brought to the attention of the Chancellor of the Exchequer, and a number of amendments were moved for the exemption of oil which was the raw material of the paint, varnish and colour industry, of spirit used in the preparation of feeding stuff, and of petrol used in the dyeing industry and in glove-making. All of these were resisted by him on the ground that the process of exemption once begun would lead to the creation of complications which would make the working of the duty a matter of difficulty. Mr. Alexander and others drew attention to the admission that the tax could not be imposed without some measure of injustice to particular industries, and inferred that indirect taxation was not the way to raise revenue for great purposes of national reconstruction.

The clause giving effect to the adjustment of the sugar duty came up on the following day and Mr. Alexander took occasion to press for the repeal of the whole duty on the familiar ground of the disproportionate relief which had been given during Mr. Churchill's term of office to the direct taxpayers. But his real object was to prove that the relief of a farthing in the pound, which the Chancellor of the Exchequer had promised to the consumer, was illusory; and he alleged that, owing to the negotiations which the Customs had had to undertake nearly a year ago with the Refiners' Association and others with a view to presenting a scheme to carry out the wishes of the Chancellor of the Exchequer, his intention had become public property, and the sugar industry had thus been given the opportunity of manipulating the market to their own advantage. As a matter of fact they had put up the price of sugar by a farthing in February in anticipation of the reduction which they knew they would be required to make after the budget in April. Mr. Snowden said this was a plan concerted between Mr. Churchill and the sugar refiners to bamboozle the public. A great point was also made of the fact that the shares in Messrs. Tate and Lyle, the largest refiners, had risen from 28s. to 44s. at the date of the budget. Mr. Churchill hotly repudiated these offensive aspersions, and quoted figures and prices to show that nothing abnormal had occurred; but it is obvious that some manipulation of the market by interested parties is inevitable in the cases where changes are made in the duty on articles of consumption. Mr. Alexander also complained that the amount of the preferential reduction on Empire grown sugar had been raised in the second schedule of the Bill till it was now one half the whole duty, and he criticized the extension of the preference to home-grown sugar. This preference, together with the sugar-beet subsidy, gave the home-grown sugar a total subsidy, which came out of the pockets of the taxpayer, of 128½ per cent. on the present net price of imported refined sugar, and this Mr. Alexander held to be absolutely unjustifiable. It had been a very severe handicap to the British sugar refining industry, and the Chancellor of the Exchequer did not deny that the remission of 1s. 4d. per cwt. on raw imported sugar was designed to make the industry some amends for the injury inflicted on it by the preference and bounty policy.

The clauses imposing duties on mechanical lighters and on buttons then came up for renewed discussion; and, combined with the latter, a Customs duty was introduced of 25 per cent. on imports of unwrought, enamelled hollow-ware, subsequently limited to hollow-ware used for domestic purposes. This duty had been proposed in committee of ways and means on June 8th, at very short notice after the report of a committee under the safeguarding procedure, and a lively debate on safeguarding on the usual lines had taken place. On this occasion Mr. A. V. Alexander renewed the strong protest he had made against this duty and the reply of the President of the Board of Trade showed that there was no ground for the imposition of the duty except that of protecting a small steel industry in which 1,000 fewer people were employed than two years previously, and in which there had been a trifling increase in the value of imports. One reason for this was stated to be that aluminium was taking the place of enamelled hardware as being cleaner and safer in use. There was substance in the complaint that there had been in the last three or four years a steady, rapid movement towards a general tariff. On the Government side, however, as Mr. Churchill noted, there was a strong feeling that the procedure of the White Paper had too rigidly restricted the safeguarding which Parliament had intended. Only nine measures of safeguarding had been granted out of forty-nine applications. The protectionist pressure on the Government came to a head in the debate on the vote of censure moved by Mr. Ramsay MacDonald on July 24th in connection with unemployment.

Sir Robert Horne took the opportunity to enlarge on the success of the safeguarding policy, and Sir Henry Page Croft and Sir Hamar Greenwood advocated its extension to the iron and steel industry in favour of which an agitation, supported by 200 members of the party and by various industrial organizations outside, had been set on foot. The Chancellor of the Exchequer, taking his stand on the recommendation of the Industrial Transference Board and on the scheme of rating reform and relief to productive industry which was the main feature of his budget—to be re-inforced in the case of coal by concentration on relief to export coal, bunker coal and coal for steel, and the acceleration of the date at which freight reliefs were to come into operation—gave no encouragement to his protectionist supporters. He deprecated reliance on any particular logical or doctrinaire theory whether that of the Manchester school of free trade, of protection, of currency manipulation, or of nationalization, and he concluded an able speech by saying that, " We ought not to contemplate any fundamental reversal of the fiscal system upon which the whole industrial and economic structure of this country is erected. . . . But we are perfectly free . . . . to study and develop exceptional measures for the special culture of particular trades where advantage can be gained" and "should also carry protective aid, perhaps by temporary measures, where the strain is shown to be greatest . . . where it can also be proved that we can give this aid without bringing greater evils in its train."

This utterance was almost immediately followed by a speech at Romsey in which Sir W. Joynson-Hicks took an exactly opposite line, advocating the inclusion of safeguarding of the iron and steel industries in the party programme for the coming general election. Challenged on the matter in the House of Commons, the Prime Minister, at question time on August 2nd, succeeded in reconciling these divergences, but on that occasion, and still more definitely in a letter to the Government whip on August 4th, associated himself with Mr. Churchill by declaring that the party was pledged and would remain pledged not to introduce protection or to impose any taxes on food.

The principle of the new fixed Debt Charge of £355 million came in for fresh criticism on Clause 18, and Mr. Gillett based his opposition to the proposal mainly on the ground (which had been previously discussed) that the amount set aside was insufficient to provide, for the next two or three years, a sinking fund of £50 million a year. He also objected that, as the interest charges decreased and larger and larger portions of the £355 million came to be set aside for the reduction of the debt, it was hopeless to expect that the scheme could go on for many years with so considerable a hen roost for some future Finance Minister to rob. Mr. Churchill did not in reply claim more for it than that to push ahead with this £355 million a year—an impressive figure of nearly a million pounds a day—would be a very good guide for our lifetime, and would favourably affect British credit abroad. He explained that, if it became possible to convert the debt to a lower rate of interest than the 4½ per cent. on which the scheme was based, a recalculation of the amount necessary to wipe out the debt in fifty years could be made and the £355 million fixed charge reduced accordingly. He had been led to review the whole position of the new sinking fund by the realization that the increasing claims for savings certificates interest were not being met, and were constituting a diminution each year from the nominal amount of the sinking fund, and he proceeded to give an elaborate statement of how the "accumulator" would work. The first payment out of it would be the interest and management charges on the debt, then the specific sinking funds amounting to £50½ million per annum, then the interest on the savings certificates, which would average £20¼ million for the next six years. The surplus, if any, would be devoted to redeeming debt, and, though small at the beginning, would grow into an immense sum.

Mr. Pethick Lawrence challenged almost every item of Mr. Churchill's calculations and particularly the £13,200,000 from the currency reserve, which he rightly maintained was a mere book-keeping transaction and not a real contribution to the sinking fund. He did not like the clause because it "covered up the true facts of the case," the true facts being, in his opinion, that while on paper there was a sinking fund for the current year of £65 million the real amount by which the net debt of the country was being reduced was something like £38 million only. Later on, Mr. Gillett declared that the proposals of the Chancellor of the Exchequer violated two distinct principles of British finance, namely, that the money raised in any one year should not exceed the amount needed for the actual expenditure of the year, and that any surplus should go to the sinking fund. Not only the old sinking fund surplus of last year but also the accumulated surplus of the current year, swollen by the proceeds of the new taxation which was being imposed, was to be carried forward into the suspensory account. Mr. Churchill pleaded in defence of this proceeding, certainly unprecedented, that the means were innocent and the object beneficial; and insisted that Parliamentary control was not infringed upon, as the suspensory fund was under the control of Parliament at every stage of its existence. Mr. Pethick Lawrence observed that the relief of the rates could be carried out by imposing taxation for the precise year in which the money was required, and that the true object of the method adopted by the Chancellor of the Exchequer was to enable him to make a remission of taxation next year in view of the general election. He considered, therefore, that the object, so far from being a beneficial one, was a nefarious one. Captain Bourne, Member for Oxford, and Major Kindersley, Member for Hitchin, as well as Sir John Marriott, all Conservative supporters of the Government, were scarcely less outspoken in their condemnation of this portion of Mr. Churchill's scheme.

The rest of the sitting was taken up by a discussion of the incidence of the new surtax with its prolongation of a taxpayer's liability for an additional year's tax, collected after his death, which was described by Sir John Marriott, Sir Robert Horne and others as a new death duty; and by a fresh attempt to bring the Co-operative Wholesale Society into line with other contributors to Schedule D of the income-tax, which was again resisted by the Chancellor of the Exchequer.

There followed a discussion of the betting duty, in the course of which Mr. Churchill admitted that its yield had not come up to expectation, that a great deal of evasion was undoubtedly in progress and that much discontent and unpopularity towards the Government had been excited by it among the book-making fraternity. He foreshadowed, however, that he might be prepared to overhaul the tax next year when the fate of the Totalisator Bill had become known, and meanwhile considered that £3 million a year was being raised by a method which in no way hindered the productive energies of the nation or affected its source of moral or material strength. It was not until July 23rd on the report stage of the Finance Bill that the Chancellor of the Exchequer introduced a new clause, reducing the rate of duty on betting on the course from 2 per cent. to 1 per cent., and the rate on office betting (the larger proportion) from 3½ per cent. to 2 per cent., thus bringing down the estimated yield of the tax for the current year from £3¼ million to £2 million. He intimated at the same time that he intended next year to double the charge for bookmakers' certificates, raising it from £10 to £20. The reason he gave for the concession was the desire to " mitigate to some extent the temptation to evasion " which had reduced the original estimated yield of the betting tax by two-thirds. He was also anxious, he said, to give the totalisator a good start, but was unable to state the rate of duty which would be proposed for totalisator bets. He was ready to look into the suggestion which had been pressed upon him to change the method of collecting the betting duty from the present percentage on turnover to a system of graded licence duties, but maintained that, though the duty had yielded only one-third of the revenue hoped for, even that one-third had fully justified its imposition two years earlier. But this speech was recognized by Mr. Snowden and other speakers as an admission that the tax had been a failure and could not be much longer maintained.

The discussion in committee on the Finance Bill was continued on July 3rd and ranged over the whole of the liquor licence duties, the entertainments duty and the petrol tax, without raising any new points. But Sir John Marriott, Sir Henry Buckingham, and Sir Robert Horne returned to the attack on the " surreptitious " manner in which a fresh burden was being laid upon certain super-tax payers by the substitution of the surtax, and were not too well satisfied by the reply of the Chancellor of the Exchequer that they were being placed in exactly the same position as the whole body of income-tax payers in respect of the payment required in the year of their death. For the fact remained that the change by which surtax had been substituted for super-tax with the intention of combining it with the income-tax in the form of a single graduated tax on income did amount to the prolongation of a payer's liability for an additional year collected in the year of his death, which, in certain quoted cases, would prove a real hardship ; that it thus imposed an additional burden on the super-tax payers variously estimated at between £1 and £2 million per annum ; and that it had been introduced among other proposals for " simplifying " the income-tax in the budget of 1927 in a manner which led the House and the public to consider it a matter of form rather than of substance. A good deal of resentment was felt and expressed that what amounted to an additional death duty should have been thus imposed.

This discussion was followed by one on the question of the exemption of the Co-operative Societies from income-tax raised by Sir Basil Peto in a well-informed speech and replied to by the Chancellor of the Exchequer with the usual refusal to make a change in a " deeply founded and strongly buttressed system." The demand will no doubt continue to be pressed even if, as the Treasury contends, the loss of income-tax is at present negligible ; but the ten million voters attached to the co-operative movement are likely, as Mr. Alexander threatened, to prove a serious obstacle to unprejudiced consideration of the matter by any Government.

An important financial measure of the session alluded to in the budget speech was the Currency and Bank Notes Bill, amalgamating the currency note issue and the Bank of England note into a single Bank of England issue. The second reading of this Bill was moved by Mr. A. M. Samuel on May 14th. It gave the Bank of England power to issue notes of £1 and 10s., and made them legal tender for all payments in England, Scotland, and Northern Ireland. Following the practice adopted on the recommendation of the Cunliffe committee on currency and foreign exchange, the Treasury had fixed the actual maximum note issue of 1927 (which was £244,940,000) to be the permitted maximum fiduciary issue of currency notes for 1928. Adding to this the Bank of England fiduciary note issue of £19¾ million and deducting £6 million for currency notes in use in the Irish Free State which were being replaced by an issue of Free State notes, a total of £258,690,000 was arrived at. This total was rounded up to £260 million, the figure the Bill fixed as the future fiduciary issue. As there was at the time a gold holding of £160 million, the total note issue, fiduciary issue and issue covered by gold could amount to £420 million. As a matter of fact, it stood at between £370 million and £380 million. But in order that the limit of the fiduciary issue might not be under any restriction in time of emergency, power was given to the Treasury, on the application of the Bank, to assent to a temporary increase of the fiduciary issue beyond the £260 million, a power actually made use of to the extent of £15 million in July, 1931, in consequence of the withdrawal of gold from the Bank, caused by the realization of balances held by foreign banks in sterling bills. Much discussion occurred at the various stages of this Bill as to what cover there should be for the bank note issue and what amount should be fixed for the fiduciary issue.

The main criticism of the Opposition, expressed by Mr. Pethick Lawrence and others, was that the Bill would injure trade and cause unemployment by preventing the expansion of currency when expansion was necessary to meet the requirements of industry. The further question was raised by Mr. Snowden and Mr. Lees-Smith whether the management of the currency ought to be vested in the Bank of England as now constituted and whether it should be entrusted either to a nationalized bank or to a public corporation. But whatever defects may exist in the new system of currency, none of the evils so freely predicted have definitely occurred as a consequence of this Bill which merely carried out a long foreshadowed change in a workmanlike manner. The Bill may not have gone so far towards perfect elasticity as critics at the time and since—including the majority of the MacMillan committee—would wish, but it was a definite advance in this direction compared with the Act of 1844.

The report stage of the Bill was reached on July 23rd, when Mr. Churchill moved the new rates of the betting duty, and also an Amendment embodying a concession he had promised to fishing-boat owners in respect of the petrol they use.

The third reading of the Bill on July 27th, gave rise to a debate which demands a brief notice. Mr. James Hudson, Mr. T. Williams and Mr. Pethick Lawrence repeated with great force the main objections felt on the Labour benches to the policy of the budget, and the burden of their song was the failure, as one of them expressed it, of Mr. Churchill's proposals, a "series of makeshifts and patchwork devices of every description always for the purpose of shouldering the burden upon that section of the community who are least able to bear it," to "bring either industrial prosperity or any sort of equanimity in our industrial and social life." They showed some wholesome concern at the amount of taxation upon the people and at the "colossal burden" of the interest on the debt and of national defence, which there had been no serious attempt to mitigate. But it was an attack from Mr. Lloyd George which succeeded in drawing a reply from the Chancellor of the Exchequer. Mr. Lloyd George asserted that the finance of the budget had been dislocated by the changes, both on the revenue and expenditure side, which had occurred since its introduction. Even as originally planned, the expenditure for the four future years, comprised in Mr. Churchill's first estimates, had not been fully financed. He had provided, it will be remembered, from new revenue and the suspensory fund, enough to balance the new outgoings in the derating scheme, which, with the £3 million required to inaugurate the new scheme of Local Government, amounted to £29 million up to the end of the financial year 1931. But he had admitted an adverse balance of £4 million on the working of the scheme at the end of the year 1932. During the session, however, the kerosene duty had gone with a loss to estimated revenue of £3 million and the reduction in the betting duty had caused a further loss estimated at £1¼ million, or £4¼ million in all. On the expenditure side, the special fund for inaugurating the Local Government scheme had been increased from £3 million to rather more than £5 million. Another £3 million was to be found from the Road Fund arising out of certain road responsibilities transferred to the local authorities. [This, however, did not, it was explained, affect the Exchequer and the credit balance and did not apply to the current year.] Further, the anticipation of the railway freight relief to December 1st following, announced on the previous Tuesday, would cost a considerable sum, calculated by Mr. Churchill for the four months of the current financial year at £850,000. The result, which was not contested, was that the sum to be found by the Exchequer for this year's proposals was raised from £29 million to at least £35 million and Mr. Lloyd George considered that in these circumstances, and in view of the fact that the matter had never been explained as a whole, a revised estimate should have been laid before the House.

Mr. Churchill in reply corrected certain details, but admitted that an adverse effect would be produced on the budget of between £4,600,000 and £4¾ million. He stated that, together with the £4 million odd he had "arrested" from the old sinking fund, he would still have a surplus of some £14 million at the close of the year to go into the suspensory fund; but agreed that the remission of the kerosene duty and the addition of £2 million to the rating scheme to be introduced in the autumn were two adverse factors, amounting to £5 million, which would affect the estimation of future revenue and expenditure connected with the scheme. He thought that there was likely to be little difficulty in financing the next year, but that in the year after that (1930-31) there might be a "certain difference between the revenue and expenditure." Whether this justified Mr. Lloyd George's taunt that "this was the first time we had ever had a peace budget which had negotiated, arranged and established an assured deficit" may be questioned; but the result was hardly to justify Mr. Churchill's budgeting, however tentatively, for several years ahead.

On July 31st Lord Cushendun moved the second reading of the Finance Bill in the House of Lords whose interest in it, he said, might be described as one of "critical detachment." Lord Arnold excused himself on the ground of the "shockingly congested condition of the order papers" from any serious attempt to deal with the mover's speech or with the financial record of the Government which was one of "unredeemed and unredeemable failure." Lord Beauchamp, on behalf of the Liberal party, contributed a more detailed examination of the Bill; and Lord Joicey spoke of the desperate plight of industry in the North of England which he feared the derating scheme, unless put into force at once, would do little to alleviate, and he enlarged on the deplorable effects of the death duties. After a few words from Lord Elibank urging the need for a small and reasonable duty upon imported iron and steel, the Bill received its second and third readings. The Royal Assent was given on August 3rd.

A budget may fairly take rank as a great one which dealt comprehensively with such a variety of subjects as the fixed Debt Charge, the change in the method of presenting the national accounts, the revival of a productive source of revenue in the petrol tax, and the derating of industry and agriculture linked to a momentous reform in Local Government. Mr. Churchill once observed that every Chancellor of the Exchequer makes his first budget and that all the rest make themselves. It is possible, therefore, that he may take a greater pride in his first than in his fourth budget. But at all events he had a freer hand in framing this one than the two which preceded it ; and he now took the bold course in deciding that the moment had come to alleviate the burden of rates upon industry instead of marking time and maintaining a check upon expenditure so that the improving financial situation might have its natural effect, a reduction of debt and taxation in the future. In so deciding he laid himself open to the charge of illegitimate tampering with surpluses, and even so, and with the assistance of the new petrol duty, of not having sufficiently provided for the additional charges he threw upon the Exchequer. In his defence it may be said that neither he nor his critics foresaw, or perhaps could have foreseen, the coming depression of trade which was to upset all calculations, and that even if he had done so he would have been still less justified in postponing a measure of relief which did something at all events to save certain industries from complete ruin. Mr. Snowden attributed the comparative success of the previous budget to good luck. It is quite as reasonable to attribute to bad luck the failure of Mr. Churchill's hopes of comparative ease in the financing of his rating reform.

MR. CHURCHILL'S FIFTH BUDGET, 1929-30.

April 15, 1929.

THE budget opened by Mr. Churchill on Monday, April 15th, was praised even by his bitterest opponents as perhaps the greatest of the whole series in point of eloquence and " scintillating rhetoric." Its interest was not derived from the novelty of its proposals which had been anticipated by the budget debates of the previous session; it dealt with no new principle in the development of national financial policy; and even the distribution of the surplus furnished only one surprise, the repeal of the tea duty, which from the nature of the case aroused no opposition. The moment of its introduction, which was the eve of a general election, allowed no time for any detailed discussion of its provisions. But if the debates were brief they were far from being tame. For Mr. Churchill had at once carried the war into the enemy's camp by making the Budget speech in tone an election manifesto, and it was so characterized by Mr. Snowden who added with more than his usual acerbity that a "more shameless piece of election bribery had never been made by any political party." What in fact Mr. Churchill endeavoured to do was to present a survey of the whole five years and a reasoned defence of his administration at the Treasury.

In spite of the "deep gash" which the industrial disaster of 1926 had cut across the national statistical record and which had caused a loss to the Exchequer, including the coal subsidy, of not less than £80 million, "matters had worked out a good deal better than he had hoped or expected" and a solid surplus had been realized in the past year. For more than two years the country had enjoyed a "lucid interval" without a general strike, or a general election, or a war; and the result was that, judged by all the ordinary tests, the condition of the masses of the people had materially improved. Savings by the smallest class of investor had increased; employment in the insured trades had gone up; the cost of living index had decreased by eighteen points while money wages had remained almost exactly at the level of 1924; there had been a notable decline in the consumption of alcoholic liquor and a progressive diminution of drunkenness; the consumption of working-class indulgences, motor bicycles, excursions and popular amusements, had shown a general increase; and, finally, the consumption of tea and sugar had reached record figures. Further, the balance of trade had sensibly improved; foreign investment, new capital issues for home investment, and bankers' deposits had all made steady growth since 1924. Although in every point his reading of the figures was contested by Mr. Snowden and in a less unqualified manner by Mr. Graham, there was certainly no evidence of the impairment of working-class purchasing power or " decline of their physique and the other hardships which they had endured " (in Mr. Graham's words) in spite of the deplorable fact that unemployment had averaged about $1\frac{1}{4}$ millions during the period.

Coming to finance, Mr. Churchill was on more debatable ground. On the subject of public economy he judiciously began by laughing out of court the avowed policies of the two opposition parties which vied with each other in promises of vast expenditure, the only differences being that the Labour party would get the money by a surtax of 2s. in the £ on investment income over £500 per annum, and the Liberal party by borrowing £200 million as a beginning, to be spent mainly on road-making for the benefit of the unemployed. He then drew attention to the economies effected in the fighting services and in the civil supply services, stating that in spite of increases, such as those for old age and widows' pensions, there had been an actual decrease of £$5\frac{1}{2}$ million in the civil votes as compared with 1924. During the past year he claimed that by continuing the policy he had adopted three years earlier of a second scrutiny of the spending departments and by careful day to day administration he had effected a saving of £6 million since the estimates had been passed. But Mr. Churchill also said that in his judgment there was no room for large cuts in the social services, nor in the Navy, the Army, or the Air Force.

The Chancellor of the Exchequer then turned to the question of the gold standard and the cost of living. While admitting that the policy of paying our debts and maintaining a sound currency inevitably implied " high taxation, national sacrifices and some suffering " he dwelt on the " rewards " of returning to the gold standard, in making inflation impossible, in regaining for this country its position as the greatest international market and in its effects on the world-wide operation of credit and commerce on which nearly one-quarter of our population depended and for which the stability of sterling was essential. Not the least of the attractions of this policy for him had been the decline in the cost of living which it had brought about and which he calculated had been equivalent to a remission of indirect taxation of £160 million a year by increasing the purchasing power of consumers. But when he stated that money wages had remained at about the level of 1924 he touched on one of the reasons which was to make the restoration of the pre-war gold parity impossible to maintain in face of a catastrophic fall in wholesale world prices. That policy would have necessitated, if it were to be successful, the acceptance of conditions for which neither the public nor political parties were prepared, namely, rigorous economy, frugality and a readiness to make whatever downward adjustments were necessary to keep the English price level and costs of production on a parity with world levels.

Dealing with the National Debt, the Chancellor of the Exchequer adopted a calculation, based on direct actuarial valuations of every separate stock, which showed that the obligations imposed on the State by the existing debt contracts had fallen in the last four years by £175 million; that maturities, principally in National War Bonds, with which he had had to deal to the amount of £1,105 million by conversion, had resulted in interest savings of £1½ million: and that the reduction of the debt by the operation of the sinking fund had reduced the interest on the debt by another £9½ million.

In spite of this, the total annual charge for the services of the debt had unfortunately increased owing to increases in the charge on account of savings certificates (£11 million), and the high rate on Treasury Bills in 1928 which raised the cost of the floating debt to £5 million more than in 1924.

The estimate of expenditure for the year 1929-30 did not differ materially from the actual expenditure for the previous year, only exceeding it by £2¼ million. But the total of £741,964,000 (apart from the self-balancing expenditure of the Post Office and Road Fund) comprised on the one hand a reduction, compared with the out-turn of 1928-29, of from £57,509,000 to £50,400,000 for sinking fund, and from £311,491,000 to £304,600,000 for interest and management of the debt, but on the other hand an addition of £15,560,000 for the new Exchequer contribution to local revenues caused by the derating Act.

Mr. Churchill then gave a forecast of revenue based on the results of the previous year in which Customs and Excise had shown a deficit of £8,400,000, almost entirely accounted for by beer. The sugar remissions of 1928 had cost one million more than estimated owing to the very rapid shrinkage of imported refined sugar, and in spite of gloomy Opposition prophecies a year ago the price of granulated sugar had fallen by ½d. a pound. The consumption of both sugar and tea had reached record figures. The betting duty, which had been payable at the higher rate during the flat-racing season, had yielded £2¼ million, a quarter of a million more than had been expected, while the new oil duty, which had proved easy to collect, had yielded £800,000 more than the estimate. Income-tax had exceeded the estimate by £4,700,000, and death duties by £8½ millions, but super-tax had yielded £3,800,000 less than expected. Stamps had yielded £2 million more than the estimate, and in estimating for a further small increase in 1929-30, Mr. Churchill counted, erroneously as it turned out, on a continuance of Stock Exchange activity. His estimates for other Inland Revenue items were also on an optimistic basis, while those for Customs and Excise showed an increase of nearly the same amount—about £5 million over the receipts for 1928-29. Adding together the tax and non-tax revenue (apart from the self-balancing revenue and expenditure of the Post Office and the Road Fund) the total ordinary revenue for 1929-30 reached £753,940,000, giving on the basis of existing taxation a prospective surplus of £11,976,000.

There was also in hand in the suspensory fund, " 'Our nest egg,' £22,633,000. I place those two surpluses, so to speak, upon the mantelpiece, where they can be admired or deplored, according to party inclination." The Chancellor of the Exchequer prided himself on the amount of the prospective surplus, all the more because the revenue would no longer depend on adventitious aid or windfalls. "We stand once more on the basis of permanent and continuing revenue."

Before proceeding to deal with this surplus Mr. Churchill reviewed the changes in the revenue since he had been responsible for the finances of the country. The remissions made by Mr. Snowden in 1924 had cost £13½ million more in a full year than in the year in which they had been given. The special revenue from war stores had dropped by £11½ million, and revenue from beer and spirits by £10½ million. He had himself remitted £41 million of income-tax and £4 million upon sugar. Beyond this "total adverse tide" of over £80 million, the coal stoppage had cost the Exchequer £80 million spread over four years. To meet this he had brought into revenue, in order to avoid the reimposition of severe taxation, £19 million from the Road Fund, £10 million from the brewers' credits, £17 million from the earlier collection of Schedule A, £14 million from the currency note account and unclaimed dividends, or £60 million in all. Further, the debt settlements and the working of the Dawes plan, for which he gave all credit to the leader of the Opposition, had secured increased receipts of over £23 million a year, that is, actual receipts of £32 or £33 million; the Post Office surplus had increased by £4½ million, the Treasury share of the motor vehicles duties was £4½ million, and the general growth of the yield of taxation had been £38 million. But in place of the £45 million of taxes remitted he had increased the old taxes on wines, tobacco and matches by £6 million, and devised new taxes on silk, which, with the McKenna duties, duties on tyres and various safe-guarding duties, yielded over £13 million, a burden which was far less detrimental to trade and industry than the income-tax, and could not be regarded as on the same footing as taxes on sugar, beer and tobacco in their effect on the working-man's budget.

Mr. Churchill's first proposal was no surprise. He admitted frankly that the duty on betting had proved a "fiasco" and had worked unfairly, and he had decided on its immediate repeal, but the personal licence duty of £10 upon all bookmakers would be retained, and, in addition, a licence duty of £40 a year upon every telephone installed in a bookmaker's office would be imposed. He considered that a tax of one-half per cent. on the takings of the totalisator would be a fair equivalent to the licence duty upon bookmakers. The net cost of the changes would be £900,000 in a full year.

Only one new tax burden was to be imposed. The manufacturers' licence duties upon brewers, distillers and tobacco manufacturers were to be raised so as to take away from these flourishing industries the equivalent of the relief which they would obtain under the derating scheme. New revenue of £480,000 would be obtained in this manner. On the other hand the retail liquor licence duties imposed in 1910 had long been held to be too high in view of the curtailment of hours of sale, and Mr. Churchill now proposed to reduce the retailers "on" licence duties by 25 per cent. at a cost of £950,000 in 1929-30 and £970,000 in a full year, and at the same time allow such "off" licence holders in England and Wales as held a Justice's Licence to sell single half-bottles of spirits. A provision of £30,000 was to be made for reducing harbour dues in certain cases where they pressed unduly upon fishermen; one or two minor alterations were to be made in the stamp and motor vehicle duties; and, finally, improved telephone facilities, especially in rural districts, were to be given at a cost of £90,000 per annum, and £1¾ million in the shape of capital expenditure was to be authorized to equip with telephone call boxes the bulk of 6,000 post offices and 1,600 rural railway stations which had actually neither telegraph nor telephone facilities. These various proposals decreased the estimated surplus by £1,430,000, leaving it at £10,546,000.

Another dissertation now interrupted the development of the budget proposals, this time directed against the Liberal Yellow Book scheme to raise £200 million to be spent on public works, mainly on roads, as a cure for unemployment. The Chancellor of the Exchequer expounded the orthodox view that when the Government becomes a borrower it competes for resources which would otherwise have been employed by private enterprise and so raises the cost of money to all who have need of it, without any certainty that the spending of this money would produce more beneficial results than if it had been left available for trade and industry. The Government had in fact themselves disregarded this view in the hope of inducing a return to prosperity and had provided for an expenditure during the last five years on housing, roads, telephones, and agricultural development from revenue or loans and guarantees under the Trade Facilities Act, amounting, if expenditure incurred on the basis of Government grants by the local authorities were included, to well over £400 million. This great sum, he believed, had, on the whole, not been unwisely invested, but for the purpose of curing unemployment the results had been so meagre as to lend considerable colour to the orthodox Treasury doctrine that very little additional employment can in fact and as a general rule be created by State borrowing and State expenditure. And for the moment at all events the additional expenditure advocated by "the Happy Warrior of Squandermania" was deprecated by Mr. Churchill who, although almost in the same breath priding himself on having brought up the total expenditure out of the Road Fund from £15 million a year to £23 million, once again pointed out the extravagance of forcing road construction to such a pitch in a country already provided with the best roads in the world. He wisely argued that unemployment could only be reduced to the normal by the revival of industry as a whole, and especially by the revival of the basic industries.

With this object in view, Mr. Churchill made " a modest but immediate contribution " to the modernization of industry by the abolition of the old Railway Passenger Duty which yielded nearly £400,000 per annum, on the condition that the capital equivalent of this relief, put at £6½ million, should be spent on the development of railway transport. But he insisted that the best and surest way of helping productive industry was through the derating scheme of the Government, by which three-quarters of the rates on productive industries of all kinds and the whole of the rates upon agriculture were to be abolished at a cost to the Exchequer of £36 million of new money in relief of local rates in a full year. During the present year the yield of the petrol duty, £15,700,000, would be sufficient to meet the half year's relief, and the suspensory fund of £22½ million need not be drawn upon. For 1930-31 the petrol duty should yield £17 million, and £3 million would be provided from the Road Fund, leaving less than £16 million to be taken from the suspensory fund. For the succeeding year the balance of this fund, increased by any surplus resulting from 1929-30, would be available with the petrol duty, and Mr. Churchill counted on the normal growth of the revenue to make up a deficiency of something like £14 million. The scheme was, therefore, not fully financed beyond the year 1930-31, and on this ground Mr. Lloyd George arraigned Mr. Churchill as " the first Chancellor of the Exchequer to budget for a great deficit for his successor."

In view of the improved prospects of the Revenue and the increased amount of the suspensory fund, the Government had decided to bring the relief of agricultural rates into immediate operation, instead of waiting until October, a change which would reduce the suspensory fund by £2½ million, but for various reasons the Chancellor said it was impossible to give the same concession to manufacturing productive industry.

The various tax changes and reliefs would reduce the prospective surplus to £10,246,000, and in the traditional fashion the Chancellor of the Exchequer now dangled before his audience other possibilities before coming to his method of disposing of it. He rejected the claims of the super-tax payer, and the income-tax payers had already received a relief of 6d. in the standard rate in addition to cumulative rebates and allowances in the budgets of 1925 and 1928 affecting more than half their number, the "black-coated working men"—brain-workers, professional men and so on. He, therefore, turned his gaze upon the indirect taxpayer, and announced the repeal of the duty on tea which had been in existence since the seventeenth century and which would absorb £6,150,000 of the surplus. He forestalled the criticism that the preference on three-quarters of the tea consumed in this country, which was produced within the Empire, would thus disappear, by saying that as Javanese tea entered largely into the cheapest blends, to maintain the tax upon it would exclude from the benefits of remission the very class on whose account the sacrifice of revenue was being made, and he pointed out that by this remission the proportion of our revenue raised from "comforts," *i.e.*, the remaining breakfast-table duties and matches, fell from 4·43 per cent. under the Labour administration to 2·91 per cent., by far the lowest percentage ever known.

The best that could be said for this sacrifice of revenue which was unjustified by the real fiscal position but which the members of no party ventured to oppose was, as Major George Davies observed, that it freed the House from the tedious repetition of annual speeches on the subject; the worst that it was a bribe to the electors which deservedly failed of its object.

Mr. Churchill was left with a final prospective surplus of £4,096,000, which he hoped might be increased by further departmental savings and be sufficient to meet any supplementary estimates besides leaving a balance, which he would like to go to the suspensory fund for rating relief. He then announced that owing to the imminence of the general election, which left only a very few days of Parliamentary time for financial discussion and legislation, a new procedure would be followed on this occasion. There would be two Finance Bills, one containing all the necessary provisions to carry out the Government policy and to protect the Revenue, which would thus provide for the continuance of the income-tax, the duty on hops and the repeal of the tea duty, the betting duty on turnover, and the railway passenger duty, and a second Bill, which would stand over till the new Parliament, to contain the consequential or machinery clauses. There would be no general resolution, therefore, for the amendment of the law giving the opportunity for the moving of new clauses, but the budget discussions would be confined to the resolutions on which the first Finance Bill would be founded and its subsequent stages.

In his peroration, Mr. Churchill was obviously addressing a wider audience. " I feel," he said, " that the corner in our economic fortunes may well now have been turned. There are no causes, apart from fresh causes of our own making, which should prevent the next four or five years being easier and more fruitful than those through which we have made our way. The future lies freely in our hands. Reviving trade, lower unemployment, expanding revenues, cheaper money, more favourable conditions for debt conversion lie before us at this moment as reasonable and tangible probabilities. We can by wisdom and public spirit bring them nearer and realize these long sought for advantages. We can by faction, violence, and folly drive them far away again. The future is inscrutable, and it is equally vain to prophesy or boast, but for my part I have faith in the fair play and august common sense of the British nation, and to their judgment now, and in later years, I submit with confidence the financial record of a Conservative administration."

The principal discussions took place on the two days following the introduction of the budget, on the resolution for the repeal of the tea duty, and ranged over the whole field of Mr. Churchill's finance. On the tea duty itself what was to be said was well said by Colonel Gretton, who thought it a very great pity that the preference had not been maintained on the tea produced within the Empire and suggested that the repeal was in contravention of a resolution passed on July 1st, 1926, to continue preferential rates in the case of an article of Empire produce for a period of ten years. The Opposition could do no less than welcome the remission, but they welcomed it ungraciously as a very small measure of relief to the indirect taxpayer, and Mr. Snowden contrasted this remission of £6 million with the £38 million which he asserted had been imposed on the people in the last five years. This sum, however, as Sir Laming Worthington Evans pointed out, included not only the new petrol duty (£15,700,000), but the betting duty and the duty on heavy motor vehicles, the increased duties on wines, tobacco and matches, the silk duties and the McKenna and safeguarding duties, and none of these duties could be compared in their incidence on the poorest classes with the tea duty. Mr. Snowden's severest censure was reserved for the sinking fund operations, and he began by asserting that the Chancellor of the Exchequer had in reality no surplus to give away and that the tea duty remission constituted another raid on the sinking fund, for "this fictitious surplus of £10 or £11 million had only been obtained by under-estimating what the Debt Charges would certainly be during the current year." There was no reason whatever to think that the increased rate on Treasury bills which had prevailed for the last two months would not continue, or that the amount to be provided for savings certificates would be less than it was last year.

Mr. Churchill had claimed to have provided £57½ million last year for the sinking fund. By various deductions, including the £13,200,000 taken from the currency reserve, Mr. Snowden reduced this figure to £36½ million and said that Mr. Churchill had not come within £20 million of the Baldwin sinking fund, and even asserted that he had "had a deficit on the year out of genuine revenue." In every one of his budgets except the first he had had on the same principle a real deficit. Mr. Snowden maintained that, in spite of Mr. Churchill's promised reduction of £5 million a year, the Debt Charges totalled last year practically the same figure as in 1924-25, but that during the four years it had averaged £2 million a year more than in that year, and he fell foul once more of the appropriation of the surpluses of last year and the current year to the "suspensory fund" for purposes of financing the derating scheme. One after the other the budget proposals were subjected to acrimonious criticism and even the derating of agriculture was called a sop to the farmers and landlords in view of the election.

Mr. Churchill had dwelt in the budget speech on the success of the duties on silk and artificial silk which had produced a revenue of £6 million, decreased imports, increased exports and increased employment, while accompanied by a fall in the home price of artificial silk of 25 per cent. Mr. Snowden reminded Mr. Churchill of his admission on a previous occasion that the imposition of duties had merely intercepted a fall in prices and that no conclusion in favour of protection could be drawn from what had occurred in the case of new and progressive industries like artificial silk and motor cars. He asserted that the decrease of the liquor licence duties really meant that the Chancellor of the Exchequer was taking £400,000 from the brewers by the increase of the manufacturers' licence, and compensating them by the gift of £1 million by the reduction of the retailers' "on" licence duty. And finally, in concluding a summary of Mr. Churchill's "career of financial profligacy," he remarked that "it would take years of careful husbandry to bring back the national finances to a condition of soundness and stability."

Mr. Runciman, after a somewhat uneasy reference to the Liberal programme of fresh expenditure, followed up his previous attacks on Mr. Churchill's handling of the public debt and ascribed the high rate of interest on Government loans and the floating debt, which affected not only the budget provision, but every public body or company or individual who required to borrow money, to the fact, as he put it, that the Chancellor of the Exchequer had not actually been wiping out debt but creating it as quickly as he had been wiping it out. Of the £173 million of net sinking fund between 1925 and 1928 no less than £137 million was provided out of accounts such as the Road Fund, the brewers' credit, the accelerated collection under Schedule A, and the currency notes credit—all assets and not free revenue. He concluded with a warning which subsequent events were to justify that "the only way in which you can reach a basis of sound finance is by a reduction of expenditure. Unless your revenue exceeds your expenditure you cannot add to your national assets; unless you add to your national assets you cannot have expanding trade; and unless you have expanding trade you cannot have a well employed community."

Sir Robert Horne and Sir Laming Worthington Evans both pointed out, with reference to criticism of the fixed Debt Charge, that it was automatic in action, and that if in one year (as in the last) interest rates were higher and the sums available for sinking fund lower, in another the reverse might be the case, and that the rough must be taken with the smooth in view of the fact that within fifty years the whole debt would be repaid if the charge of £355 million were maintained. Sir Laming gave again a clear statement of the arrangement and actual working of the new fixed Debt Charge, and maintained that the net sum of £57½ million was "available this year" for the purpose of the sinking fund and that this sum compared with about £40 million provided by Mr. Snowden in 1924-25. He further maintained that in spite of Government borrowing the higher interest rates were due, not to the Government, but to causes originating in America, and showed that between the introduction of last year's budget and February of the current year interest rates had fallen and gilt-edged securities increased in value. But he could not dispute the serious fact that the central and local Government had spent something like £400 million, mostly borrowed, on " carefully considered schemes " of housing, roads, telephone and other developments, and that these operations must have had their effect on the rate of interest. Like the Chancellor of the Exchequer, however, he carried the war into the enemy's camp by some effective criticism of Mr. Runciman's attitude towards Mr. Lloyd George's plan for curing unemployment by further gigantic development loans.

Mr. Gillett in an able and well-informed speech from the Labour benches was sarcastic about the attitude of Mr. Runciman, " the most conservative financial expert in the House," towards the Liberal proposals for expenditure, and differed, like the Secretary of State for War, with his assertions that money rates were influenced in the main by the action of the Government. " We were," he truly said, " the victims of New York and nothing could have been done to save us in view of our position following on our having gone back to the gold standard."

Among the topics raised in the budget speech that of the gold standard led to some discussion. Sir Robert Horne again defended the action taken in 1925 as having been practically forced on the country by the expiry of the Act forbidding the export of gold on December 31st in that year. An extension of time would have been desirable, but to have renewed that Act would have " destroyed our rising credit in every country of the world." He admitted that the return to the gold parity had undoubtedly put this country on the basis of higher costs than operated abroad, but thought that, though it was a " hard road " for us to take, on the whole our action was right, and would ultimately repay us.

Mr. Mond, while applauding the views expressed by the

Chancellor of the Exchequer on sound money and finance, suggested that from the industrial point of view there was another side to the question. He thought the gold standard was "a piece of machinery, not an article of faith" and "should not be allowed to become our master." It would be dangerous to abandon it till we had devised some other method of controlling our currency and credit, and he therefore urged the Chancellor of the Exchequer to set up an expert enquiry for this purpose. But it could not be right to adhere to the gold standard under conditions in which we ran the risk of giving a "severe check and set-back to the trade and commerce of this country," which was far more concerned in productive industry than in financial transactions, however important these might be in our general scheme of finance. This country could do the most useful work in solving the technical question of the standard; and whatever might be said "of the stability or instability of our national credit or national currency, he did not think anyone who had studied the examples of the world would deny the importance of foreign opinion in regard to our national financial system." The literal truth of this remark, the first hint of the kind to be found in these debates, was to be realized sooner perhaps than the speaker himself expected.

Mr. Graham's contribution to the debate was on his usual thoughtful level but did not contain much in the way of practical criticism of the budget. It was not to be expected that the destructive and unproductive expenditure of the war—Mr. Graham reminded the House that from 1914 to 1920 this country had spent more than in the preceding two and a half centuries—should not have had a marked reaction upon the material condition of the people; but he was not convincing when he criticized Mr. Churchill's encouraging review of national progress as a "partial statement of selective prosperity."

The perfunctory discussion of the budget was enlivened by one question which aroused a somewhat factitious excitement among the Parliamentary leaders. Mr. Snowden in the course of his attack on the budget animadverted on Mr. Churchill's debt settlement with our Continental debtors, remarking that no more scandalous transaction had ever been carried through by a British Minister than the settlement with France, of which country he allowed himself to remark that by her " repudiation " of four-fifths of her National Debt many British people had been practically ruined by France " bilking " her national obligations! He compared the British settlement with both France and Italy very unfavourably with the settlement made by the United States with these countries, and stigmatized as the worst feature of these agreements that by which, if we ever got more from the annuities and German reparations than our payments to the United States, we had to reduce the amount of the annuities to be received from our continental neighbours. " We have never," he exclaimed, " subscribed to the principle of the Balfour Note. I think that was an infamous note." Mr. Snowden added that the Labour party would hold themselves open, if the circumstances arose, to repudiate the conditions of that note.

This outbreak of " John Bull aggressiveness " was taken more seriously than the speaker perhaps intended. But as Sir E. Hilton Young observed, the liberal principle of the Balfour Note was one of the foundation stones of the resettlement and reconstruction of Europe, and it was only by making these debt settlements that we could stabilize exchanges and restore foreign trade. The threat to tear them up was, therefore, a serious matter, and it was not to be wondered at that the Government spokesmen joined in a chorus of protest. Sir Laming Worthington Evans put a more favourable construction on the figures of the French and Italian settlements, inaccurately calculated, as he maintained, by Mr. Snowden, and insisted that the existing agreements were a fair equivalent to the American settlements. The principle of the Balfour Note had for seven years been the foundation of the treatment of the European debt problem by every Government which had held office here, and was that of our policy in respect to the expert inquiry at that moment being held in Paris into the Dawes annuities (which resulted in the Young Plan). Mr. Snowden, in reply to this challenge, was quite unrepentant, and said that although his words were spoken on the spur of the moment he could not have improved on a single word if he had had to prepare his statement. He did, however, relying on the words, "if the circumstance arose," deny that he had advocated repudiation of the allied debt settlements, and Mr. Ramsay MacDonald, in the course of a somewhat rambling pronouncement, asserted that there was no foundation for any idea of "repudiating agreements that bear our signature except under the condition under which all agreements may be revised and new agreements made." There perhaps the matter might have been left, but Mr. Churchill could not resist the opportunity which Mr. Snowden had given him of an easy party score, and persisted in the futile attempt to obtain from the Leader of the Opposition a plain answer to this "simple" question, "Is it clearly understood that the policy of the Labour party is not to take more from Europe than we have to pay America?"

With this unanswered question the second day's discussion of the resolutions came to a close to be resumed on April 22nd when the resolutions were reported and the Finance Bill founded on them read a first time. During this short debate Mr. Graham entered upon an interesting analysis of the income-tax statistics, the number and income of the super-tax payers, an estimate of the amount of evasion, the amount of industrial profits going to reserve—£164 million or more per annum—and the question of its taxation, and the total amount of industrial savings which, following the Colwyn committee, he put at about £450 million per annum. But he seemed to draw no very definite conclusion from all these figures except an indication that there were still "sections of the community well able to pay an appropriate contribution," and that "savings should be distributed over a much wider field."

Mr. Snowden gave fresh expression to the strong feelings he had always entertained towards the betting duty and objected, not only to the telephone charge to be imposed on the bookmakers, but also to the totalisator, the Bill to authorize which had been carried through the House of Commons. Mr. Churchill replied that he should be the last to grudge his opponent "any momentary satisfaction which he might enjoy by gloating upon the failure," or, as he had himself called it, the fiasco of the betting duty, and repeated that the main reason for its withdrawal had been that it was "honeycombed with evasions."

The second reading on April 25th gave rise to a debate of a general and somewhat academic character in which both sides endeavoured to place their claims to support before the country. The Financial Secretary to the Treasury, Mr. A. M. Samuel, who moved the second reading, laid much stress on the estimate of industrial savings quoted by Mr. Graham three days previously from the Colwyn report, and drew from it the conclusion that in five years we had added £2,250 million to the "general pool of the assets of the nation," and, further, that these savings, if continued, might increase the national wealth by approximately the figure of the debt due to the war. He went on to an analysis of the Treasury percentage calculation of the position as to direct and indirect taxation, deducing from them that the percentage of total taxation derived from the "necessities and comforts of the people" had fallen from 4·43 per cent. in 1924-25 to 2·91 per cent. under the "Tory" Government, the lowest on record; both good points in justification of the Conservative administration, but both inviting telling retorts from Labour opponents. To take credit for the reduction of taxation of the workers to a minimum was to endorse their standing contention as to the inequitable and oppressive character of our fiscal arrangements. And to emphasize the growth of the national wealth was to suggest the question as to where that wealth goes and why so little impression is made on the mass of poverty in the country.

Mr. Dalton's speech showed plainly how little Socialist opinion was conciliated by such considerations as Mr. Samuel had put forward. He analysed in his turn the figures of the incidence of taxation and drew conclusions from his own classification of direct and indirect taxation and from the Colwyn committee report quite different from those reached by Mr. Samuel—rather unconvincing exercises on both sides. He maintained that the benefit of the abolition of the tea duty was exceedingly small, and that to make any serious impression on the cost of living of the poor all the food taxes must be swept away, those on coffee, cocoa, chicory, and, much more important, sugar. Sir Basil Peto, it should be noted, gave an effective reply in the case of sugar, and argued that the reduction and differentiation made in the previous year had done more for the working classes by reducing the price and giving employment than the complete abolition of the duty would have done. Mr. Dalton inferred from an examination such as Mr. Graham had made of the Inland Revenue statistics of super-tax and death duties that there was no truth in the widely held opinion that the whole country was poor and could not afford expenditure on such objects as housing, better old age pensions and so on, and held that increased taxation could and should be levied on the larger incomes and fortunes. That wealth was still accumulating seemed, therefore, to be admitted on both sides. But so were the burdens upon it caused by the requirements of the State, which, in circumstances not at that time foreseen, were to demonstrate the falsity of Mr. Dalton's confident assertion by straining the credit of the country to the breaking point.

Nothing of importance was added by the necessarily perfunctory discussion on April 29th, when the Bill was reported without amendment, or on the third reading on May 3rd, and the first Finance Bill passed through the House of Lords on May 8th. The fate of the second Finance Bill had been foreshadowed by Mr. Snowden's criticisms, and when as the result of the election he found himself for the second time, Chancellor of the Exchequer, he announced early in July that it would not be proceeded with, and the proposals to tax bookmakers' telephones and totalisator stakes, to reduce the liquor licence duties and to allow the sale of half-bottles of spirits were accordingly dropped.

In the concluding passages of his budget speech the Chancellor of the Exchequer had placed on record a defence of his financial administration, and something may here be said on this question. The central point to which he was never tired of referring was the coal disaster of 1925 and 1926, and he admitted that if he could have foreseen the course of events he would not have remitted 6d. off the income-tax in the first of these years. Once it had been reduced, however, to a clear-cut 4s., it would have been "very injurious and very vexatious" to raise it again, nor did he wish to detract from the great remission of indirect taxation on the "comforts" of the people given by his predecessor, Mr. Snowden. To avoid either of these alternatives he had been driven to the various expedients such as the invention of fresh taxes, some like the silk duties and petrol duty successful, others unsuccessful like the betting duty, to raids on the Road Fund and to the search for "windfalls." By such means he had escaped the necessity of imposing taxation of an obviously burdensome character; he had tided over a difficult period; and he had under considerable difficulties from his own party maintained the general free-trade character of our fiscal system postulated by the pledges under which Mr. Baldwin had assumed office, although claiming to have carried the preferences upon Empire products, notably upon wine, sugar and tobacco, to the furthest point they had yet attained, with a remarkable accompanying growth of Empire trade. As to the gold standard question, he declared that its successful re-establishment would still be regarded as a memorable event long after the sacrifices it entailed had been forgotten. He had been much taunted with his failure to redeem his promise of economy, but he claimed to have " checked the upward trend of expenditure," and asserted that on a " strictly comparable basis " it was £6 million less than it was in 1924. He also asserted that he had maintained, on the average of the five budgets, payments to the sinking fund and upon the accumulated interest of savings certificates substantially greater than those made in former days. He had besides provided means to inaugurate and finance for a period far beyond the lifetime of the present Parliament two great measures of domestic reform, the pensions and insurance scheme of 1925 and the derating scheme and local government reform of 1928. Finally he thought—alas for human prevision—that " there were no causes apart from fresh causes of our own making which should prevent the next four or five years being easier and more fruitful " than the past, and he looked forward to reviving trade, lower unemployment, expanding revenues, cheaper money, and more favourable conditions for debt conversion as " reasonable and tangible probabilities."

Such in outline was Mr. Churchill's case. The strongest defence of his budgets was that he had endeavoured to nurse the finances of the country through bad times even though the endeavour involved some neglect of the strict canons of financial rectitude to fit his policy to the needs of industry and to avoid imposing injurious burdens upon it. Their weakest point was in respect of debt and economy.

But although it is now obvious that the whole scale of our public commitments and establishments, central and local, was outgrowing the means of the nation there was little support in Parliament for economy, and Mr. Churchill's experience with the Economy Bill of 1926 was not such as to encourage him in a sustained effort to reduce public expenditure. Apart from the departmental scrapings for which he took credit, there seemed little field for effective economy. In this very budget speech the Chancellor declared that there was " no room for large cuts in the social services " and prided himself on his " immense extension of the pensions and insurance scheme in 1925," without alluding to the fact that the scheme had not resulted in the lightening of the burden in respect of unemployment insurance which he had held out as an inducement to its adoption. The cost of unemployment insurance, however, had not, in his period of office, reached a point where it actually threatened the stability of the public finances, and the time had not yet arrived when any Member of Parliament on the eve of an election could have plucked up courage to advocate the curtailment of this class of expenditure. It is more difficult to find even a negative justification for Mr. Churchill's dealings with the National Debt. To have decided that in the special circumstances of these years it was inexpedient to attempt any large repayment of debt while scrupulously refraining from creating new debt would have been a line of policy with much to be said in its favour. But to juggle with deficits and surpluses in order to balance the budgets and in a manner calculated to throw dust in the eyes of the public was another matter and deserved the reprobation which it received from most competent financiers in the House and outside. But when all is said there was nothing so desperate in the financial situation as Mr. Churchill left it but that a few years of industrial prosperity and careful husbandry might not have retrieved it, and an impartial retrospect can hardly, therefore, endorse the fierce and even contemptuous criticisms to which his budgets were continuously exposed—criticisms which would carry more weight with posterity if their chief author had not within a couple of years found himself obliged not only to intensify the expenditure but to resort to some of the methods to meet it which he had censured in his predecessor.

Critics of Mr. Churchill's budgets do not always recognize that he was unfortunate in having had to contend, during his whole period of office, with a continuous depression of trade ; and a good deal less would have been heard of the occasionally dubious methods to which he resorted to tide over some difficult years if they had been followed by the industrial revival to which he looked forward instead of the disastrous accentuation of the depression which set in after the end of his term of office.

But the signs of improvement were not so evident as the Chancellor of the Exchequer appeared to think, for trade remained bad and unemployment hovered at a figure of over a million at a time when other countries were relatively free from it ; and even before the return to the gold standard our manufacturing costs were too high in comparison with those of our competitors. The return to gold, for which Mr. Churchill was officially responsible and of the success of which he boasted in his last budget speech, demanded certain readjustments in the economic structure which in fact were never applied, for the fall of prices to which it contributed enhanced the burden of the debt and fixed interest charges to the benefit indeed of the *rentier* but to the detriment of productive industry on which these charges pressed more heavily than before ; while the maintenance of money incomes, salaries and wages, at their former high level increased the disparity between our manufacturing costs and those of our foreign competitors and had a disastrous affect on the British export trade.

It is a valid criticism of Mr. Churchill's financial policy that he did not realize the implications of the return to the old gold parity, but if so he erred in company with financiers of much greater experience than he ever claimed, and not least with his successor, Mr. Snowden. As Chancellor of the Exchequer, however, he cannot escape some share of responsibility for what was to follow. For if sail had been shortened in time and British costs and British expenditure could have been brought into some relation with the conditions created by monetary policy, the country would at all events have been in a better position to meet the further catastrophic fall of prices which was to cause widespread ruin all the world over, to swell unemployment in this country as in others to unmanageable proportions, and to bring about the final budget deficiency which resulted in the fall of the Labour Government in little more than two years.

MR. SNOWDEN'S BUDGETS.

SECOND BUDGET, 1930-31.

April 14, 1930.

On Monday, April 14th, Mr. Snowden opened the first budget of his second tenure of the Chancellorship of the Exchequer, with a speech which was in striking contrast to those of his predecessor. It was a brief and plain business statement, quite devoid of verbal felicities and rhetorical graces, and as uncontroversial in tone as a "difficult and unenviable task" could be. But if it was unsensational in tone, in substance it was far otherwise. "In lucidity and compression," to quote Mr. Lloyd George's neat description, "it was the same miracle of compression as a six-inch shell, and it had the same shattering detonation in its effect upon some of my honourable friends on this side of the House." It was certainly a crucial test of the height to which direct taxation could be carried at a time of unparalleled trade depression and unemployment.

The introduction of the budget had been preceded by much Parliamentary discussion of a subject which had given constant anxiety since the accession of the Labour Government to office in the previous summer, the condition of unemployment and of the unemployment insurance fund. On the third reading of the Unemployment Insurance (No. 2) Bill on December 16th, 1929, Mr. Snowden had summed up the complicated financial provisions of this Bill—the debt on the fund which had been £5 million, when the Labour party left office in 1924, had risen to nearly £37 million under Sir Arthur Steel-

Maitland, owing partly to a reduction of the contributions by the Act of 1927 and partly to the rise in unemployment which followed the coal stoppage in 1926; and the fund was therefore within £3 million of the exhaustion of its authorized borrowing powers, which were only sufficient to cover an average unemployment of one million, whereas the figure often stood at 200,000 to 400,000 above that during the last few years. There was much bitter controversy as to the reason for this state of things, Mr. Snowden maintaining that it was entirely the fault of the late Government in having reduced the contributions by £10 million, and the Opposition pointing to the largely increased expenditure caused by unemployment legislation of the autumn, to which Mr. Snowden's reply was to point to the further concessions he had resisted which would have cost an additional £21 million a year! He rejected the alternative of raising the contributions, and also that of increasing the borrowing powers of the fund on the ground that he was unwilling to add to the enormously inflated floating debt. He therefore decided to add to the Exchequer contribution to the fund to the extent of £14 million.

In last year's estimates, a sum of £12 million had been provided for the Exchequer contribution to the fund; in next year's estimates the figure would be £26,400,000. The Opposition insisted that even this would be insufficient, but Mr. Snowden counted on an average of unemployment of under 1,200,000, and hoped that the "regrettable necessity" to make further provision next year to keep the fund solvent would not arise. By March, 1930, however, the rate of unemployment having arisen to nearly 1,600,000, this "regrettable necessity" arose, and the Chancellor, unable to add further to the Exchequer contribution and the position of the floating debt having been materially improved, he had consented to an increase of £10 million to the borrowing power of the fund, raising the limit to £50 million. The discussion led to a fresh passage of arms between Mr. Churchill and Mr. Snowden, more or less a repetition of the notable interchange of amenities on financial policy between the two statesmen which had taken place on the adjournment of the House on December 24th. On March 10th Mr. Lloyd George had drawn attention to the disquieting increase in the number of the unemployed and was followed by several speakers, including the Lord Privy Seal, Mr. J. H. Thomas, to whom had been entrusted the task of dealing with the question and who explained his plans for dealing with it, which amounted to relying mainly on the reorganization and "rationalization" of industry, together, however, with a not inconsiderable expenditure of public money.

A few days later, on the 13th, Mr. Baldwin moved what was in fact a vote of censure on the Government for their refusal to meet industrial depression and unemployment by an extension of the safeguarding and Imperial preference policy, or even to declare their intentions as to the maintenance of the existing safeguarding and McKenna duties, and the sugar, silk, and key industries duties—the uncertainty as to which was increasing the prevailing distress. A long debate ensued mainly on the issue of free trade, in which Mr. Churchill, Sir Herbert Samuel, Sir Robert Horne and others took part. Mr. Snowden vigorously maintained the position that protection would provide no cure for unemployment and steadily refused, as he had several times done before, to make any disclosure of his intentions before the introduction of his budget, attributing the agitation on this matter to an "organized conspiracy on the part of the Opposition to create unemployment and discredit the Government."

Mr. Snowden however had not concealed his view of the very serious condition of the finances of the country owing to over-expenditure and the external burden of the War Debt. In speeches to the bankers and others since coming into office he had laid stress on the importance alike of national saving and of the encouragement and rationalization of the permanent industries as the true method of meeting unemployment, and he had assured his hearers that if he should have to impose additional taxation he would endeavour to do so in such a way as "not to add to the burdens of industry but to relieve and stimulate industry." As the year wore on it became certain that fresh taxation would be necessary, and it was with the fear that something like £46 million would have to be raised that the House had met to hear the budget speech.

The Chancellor of the Exchequer began by reviewing the revenue and expenditure of the past year. There had been an actual deficit of £14,523,000 instead of an estimated surplus of £4,096,000; revenue, to begin with, having fallen short of the estimate by no less than £11,871,000. Deficiencies had occurred on spirits (£1,400,000), beer (£1,800,000), oil (£700,000) and sugar (nearly £1,600,000). Tobacco had yielded a surplus of £2,800,000—due "in large measure to the social and economic equality of the sexes!" and entertainments duty a surplus of nearly half a million, which seemed to show that the spending power of the masses had not fallen off. But the worst failure had occurred in Inland Revenue. Income-tax was short by £2 million, surtax by £1½ million, stamp duties, a fall which should perhaps have been foreseen, by £5,330,000, and death duties by £1,230,000; but arrears of the two moribund taxes showed a surplus of £550,000 and the Post Office net receipts had increased by £300,000.

On the expenditure side supplementary estimates had been presented to the amount of £12,330,000 though the sum actually issued in excess of the original budget estimate was, owing to savings, only £8,496,000, of which £7,650,000 had been in connection with the Ministry of Labour; taking the consolidated fund and supply services together, the total expenditure had exceeded the estimate by £6,748,000.

A reduction in the nominal debt of £31 million in the year was noted, and very large conversion operations had occurred which had resulted in a reduction of the floating debt by £100 million, from £737 million to £637 million, easily the lowest recorded since the war. Mr. Snowden reviewed the question of the sinking fund, and came to the conclusion that his predecessor's fixed Debt Charge of £355 million might be left unchanged, in spite of the fact that it had not proved sufficient during the first two years of its existence. In the first year a deficiency (after meeting its specific obligations, including Victory Bonds tendered in payment of death duties) of £6 million had been masked by the appropriation of the "capital asset" of £13 million odd from the currency note account; and in the second the high cost of Treasury bills had increased the provision for interest charges over the estimate by nearly £7½ million and "the result was much the same."

In these circumstances, he said, he had had to consider two questions: first, whether he should make any permanent change in the fixed Debt Charge, and, second, how to deal with the 1929 deficit. Fortunately, however, he considered that the cost of the floating debt in a period of cheap money which had now been entered upon would be less than the last year's cost by £11½ million, and that in these circumstances the fixed charge would be sufficient and could be left where it stood. The deficit of £14½ million had of course been met by fresh borrowing, but Mr. Snowden, remarking that the one certain method by which all efforts to reduce debt can be rendered futile is to leave budget deficits uncovered, announced his intention to make special provision for dealing with it by adding to debt redemption to the extent of £5 million this year, £5 million next year and £4½ million in 1932. Meanwhile he also proposed to include in the Finance Bill a clause to the effect that, when a budget deficit was realized, a corresponding addition should be made in the succeeding year to the provision for debt redemption, unless Parliament otherwise decides. Mr. Churchill remarked that it was "a pious sentiment which might just as well find a permanent resting place upon the Statute Book," but purely illusory in that nothing could abrogate the power of Parliament to deal as it pleased with the finance of the year. It was in fact disregarded the very next year.

For the coming year, Mr. Snowden put the total of the supply services, excluding Post Office expenditure, at £417,909,000. There was a reduction of £2,521,000 on the fighting services, the naval estimates having been cut down by over £4 million on the building programmes of 1928 and 1929 while the air estimates showed an increase of £1,650,000. The Civil estimates included £30 million for the derating scheme, but the real addition to the Exchequer was only half that sum, as the consolidated fund charge, "payments to local taxation accounts", representing the grants of about £15 million formerly paid to local authorities, would now disappear (a few minor payments remaining being absorbed under "other consolidated fund services") but, excluding the effect of this scheme, they showed an increase of £27 million over the budget estimates of 1929, and £16 million over the final estimates of that year, including the supplementary estimates. Of this £27 million increase, £14 million was on account of additional Exchequer grants to deal with the insolvent position of the unemployment fund, and the rest was composed of the additional contribution in respect of widows', orphans' and old age pensions (£5 million) and normal growth of old age pensions (£1 million), of education grants (£2½ million), of housing and health insurance grants (£1,368,000), of the beet sugar subsidy (£2,400,000), and grants under development Acts passed by the Lord Privy Seal, Mr. Thomas, (£1,185,000). Including the consolidated fund services, the total estimated expenditure for 1930-31 came to £781,909,000. On the revenue side, the Chancellor of the Exchequer estimated the Customs and Excise receipts on the existing basis at £250 million, being £400,000 less than the estimate of 1929, but £2½ million more than the actual receipts, allowing for a fall in the receipts from spirits, and for increases on beer, tobacco and sugar. Inland Revenue he estimated at £405¾ million, of which income-tax at £239 million was placed at £1½ million above the receipts of the previous year, and estate duty at £80 million, one million less than the estimate, which was not realized, of the previous year. With non-tax revenue the total revenue for 1930-31 was put at £739,645,000, or £42,264,000 less than the estimated expenditure.

This immense difference was however met in the current year to the extent of £16 million from Mr. Churchill's suspensory fund, leaving £4 million for the following year. But Mr. Snowden stated that "there was no cash in the fund which had not been already borrowed in reduction of the floating debt to the market," and that the money could "now only be found by allowing the debt to rise by a corresponding amount" or, as he further said, by "borrowing the £16 million from the public on the excuse that we had surpluses of that amount in the past!" This was surely a somewhat disingenuous statement of the position, unless indeed to refrain from paying off debt is equivalent to fresh borrowing from the public. If Mr. Snowden held this view it was open to him, as Sir Laming Worthington Evans suggested, to use the twenty odd millions of the suspensory fund to pay off last year's deficit, but he was not quite pedant enough to refrain from helping himself to the spoils to the tune of £16 million and bringing it into the budget of the year, thereby reducing the gap to be filled to £26,264,000. He did, however, add to it £5 million in part repayment of the last year's deficit, and the gap was further increased by various tax changes and concessions. The last vestiges of the "inglorious" betting duty, including the £10 payable on bookmakers' personal and entry certificates which would expire at the end of October, were to be abolished and £180,000 in the current year and £200,000 in a full year thus abandoned; and the safeguarding duties on lace, cutlery, gloves and gas mantles would not be renewed after their expiry (lace on June 30th and the others on December 21st), the loss to the revenue (which had been allowed for in computing the Customs and

Excise revenue), being £521,000 in the current year and £823,000 in a full year. The McKenna and silk duties which brought in nearly £10 million per annum were to be allowed to remain for this year, but Mr. Snowden's intention as to these and the remaining food taxes remained unchanged. Further minor concessions in stamp duties and the carrying out of the motor licence concessions proposed the previous year by Mr. Churchill, brought the estimated deficit to £31,714,000.

In the search for the additional revenue required, Mr. Snowden first examined the case of beer, the duty on which was yielding over five and a half times as much as before the war, namely, £77 million as against £13,600,000. It was, however, the only alcoholic liquor on which the duty had been reduced since the war. The existing duty was £5 per *standard* barrel of 36 gallons, less the rebate granted in 1923 of £1 per *bulk* barrel. To put back the impost to the figure at which it stood before the reduction in 1923 would have given him £15 million a year: but in spite of his wish to limit the vast sums spent on drink, he rejected this plan as unfair to the poorer consumers. Nor would he add, as he was expected to do, 2d. a gallon to the petrol tax. He decided however to raise the beer duty by 3s. per standard barrel, an increase equivalent to 1d. per gallon which was too small an increase to justify any alteration in retail price, while he was assured by the brewers that he need not anticipate a drop in gravities, *i.e.* a reduction of the strength of the beer supplied. This was estimated to bring in £2¾ million in the current year and £3,100,000 in a full year—an estimate again destined to be falsified by the result.

Before going further Mr. Snowden gave an outline of certain changes in the Inland Revenue law designed to strengthen it against the legal avoidance of direct taxation by the formation of private companies to escape estate duty on landed estates and investments, and the avoidance of surtax by single premium insurance policies. He also proposed to alter the law in regard to the liability of non-resident persons trading in this country through agents, so as to make possible reciprocal arrangements with foreign countries ; and further to take preparatory steps for a new assessment—the last related to 1923-24—of all property in Great Britain for Income-Tax Schedule A, to come into force next year and to include the Metropolis in which hitherto the Schedule A valuations had been linked up with and dependent upon the valuation for rating purposes. In future the assessment was to take place automatically at quinquennial periods.

A word may here be said about a proposal of the Government which, though it found no place in the budget of the year, was described in the concluding passages of the budget speech. This was to introduce a Bill for the valuation of all the sites in the country with a view to providing a basis for the taxation or rating, or both, of land values. In his budget statement of 1924 Mr. Snowden had indicated his intention to deal with this question, one very near his heart. He was warned on this occasion by Mr. Lloyd George and other partisans of such a measure that there was no guarantee that a separate Bill dissociated from the budget could be passed through Parliament, a forecast which turned out to be accurate ; but Mr. Snowden had felt unable to complicate his financial measures by the imposition of even a nominal tax which would have brought it into the budget.

After the increase in the beer duty there remained nearly £29 million still to be raised, and with the remark that those who knew his views would not be surprised at it, Mr. Snowden turned to direct taxation and stated the first of his proposals which was to increase the standard rate of the income-tax by 6d. But he proposed to revise the existing graduation by increasing the relief of one-half of the standard rate of 4s. on the first £225 of taxable income to five-ninths of the new 4s. 6d. standard rate, *i.e.* 2s. 6d., on the first £250. The remarkable effect of this was to relieve about three-quarters of the whole number of income-tax payers of any increase, and to concentrate taxation on the small minority who already bore the brunt of direct taxation. Life assurance allowances were to remain unchanged at the old rate of 2s., 3s., and 4s. Owing to the change in the graduation which would cost £5 million, the extra 6d. would produce only £24 million in a full year, and £21 million in the current year, leaving the estimated revenue still short of £8 million.

Mr. Snowden then turned to the surtax. First of all, he proposed to remove the existing anomaly by which surtax was payable in any year at the rates laid down in the preceding year's Finance Act, and said that, henceforward, the tax would be put on the basis on which all taxation should be, namely, that the rate of tax payable in any year should be determined by the financial needs of that year. Then, remarking that present needs made it necessary to call on the surtax payer for additional payments this year, he proposed both to raise the rates and to steepen the scale, the initial rate rising from 9d. to 1s., and the rate on that part of an income in excess of £50,000 from 6s. to 7s. 6d. The changes would yield in a full year £12½ million and in the current year £7½ million.

Finally, the estate duty which had shown extraordinary expansion since the war—from a yield at its termination of less than £25 million on a capital passing at death of less than £300 million to one of £70 million on a capital of over £500 million—was to be still further called into requisition. The scale was to be "amended" from £120,000 upwards by increases of either 1 per cent. or 2 per cent. from that sum to £250,000, with a growing increase from that point upwards till an increase of 10 per cent. (40 to 50 per cent.) was reached on estates exceeding £2 million. This was estimated to yield about £7 million in a full year, and £3 million in the current year.

The feature of these proposals was that, although in the current year they would only raise £31½ million, the revenue required to meet the deficiency, they would produce no less than £43½ million in the succeeding year. Mr. Snowden justified this proceeding by the following words. "I am departing from the policy of recent years which has been acting on the precept of postponing the evil day. My proposals this year will be framed in such a way that, whatever the revenue they yield this year, they will yield greater sums in 1931 and later years in order to meet this legacy of indebtedness." This legacy appears from the context to have been the continuing expense of the derating scheme after the exhaustion of the suspensory fund. But whatever may have been in his mind, the increased revenue would undoubtedly be required, and it enabled Mr. Snowden to give the assurance for what it was worth at the end of his speech that, so far as he could see, the steps which he had proposed for balancing this year's budget would be sufficient to ensure, in the absence of unforeseeable calamities or heavy increases of expenditure, that no further increases of taxation would need to be imposed next year. This year he was left with a small surplus—£2,236,000—to be retained "for contingencies."

Mr. Snowden in conclusion indulged in some familiar but doubtless perfectly sincere observations to the effect that he had "placed the burden on the shoulders best able to bear the weight," that he had not "taken from the poorest of the land any part of their inadequate means" and had only asked the "favoured section of the community" to contribute to the "needs of the State in proportion to the benefits the State had conferred upon them." He was probably still optimistic about the dark cloud of unemployment and unemployment indebtedness to which he hardly made an allusion upon this occasion, and he persuaded himself at all events that in the taxation he was imposing he had laid "no direct burden on industry." But the anxieties which he must have been beginning to feel showed themselves perhaps in some of his final observations to the committee. "I realize," he said, "the imperative need of the strictest national economy in the present state of trade and industry . . . because primarily it is only from trade and commerce that the national revenue can be derived. I abate not one jot or tittle in my lifelong advocacy of great schemes of social reform and national reconstruction, but our immediate concern is to make these things ultimately possible out of revived and prosperous industry." Further—and these words are important—" though, as I have said, I am imposing no new direct burdens on industry, I am fully aware of the psychological effect . . . of increased taxation, even when no material burden is imposed. Recognizing this I am convinced . . . that an essential factor in ameliorating unemployment is a restoration of a spirit of confidence and enterprise among those now responsible for conducting industry and commerce."

It is idle to inquire whether these words, which undoubtedly expressed the speaker's settled conviction that the " most urgent of all problems," as he repeated later in the debate, " was to do what a Government may be able to do to lessen unemployment and to bring industry back to prosperity," indicated the emergence of a doubt whether the solution of the country's difficulties was to be found in increased expenditure and taxation. But it was with this grave question that the subsequent debates were mainly concerned, and it became clear very soon that the attitude and proposals of the Chancellor of the Exchequer gave little satisfaction in any quarter of the House. His opponents scornfully pointed out that his only contribution to the restoration of industry, which he professed to have at heart, was to recognize that it was " right that so far as was humanly possible " those responsible for conducting industry and commerce "should know the probable full extent of their tax burden in immediately ensuing years " ; and they denounced as certain to lead to fresh depression and fresh unemployment the almost brutal application, at the present juncture, of Socialist theories of taxation. His Labour supporters, on the other hand, were affronted and discouraged by the plain intimation that the Socialist ideal of substituting public for private capitalistic ownership and providing further State support for the workers was to be thrust into the background—a position which Mr. Snowden made clearer still during the discussion when he distinguished between transforming the capitalist system and the "arrant nonsense" of the Socialist talk of overthrowing it.

Mr. W. J. Brown in the debate on the second reading of the Finance Bill gave expression, in a speech which deservedly attracted attention, to the disappointment of the Labour party, committed to the hilt as they were by their election campaign and by "Labour and the Nation" to large schemes of social reform, when they found not one-tenth of their expectations could possibly be fulfilled by any budget provision which was in sight. "To the extent that the budget increases direct taxation and increases death duties we welcome it. To the extent that it imposes a burden of additional taxation upon the wealthy rather than upon the poor we welcome it. To the extent that it is an honest budget instead of a series of dishonest subterfuges we welcome it. But as an instrument of Socialist financial policy it is a defective instrument, a timid instrument."

Mr. Churchill, who opened the debate on the day after the budget speech, at once drew a vivid contrast between the Socialist and the older traditional ideals of taxation, the former of which had been described by Mr. Snowden himself in his "Wealth and the Commonwealth." That view maintained that the wealth appropriated by the "idle rich" is a deduction from the just share which should go to the remuneration of industry in all its forms, that taxation can be used to secure a juster distribution of the national wealth and divert it into more useful channels, and that taxation instead of discouraging individual effort tends to stimulate it. The opposite view which Mr. Churchill claimed as that of himself and his party was that national taxation was a regrettable necessity, a burden upon industry and discouragement to enterprise, more especially in the present condition of the country, which was the heaviest taxed nation in the world "and incomparably the most heavily directly taxed nation," and asserted accordingly that it was his constant endeavour to reduce taxation and to lean in that direction in preference, if need be, to austere and drastic repayment of the National Debt.

Mr. Churchill felt himself bound to "attempt to disentangle our respective responsibilities for the present state of affairs," and maintained that there was nothing in the realized deficit of £14½ million which afforded any justification for the proposed increase of taxation; of this amount £9 million was traceable to the new expenditure passed through the House last winter, leaving £5½ million, the bulk of which was accounted for by the failure of stamps, and this sum, he said, was provided for in the normal increase of the revenue. Nor did the position of the debt justify fresh burdens; the working of the fixed Debt Charge, which Mr. Snowden had accepted practically intact, could not be judged from the fortunes of one or two years, and the fact that the Chancellor of the Exchequer had been able to budget for a decrease of £11½ million on the interest on the floating debt ensured a more than sufficient provision for the savings certificates and the sinking fund. The project to meet the deficit of last year was an excellent one if you could afford it, but was Mr. Snowden justified in the circumstances in imposing new burdens in addition to those which he had to bear, some of which were of his own creation?

Mr. Snowden was drawn out of his uncontroversial tone by this and other attacks and was quite uncompromising in his reply on the following day. He repeated the indictment he had so often brought against his predecessor's finance in all its branches, and he strongly contended that the deficit had been Mr. Churchill's own and that it was due to his having under-estimated expenditure and over-estimated revenue. A considerable portion of the cost of the supplementary estimates, about £4¼ million, was for matters for which the late Government was wholly responsible—the under-estimated beet sugar subsidy, for instance, and the cost of army operations in China. The revenue had fallen short by £12 million. If it had come up to expectations he would have been able—with the saving of something like £6 million, which had been effected on the original estimate—to meet the cost of the unemployment grants and the other supplementaries without contributing on balance to the deficit. As for the increased expenditure in the coming year with which he was reproached, a large part of it was caused by automatic increases, and he made no apology for the £5 million for widows' pensions, nor for the item of £14 million required for unemployment. This he hoped, and was perhaps justified in hoping, would disappear with increasing employment, and it was on this account that he refused—for more than a year to come—to treat the increased indebtedness of the unemployment fund, which was rising week by week, as an ordinary borrowing which was wiping out the sinking fund.

Mr. Lloyd George, who supported the budget as "honest and straightforward" and praised the Chancellor for paying "the gambling debts of his predecessor," thought that it was "not taxation that mattered but expenditure" and made play in his happiest vein with Conservative election literature—"promises of expenditure—bribery arrayed in scarlet" and so on. He quoted very effectively several pamphlets in which Conservatives boasted of having originated or increased expenditure on social services, and Sir L. Worthington Evans and Major Walter Elliot made the only possible reply when they explained that it was necessary for their party to defend themselves against accusations of being "starvers of babies" and "soulless, selfish capitalists, cutting down the widow and orphan." Then he went on to say, perhaps forgetful of his own record in this matter, that the "Conservatives had taught the lesson and the Labour Government had improved on it," and ended by a very serious appeal to all parties to "call a halt to eleemosynary legislation"! With Mr. Churchill declaring, as he had done a year before, that he saw no room for large cuts in the social services, and Mr. Snowden, on the present occasion, that such expenditure was justified by the increase it had effected in the spending power of the nation and that an "unemployment scheme had saved this country from a revolution," it was evident that there would be no halt called until the costs could no longer be met by an impoverished Exchequer.

The main substance of the debate, however, was the challenge by Mr. Churchill and his followers to the whole policy of a large increase of direct taxation at this juncture, and every step in the proposals as to income-tax, surtax, and estate duty was assailed in turn. Sir E. Hilton Young struck the keynote when he described this budget as a "crisis in the economic history of the nation" and as having made a "revenue tariff in the future inevitable."

Mr. Oliver Stanley, who, with other younger Opposition members—Mr. Boothby, Capt. Eden and Major Elliot—took a prominent part in these debates, pressed the Chancellor with the question whether, as certain passages in the budget speech led them to suspect, he thought that direct taxation did have some harmful effect upon the trade of this country, and maintained that the effect of the additional £45 million must be purely deflationary and lead to a further lowering of the price level and therefore a continuation of the trade depression. Captain Cazalet was one of those who argued in the second reading debate that the policy of deflation pursued for four years by the Treasury and the Bank of England had been accelerated during Mr. Snowden's year of office. Sir E. Hilton Young quoted with telling effect Mr. Snowden's own answer to the question in his broadcast to the United States on February 9th. He had then stated that our people were "the most heavily taxed in the world" and after enumerating the rates of income-tax, super-tax and estate duty had added " With such a burden as this upon our shoulders . . . is it any wonder that we have suffered industrial depression." After this it was beating the air to insist that taxation was unhealthily high, but Sir L. Worthington Evans put the case neatly from the protectionist point of view when he described the burden of rates and taxes on industry as equivalent to an excise (some said of 30 per cent.) on British industry, fatally handicapping it in competition with the foreigner.

Speakers on the Government side continued to argue (1) that, as Mr. Snowden had said at Plymouth in 1928, every penny raised by income-tax, super-tax and death duties was taken for the service of the debt and that all the other expense of Government had to be met out of indirect taxation, four-fifths of which was paid by the working classes of the country (Mr. Stephen) ; (2) that the revenue raised for the service of the debt went back into the same pockets as those from which it was drawn and was therefore no real burden upon the income-tax paying classes ; (3) that according to the Colwyn report, income-tax did not enter into the cost of production (Mr. Pethick Lawrence). Finally there was always the painful contrast between the wealth and capital in the hands of a small minority of the population and the share of the national income which falls to the wage-earning classes and the telling appeal to the surtax and estate duty statistics, both of which showed an apparently large and continuous growth in the taxable capacity of those subject to those taxes. And if, as Sir E. Hilton Young asserted, the inherent vice of the new taxation was the accumulation of burdens upon a small saving class which " provided most of the capital, the leadership and the energy for commercial and industrial enterprise," the reply was ready. It was the fault of the existing distribution of wealth that there was only a small number of people who had incomes worth taxing (Mr. Wise and Mr. Morley) ; and the incidence calculations of the Colwyn committee could be quoted to show, as Sir Herbert Samuel pointed out, that as between rich and poor the proportionate share of taxation falling on the wealthier classes was "not unjust."

Whatever fiscal theory might suggest as correct, there remained the practical fact that the demands on the public purse were growing larger than there was any immediate prospect of satisfying from taxation whether direct or indirect. If it were true in the technical sense that income-tax could not be shifted, it was argued that heavy direct taxation had the result of curtailing employment whether in individual or industrial establishments. There was a large measure of agreement among Members engaged in business that the limit of direct taxation had almost been reached, that much of the income-tax and surtax—some said no less than 30 per cent.—was being paid out of capital, and that there was evidence of capital beginning to leave the country.

No one in the whole course of these debates put the case more convincingly against high rates of direct taxation than Sir Herbert Samuel who, however, like his chief, Mr. Lloyd George, voted for the budget. He drew attention to an important qualification of the Colwyn committee's pronouncement on the income-tax, quoting their further conclusion that "with regard to the supply of capital from individual and corporate savings, industry had suffered materially from the effect of high income-tax and super-tax." As regards death duties, which in the opinion of the Colwyn committee were on large estates "already dangerously high" from the point of view of their effectiveness, the continuance of the high rates, Sir Herbert thought, "would almost certainly lead to avoidance on a large scale, if indeed that is not already done," and he felt convinced that the "present high rates of direct taxation do have an effect upon prices and upon the cost of living," and that the lag between the fall in wholesale prices and the fall in retail prices "was largely due to the heavy rates of taxation which fall on all those engaged in the intermediary processes." He thought it was "quite obvious and beyond dispute that heavy direct taxation was a very grave burden . . . a drag on industry and a clog on employment." It is true that indirect taxation was in his view "still worse," but that only reinforced his conclusion that Parliament should exert all its influence and authority to secure a reduction in the burden of expenditure.

A strong point was made by the Opposition of the taxation of reserves. Sir Herbert Samuel quoted Sir Austen Chamberlain to the effect that £195 million is provided every year out of income by companies for reserves, upon which at 4s. in the £, £40 million was taken by income-tax. An additional 6d. might indeed only take about another £5 million, but the deduction of the total sum from reserves available for reinvestment for the replacement of wasting capital was a "very serious matter indeed." This question had been touched upon by Sir Robert Horne and other speakers in the course of the discussion, and Mr. Oliver Stanley raised it specifically (May 1st) on a motion that income-tax should continue to be levied at 4s. only on reserves of public companies. The question of the effects of income-tax on industry might, he said, be arguable, but there could be no doubt as to the effect of income-tax in diminishing the amount of the reserves put aside by companies, and this must have a direct effect upon industry. He argued his case, which he did not pretend was a novel one, with great thoroughness. He showed how companies all depend for development on capital which can only be obtained either by savings of the company itself or by going into the open market. This second course had been made more difficult by the increase of direct taxation which had diminished the fund for investment and by the rise since pre-war days in interest rates. Companies were put in the position of having to choose whether, in order to pay the tax on their profits, they would reduce the amount which should go to reserve or the amount which should go as dividends to the shareholders; and there was apt to be a temptation to put an insufficient amount to reserve in order not to reduce unduly the dividend of the ordinary shareholders who bear the whole tax burden, and to maintain the reputation of the company in the market in case it had to borrow fresh capital. He was followed by Mr. Albery, Mr. Macquisten, Major G. Davies, Sir Basil Peto, Major Elliot and Major Kindersley and received a fair and not unsympathetic answer from the President of the Board of Trade.

Mr. Graham referred to the consideration which had been given to the subject by the Royal Commission on the Income Tax in 1920 and the Colwyn committee, and pointed out the objection of principle to admitting that the destination of any part of an income should be considered in fixing the burden and the practical difficulties of giving the proposed relief. It would cost, to begin with, about £6 million in the financial year, much of which comparatively small sum would go to relatively prosperous industries. But he seemed to admit that the taxation of these reserves did constitute a burden, and that the large questions of depreciation, obsolescence and wasting assets—questions of the highest importance to industrial reorganization—had not yet received the full consideration which had been contemplated by the Royal Commission of 1920. Major Elliot welcomed this "half promise" of future action and pointed out how the question of reserves in connection with the replacement and renewal of plant was becoming yearly more urgent in the conduct of business. It was a common practice overseas to scrap almost new plant in consequence of the discovery of some new process, and the dissipation of our reserves by taxation was making it more and more difficult to keep our concerns up to date.

Closely connected with this subject was that of the death duties on which strong criticism was passed by Captain Bourne on an amendment to reduce the scale of the estate duties. The old point was again raised that a capital levy of this kind should be confined to the object of paying off debt, and the opinion was expressed that the peak would be reached in their productiveness when the great fortunes made in the war gradually fell in, and the ruinous effect of these duties upon agricultural estates was asserted without contradiction. But Mr. Snowden contented himself with the statement that to accept the amendment would cost £25 million a year and with the crushing retort upon the Conservative Opposition that the biggest increase ever made in the estate duty at one time had been the work of Mr. Austen Chamberlain.

Opposition to his proposals indeed rather stiffened Mr. Snowden's attitude, and in none of his speeches did he yield an inch to criticism. He resented the suggestion by Mr. Boothby and Sir L. Worthington Evans that he had missed a favourable opportunity during the winter of converting the 5 per cent. War Loan at a low rate of interest, which would have made fresh taxation unnecessary, but at the same time he prided himself on his successful handling of the floating debt, which had made possible a reduction of the Bank rate to the lowest figure at which it had stood since the war. Whether this denoted a real improvement of the national credit was another question, and figures were quoted as to the prices of Government stocks and bankers' deposits at the Bank of England by both sides in the dispute, Opposition speakers maintaining that one of the causes which had led to the reduction of the Bank rate was distrust of the Government. Money was not cheap because it was plentiful, but because there was little demand upon it by industry. And such expert city opinion as was represented by the Monthly Review of the Midland Bank held, as Mr. Oswald Mosley pointed out, that the reduction in the floating debt had helped to intensify those very influences which had led to constant credit restriction, and had in fact led to further monetary deflation which in the present circumstances was not only unnecessary but actually disastrous.

Mr. Snowden in his speech on the second reading noted that the main criticism of his budget was that it had a " detrimental effect upon industry " and that it was "calculated to aggravate the industrial situation." His reply was limited to debating points. On the question of the taxation of reserves he quoted cases in which during the boom years of 1919 and 1920 certain companies had paid away huge sums in dividends and bonus shares which they might have reserved for future needs. Sir Robert Horne, it may be mentioned, on May 28th convicted him of serious inaccuracy in the figures he had given in respect of these companies and drew from him an unqualified apology. In reply to the argument that the new taxation would stifle enterprise and increase unemployment, he asked whether the reduction of the income-tax from 6s. to 4s. in the last seven years had had any beneficent effect upon trade. He repeated a question so often asked by Chancellors of the Exchequer in search of economies, and asked the Opposition what items of the national expenditure they could reduce. If they could not answer, then increased taxation was inevitable. He stood by every word of his which had been quoted on the previous day (May 19th) by Mr. Chamberlain in regard to the need for capital savings. "Nobody but a fool would say that we do not need capital savings," but he did not admit that his proposals would interfere with them. "What else could I have done?" he asked. The money had to be raised and he believed he was raising it in the best way, the way "which would do the least possible injury to industry" and "from people who could pay it without feeling the pinch of poverty in consequence." Finally he ruled out the possibility of further indirect, still more of protectionist, taxation, the fiscal effect of which would be to "relieve the rich of their taxation and transfer the burden to the backs of the poor," and he asserted that the expectations raised by the protectionist agitation of the last few years were doing more than anything else to prevent the revival of industry. Such talk was entitled to the praise of being honest and straightforward, but if Mr. Snowden really expected to finance the year's expenditure as well as to sweep away the remaining McKenna, key industries, and safeguarding duties he was more of an optimist than even the most optimistic of his predecessors in the office of Chancellor of the Exchequer.

The discussion of the clause for the addition of 6d. to the income-tax, which came up in Committee on June 3rd, found the Chancellor of the Exchequer in a much milder mood. Laying aside " taunts and jeers " he professed himself in considerable agreement with some of the arguments of the Opposition. He dealt seriously with an admirable plea from the point of view of the City of London by Mr. E. C. Grenfell for moderation and clarity in taxation. He endorsed Mr. Oliver Stanley's remarks on the psychological effect of increased taxes, reasoned with him on the question of the possible limits of direct taxation, and denied that he had ever believed that the " mere imposition of taxation in itself was a desirable thing." " Taxation," he said, " is not desirable when it is wasteful and unremunerative." Mr. Snowden refrained from definitions which might well have been controversial, and he even confined his criticism of Mr. Churchill to the regret that the latter had not put into practice the "unexceptionable economic principles " which he had professed in his speech. But in substance he had nothing helpful to add to a repetition of the well-worn truths (as he saw them) of the relative incidence of direct and indirect taxation and a further indictment of protectionism which he called the King Charles' head of the Conservative Opposition.

The committee stage of the Finance Bill had opened on May 27th with the beer duty clause when Sir Ernest Shepperson moved its reduction from £5 3s. 0d. to £4 0s. 0d., to which the Chancellor of the Exchequer replied that the average reduction would amount to only ¾d. a pint and would not reach the consumer, while the concession would cost the Exchequer £20 million. This and other amendments of the beer duty clause, directed to assist agriculture by encouraging the growers of barley, were discussed at some length and negatived by the aid of the closure, and the Chancellor of the Exchequer, disappointed at the progress made, insisted that he must have the first six clauses of his Bill before consenting to an adjournment, which led to an all-night sitting. By eight o'clock on the following morning five clauses were obtained by the Government, the sixth, as above mentioned, and the surtax clauses, being passed on June 3rd.

This opening foreshadowed no easy passage for the measure. Early and frequent resort to the closure was met by repeated motions to report progress with consequent loss of temper on both sides, and no less than twenty Parliamentary days were consumed in committee alone—three times as many as had been required for any of Mr. Churchill's budgets. The manner of the Chancellor was usually the reverse of conciliatory, while Mr. Churchill and his friends were provocative and not unwilling to lengthen the proceedings on the budget in the hope of upsetting the Socialist programme of the session, which Mr. Churchill mischievously hinted on the third reading had been the Chancellor's own secret intention in loading the Bill with so much matter extraneous to the raising of the revenue. For in its final form, as an Act, it contained no less than fifty-three sections and covered fifty pages of print. Mr. Churchill had appealed to him in the middle of these discussions to drop some fifteen minor provisions, "petty irritations of the Somerset House torture chamber!" which might well be postponed to some budget containing remissions instead of increases in taxation. Such a clause was one respecting the collection of tax when an appeal was pending against the assessment. Another minor clause was one exempting consuls and official agents of foreign states from income-tax, which gave rise to hours of discussion.

There were many clauses made obscure by the growing practice of legislation by reference, or of which the drafting seemed open to objection. Such for instance was clause 10 of the Bill which had been designed to prevent a taxpayer getting back 2s. 3d. in respect of life insurance premiums when he had only paid 2s. 0d., a provision rendered necessary by the changes in the graduation of the tax. This clause, in consequence of the amendments urged by Sir L. Worthington Evans, Mr. Runciman, Major Hills, Sir Dennis Herbert and others, was agreed to be brought up again on report and even then led to much further dispute. Clause 12 of the Bill was similarly a very difficult clause designed to meet a particular form of tax avoidance known as the single premium policy taken out for the payment of surtax. Sir Dennis Herbert, who took a prominent and useful part in drafting and preparing amendments throughout these discussions, moved that its consideration should be postponed till after certain promised new clauses had been dealt with. It appeared that the Chancellor had consulted the Life Offices Association in regard to this clause, but had not adopted their recommendations. He yielded, however, to the force of the arguments adduced on this occasion that, as drafted, it would interfere with legitimate business, and introduced a clause remodelled in accordance with the recommendation of the association at a later date. Sir Dennis had described the original clause as " one of the worst of many bad cases of unintelligible, ineffective and harmful clauses " ; and Sir L. Worthington Evans was even more uncomplimentary in his comments on the clauses drawn to deal with one-man companies formed for the avoidance of estate duty.

It was common ground with all sections in the committee that evasion should be prevented, but the difficulty which had always arisen in framing legislation for this purpose was to distinguish between what were legitimate and what were illegitimate transactions, and the clauses as drafted were found to be so unintelligible and so many amendments had been proposed to them that the Chancellor of the Exchequer took the unusual course, when the first of these clauses (29 of the Bill) came up, of making a statement in which he not only admitted that his examination of the amendments had laid bare certain flaws in the clauses, but himself proposed and explained amendments designed to meet the difficulties complained of. But this proceeding only rendered the clauses more complicated, and after a good deal of discussion on June 25th in which members complained that they were totally unable to follow the suggested amendments until they had them printed in their new form, Mr. Snowden agreed to postpone clauses 29 to 33 for future consideration. The clauses accordingly, after wholesale revision, came up again reprinted on July 1st and were debated in three sittings in which Sir L. Worthington Evans, Sir Dennis Herbert, Major Nathan, Sir B. Merriman, Mr. Atkinson, Sir Arthur Steel-Maitland, Lord Wolmer, and of course the Attorney-General, took the most active part.

Many points of substance as well as of drafting were fully debated. Among the former was the definition of the term "company," Major Nathan calculating that something like 100,000 companies would be affected ; and the method of valuing shares in one-man companies in which no dealings had occurred and to which a dividend basis would not apply because dividends might be kept low and the bulk of the earnings might go as remuneration to a director or directors ; the proposal of the Government was therefore that regard should be had to the assets of the company in order to arrive at the amount to which the shareholder was entitled. A point was made of the injustice of picking out landed and agricultural interests among all other industries in the country for special discrimination, to which the reply was that there were no cases of the form of tax evasion aimed at by these clauses other than by landed concerns. In the end the Attorney-General, whose tact and good temper had greatly facilitated these lengthy discussions, was obliged to confess "the way of the man who tries to stop up the holes of the tax evader without hitting the innocent is extraordinarily difficult" ; and even after further revision of the clauses on report there was no agreement that the task had been successfully accomplished in spite of all the labour involved.

Many points of interest were raised in committee, such for instance as the question of the aggregation of insurance policies with a deceased's estate (Mr. A. M. Samuel and Sir B. Peto), the proposal for the payment of estate duty in the form of real property (Mr. Wise), an increase in the preference to British Empire sugar (Sir Assheton Pownall) and the exemption of turpentine and white spirit from the petrol duty (Lt.-Commander Kenworthy) ; but there were two or three of which more must be said. The clause setting up a quinquennial valuation of property in Great Britain for the purposes of Schedules A and B on the principle which had been adopted in the rating and valuation Act of 1925 had been under discussion on June 19th, and attention had been drawn to the grievance which would be felt by large numbers of people throughout the country by the revision of Schedule A assessments. On June 23rd the question of the application to the County of London of the same principle of double valuation for income-tax and rating came up, and Mr. Marjoribanks, in a telling and well-informed speech, initiated an important debate on the proposed supersession of the existing system instituted by the Valuation Act of 1869 by which the rating valuation had been conclusive for all purposes of income-tax. This system had been approved by more than one Government Commission ; the Metropolitan Boroughs Standing Joint Committee had reported in 1925 that it had worked well for over half a century, and in pursuance of their views London had been excluded from the separate valuation system set up for the country by the rating and valuation Act of that year. The reasons in favour of the retention of the single valuation, the inconvenience to the owner of property of two separate returns for valuation and two different methods of appeal and the additional expense of the new separate valuation which was vaguely estimated at £15,000, were strongly urged by every non-official speaker but one—by Sir L. Worthington Evans, Sir Kingsley Wood, Major Nathan, Mr. Atkinson, Mr. A. M. Samuel, Major Elliot and Mr.

Leif Jones. Sir Kenyon Vaughan Morgan, however, who spoke as a general commissioner of income-tax, gave his powerful support to the proposal in the Bill.

The Inland Revenue authorities had long wished to bring the Schedule A valuation directly under their own control, and the Chancellor of the Exchequer made himself their mouthpiece in this matter. The reasons he gave for his action were that under the system as it existed in London, property owners there were not paying the same proportion of income-tax upon the annual value of their property as property owners in the provinces, and that to assimilate the London system of assessment to that of the rest of the country was the only way to get property assessed for income-tax purposes upon a fair and equitable basis. But it was not so much a somewhat academic desire for uniformity which influenced him as the expectation which had been held out to him that he would receive an additional revenue of half a million from London under Schedule A by the proposed change. He remained at all events unmoved by all the representations addressed to him in committee and again on report, and persisted in carrying this rather momentous change in valuation law by the questionable method of slipping a clause or two into a Finance Bill.

The question of the taxation of reserves had, as we have seen, been raised on the resolutions, and Sir Basil Peto had moved a new clause in committee on July 7th to provide for more adequate deduction from profits for "inherently wasting assets"—a matter which in one form or another had been brought forward during the last twenty years and with which successive ministers had professed their sympathy without giving any practical effect to it. No better fate was to attend the efforts made in the same direction during this session, but a debate on July 9th brought the Government very near defeat. Major Nathan and Dr. Burgin had each moved a new clause, the first of which was designed to entitle a company which applied any of its undistributed profits to expenditure upon plant, machinery, mills or factories to an allowance of 6d. off income-tax on the amount so expended : and the second, wider in scope but limited as to duration, proposing that any business or any person to whom Schedule D applied should, to the extent to which money was expended on plant or machinery, be entitled to claim a deduction against its profits to the extent of the money so expended. Major Nathan's clause would cost the Exchequer £2 million and Dr. Burgin's £5 million or £6 million. Mr. Snowden, who at once replied with what Mr. Churchill described as a " dull and stern negation," put the cost, or at any rate the ultimate cost, of these proposals at immensely higher figures, but at the same time scoffed at the idea of Major Nathan's £2 million or Dr. Burgin's £5 million being of any assistance to industry, asking where had been the beneficial effect of the greatly larger relief given by the derating Act ; he also quoted the Colwyn report's objection that the practical drawbacks to the exemption of company reserves were insurmountable—and stated that if Major Nathan's proposal were adopted it would completely knock the bottom out of the whole income-tax system. The interest of Members, however, was concentrated chiefly upon Dr. Burgin's clause, partly because it was sponsored by the Liberal party and partly because its author made a point of its intention which was to give an immediate, if temporary, assistance to employment in distressed industries by encouraging large expenditure on re-equipment, so as to make it possible to deal with a large increase of orders. It was intended to provide a " stimulus, an inducement, an acceleration of the placing of orders." Mr. Snowden made various destructive criticisms of this proposal and claimed that if once admitted, if only for one year, the breach in income-tax law would grow until the whole edifice was undermined. But conscious that the vote of the two Oppositions was likely to be formidable on this occasion, he concluded his speech on a different note, and said that although the proposal in its present form was quite unacceptable he had not closed his mind to this or any other proposal professing to be a solution to the grave problem of unemployment.

Mr. Lloyd George who followed at once took up this grudging admission and in a serious and powerful speech urged the Chancellor of the Exchequer to "get away from the attitude of mind in which he turns down every proposal of this kind." The figures the Chancellor had given were "perfectly fantastic," and the six or seven millions, the cost of the proposal which might, if successful, provide employment for 100,000 men in the engineering trade, was insignificant in comparison with the £30 million which the Government had already borrowed since coming into office to pay allowances for unemployment. Mr. Churchill pleaded that the sum involved need be no burden on the taxpayer if the extra provision for the sinking fund this year were abandoned, and the saving in the purchase of Treasury bills taken into account; and on the division being taken Dr. Burgin's clause was defeated by the narrow margin of three votes.

Mr. Churchill followed this up on report (July 17th) with another new clause on similar lines in the ingenuous hope of enticing the Liberal party into supporting it. But Sir Herbert Samuel was equal to the occasion, for the Liberal leaders had no intention of bringing about the fall of the Government, and he had little difficulty in expressing the view that our fiscal system should discriminate as to savings used for industrial development, while indicating doubts as to the wisdom of voting for immediate legislation at so late a stage of the Finance Bill. The motion had apparently served its purpose in commending the matter to the very earnest attention of the Government, and Sir Herbert could only express regret at Mr. Snowden's uncompromising refusal to assist industry in the manner suggested. After strong speeches in support of the motion, from, among others, Mr. Stanley, Mr. Boothby, Major Elliot, who made a point of the growing cost of transitional benefits, the Exchequer's contribution having risen from the original £8½ million to a sum approaching £20 million, and Sir E. Hilton Young, who denied as "totally untrue" the argument of the Chancellor that there were unlimited funds already available in industry for the reconditioning and modernization of plant and machinery, the clause was negatived by the normal Government majority.

The legislation to prevent evasion by one-man companies had, as we have seen, drawn special attention to the plight of the agricultural industry, and particular interest therefore attaches to a debate on a new clause moved on July 9th by Lord Wolmer for the assessment of agricultural property, for the purposes of death and estate duties, at a sum not exceeding twenty times the net annual value—or, in more general terms, to provide that landowners should not be required to pay death duties on more than the capitalized value of what they take out of the land. A striking instance of the unjust incidence of the present system had lately been given by Lord Lothian in a letter to *The Times* of May 1st. He had recently inherited an estate of 30,000 acres which had been well administered for thirty years and the net income of which had averaged less than £1,000 a year; and he had been required to pay death duties on it amounting to £200,000. In such a case as this the heir, unless he had large private means apart from his land, would have either to mortgage his property or sell it, or a portion of it, either to a new millionaire or the sitting tenant, and in the latter case, which was common, the tenant had to spend his capital which was required to carry on the farm or mortgage himself to his bank, with disastrous effect on the cultivation of the land and the employment of labour. To base the tax on the arbitrary amenity or luxury value which a purchaser might be expected to give for a property and not on its value as a business proposition was undoubtedly hard on estates passing by succession, and, as Mr. Churchill, Captain Bourne, Lord Stanley, Lord Eustace Percy and other speakers urged, the pressure of death duties which caused forced sales and the breaking up of estates was certainly one of the contributory causes of the agricultural depression.

Mr. Pethick Lawrence was naturally unsympathetic and pointed out that in the provisions of the original Act in 1894 agricultural land had been assessed on the basis of twenty-five times its Schedule A value, that this special relief had been removed by Mr. Lloyd George in the Finance Act of 1909-10, when agricultural estates had been placed on the same footing as other property, and that Mr. Churchill, during his term of office, had never rectified this disadvantage. All he had done was to exempt holders of agricultural land from the increase in the estate duty which he had made, and the present Government had retained this special exemption in the further increase in the Finance Bill now before the House. It was a fair point, for the position of agricultural holders had been worsened since the original Act quite apart from the great increase in the rates of duty, not only by the change in the basis of assessment, but by the abolition of the provision by which settled property paid only on the determination of the settlement; but Mr. Churchill, though clearly much annoyed by Mr. Pethick Lawrence's taunt, was unable to make an effective reply to it. The final word on the subject was uttered by a perfectly competent and impartial witness, Mr. Leif Jones, in the third reading debate, when he warned Chancellors of the Exchequer that there was a limit to the extent to which they could use the sort of capital taxation represented by the estate duties, and stated, "Capital taxation is in essence not very just taxation, because capital is not a reality, but a valuation, it is a conception, an idea. Income is a reality . . . and the complaints which were voiced in our debate from the landed interests, in particular, of the heavy taxation upon agricultural estates, are on the whole just."

On June 25th Sir L. Worthington Evans, supported by Major Hills, Mr. Churchill and Mr. Albery, had urged the

Chancellor of the Exchequer without success to withdraw his proposal to make good last year's deficit of £14½ million by increasing the sinking fund this year and the next two years, and Sir E. Hilton Young, in a short but effective speech, renewed this appeal on the last day of the report stage by a motion to leave out the clause giving effect to the proposal. Mr. Snowden had no doubt been actuated in making it by motives of the highest financial rectitude, and he now justified it by the theory that the £5 million thus appropriated for the reduction of the deficit would go back into the industrial market and therefore be available for the extension of industry. "When you borrow to make up a deficit you are drawing money out of the market and away from industrial purposes. When you pay off the debt you pay back money into the industrial market." His opponents threw ridicule on this theory of benefiting industry by taxing it "in order to pay off debts," and Mr. Snowden could not but admit that in raising money by taxation for this and other purposes he had taken money which would otherwise have been available for industry.

Further, the Government had just been forced, as the Opposition speakers pointed out, with unemployment standing at nearly 2,000,000 and costing £500,000 a week, to add another £10 million to the borrowing powers of the unemployment fund, and in the following week £30 million was to be borrowed for local loans. To pay an additional £5 million to a sinking fund which was thus becoming illusory was nothing, as Mr. Strachey remarked, but "an empty gesture." Trade showed no sign of the hoped-for improvement, and the prospect of the revenue estimates being realized was decreasing every day; on the other hand the provision for the redemption of the debt, with the greatly reduced cost of Treasury bills and a windfall of something like £9 million to go into the new sinking fund as the British share of the Reparations Loan, was more than ample. The Chancellor of the Exchequer might well, therefore, without inconsistency, have decided to keep this £5 million in hand till the end of the year when he would know whether there was a surplus out of which he could increase the sinking fund. He yielded, however, only to the extent of hinting that, if the financial circumstances next year did not justify an addition to the statutory provision for the debt, he would not hesitate to inform the House, but he declined to alter the provision for the current year.

In this as in some other questions in these budget debates Mr. Snowden showed the *défaut de ses qualités*—honesty and strength of principle carried to a pitch of obstinate rigidity. Sir E. Hilton Young ascribed his action to his "devotion to the formal logic of public finance without attention to realities." He showed the same characteristic of an "academic financier" in much of his talk about deficits. The deficit last year, as we have seen, was a technical, not an actual, deficit. "It was not," said Sir E. Hilton Young, "that we actually overspent on the recurring expenditure and revenue of the year. The deficit was only an unexpected reduction in the settled provision for the redemption of the debt." This point is to be noted, but need not be further dwelt upon, in view of Mr. Snowden's own surprising change of front in his next budget speech, when he actually stated that the 1930-31 deficit of £23¼ million might be set off against the sum placed to sinking fund, £66¾ million, and that the result was that the year closed with a surplus of £43½ million. "To call it a deficit is misleading—especially to foreign opinion." If this was a surplus, so were most of Mr. Churchill's "deficits"; and by these words Mr. Snowden knocked the bottom out of much of his bitter criticism of his predecessor's finance.

Nothing very new was left to be said on the third reading which took place on July 25th. Sir Laming Worthington Evans' speech was chiefly concerned with the assistance which he claimed the Opposition had given in the redrafting of difficult and unintelligible clauses, and several Labour members, Mr. James Hudson, Mr. Townend, Mrs. Hamilton and Mr. Benson, rallied on this occasion to the support of the Chancellor, mostly on account of what his budget had done to shift the burden of taxation from the poor to the rich ; or, as Mr. Sorensen expressed it, " towards decreasing the super-enjoyment of life which some possess in order to add a little enjoyment to those whose lives are grave and grey." Major Davies, Captain Bourne and Mr. Albery competently summed up the Opposition case, and Sir E. Hilton Young asserted that what the House had to decide was not an issue between the rich and the poor, but an issue between two points of view as to what was best for the future of the nation as a productive machine. " We should economize in every form of expenditure which was not essential to increasing output," and " turn our whole energies and attention to the search for new markets and new forms of production to replace the old forms which are lost." The financial scheme of the Government he condemned as offending against both those needs. " It encourages consumption and it does nothing whatever to increase effective output and earn the means of supporting our high standard of living."

The most interesting speech of the debate was that of Mr. Leif Jones, both on its merits and because he spoke for the Liberal party. It was on the whole a warm defence and eulogy of the Chancellor of the Exchequer. He felt and expressed, indeed, grave doubts both as to the policy of taxing companies' reserves, and, as has been already noted, as to the effect of capital taxation more especially in the case of agricultural estates. But he agreed with Mr. Snowden's debt policy and wound up : " I claim that the budget of this year is worthy of the author of it. It is based upon those firm and rigid principles of free trade and economy for which the right honourable gentleman is famous throughout the country and the world."

Mr. Churchill, who had led the arduous fight against the budget all through with great spirit, though not without incurring the charge of obstructive tactics, contented himself on this occasion with a speech almost equally composed of humour and satire, one specimen of which, in view of Mr. Leif Jones' above quoted approbation of Mr. Snowden, it is tempting to give here : " What a mellifluous smile would broaden upon the saintly countenance of Mr. Cobden if only he could see these twin Victorian dodos caressing each other, encouraging each other across the floor of the House, pledging each other as it were in libations of cold water ! "

After weeks of discussion Mr. Snowden secured the triumph of getting his budget through the House of Commons practically unchanged, and he deserved all the credit which courage, honesty and adherence to principle earned for him. But the success which had attended his earlier budget of 1924 was no longer within his grasp. If it would be unfair to reproach him with not having foreseen the extent and duration of the universal collapse of industry and finance, the result was to prove that it would have been wiser to pay more heed than he did to the warnings of opponents who deprecated such heavy additions to taxation at a time of financial crisis. And if he had resisted the temptation to paint in quite such black colours the Exchequer position as it had been left by his predecessor and to emphasize in this manner the contrast between his own rectitude and the shortcomings of Mr. Winston Churchill, his position when he came to open his next budget would have been less embarrassing than it was.

As a set-off to the lengthy discussions in the Commons, the consideration of the budget by the House of Lords on July 29th was briefer and less worthy than usual of the importance of the subject or of the dignity of a second chamber.

The Royal Assent was given on August 1st, 1930.

MR. SNOWDEN'S THIRD BUDGET, 1931-32.

April 27, 1931.

THE year 1931 was destined to be a fateful one for British finance. A sign of the coming storm had appeared in January when the Treasury memorandum prepared by Sir Richard Hopkins for the Royal Commission on Unemployment Insurance declared that "continued State borrowing on the present vast scale without adequate provision for repayment by the fund will quickly call in question the stability of the British financial system." On February 11th, 1931, there took place in the House of Commons an economy debate more fruitful than most such debates of recent years, for it gave birth to the celebrated May committee whose report was to play so important a part in the financial and political crisis now just below the horizon. A Conservative motion was before the House "that this House censures the Government for its policy of continuous additions to the public expenditure at a time when the avoidance of all new charges and strict economy in the existing services are necessary to restore confidence and to promote employment." The motion was defeated with the aid of the Liberals, who, however, succeeded with their own motion that a small and independent committee be appointed to make recommendations "for effecting forthwith all practicable and legitimate reductions in the national expenditure consistent with the efficiency of the services."

In the course of the debate Mr. Snowden, after devoting much of his speech to trenchant animadversions on the record of his opponents in the matter of extravagance for which they were now censuring him, came to the real point in his peroration and admitted that there would be a heavy deficit at the end of the financial year, and that the national position was so grave as to demand drastic and disagreeable measures if budget equilibrium were to be maintained and industrial progress were to be made. An expenditure, he declared, which may be easy and tolerable in prosperous times, becomes intolerable in a time of grave industrial depression, and an increase of taxation falling on industry under existing conditions would be the last straw. During a political life of forty years, he added, his only object had been, and still was, to improve the lot of the toiling millions, and if he now asked for some temporary suspension, some temporary sacrifice, it was because he believed it necessary in order to make future progress possible. But he did not appear to view the Liberal amendment very seriously. Since the Government took office, he said, they had "set up seventy-two of these committees and one more will not hurt." He did not refuse to set up the committee, which was destined to make history, though he frankly told the House that he did not expect much from it, and believed that as a matter of fact he "could write its report to-morrow."

It was particularly unfortunate that at such a time the Chancellor of the Exchequer should be attacked by serious illness. In the month of March, he was obliged to undergo a major operation, but fears that he would be unable to open his budget in person fortunately proved groundless, and although in the conduct of the Finance Bill through the House he was compelled to depend largely on the assistance of Mr. William Graham and Sir Stafford Cripps, the Solicitor-General, in addition to that of the Financial Secretary to the Treasury, Mr. Pethick Lawrence, he was able to rise from his sick-bed to open his third budget on April 27th, 1931.

Mr. Snowden began by explaining that, in order to lighten his task, the review of the previous year's finances with which the budget usually opened had this year been printed and circulated to Members. At this point the Chairman intervened, remarking that everyone deplored the reason for adopting such an unusual course but he laid it down "definitely and clearly that it must not be taken as a precedent on any future occasion."

The printed statement showed that "ordinary revenue," including the appropriation of £16 million from the rating relief suspense account, had failed to reach the estimate by £13½ million. Supplementary estimates and excess votes had amounted to nearly £15 million but the total ordinary expenditure had exceeded the estimates by only £532,000, owing to savings of £11½ million on debt interest and management, and smaller savings under other heads. Under the fixed Debt Charge provisions, however, the savings on the debt were automatically added to the sinking fund and did not, therefore, reduce the budget deficit of £23,276,000. On the other hand, of course, although the total sinking fund appeared as £66,830,000, the actual sum applied out of revenue to debt reduction was £23,276,000 less.

Inland Revenue for the past year showed a short-fall of £5¾ million, which was more than accounted for by a heavy fall, for the third year in succession, in the receipts from stamp duties. Income-tax and surtax together were within half-a-million of the estimate, a short-fall from income-tax at the standard rate, owing to a slightly slower rate of collection in the March quarter, being practically counterbalanced by a surplus from surtax, due to a higher collection of both arrears and current revenue. The higher rates of estate duty imposed in 1930 had not been quite so productive as had been expected, but the total revenue from death duties was only £390,000 short of the budget estimate. Land tax and mineral rights duty had maintained their usual stability, but the repealed duties on excess profits and corporation profits had together yielded a surplus of £1,300,000, repayments in 1930 having been below anticipations.

Customs and Excise showed a deficit of over £7 million, and had it not been for forestalments at the end of the year, largely of tobacco and spirits with smaller amounts of sugar, wine and cocoa, the deficit would have amounted to £10 million. The shortage was attributed mainly to the trade depression, " the full intensity of which was not foreseen when the estimates were framed." Among the disappointing items were beer, and, in spite of forestalments, wine, spirits, and sugar, while the McKenna duties on motor cars failed by over a million to reach the estimate, but surpluses appeared under the heads of tobacco, oil, and entertainments, the surplus from tobacco being entirely due to forestalments as actual consumption had been over-estimated. The remaining heads of " ordinary revenue," other than Inland Revenue or Customs and Excise, in each case failed to reach the estimate, but the deficit was so small as to be almost negligible.

On the expenditure side, consolidated fund services had been more than satisfactory, for an excess payment to the Northern Ireland Exchequer of £425,000, mainly on account of unemployment there, had been practically counterbalanced by savings on minor services, while abnormally low charges in respect of interest on Treasury bills and savings certificates had resulted in the previously-mentioned substantial increase in the amount available for debt redemption. In the case of the supply services, there had been savings totalling £4¼ million, but these had been more than offset by supplementary estimates and excess votes amounting to nearly £15 million ; the main supplementary estimate had been £10½ million for the Ministry of Labour to meet the increased cost of transitional benefit arising from exceptional unemployment.

The printed statement concluded with details relating to the debt, showing that the sum applied to debt reduction during the year, including £9,057,000, which did not appear in the budget at all, from the proceeds of the German Mobilization Loan, amounted in the aggregate to the substantial sum of £52,611,000. The principal debt operations carried out during the year were the redemption of 5½ per cent. Treasury Bonds from the proceeds of issue of 4½ per cent. Conversion Loan, and the redemption of 4 per cent. tax-compounded War Loan and 4½ per cent. Treasury Bonds from the proceeds of issue of 4 per cent. Treasury Bonds. These operations meant an annual saving, including the income-tax gain from the redemption of tax-free stock, of £900,000. During the year, there was a reduction of £55¾ million in the face value of the debt, and on March 31st, 1931, the total nominal dead-weight debt stood at £7,413 million.

Mr. Snowden, continuing his speech, commented briefly on the printed statement. The apparent deficit of £23 million, he said, was apt to be misleading, particularly to foreign observers, but on the basis of some foreign budgets and commercial practice, the year would have closed not with a deficit but with a surplus of £43½ million—the surplus of income over expenditure applied to debt reduction. It said much, he continued, for the soundness of our financial position that in a year of unparalleled industrial depression we had not merely paid our way, but had been able to reduce our debt in a manner probably unapproached by any other nation, " however sky-scraping its tariff walls."

Passing to the debt policy for the current year, the Chancellor soon showed that financial rigidity was not to be the distinguishing mark of this budget. The 1930 Finance Act, it will be remembered, laid down that in order to pay off the deficit of £14½ million incurred in 1929-30, the fixed Debt Charge of £355 million (introduced in 1928) was to be augmented by £5 million, £5 million, and £4½ million respectively in 1930-31 and the two following years. The last two instalments had still to be met, but since the adoption of this austere financial plan, over £9 million from the German Mobilization Loan had been applied to debt reduction, and Mr. Snowden declared that in view of the past year's substantial debt reduction and the exceptional circumstances of the present time, he felt justified in proposing that the remaining £9½ million of the 1929 deficit should be regarded as having been sufficiently met by the German windfall and refraining from imposing any further burden on this and the following year's budget.

There still remained, of course, the deficit incurred in the year just closed, and this, according to the doctrine preached by Mr. Snowden only a year ago, should have been met in the current year. He now suggested that Members neither should nor would expect him to provide for this by increased taxation. He confidently expected that the economy committee would make recommendations resulting in reduced spending, and it was also possible that, during the year, debt interest might be substantially reduced by conversion operations, the savings in either case automatically swelling the amount available for debt reduction, and he expressed the hope that in these ways savings would be effected in the current year wiping off a considerable part of the deficit of £23 million. If this expectation were not realized, he said, " it would be the duty of Parliament to deal with this matter when better times return." But one may doubt both the probability and the expediency of any Parliament making specific provision for a deficit incurred some years before.

He had, he continued, always favoured every possible effort at debt reduction but had always agreed with Gladstone's view that in times of industrial depression it was better to use our resources to stimulate trade than to make undue sacrifices for the reduction of debt ; it was in times of prosperity, abounding revenue, and budget surpluses that we could afford to lessen the intolerable burden of debt and to liberate resources for schemes of economic reform. With the abandonment of the 1930 three-year plan for covering the 1929-30 deficit, the fixed Debt Charge dropped back to the figure of £355 million laid down in the Finance Act of 1928.

Turning to the current year's finances, he estimated the total yield of Inland Revenue duties at £437 million. Compared with the previous year's receipts, the income-tax estimate was down but surtax was up. This apparent paradox was due to the fact that the income-tax estimate was reduced, in spite of the 1930 increase of rate, because of the serious trade depression and the accompanying fall of profits in 1930, but surtax, being in effect a postponed income-tax, would not be so seriously affected until 1932-33, and was, in fact, expected this year to yield over £4 million more than in 1930-31. Death duties, with almost a full year's gain from the 1930 increases in rates, were estimated to produce an additional seven millions. What was perhaps the most surprising estimate was the expected yield of £24 million from the stamp duties, an advance of over 15 per cent. on the actual receipts for 1930-31, and Mr. Snowden explained that he was counting on some recovery in Stock Exchange activity, the slump in which had been mainly responsible for the previous year's receipts being the lowest since 1921.

In view of the seriousness of the depression, there was little hope that indirect tax revenue would show any substantial improvement during the coming year. The Customs and Excise estimates were £7½ million below the actual receipts of the previous year, but, making due allowance for forestalments at the close of that year, the difference was only about £1½ million. The consumption of alcoholic liquor had continued to fall, and was expected to fall still further in the current year. The fall, said Mr. Snowden, "seemed now to be a permanent tendency socially, and from the point of view of national and social well-being it is to be heartily welcomed, however inconvenient it may be to the Exchequer."

The other normal items of revenue showed little variation, but the recently-created rating relief suspense account, which had surrendered £16 million to the previous year's revenue, would in the current year provide only £4 million, and in subsequent years nothing.

On the expenditure side, the current estimates showed in the aggregate a substantial increase over the previous year's actual expenditure. The main differences were an increase of nearly £10 million for debt interest and management over the previous year's figure, which had been considerably reduced by the extreme cheapness of Treasury bills and the low encashment of savings certificates, and an increase of over £10 million on civil votes. The total estimated expenditure (excluding self-balancing expenditure) amounted to £803 million, so that to balance his budget, Mr. Snowden had to face the problem of finding additional revenue to the tune of £37 million, a figure, he said, which would be disappointing to "the Jeremiahs who have been forecasting a deficit of anything up to £70 million." He attributed his difficulties largely to the need for providing £12 million more for the derating scheme, a liability from the previous Government, and the large sum required for unemployment insurance transitional benefit—a rapidly increasing drain on the Exchequer, estimated in the previous budget at £10½ million, more than doubled by supplementary estimates, and now calculated to cost £30 million in the current year.

Before disclosing his proposals for bridging the deficit, Mr. Snowden explained briefly one or two other matters to be embodied in the Finance Bill. Powers were to be sought to allow holders of savings certificates, who, under the existing law, would have been compelled to encash certificates on expiry, to refrain from doing so if they wished. In connection with the Road Fund, a loan was to be raised to assist in financing road schemes, including works specially expedited in the endeavour to alleviate unemployment.

A further measure tending, in a small way, to promote employment was the proposal to introduce a special low licence duty of fifteen shillings, instead of the existing rate of thirty shillings, for motor cycles of the ultra-light type, having engines of a cylinder capacity not exceeding 150 cubic centimetres. The avowed aim of this concession was to encourage the manufacture in this country of a new type of light machine now becoming increasingly popular on the Continent. The new rate, to take effect on New Year's Day, was expected to have a negligible effect on the revenue.

Further changes were to be made in income-tax law and administration. Under a practice of long standing, a company paying dividends had deducted income-tax calculated on the amount of such dividends, irrespective of the amount of tax actually paid by the company during the year, and the full amount of such dividends had been regarded as income of the shareholders for all purposes. For instance, supposing a company earned £20,000 in any given year, having earned only £1,000 in the previous year, the company would in the given year deduct income-tax at the full rate on all dividends paid, although the company's income-tax for that year would be assessed only on profits of £1,000 earned the previous year. The legality of this practice had been disputed on more than one occasion. In a recent case in the courts, the argument had been advanced that the income-tax deducted by a company from dividends in any given year should not, in the aggregate, exceed the amount of income-tax assessed in that year. The court decided in favour of the Crown, partly, apparently, because any other decision would obviously have made the whole system of deduction at the source unworkable. One or two points, however, were still disputed, and, in order to clarify the matter and avoid any further litigation, a clause was to be inserted in the Finance Bill.

A long-anticipated change was to be made in the machinery for collecting income-tax. Under the existing system, while a number of collectors were appointed by the Board of Inland Revenue, the majority were appointed by the local commissioners. In 1920, the Royal Commission on the income-tax had recommended that all collectors throughout the United Kingdom should be appointed by the Board of Inland Revenue, and that the general management of the collection of the tax should be placed under the control of that Board, who were responsible for the relevent revenue. Mr. Snowden now announced that, henceforward, the power to appoint collectors of taxes would vest in the Board of Inland

Revenue. The collectors themselves, he said, were convinced, and he agreed with them, that the long-needed reform of the system of collection was only possible if the collectors were placed under a single undivided control, and he declared that this change, while beneficial to both State and staff, could not possibly injure the interests of any taxpayer, great or small.

Centralized collection was in operation for practically the whole of Scotland and Northern Ireland and for seventeen large collecting areas in England and Wales, and in none of these had there been any complaints from the taxpayer, but in spite of this, the proposed change was described as an attempt to establish a sheer autocracy. But the old bogey of bureaucracy which had on previous occasions played a great part in resisting this much-needed reform was now of no avail. In a later debate, Mr. Snowden, while illustrating the disadvantages inherent in the local appointment of tax collectors, disclosed the fact that when he was a boy, he had, although never sworn to secrecy, performed the whole of a collector's duties by arrangement with the village grocer, who, appointed local tax collector, did not understand the work and was quite incapable of doing it.

Leading up to his budget proposals for bridging the prospective deficit of £37,366,000, Mr. Snowden said that such a problem would necessarily be a grievous anxiety at any time, but the task he had to face was exceptionally hard in that the great world depression which had created the budget problem was itself the greatest obstacle to any increase in taxation. The party opposite, he caustically remarked, would find an easy solution by imposing Customs duties upon everything imported, thus securing £50 million to £100 million a year which would fall into the Exchequer like manna from heaven ; "No one is to pay these duties, and, incidentally, they will be levied on goods which protection has prevented from coming into the country." Then, with more serious arguments, he rejected the idea of a revenue tariff, which by this time was gaining ground amongst free traders, arguing that it was merely the first instalment of a high general protective tariff, and so far as it produced revenue, was a means of relieving the direct taxpayer and the well-to-do at the cost of the general consumer and the poor, and was an indirect method of reducing wages.

"I shall never," he vowed, "be a party to any such imposition." Taxes, he said, which would reduce the consuming power of the masses must, apart from all other considerations, be harmful to trade, and, as he had explained on many previous occasions, he wished to avoid, if possible, all forms of taxation likely, whether from the economic or psychological point of view, to have a depressing effect on industry, trade, and employment; moreover, it was only too clear that in many directions increases in tax rates would produce disappointingly low increases in yield. On the other hand, he declared, the present problem was largely of a temporary character, and the budget might be regarded, like a war budget, as one dealing with a temporary emergency and justifying temporary measures. In the middle, therefore, of a widespread economic blizzard, more severe than any for a generation or more, he felt himself "justified in seeking, as the lesser of two evils, relief by means of non-recurrent revenues and temporary expedients, somewhat similar to those to which my predecessor resorted so freely in more prosperous times, and which I admit in those circumstances I condemned, and should condemn again in normal conditions." Unfortunately, he complained, his predecessor's depredations had left few hen-roosts to rob, but there were two to which he could legitimately turn.

The first of these was the exchange account, representing a sum of £33 million advanced from votes of credit during the war to enable the Treasury to purchase foreign exchange to meet obligations abroad. This account had been created as a reserve, to enable us to buy foreign exchange in advance of our needs when the market was favourable, and thus avoid as far as possible the need for buying when conditions were adverse. The need for such a reserve—all-important in the war and early post-war years—had not yet passed away, but conditions had been modified by the Hague agreement and the creation of the Bank of International Settlements. Previously, payment of reparations and of instalments of the French and Italian war debts had been made to us in sterling, but arrangements had been working for nearly a year for such payments to be credited in dollars to our account at the Bank of International Settlements and used in meeting the foreign debt instalments due from us.

Mr. Snowden explained that the exchange account could not be dispensed with altogether, for the dates we received dollars abroad did not synchronize with the time when our own payments fell due, and, moreover, it would be imprudent to rely exclusively on one source of supply, but, he declared, there was no doubt that the size of the account was excessive for existing and future needs, and it could, legitimately and safely, be reduced by £20 million. This reduced the sum the Chancellor had to find to £17,366,000, and of this sum he proposed to find ten millions by juggling with the income-tax.

The psychological effect, he said, on trade and industry of any increase of direct taxation must be serious, and he therefore decided not to increase the income-tax, but to tide over the temporary period of low income-tax yield by partially withdrawing the concession granted in 1915. Until that year, income-tax had been payable in one sum on New Year's Day, but in the second budget of 1915 Mr. McKenna provided that certain income-tax payers, assessed under Schedules B, D, and E, should be allowed to pay in two moieties, one payable on January 1st and the other postponed until July 1st. A similar concession was granted in the case of Schedule A three years later, but, in 1927, Mr. Churchill, hard-pressed for revenue, had withdrawn the privilege, making the whole of a year's tax under Schedule A payable thenceforward in one instalment on January 1st. Mr. Snowden said he did not now intend to go as far as his predecessor, and proposed merely that taxpayers under Schedules B, D, and E, who, under the existing law, paid their income-tax in two equal instalments on January 1st and July 1st, should henceforward pay three-quarters on the former day and the remaining one-quarter on the latter. This would mean that during the current financial year the Exchequer would receive an additional £10 million (the extra quarter of the tax payments affected), while next year's revenue would be unaffected, seeing that the quarter lost in July, 1932, would be counterbalanced by the additional quarter payable in January, 1933.

The taxpayers affected were individuals and firms, and their employees, other than weekly wage-earners whose income-tax was assessed half-yearly, engaged in trades, professions, and husbandry. The individuals affected, said Mr. Snowden, could not be expected to welcome the change, but he felt confident that they, realizing the nation's difficulties, would be willing thus to contribute to the national needs. They would have eight months to prepare for the additional payment in January, and he felt sure the majority would think this arrangement was preferable to an increased charge in two equal instalments. He pointed out that the proposal would affect only a small proportion of the income-tax paid, as the second instalment represented only one-tenth of the total annual yield, the great bulk being collected either by deduction at source or by direct payment on January 1st. Even under the new régime, the taxpayers affected would still enjoy an advantage over other income-tax payers seeing that as regards one-quarter of the sum due, payment could be deferred until July 1st.

The remainder of the prospective deficit was to be obtained from oil. In his search for revenue Mr. Snowden said he had reviewed the whole field of taxation, direct and indirect, and after careful consideration had decided to increase the duty on oil, which could be increased with less hardship than any other Customs or Excise duty.

Although he had never liked this duty, and wished to withdraw nothing he had ever said about it, the tax was in operation and productive, and the necessity of the existing emergency compelled him to make use of it, but when conditions improved and it was once again possible to remit taxation he would regard the addition now to be made as having a claim for remission.

The oil duty had been imposed at the rate of fourpence a gallon in April, 1928, but consumption had continued to expand steadily in spite of the immediate increase in price of 4¼d. a gallon and a further increase of 2¼d. a few months later. Conditions subsequently changed, and, in 1930 and again early in 1931, the price had again been reduced by twopence a gallon. It was understood that the trade were only waiting until after the budget to make a further reduction, so the moment was obviously a favourable one for increasing the duty. Mr. Snowden proposed to raise the duty from fourpence to sixpence per gallon, an increase, he said, which would still leave petrol slightly cheaper than it had been after Mr. Churchill imposed the duty and no dearer than early in the present year. Under these circumstances, the change could not seriously affect consumption, and it was estimated that the increase in the rate, while yielding £8 million in a full year, would in the current year bring in £7½ million.

This was almost the exact sum he required to balance his budget, for his proposals regarding the exchange account, the income-tax instalments, and the higher oil duty would together provide £37½ million of new revenue, thus raising the total estimated revenue for the current year to £803½ million and leaving the small surplus of £134,000. No provision had been made for supplementary estimates which past experience led one to regard as inevitable, and this only emphasized the smallness of the surplus. But the Chancellor declared that apart from any unexpected increase in tax yields, he definitely contemplated that any gap in the year's finances should be bridged by economy, and for that reason he was anxiously awaiting the recommendations of the May committee.

At this point, Mr. Snowden paused to look at the financial situation as a whole. " In addressing the committee last year," he said, " I expressed the opinion that in the absence of unforeseeable calamities no further increases of taxation would be needed in the current year. No one at that time had foreseen the full extent of the crisis, financial and industrial, through which the world was about to pass or had realized how slow recovery would be. When much later the position had become clear, there was of course no lack of prophecies of complete ruin and disaster to our finances. When all is said and done, however, we have passed through one desperately bad year without too great a strain, and the burdens which I have been compelled to propose this year fall far short of the gloomy predictions which have been current. I do not for one moment conceal my opinion that the position continues to be grave and that the finances of next year may present difficult problems. Indeed if the world depression fails meanwhile to lift, reduction of expenditure will be the only alternative to increased taxation. For these reasons, it will be for the House to take carefully into account the proposals that may emerge from the work both of the economy committee and the unemployment commission."

Then, striking a more optimistic note, he went on: " Those who look only upon the dark side may very well say that I have only succeeded in postponing difficulties for a year. But surely that is something to be thankful for, especially when the possible difficulties may not have to be faced if the House of Commons will give effect to the express determination of all parties to eliminate unnecessary expenditure without impairing the efficiency of essential services. But whatever next year may have in store, there are recuperative forces at work which will in time afford relief. If we can effect substantial economies during the year, and if there is some improvement in trade, I do not think next year's budget will be unduly alarming, but failing this a heavy increase of taxation will be inevitable next year, which I have this year happily been able to avert."

The Chancellor now turned to what he called the main feature of his budget—the proposed taxation of land values. In the previous budget he had announced, as a first step to taxing land values, the introduction of a land valuation Bill, but the Bill had not gone very far when the Government decided to drop it. Since that time, Mr. Snowden said, he had given much thought to the subject and he now proposed to include in this year's Finance Bill provisions for the necessary preliminary step of valuation and for the subsequent imposition of a tax on the valuations thus obtained. It was clear, he added, on general grounds and from the experience of Mr. Lloyd George in 1909, that any attempt to value and tax concurrently would be unwise if not impracticable, and he therefore proposed that no tax should be levied until the valuation had been substantially completed. He hoped that this would be done within two years from the passing of the Bill, and the valuation would thus be available, subject to periodical revision, as a basis for an annual tax in 1933-34 and subsequent years. The tax was to be imposed at the rate of one penny in the £ on the capital value of the land. As the tax was to be provided for in the current Finance Bill but would not become operative in the current year, special parliamentary procedure was inevitable.

Mr. Snowden gave details of the steps to be taken, and then brought his speech to a close. The proposals for taxing land values would, he said, be heartily welcomed by the great majority of the House of Commons and the country; the scandal of the private appropriation of land values created by the enterprise and industry of the people and by the expenditure of public money had been tolerated far too long, and in asserting the right of the community to a share in what had been created by the community, the Government was taking a step which would be approved not only by the Labour and Liberal parties who had long advocated this reform, but also by a large number of Conservatives whose sense of justice was outraged by glaring examples of the exploitation of the public by private land monopolists. The present system, he averred, stood in the way of social and economic progress, inflicted crushing burdens on industry, and hindered municipal development. "When we have carried this measure," he concluded, "as I am sure we shall, and as we are determined to do, we shall look back upon the budget of this year as a landmark on the road of social and economic progress, and as one further stage towards the emancipation of the people from the tyranny and the injustice of private land monopoly."

The two brief speeches which immediately followed contained little except the customary congratulations, but on the following day the critics became more vocal. Mr. Neville Chamberlain, who had been chosen to lead the Conservative attack, said the budget was, as the Chancellor had described it, a landmark, but it would remain a mark to show the end of an obsolete and worn-out system and the beginning of something more adaptable to the needs of modern industrial civilization, for the budget, with its sham optimism, its evasions and postponements, and its makeshift expedients, was an overwhelming confession of the total inadequacy of free trade to meet modern requirements. With scornful references to the virtuous protestations of the 1930 budget speech and Mr. Snowden's hasty descent from the pedestal of financial righteousness, Mr. Chamberlain declared that the necessity of making clear the seriousness of the financial position and of putting the insurance fund on a sound basis, and the doubtful policy of specially providing for recent deficits, had, in spite of definite promises by Mr. Snowden, been totally ignored in the budget. The totally insufficient provision for the unemployment fund, he said, would, failing adequate remedial measures, lead to an unbalanced budget, and was not likely to escape the attention of foreign observers who had already fastened upon the fund and all its implications, all its demoralization and degradation from the original purpose for which it was intended, as the Achilles heel of this Government. Details of the land tax proposals had not yet been made public, so Mr. Chamberlain's criticisms were necessarily brief, but he expressed his astonishment that, at a time when attention should be focussed upon stimulating trade and industry, the Government should raise once again, wantonly and unnecessarily, such a contentious and acrimonious proposal.

Sir Donald Maclean, who followed, gave the Liberal party's blessing to the budget as a whole, declaring that in regard to the question of economy, the maintenance of free trade, and the land tax, " a proposal which has been far too long delayed," his party heartily supported the Chancellor. The general tariff suggested by Mr. Chamberlain was, he said, the Conservative party's sole solution for our financial difficulties, but, commenting on conditions in the United States and France, he asserted that as regards the budgetary situation and employment, free trade England was better off than any tariff country. The budget was, he declared, an emergency budget, but an emergency budget was to be preferred to an emergency tariff, and, regarding the Chancellor's proposals as devices to surmount an emergency, he approved of them.

The proceedings were enlivened by an animated speech from Mr. Oliver Stanley who pointedly contrasted Mr. Snowden's present policy with the opinions he had expressed when opening the 1930 budget. Then, said Mr. Stanley, the economic pedagogue, conscious of his own virtue, had treated Mr. Churchill as an erring student, not only correcting his faults but ostentatiously assuming his burdens, while this year, Mr. Churchill, listening to the budget speech, heard the voice not of a master but of a pupil, a willing and indeed a promising pupil, proclaiming with modest loyalty that he was following in his predecessor's footsteps, and with conscious pride how he had even cracked a crib which had eluded the vigilance or baffled the ingenuity of his master. The budget, continued Mr. Stanley, with its unduly high revenue estimates, its temporary expedients, and its amazing omission of any reference to the unemployment insurance borrowing, was a gamble which might have succeeded under a Conservative Government but had little chance of success under a Socialist Government, with its own supporters and, in spite of Sir Donald Maclean's talk of economy, its Liberal allies making more frequent and more insistent demands for increased expenditure.

The prospect of increased expenditure apparently had no undue terrors for Lieut.-Commander Kenworthy, who declared that as long as our credit could run the country into a debt of more than £10,000 million for purposes of war, he was quite prepared to have the unemployment fund getting into debt for the purpose of saving life until the trade revival came. He criticized Mr. Chamberlain and other Opposition speakers for crying " stinking fish," for lowering the nation's prestige in the eyes of the world by calling Mr. Snowden a gambler and by talking of the country being at the end of its tether and bankrupt.

To this, Mr. Robert Boothby retorted that as long as we continued the existing Rake's Progress of indefinite borrowing on the security of a bankrupt fund, so long would budget equilibrium be destroyed and so long would the whole financial stability of Great Britain be justifiably called into question, both at home and abroad, and it was futile for Labour members to say that the mere statement of so obvious a fact would damage the national credit. In the course of a spirited attack on Mr. Snowden's proposals, he declared that the budget was the most triumphant vindication of the policy and methods of Mr. Churchill, whose services at the Treasury had never been adequately recognized but who was now, at long last, receiving the credit due to him and receiving it at the hands of his most bitter and venomous opponent.

The hearty support given to the budget by the Liberal party provoked Sir Henry Page-Croft to point out that that party had for over two years advocated huge, costly schemes as the sole means of promoting prosperity and employment, and he asked how under such conditions the Liberals could support a budget which rang the death-knell of all their grandiose plans. Then, passing to his favourite topic of tariffs, he commented on the fact that Mr. Keynes, the eminent Liberal economist, was strongly advocating a so-called revenue tariff and had been followed by Sir Josiah Stamp, and he maintained that recent by-elections had conclusively shown the vast majority of Liberal electors to be in favour of such a tariff. But Sir Henry wanted to see something more than a revenue tariff, declaring that the adoption of the full Conservative policy of protection would, within two years, produce "fresh revenue and a saving in unemployment costs amounting to something like £130 million."

In a later debate, Mr. Winston Churchill, who a month or two earlier had been driven by the Indian question from the Conservative shadow cabinet into the political desert, declared that he had listened to the budget speech with amusement, rising almost to hilarity, for although Mr. Snowden, in so far as he had copied recent Conservative budgets, had, at a cost of a complete personal tergiversation ranged himself with most respectable authority, never had a Minister given the House such an example of self-stultification. There were, however, some parts of the budget which did not meet with Mr. Churchill's approval; the use of £20 million from the exchange account to defray current expenditure was a violation of the canons of sound finance, and the expedition of the Schedules B, D, and E income-tax instalments, at which he had "looked hungrily" for two successive budgets, would give rise to exceptional hardship. As for the unemployment insurance fund, he declared that although it could carry within certain limits a reasonable loan account, it was perfectly evident that when, either through grave national depression or partly through lax administration, the loan charges rose to £80 million or so, either the cause of the expenditure must be curbed or some entirely new provision for funding this ever-growing debt would have to be applied. But he complimented Mr. Snowden's courage in refraining from further increasing direct taxation in this budget, a budget which would be memorable for the fact that the Socialist Chancellor of the Exchequer, in spite of party pressure, in the teeth of the whole doctrines of his life, had declared by action louder than words that in the present circumstances the limits of direct taxation had been reached.

Mr. Churchill argued that the compulsive need for revenue must bring the tariff, which would become the means of emphasizing the growing importance of the home market, would afford occasion for reciprocity agreements with foreign countries, and would play an important part in welding together the production and consumption of our Empire before the present process of dispersal and disintegration had reached its fatal end. The present, he concluded, was not a time for complacency—nor of despair. He was deeply concerned not only about our world position but about the continuing ability of this country to afford the means of expanding livelihood for its immense population. Never, he said, even in the darkest days of the war, except perhaps in April, 1917, during the culmination of the submarine crisis, had he felt so much anxiety about public affairs, but his faith was also strong that we should recover, that we should not be the last of the nations to find our way through the perils and perplexities of the present world situation, that the resources and resiliency of our Empire would not be unequal to our trials, that faction would fade as difficulties deepened, that unity and design would emerge from confusion and futility, and that we should not be deprived, at any rate through our own fault, of our future and of our inheritance.

The budget received a further official Liberal blessing from Sir Herbert Samuel who said his party welcomed the budget for one reason, among others, that it had given the *coup de grâce* to the suggestion that we could only meet our financial needs by means of a " revenue " tariff, and he argued that, although some members talked of such a tariff, neither the Labour Government, the Liberal party, nor the Conservative party were prepared to advocate a " revenue " tariff, and he hoped that the proposal would disappear from our fiscal and financial controversies henceforth. He derived satisfaction from the fact that Mr. Snowden should now rely so much on the May committee on expenditure, the appointment of which had been due largely to the Liberals, and he was also pleased that the Road Fund, instead of being raided, was to be re-inforced by a loan. The Liberals, he said, had for some years advocated that in times of bad trade, the proper policy was to raise large sums by loans, and pay interest and sinking fund on the loans from the accruing revenue of the Road Fund, and he was glad that Mr. Snowden, hitherto somewhat antagonistic, had declared that in this particular instance he was prepared to adopt that policy.

In subsequent debates, the estimates were subjected to considerable criticism. Sir Robert Horne regarded them as unduly optimistic, commenting particularly on what he termed the unjustifiably high stamp duty estimate, the fantastic idea of expecting an additional £8 million from the estate duty at a time when the value of all securities had fallen to an unprecedently low level, and the increase in the surtax estimate in spite of the fact that the tax would be charged on a disastrous year. In his opinion, the expenditure estimates were also excessively optimistic, and there was little to be expected from the May committee, for although small reductions in administrative costs were possible, no substantial reduction in expenditure could be achieved save by alterations in Government policy—and he saw little prospect of the committee being able to induce the Government to make such changes. Mr. Neville Chamberlain spoke in a similar strain, caustically adding that the inaccuracy of Mr. Snowden's last budget estimates made it all the more necessary to examine with the utmost care the present extraordinarily sanguine and rather fantastic estimates.

Mr. Pethick Lawrence, Financial Secretary to the Treasury, defending the present budget estimates, said he was prepared to admit "they were not based on the assumption that the prevailing economic depression would remain for the whole of the ensuing twelve months," and when asked whether there were any signs of an improvement, replied that he thought there were, and it was "only reasonable that the budget estimates should be based on some such assumption." Later on, however, when the Opposition returning once again to the attack on the estimates, declared that the Chancellor had banked on a trade revival, Mr. Snowden retorted, "I never said anything of the kind. I said that I hoped economy would be effected as the outcome of the economy committee."

Replying to the unceasing criticism of the Government's attitude towards the unemployment insurance fund, Mr. Pethick Lawrence reminded the House that it was the Coalition, and not the Labour Government which started borrowing for that fund, and whereas the former had raised the whole of the money required by borrowing, Mr. Snowden, realizing that a certain proportion was not strictly within the limits of insurance, had decided to transfer to the Exchequer a large part of the cost. The fact that transitional benefit was now provided by the Exchequer, continued the Financial Secretary, largely explained the present budgetary difficulties, but he asserted that if the whole of the real abuses which existed were removed, it would do no more than touch the fringe of the problem.

On another occasion, Mr. Graham replied in greater detail to the Opposition. They had a charming way, he said, of forgetting their own administration during the years 1924 to 1929, a period when the unemployed figure was stationary round about one million and when the debt in the fund rose from £4 million to £37 million, but although they introduced certain changes, they had never related the borrowing of the fund to the budget of the year, yet they never suggested their own budgets were dishonest. Continuing, the President of the Board of Trade said that during the preceding twelve or eighteen months the appalling rise of the unemployment figure to 2,600,000 had enormously accentuated the problem, and during that period the Government had increased the Exchequer contribution to the ordinary part of the fund by three or four millions, while the provision from revenue for transitional benefit had risen from £4 million to no less than £30 million. It was impossible, he concluded, to anticipate the recommendations of the Royal Commission on unemployment or of the May committee, but he iterated the Chancellor's budget declaration that any gaps in the budget must be met by economies effected within the current year.

The increase of the first instalment of income-tax from one-half to three-quarters of the amount payable, although apparently not a vital or very intricate financial proposal, gave rise to an extraordinary amount of discussion and newspaper controversy, one side being certain that the change would not increase the total amount to be paid by any taxpayer while the other side appeared to be equally certain that the total tax burden would be increased, some going so far as to say that it was equivalent to a shilling on the income-tax. If that were so, retorted Mr. Snowden, then they had been escaping an income-tax of one shilling in the £ ever since 1915, when the taxpayers concerned had been given the advantage of paying in instalments. As for the suggestion that in adopting this expedient of "squeezing the income-tax payer" he had copied Mr. Winston Churchill, Mr. Snowden indignantly denied this, saying he was following the example of two far more illustrious predecessors, Gladstone and Lowe. The taxpayers, he added, would not pay a single penny more, as a simple arithmetical sum based on the calendar year would prove, and, what was more, the proposal was defensible in itself, apart from the state of the nation's finances. Mr. Leif Jones went further, suggesting there was another ten millions the Chancellor could take the next year, and when this had been done, the income-tax figures in the annual statement would be on a sounder basis.

Details of the land tax proposals were forthcoming a few days after the budget, when Mr. Snowden, moving the ways and means resolution, took the opportunity of explaining and defending the scheme. The tax was justified, he said, because the taxation of land values was a rent paid to the community for the use of the land, a contribution to the needs of the community by whose existence the value of the land had been so largely created. It was impossible, he said, until substantial progress had been made with the valuation, to make even an approximate estimate of the tax yield, but although the production of revenue was an important factor, the tax in his opinion had a more important advantage in that it would cheapen land and throw it open for use. He also hoped that the valuation might, before long, form the basis for transferring local rating from houses, buildings and improvements to site values.

The valuation would be commenced as soon as practicable, and, it was hoped, would be completed within two years; the unit of valuation was to be every piece of land in separate occupation, and re-valuations were to take place every five years. The Labour party had always emphasized the importance of publicity in relation to land taxation, and the valuation registers, when completed, were to be deposited in local council offices open to inspection by any landowner concerned. Land exempt from the tax was not to be valued, and it was estimated there would remain from ten to twelve millions of separate hereditaments to value. The cost of the valuation, declared Mr. Snowden, depended on whether the Bill was mutilated in its passage through the House, and also on whether the owners were helpful or obstructive, but he estimated that the cost would probably amount to £1 million or £1½ million during the next three financial years, and of this sum £300,000 to £400,000 would be expended in 1931-32. The fact that the estimated cost during the current year, although exceeding the nominal surplus, had not been provided for in the budget gave rise to caustic criticism on several occasions.

The land value was, broadly, to be taken to be the price a purchaser would pay for a piece of land, firstly, if the existing buildings and works thereon (with certain exceptions) were not there, and, secondly, if all other units of land, with all buildings and improvements thereon, were in their existing condition ; in other words, the land unit was to be regarded as a vacant, unbuilt-on, plot. In the case of agricultural land, having a higher value than its value for purely agricultural purposes, a value termed "cultivation value" was to be calculated on the assumption that the land was permanently and solely restricted to agricultural purposes. The tax on such land was to be assessed on the "land value" less the "cultivation value," while agricultural land having no higher value than its value for agricultural purposes would be entirely exempt, and Mr. Snowden, pressed for an explanation, replied that such land was not to be taxed "because it is not worth while, because it would probably cost more than the effort is worth."

There were to be other exemptions of land, dependent on ownership or use, including the sites of hospitals and almshouses, churches and other buildings used for public worship, burial grounds, land owned by local authorities or the National Trust, and land owned by railways, gas and electricity undertakings, and other public utility concerns. The exemption granted to these statutory undertakers was defended on the ground that as their charges and profits were controlled by statute, they would be unable to pass on any tax to their customers. Another concession, avowedly designed to avoid the high relative cost of collecting small sums, was the relief from the tax of any person proving that the total annual amount payable by him did not exceed ten shillings, a sum representing a capital value of £120. Mr. Snowden's announcement that this relief would exempt practically the whole of the dwellings in the ownership of the working classes provoked cries of " bribery " from the Opposition benches.

Minerals, much to the disappointment of Colonel Wedgwood and other enthusiastic land-taxers, were to be excluded from the valuation. Mr. Snowden somewhat apologetically explained that the difficulties in the way of dealing with minerals were almost insuperable and, in any case, would greatly delay the valuation ; he pointed out that coal and other minerals were already subject to the mineral rights duty, and coal to the miners' welfare levy, adding that the Government's programme included the nationalization of minerals " in due course." In preparing a complicated scheme of taxation such as the land tax proposals, he concluded, innumerable occasions arose of some degree of conflict between theory and administrative practicability, but whenever this conflict had arisen, he had striven to get as near logicality as was consistent with simplicity and effectiveness of the scheme. To the more ardent land-taxers who might regard the scheme as sadly deficient in some respects, he declared he had not once departed from abstract theory except for overwhelming reasons, and he reminded them that as the one scheme to tax land values previously attempted in this country had broken down largely on account of its complexity, a second administrative failure would be a disaster.

Sir William Mitchell-Thomson, who was prominent in attack at all stages of the Bill, said the land tax proposals were a face-saving and time-wasting device, a red herring produced by the Government to distract the attention of the electors from the Government's shortcomings, and he regretted that in this great national crisis, the Government should propose to waste 1931 as they had wasted 1929 and

1930, by devoting parliamentary time to proposals which were unnecessary, arbitrary, and unjust, ill-adapted for their professed purpose, could produce no revenue for at least two years, and were undoubtedly unsettling the trade and commerce of the country ; if after two years of the most profound cogitation the Government could produce only this as an alternative to a protective tariff, they might go right away and buy their mourning bands for the corpse of free trade. There was, he continued, something to be said for taxing increment value, but the proposed scheme, while imposing a new direct tax upon every factory, shop, trade, and industry, and upon hundreds of thousands of small houses, which would be directly reflected in almost every rent paid, was not a tax on increment, and all talk therefore about the high rental value in the centre of London and elsewhere was really wholly irrelevant. Furthermore, he said, the land tax, based on a valuation grotesque, farcical and unjust, was to be imposed, first of all, at the rate of a penny in the £, but if many Government supporters had their way, it would be increased by steps until it reached 1s. 3d. in the £ on the capital value, at which point the whole of the annual value would be taken. The proposals, he concluded, were therefore a method not of imposing an equitable tax but of confiscating the land, making it worth nothing and then nationalizing it. And this, he claimed, was openly admitted by certain prominent land-taxers.

Mr. Maclaren, an ardent land-taxer, laid it down as an unchallengeable proposition that in all cases, including the often quoted cases of Bourneville, Letchworth garden city, and the Morris factories at Oxford, the value of land was created not by any individual but by the action and requirements of the community at large. The whole idea of taxing land value was, he said, to remove taxation from industry and from the people's food, and rates from the people's houses. Under existing conditions, he argued, increased taxation was inevitable, and, failing taxation of land values, there only remained the alternatives of direct taxation, now come, as some thought, to the point of diminishing returns, and indirect taxation, which meant a reduction of wages and an attack upon the standard of living of the people.

Mr. Lloyd George, speaking before the Finance Bill was printed and before he developed the objections he showed later to the land tax proposals, appeared to be an enthusiastic supporter. The proposals would, he declared, broaden the basis of taxation, would strengthen local authorities giving them greater opportunities of beneficial action, and were equitable not only as between one taxpayer and another but also as far as the whole community was concerned. Giving an interesting review of the 1909-10 land taxes, he explained that they were unduly complicated by the numerous concessions he was driven to give, sometimes to those behind him, and he warned Mr. Snowden that there was only one way to get a valuation and that was by having a simple and direct principle of taxation. The repeal of those taxes in 1920 was due to the Coalition. He was faced, he said, with the position that the taxes could not be continued without amendment, but of the majority supporting the Coalition at least three out of four were Conservatives, and he could not insist upon their amending, and making more effective, laws they had so strenuously resisted, so a compromise was arrived at, the taxes having to go but the valuation being retained as a basis for death duties, for the purchase of land by public bodies, and for future rating.

Moving the Conservative amendment at the second reading, Mr. Neville Chamberlain, after criticizing other features of the budget, turned to the land tax, and attacking its general principles, said there had been only three attempts to justify the Government's proposals. First of all, there was the Solicitor-General's theory that all land values were created solely by the action of the community and were maintained solely by the expenditure of that community, but this was, said Mr. Chamberlain, demonstrably false and had only been put forward to conceal the fact that owner's improvements would be taxed, a proposition not defended by the genuine land-taxers and entirely contrary to Liberal principles. Then criticizing the theory, apparently held by the Chancellor and Mr. Lloyd George, that as the value of land was increased by the expenditure of public money or by the mere proximity of a large population, it was only fair the community should secure a portion of this unearned increment, Mr. Chamberlain said there was a good deal to be said for such a theory, but it was entirely irrelevant to the Bill since the proposals were not directed against unearned increment at all. As regards the argument that the proposals would enable public bodies to get land easily and at a fair price, he declared that the powers conferred on local authorities in recent years had removed any difficulty or grievance there may have been in past years. He agreed that the tax would lower the value of land, and would thus encourage undesirable "ribbon" development, but he doubted whether the purchaser would benefit, as a landowner would, if he could, hold on to the land until he recouped himself for the additional tax.

Speaking at the second reading, Sir John Simon said that now Members had the Finance Bill before them, it was perfectly clear there was all the difference in the world between the proposed land tax and the Liberal taxes of 1909: firstly, because the present proposals would tax land without any regard whatsoever as to whether it was being developed or not; secondly, although Mr. Snowden's and Mr. Lloyd George's speeches in support of the budget resolution had been packed with instances of unearned increment, the just taxation of which had been one of the main principles followed in 1909, the present tax would fall on land, whether its value was increasing or decreasing; and, thirdly, the present proposals deliberately ignored owners' expenditure on improvements and development. In short, the tax was based on what might be most admirable Socialist sentiment but it was merely a form of expropriation without compensation, and in his opinion, it was utterly wrong, so long as we remained a community which respected and taxed private property in land, to treat land in such a manner.

Sir Stafford Cripps, in an able but not entirely convincing defence of the main principles of the tax, said it was not so long ago since all land in the country was the Crown's, and the Crown had a right of service from all holders of land. It was, he maintained, only an extension of the same idea to say that the Crown or community was entitled to some share from those people who used the land, because the amount of land was limited, and that to those who had the privilege of using the limited amount of land, the community was entitled to look for some recognition of that privilege. It was, he contended, impossible, however much the owner might have spent on improvements, to deny that a large part of the existing value was due to the community or that the maintenance of such value from day to day was due to expenditure by the community, and it was because of this position as between landowner and the community that the Labour party said it was right and fair to put a tax upon land values.

Colonel Wedgwood, an ardent land-taxer of many years' standing, declared that he wanted the land valuation, not because of the revenue involved but in order that public bodies might get land at a fair price, that there might be a fairer basis for local rating, exempting buildings and putting the tax on land, and, above all, in order that the public might get land cheaper. He could not bear, he said, to hear Members criticizing the honesty and justice of the land tax, for it was a more just system of taxation than any other—an income-tax based upon what a man produced could be charged with injustice more easily than a tax upon the value of land which was, in effect, a recovery by the community of a part of a value created and maintained by the community. There was, he endeavoured to explain, but with no great success, " an essential difference between the value of land and the value of what is rightly called property," for land was not property at all but the ownership of land was a privilege, the privilege of saying what anyone must pay before being allowed to use that piece of God's earth, and like other privileges he wanted to see it reduced. He was horrified, he said, at Sir John Simon's attitude to the tax, and begged the House to realize the difference between nationalizing the land—a policy the Labour party would not adopt without compensating the landowners, and the present tax which merely represented the beginning of the nationalizing of economic rent—a perfectly just thing that could be supported on sound principles by every good Liberal.

Before the Finance Bill was launched on the committee stage, the Government, realizing the determined and bitter opposition to be encountered before the land tax proposals became law, thought it prudent to limit discussion by means of the guillotine. The Prime Minister, moving the time-table resolution, explained that if the aid of the Parliament Act had to be invoked, a possibility it would be foolish to ignore, it was necessary for the Finance Bill to be passed not later than August 4th, and it was therefore absolutely essential that there should be a strict allocation of time for discussion. It was originally proposed that eight days should be allotted for the committee stage and three days for report, but two further days in committee were conceded. After a whole day's discussion and many divisions, the guillotine resolutions went through.

The fight against the land tax proposals was waged relentlessly at every stage of the Bill by the Conservatives, and, at one point, it looked as though Mr. Lloyd George might wreck the Bill, but eventually the Liberal dissatisfaction was dissolved in compromise. The trouble developed soon after the second reading. Mr. Lloyd George and his supporters, maintaining it was unfair to tax land irrespective of development and objecting to the so-called double taxation involved in taxing a landowner under the new proposals in addition to the tax already charged under Schedule A of the income-tax, stood forth as uncompromising champions of the principles involved.

The subsequent discussions between the Liberals and the Government in the search for a mutually satisfactory formula were not entirely friendly according to Mr. Clement Davies, who gave the House details of the negotiations in which he had played a prominent part. After much discussion, it had been proposed that the land value of a unit should be reduced by a multiple of the Schedule A annual value, the Government suggesting twice that value, but the Liberals stood out for a multiple of four on the assumption that a building was usually worth four or five times the value of the site, and the multiple of four would exempt the fully developed land from land tax. The Liberals gained their point but, in return, had to concede to Mr. Snowden, who held on to the principle that no site even if fully developed should entirely escape the tax, the limitation that in no case should the agreed deduction of four times the Schedule A annual value reduce the land tax value by more than seven-eighths. In other words, fully developed land would, broadly, be chargeable on one-eighth of its land value.

In a speech which gave rise to a good deal of comment, Mr. Snowden introduced on the last day in committee a new clause embodying the compromise formula, declaring that after the welcome at first given by the Liberals to the land tax proposals, it had come as a complete surprise to him when they suddenly discovered that the double taxation involved was immoral, and that rather than agree with it they were prepared to die in the last ditch. The general tone of Mr. Snowden's speech led Mr. Lloyd George to term it offensive and disagreeable, while Mr. Chamberlain remarked that the Liberals "had had their faces fairly rubbed in the mud." On the whole, it was a day of bitter speeches—Labour showed its annoyance at having to make the concession, the Liberals were nettled at Labour's gracelessness in making it, while the Conservatives were disappointed, for with the compromise disappeared the last chance of destroying the hated land tax.

The application of a new taxing principle to land obviously raises innumerable intricate problems, and many of these were discussed as fully as the guillotine would allow, but apart from concessions relating to tithes, charities, educational establishments, appeals, playing fields, a question on which the Government escaped defeat in committee only by a very narrow majority, and the compromise amendment secured by the Liberals, the land tax clauses passed into law without any very serious alterations.

At the third reading, Mr. Neville Chamberlain, moving that the Bill be read " upon this day three months," referred once again to the omission from the budget of the most vital point in the financial situation, the relation between the unemployment insurance fund and the Exchequer, and pointed out that although the Royal Commission on unemployment had since reported, the Government had not only refused to accept the recommendations of the Commission for relieving the strain on the Exchequer, but had failed to produce any plan of their own. Mr. Snowden, he said, far from being a purist in finance, a character sometimes attributed to him, had shown himself to be one of the most reckless and improvident Chancellors of the Exchequer to whom our national finances had ever been entrusted. After a lengthy and caustic criticism of the land tax proposals, including the Labour-Liberal compromise formula which saved the Bill, Mr. Chamberlain said his party would make its final protest in the Lobby against a Finance Bill which in a time of crisis left our finances in disorder, and instead of strengthening and stimulating the national spirit was going to carry doubt and anxiety into every form of commercial activity and still further aggravate the condition of the unemployed.

Sir John Simon, now definitely divorced from the official Liberal party, asserted that the principle upon which Mr. Snowden based his land tax was that it was the right of the community to own land, that private individuals were to have only a nominal claim, and that having only a nominal claim they must pay rent to the community. Sir John, appealing to Liberals to consider whether the avowed principle of the Bill was a Liberal principle, said it was clear that the tax was in fact nothing more than a step to State ownership, and a step by way of confiscation, not by way of compensation ; the tax offended against every Liberal principle ; it was not a redistribution of burdens but the imposition of a brand-new burden ; it did not exempt improvements but put a burden on many important improvements ; it was not a plan based on any scientific scheme at all ; it operated by reference to an arbitrary formula—which sounded more like the race-course than the House of Commons ; and it was unjust. Far from regarding himself and his followers as having departed from any Liberal principle, he claimed it was they alone who had proclaimed and maintained that principle, and he asked other Liberals to do the same.

From the Liberal split oozed a good deal of bitterness. Mr. Lloyd George, speaking later in the debate, devoted a large part of his speech to an examination of the principles of Sir John Simon, who, he asserted, had been engaged with the Conservatives in a manœuvre to throw out the Government with a view of introducing protection. Greater men, said Mr. Lloyd George, had in the past changed their opinions but they had not left the slime of hypocrisy in passing from one side to another. He concluded with the declaration that the Liberal party, a small party and smaller still by such defections as there were, would stand by the causes they had always defended, and as the Finance Bill embodied the principle for which Liberals had fought and would continue to fight, he intended to vote for its third reading.

The debate was brought to a conclusion by Mr. Snowden, who took the opportunity of thanking Mr. Pethick Lawrence and Mr. William Graham for their assistance in conducting the Bill through the House, and of paying a special and well-earned tribute to the Solicitor-General, Sir Stafford Cripps, for his courtesy and tact, and his legal knowledge, ability, and powers of debate, which would, he said, earn for him a high place in parliamentary history. Turning to the criticism of the budget, he asked the Opposition what they would have said if he had met the deficit by raising the income-tax—an additional eightpence in the £ would have been required. In the course of his speech, he dealt at some length with Mr. Hoover's proposal for a moratorium, which, although it would raise a very difficult position in regard to our fixed Debt Charge, he welcomed as an act of statesmanship. He hoped, he said, although prospects were not too bright, that a satisfactory settlement would be reached by the parties then negotiating in Paris, and declared that the Government, the House of Commons, and, he believed, the whole country, were quite willing to shoulder the burdens we had already agreed to, but that the Government would not be prepared to make any further sacrifices unless other parties were prepared to co-operate in those sacrifices.

The last quarter of an hour was spent in replying to critics of the land tax. Much had been made, he said, of the alleged injustice of imposing a tax upon land value which the owner of land had already paid, but it ought to be realized that the tax was for the future, and in the future these alleged injustices would not operate, because the tax would, as the Opposition said, reduce the capital value of land by at least one-twelfth. This theory of the capitalization of the tax would undoubtedly, under certain conditions, be broadly true, but, like Mr. Snowden, it ignored the question of injustice to the existing owner of land. Passing to the problem of double taxation, he said that whatever revenue the tax produced would be used for an exactly corresponding reduction of taxation. The land monopoly, he continued, imposing a tax of hundreds of millions a year upon the productive enterprise of the country, was a very great burden on industry, but the proposed land tax, instead of being an additional burden, would actually have the effect of lightening the burden on industry. The principle underlying the tax, he said, was to assert the right of the community to ownership of the land, and he finally commended the land clauses to the House as the beginning of a far-reaching reform which would some day "liberate the land for the people and abolish once and for all the tyranny under which the people in this country have suffered."

In the Lords, the second reading debate was somewhat lengthier than usual. Lord Parmoor opened with a speech devoted to explaining the main provisions of the Bill and defending the land tax clauses. None of us likes paying taxes, he said, but apart from that, if it were necessary under existing conditions to get new revenue, without in any way interfering with industry and commerce, "this was one of the ways at any rate to which we must look for sufficient revenue in future." They might, he added, have different views, but words such as confiscation and double taxation had no place in the discussion.

Lord Peel, complaining of the inadequate discussion the Bill had received in the Lower House, protested against the procedure of embodying the land tax proposals in the Finance Bill and thus making the debates and criticism of the Upper House almost futile. There was no chance, he declared, of the budget balancing this year, not only because of falling revenue and the excessive expenditure already provided for, but also because of other and larger considerations, including the additional burden of £11 million arising out of Mr. Hoover's proposals. He suggested that as the whole of the presuppositions and assumptions of the budget were being largely upset, the Government should reconsider the whole financial situation and, perhaps, in such unprecedented circumstances, bring in another budget.

Striking a similar note, the Marquess of Lothian said the budget had to be passed "because necessity drives," but the real question to be answered was what measures —far-reaching and far beyond anything hitherto contemplated, measures which might even approach those adopted in Australia not so long before—were going to be taken to deal with the situation which would confront this country in the coming winter.

Much of the Opposition criticism was directed against the proposed land values tax, in the words of one speaker a vindictive capital levy payable yearly, which was attacked root and branch. This debate concluded the parliamentary discussion of the Bill. On the following day (July 15th) the Bill was read for the third time without debate, and received the Royal Assent sixteen days later.

Seldom had the budget secrets been so well kept, and the fears of heavier taxation, both direct and indirect, inspired by the knowledge of growing unemployment and falling revenue, of a certain and heavy deficit, and of a Chancellor of the Exchequer professing strict financial principles, had naturally changed into a feeling of relief when the budget proposals became known. But those who looked below the surface saw that the evil moment had only been postponed, and Mr. Snowden openly admitted that the budget was only a makeshift.

The proposed land value tax, although arbitrary and unjust and dangerously diverting public and parliamentary attention from more vital issues, did much together with other features of the budget to revive the wavering support of the Liberals, but on the other hand, the budget disappointed the Government's more extreme supporters, and on budget night, the National Council of the Independent Labour Party passed a resolution which, while commending the principle of the land value tax, deprecated its low rate and its postponement until 1933, and criticized Mr. Snowden's failure to extend social services together with his ominous references to the anticipated recommendations of the economy committee and the unemployment commission, and the possible effect on existing services. On balance, however, the budget appeared definitely to improve the Government's prospects, and Labour's hopes of continuing in office had not been so bright for a long time.

But however great a success the budget might appear to be politically, financially it had very serious defects, chief of which were its utter failure to face the question of unemployment insurance fund borrowing and to make clear the seriousness of the financial position. A straightforward reduction of the sinking fund would have been preferable to the exchange account stratagem, for the use of money from this account as revenue was no more justifiable than, say, the proceeds of sale of Treasury Bonds, and it deceived no one save those whose eyes should have been opened to the gravity of affairs. And the budget estimates were, to say the least, rather optimistic. It was rumoured that Mr. Snowden and the Prime Minister were considering, some weeks before the budget, the reduction of unemployment benefits, and, possibly, other steps towards financial stability, but they were apparently not strong enough to fight against the powerful section of the Cabinet who were ready to resist to the last ditch what they regarded as anti-Labour proposals. With a Chancellor unable or unwilling to apply the surgeon's knife to the growth of expenditure, declining to avail himself of revenue from tariffs or other indirect taxation (other than that on oil), and persuaded, however unwillingly, that he had increased direct taxation—at least, in its upper reaches—as far as he thought possible, the budget could scarcely be other than a "makeshift."

MR. SNOWDEN'S FOURTH BUDGET, 1931-32 (SUPPLEMENTARY).

September 10, 1931.

As 1931 rolled on, the clouds in the financial sky darkened with every day. In June, an interim report of the Royal Commission on unemployment insurance had been issued recommending various innovations, including increased contributions all round, coupled with reduced benefits, but no fundamental changes were made. Then had come Mr. Hoover's plan for a war debts moratorium, an admirable and statesmanlike scheme but one involving this country in a net loss of several millions in the financial year. In July, the financial crises in Austria and Germany came to a head, and a little later, the May committee report, with its warning of a £120 million deficit in the next year's budget, in no wise—to say the least—allayed the fears of foreign financiers, who saw the world of finance tumbling about their ears.

The flow of gold from London grew ever faster, and the Bank of England, in an endeavour to stem the stream, found it necessary to secure credits of £25 million from the Bank of France and from the Reserve Bank of New York. The position, however, rapidly worsened, and Ministers away on holiday returned to London. Mr. MacDonald, hurriedly returning from a holiday in Scotland on August 11th, immediately got into touch with his colleagues, with leaders of the other political parties, and with representatives of the Bank of England. The further foreign credits necessary for the safeguarding of the gold standard could apparently be secured only on condition that our budget was balanced to the satisfaction of the financial interests concerned, and on August 19th, the Cabinet sat for 11½ hours discussing proposals for balancing the budget by means of increased taxation and by economies. Cuts amounting to £56 million were agreed to, subject possibly to reservations, but the rock on which the Cabinet split was a cut in unemployment benefit.

The majority, led by Mr. Arthur Henderson, the Foreign Secretary, refused to countenance any such reduction, although it was known to be one of the conditions upon which further foreign credits could be secured. Mr. MacDonald, deeming these loans essential for the safety of our credit, and unable to secure the support of his Cabinet, tendered his resignation on August 23rd to the King—apparently without having previously informed his Cabinet of his intention. After many deliberations, Mr. MacDonald was asked by the King to form a National Government, in which the Conservatives and the Liberals agreed to take part. A small Cabinet of ten—four Labour, including Mr. Snowden (who remained at the Exchequer), Mr. J. H. Thomas, and Lord Sankey, four Conservative, and two Liberal members—was appointed, while the dissident Labour members became the official Opposition, under the leadership of Mr. Henderson who a few days later was elected to the leadership of the Labour party at a meeting held to expel Mr. MacDonald.

Parliament re-assembled on September 8th, when a motion that the House would two days later " resolve itself into a committee to consider ways and means for raising the supply to be granted to His Majesty "—treated by the Government as a question of confidence—enabled the principal spokesmen of the numerous groups in the House to talk at length on the financial situation.

The Prime Minister, relating to a House packed to overflowing his story of the momentous days just past, said that at the time he held, and still held, the opinion that the then existing Government, in co-operation with the other parties, should have faced the crisis, but " I could not secure that arrangement, and, therefore, on August 23rd, the late Government resigned ; and being commissioned by His Majesty to try to form another one, I accepted his commission." Describing the fight for the gold standard, he declared that those in responsible positions had been faced with a typhoon which, unless averted, would have left widely strewn wreckage behind, and that it was necessary to face reality, to act promptly and vigorously, not in relation to the party machine but in the national interest, not in relation to high policy like that of the Macmillan report but to the immediate crisis, and the specific, and indeed the only problem had been to restore waning confidence, to stop the drain of gold, to secure the loan necessary for the re-building of our defences.

In financial circles abroad, he continued, the prospect of our being faced with rapidly rising unemployment as winter approached, coupled with a possible serious budget deficit, had seriously affected our credit, and this country, to get a loan, had to do two things, namely, to balance its budget and to put its unemployment finance on a sound basis. As for the idea, current in some quarters, that the crisis was a "bankers' ramp," he asked who in their senses would say that the bankers and financiers, however selfish, would devise for political purposes methods to bring themselves assuredly to bankruptcy, and he emphatically declared that never in the whole of the negotiations carried on by the Chancellor and himself, with the approval of the late Government, "did the banks interfere with political proposals. They simply confined themselves to giving us expert advice as to the effect of the proposals on the possible yield of the loan."

Then, in a passage subsequently denounced by the Opposition as scaremongering, he went on to declare that if instant action had not been taken to deal with the crisis, the £ sterling would not have diminished in value gradually, it would have tumbled, "one day it would have been 20s., and the next day 10s., and it would have tumbled without control." Far better for all of us, he said, to go with tight belts into stability than with loose ones into confusion, and although the cuts the Government were going to propose were serious, they were definite, but if a real panic arose, war pensions, old age pensions, health insurance benefits, might become worth, as in Germany, only the price of a newspaper. The Government's proposals, he insisted, were not a selfish attack on incomes, a pernicious cutting down of expenditure, an inroad upon the standards of living, but a ranging of all in a common contribution to uphold the credit of the nation upon which the life and income of every citizen depend, and although the burden each person would be called upon to bear would be real, it would not, in relation to the nation's needs, be inequitable.

In conclusion, Mr. MacDonald declared that "If this House meets to-day with the £ worth 20s. and unemployment relief paid in good coinage, with wages not tumbling down in value, it is because the formation of this Government gave the country a breathing space. It is a team of men belonging to all parties who believe that until this emergency is over party strife should not appear here, and I ask the House of Commons to uphold our hands in our work. Will it be long, will it be short ? I do not know. One definite thing I can say is that it is our duty to remain here, and it is your duty to keep us here until the crisis has passed ; until the world is convinced once again that the sterling is unassailable, until the wages and incomes of our people are freed from the destructive influences which have been threatening them recently. When that is accomplished and you here say that nothing more can be done by such exceptional means, we shall be prepared to hand back our seals of office and begin to fade among the things which have been, but which will never be forgotten, I believe, in the history of our country."

Mr. Arthur Henderson, replying for the new Opposition, clearly felt some embarrassment in his first attack, across the floor of the House, on a close colleague of so many years' standing, but after, as it were, shaking hands and sparring a little, he commenced to attack in real earnest. Giving his account of recent happenings, he said there were substantial points of difference between his story and that of the Prime Minister. On the question of balancing the budget, Mr. Henderson declared there had been absolute agreement both in the sub-committee and in the Cabinet itself, but when told that the unemployment insurance fund had to be balanced on an estimate of three millions unemployed, he had immediately replied that he did not see how at one step and at the same time they should be called upon to balance the unemployment fund as well as the budget. They had set to work and examined not the May report but a set of proposals drawn up by the Prime Minister and Mr. Snowden in collaboration, and he had objected that the problem was being approached from the wrong end, arguing that instead of cuts in benefits to the unemployed and similar reductions for those who had least, they should go to those who had most.

On more than one occasion, said Mr. Henderson, he had thought the position so serious that he had suggested the Prime Minister should report the situation to a specially convened meeting of the Labour party, but nothing had been done, and to-day the Prime Minister was at the head of another Government without having looked into the faces of those who had enabled him to reach that position, a state of things absolutely without precedent in the whole history of Parliament. The Opposition leader went on to say that they had all agreed on seeking the co-operation of the other parties, and, therefore, he took no exception to the new Government, what he objected to was the manner of its formation ; and he argued that neither by its composition nor the manner of its formation could the so-called National Government, with the largest party in Opposition, justly lay claim to the title of "National."

As to the responsibility for the crisis, he repudiated the theory, expounded so forcibly by many Conservative speakers and newspapers, that the crisis was the result of a spendthrift Socialist Government, and he quoted in support *Daily Mail* references to the reckless extravagances of the Conservative régime during Mr. Winston Churchill's Chancellorship. Nor, he added, were the Liberals blameless, seeing that they had, during the past two months, been appealing time after time for the Labour Government to spend more money in certain directions. He then told the story—which was challenged at many points—of the last days of the late Government: how, having provisionally accepted cuts totalling £56 million, he was given to understand that the leaders of the other parties demanded further cuts of £25 million to £30 million, the bulk of which was to come from the unemployed; how, a day or two before, Mr. Snowden had informed the General Council of the Trades Union Congress and the National Executive of the Labour Party that cuts in unemployment benefit were not part of the Government's proposals; how, unwelcome as all the cuts were, there were two he declined to accept on any account, for he could not countenance any interference with the efficiency of the social services or any lowering of the standard of life by cuts in unemployment benefit, especially without going to the committees to whom they had said there would be no reduction in such benefit. Rather than agree, he declared, under such conditions with the further cuts, he would have preferred to go out of politics entirely.

Mr. Churchill, who followed, said that during Mr. Henderson's speech, he had felt quite shy, as if he had been listening to a family quarrel. Then, having criticized the late Government's policy of drift even when the crisis was seen to be inevitable—as late as July "we could easily have obtained an ample trans-Atlantic credit which would have made it quite clear that there would be no challenge to sterling"—Mr. Churchill declared that Mr. Henderson must bear a great load of responsibility for the policy of inaction, and the more so because when the crisis came he and nine-tenths of his party had quitted their responsibility. Whether Mr. Baldwin's action, in joining the Government at a serious sacrifice of party interest, was wise or unwise, Mr. Churchill prudently declared only time could prove, but every day, the shifting memory of the electorate would fade and an increasing measure of the weight and burden of affairs would be assigned to the Conservative party. Furthermore, the two great problems of India and protection, which could properly be settled by the existing Parliament, might expose the Government to serious danger, and although a general election in the near future held obvious dangers and disadvantages—which would not, he suggested, be lessened by postponement—there would be no revival of British industry until a tariff was introduced and there would be no restoration of confidence at home or abroad until the Socialist party had been decisively defeated at the poll. In the meantime, there should be formulated a national policy and programme, gathering around it the greatest and strongest support from men of goodwill in all parties. He appealed to the Liberals to re-examine, free from prejudice and in the light of existing conditions, the question of a protective tariff, for which the country was now ripe, and declared finally that "if it were possible for those who have now come together—or the best of them—to reach an agreement upon a truly national programme covering the whole field, we might speedily escape from our present welter and bring our country back to its old strength and prosperity."

Mr. Maxton, speaking for the extreme left wing, said the fundamental question which had transferred the late Labour Government into Opposition was the treatment of the unemployed—whether the nation was going to be run in the interests of the whole people, or run on an individualistic basis for the benefit of the few with financial interests, who had said they could only support Great Britain and recognize Great Britain as their country as long as it afforded a certain and sure investment for their money. The new so-called National Government, he declared, was not, as it claimed to be, the stalwart defender of the nation but was the miserable hireling of the banking interests in this country, who only tolerated it on condition it was prepared to take the milk out of the bottle of the unemployed man's baby. But the proposed economies, Mr. Maxton asserted, would do no more than postpone the real crisis for a very few weeks, and then there would be a real economic collapse—not merely a flight from the £ but a breakdown of the whole economic system.

The " discrepancy of testimony " during the debate provoked Mr. Baldwin to quote the saying of an old friend that "the longer he had been in public life, the less he was struck by the diversity of testimony than he was by the many-sidedness of truth." Telling his own story of the crisis, Mr. Baldwin said that he and his party would vastly have preferred that the late Government should have carried on and would have assisted them and shared the responsibility for any unpopular yet necessary proposals, but on Sunday fortnight, the crisis was upon us ; it was a matter of hours to make a supreme effort to maintain the national credit ; his hope and belief that the then Government would be able to deal with the crisis themselves, with the unanimous support of the House of Commons, proved to be fallacious, and no man to whom the appeal might be made to carry on the Government in those circumstances had any right to refuse, however difficult or disagreeable, or however impossible the task might seem. Such a crisis, he said, had for some time been regarded by his party as inevitable, in view of a budget balanced only by borrowing, coupled with the alarming change in the balance of trade. The budget, he declared, could be balanced by economies and taxation, but the balance of trade presented a longer and more difficult task, significantly adding that an essential factor in rectifying the balance was a tariff, but, for the purpose of performing the essential work of balancing the budget, the Conservative party had postponed consideration of that, to them, vital question, a sacrifice of party interests, he maintained, indicating the gravity with which they viewed the situation.

What an extraordinary doctrine, commented Sir

Oswald Mosley, to believe, like Mr. Baldwin, that tariffs were the remedy, and then, in order to prove one's realization of the gravity of the crisis, to postpone the application of tariffs. In Sir Oswald's opinion, it was vastly more important to deal immediately with the industrial situation than to balance the budget—particularly by the methods proposed by the Government which would only make matters worse—for the continual decline and collapse of our industries rendered completely illusory any attempt to balance the budget, unless a constructive industrial policy was immediately adopted. He thereupon recommended balancing the budget by continuing to borrow for the unemployment insurance fund or to provide constructive works to give employment in place of it by suspending the sinking fund and raising the remainder by a " scientific " protective tariff; for, despite our financial respectability and prudery, a budget deficit was not of vital consequence if we were sure that in a few years we should emerge from the present position by means of a policy of industrial reconstruction. The way out, he declared, was not the way of the monk but the way of the athlete, and the simple question before the House was whether Great Britain was to meet the crisis lying down or standing up.

Sir Godfrey Collins, an unwavering and experienced supporter of economy, maintained that the fall in our export trade was due to our high prices compared with our competitors', and that any artificial stimulation of the home market—as suggested by Sir Oswald Mosley—through the outpouring of public money for one thing or another might and would benefit the importer and the sheltered trades, but only at the expense of the export market. Since 1918, he said, all parties had followed the policy of solving our national problems by the outpouring of public money, a policy which had been fully tried and proved to be a ghastly failure, and he suggested that the announcement that day by the Prime Minister of a return to the old policy of living within our income and reducing expenditure was the first essential step towards industrial recovery.

Mr. W. J. Brown brought a three-fold indictment against the late Government: firstly, that they did nothing substantial to deal with the crisis; secondly, that they allowed the people for two years to believe they could go on expanding the social services and maintaining or raising the standard of life without coming into direct conflict with the whole capitalist system in Great Britain; and, lastly, that at the first impact of the crisis, they surrendered the whole philosophy upon which the Labour and Socialist movement had been built up and passively accepted the demands of the bankers. The present Government's programme, he said, consisted of balancing the budget, mainly at the expense of the social services and of State servants, and, secondly, the propping up of British capitalism at the cost of a serious reduction in the standard of life, not only of the unemployed but also of the employed, since the chief significance of the reduction of unemployment benefit was not the saving to the Exchequer but its effect in making it more difficult for the employed person to resist a reduction in his standard of life. But such a programme, in Mr. Brown's opinion, by reducing public and private expenditure, turnover and profits, would result in increased unemployment and falling revenue, thus defeating its own end. As regards the proposed cuts, he declared there was no fundamental difference between the past and the present Government front bench, for the former were willing to go nine-tenths while the latter carried the logic of their position to its conclusion and went ten-tenths of the journey. There were, he concluded, only two ways out of the present crisis, one being the Government's programme—a futile attempt to solve a crisis upon one level of life by precipitating a greater crisis upon another and lower level of life—the other being the overthrow of the capitalist system.

Another story of the crisis came from Mr. A. V. Alexander, First Lord of the Admiralty in the late Government, who supported Mr. Henderson on one or two points in dispute. Attacking the suggestion that Socialist legislation was responsible for our financial position, Mr. Alexander declared that among the real causes of the crisis were our policy in connection with the payment of reparations and war debts in general which the Labour party had, since the armistice, denounced as suicidal, and, secondly, the funding by the Conservative Government of our debt to America and the French and Italian debts to us, forgiving our debtors and paying our creditors, a policy which increased the burden of the external debt while the fall in prices was continuously increasing the real burden of both internal and external debt. The difficulties in London, he maintained, began long before the publication of the May report, and were due to propaganda which we had been suffering from for the previous two years, a wicked propaganda which from the first tended to undermine confidence all over the world.

The debate closed with a conciliatory speech from the Home Secretary, Sir Herbert Samuel, who said he deeply deplored the fact that the House should be so divided, and that Mr. Henderson and his followers should find themselves obliged to take up an attitude of antagonism to the Government, but expressed the hope that the uncompromising and bitter opposition to the Government's proposals threatened in some quarters would not eventuate. He then explained the part the Liberal party—with the approval of Mr. Lloyd George, who had followed events from the sick-room—had played in the crisis; how they had, with the Conservatives, pledged themselves to support the late Government and share the responsibility for all essential measures; how, eventually, the late Government, itself unable to cope with the crisis, had resigned; and how he and other Liberals had thereupon joined the new Government. In the subsequent division, the Government secured a substantial majority, 309 Members voting for the Government and 250 against.

The supplementary budget was opened by Mr. Snowden on September 10th, 1931. It was, he said, one of the most disagreeable tasks he had ever been called upon to perform, and only the knowledge that the sacrifices and burdens he proposed were necessary to avert still greater sacrifices and burdens made his task tolerable. He reminded the committee that he had warned them in February of the serious budgetary position, a warning he had, in the light of further experience, repeated on the eve of the adjournment. Foreign countries, he said, had been looking nervously at our financial position, but apart from the effect on foreign opinion, it was essential for our own sakes to put our financial position into one of undoubted security and stability—a deficit in itself was not of vital consequence, the important point was whether or not measures were taken to meet the deficit.

Then, declaring that for some time we had undoubtedly been living beyond our means, he enumerated some of the difficulties facing us : the trade depression of the last ten years had reduced revenue from taxes while increasing expenditure, and the unemployment insurance fund, which seven years ago was paying its way and even paying off debt, was this year costing the Exchequer £100 million ; the national income had been falling rapidly, for approximately three million persons, one-time producers, were now inactive, while profits, upon which the Exchequer must largely depend, had fallen 20 per cent. during the last ten years, and in many industries wages were being paid from capital. The problem, he asserted, could be solved only by increasing taxation or reducing expenditure, or by a combination of both. We had, he continued, been under the delusion during the unparalleled depression of the last few years, that the expenditure of prosperous times could be maintained, but the time had come when the nation, now paying nearly one-third of its total income in central and local taxation, must " face up to the position and I am going to do it this afternoon."

The first step in this direction was the cessation of borrowing for the unemployment insurance fund and the Road Fund. Announcing that the amount the unemployment insurance fund would have had to borrow when its present powers were exhausted, and the whole of the £9 million the Road Fund was to have borrowed, would have to be borne as a charge on the votes this year, he said the Government had been actuated by the desire to place the stability of the budget beyond question. Borrowing, he added, to meet a temporary deficiency in a fund such as the unemployment insurance fund was perfectly justifiable when there was a prospect of repayment, but there was clearly a limit to such an expedient, otherwise the fund would become unbearably mortgaged and the stability of the budget endangered.

The revised estimates for the current year, reflecting the deepening of the economic depression, showed the substantial fall of £29 million in tax revenue, while the suspension of war debt payments under the Hoover plan meant a gross loss of over £30 million during the current year. On the expenditure side, the Hoover plan would reduce payments to the United States by £13½ million for interest and £5¾ million for redemption, but, on the other hand, there would be increased charges, owing to the cessation of borrowing, of the £25 million for the unemployment insurance fund and £9 million for the Road Fund, together with supplementary estimates totalling a little under £1 million. Reductions in revenue and increases in expenditure, therefore, amounted in all to £94 million, against which were savings on expenditure amounting to £19,300,000, so that, allowing for the small estimated surplus in April, the Chancellor was faced with a prospective deficit on the current year of over £74½ million.

But this deficit, huge though it was, was completely overshadowed by the prospective deficit for 1932-33. The estimates for that year, which admittedly could be only approximate for a period so far ahead, were based on a drop of £46 million in revenue, Customs and Excise falling £4 million, Inland Revenue £35 million, and miscellaneous receipts £7 million below the estimates of the April budget. In the latter budget, new taxation had been avoided only by obtaining £37 million from sources which could not be drawn upon again—the exchange account, the rating relief account, and the acceleration of certain income-tax payments. On the expenditure side, the 1932-33 estimates would, on the existing basis, have been swollen by certain items, including the increase of transitional benefit, totalling not less than £17 million, while the Government's decision to cease borrowing for the unemployment insurance fund and the Road Fund would throw an additional £70 million on the budget, so that, in all, the Chancellor reckoned on a prospective deficit of £170 million in 1932-33. It may be pointed out that Mr. Snowden's summary made no reference to the rather important point that these prospective deficits were based on a fixed Debt Charge of £355 million, of which fifty or so millions would normally be available for debt redemption and would thus very substantially reduce the actual adverse balance.

It was clear, declared Mr. Snowden, that faced with an estimated deficit this year of £74 million and a probable deficit of £170 million next year, the "drastic and disagreeable measures," which he had warned the House in February might be necessary, were now unavoidable. Large economies and heavy increases of taxation were essential. Details of the economy measures proposed by the Government were to be submitted to the House the next day, so the Chancellor confined himself to the broad statement that there were to be considerable economies in the defence services, in the civil votes, and, in fact, over the whole field of Government expenditure. The savings effected would amount in the following year to £70 million, and in the current year would provide the smaller but still substantial sum of £22 million towards meeting the prospective deficit of £74 million. He added that "nine-tenths of the items under which economies are proposed were adopted and approved by the late Government," a statement which led subsequently to much bitter and prolonged controversy.

A considerable change was to be made in the fixed Debt Charge. The Government, after considering whether at such a time the reduction of the National Debt ought to continue unchanged in spite of the crisis, finally decided that the provision for debt redemption should be limited to £32½ million, the sum required to meet specific sinking funds instituted under the terms of the prospectuses issued when various loans were raised. The practice, followed for many years, of providing out of the sinking fund for the redemption of Victory Bonds tendered in payment of death duties was to cease, but this, of course, would not affect in any way the existing privilege of tendering such bonds in death duty payments. The Hoover proposals meant, in addition to a saving on debt redemption payments, a reduction of over £13 million in interest charges, so that in all the Debt Charge, statutorily fixed at £355 million, would be reduced to £322 million.

But Mr. Snowden still had to find £39 million this year, and £80 million next year, if deficits were to be avoided. The greater part, he said, would have to be provided by direct taxation, and he proposed to obtain from income-tax an additional £25 million in the current year and £51½ million in 1932-33, while surtax payers were to be called upon for a further £4 million in the current year and £6 million in the following year.

The increased revenue from income-tax was to be obtained, firstly, by increasing the standard rate from 4s. 6d. to 5s. 0d., a proposal which met with little opposition, and, secondly, by drastic changes in the various personal and other allowances, proposals which were severely criticized at every stage of the Bill by the Opposition. According to Mr. Snowden, the allowances were to be revised for two purposes, to bring within the range of income-tax payers a large number of persons with annual incomes rising to £500 who at present paid little or no income-tax, and to permit a widening of the existing differentiation between earned and unearned income. The existing principal personal allowances of £135 for single persons and £225 for married couples had been fixed by the Finance Act of 1920 in accordance with the recommendation of the Royal Commission on income-tax which suggested that these limits should be maintained until there was a substantial change in the cost of living, and that they should not fluctuate from year to year but should be altered only at considerable intervals of time. Urgent financial needs, claimed Mr. Snowden, compelled him to make such a reduction as had been contemplated by the Royal Commission, and he accordingly proposed to reduce the personal allowance for the single person to £100 and for the married person to £150.

The allowances for children, fixed in 1920 in accordance with the Royal Commission's recommendations, at £36 for the first and £27 for each subsequent child, and increased in 1928 to £60 and £50 respectively, were now to be reduced to £50 and £40 respectively. The new figures, Mr. Snowden pointed out, would still be more generous than the allowances recommended in 1920. The housekeeper allowance was to be reduced from £60 to £50.

Another of the Royal Commission's recommendations adopted in 1920 was the introduction of improved graduation by charging at one-half the standard rate of tax the first £225 of the part of an income actually chargeable with tax. In 1930, the amount chargeable at the lower rate had been increased to £250 and the preferential rate of charge reduced from five-tenths to four-ninths. Mr. Snowden now proposed that the limit should be reduced from £250 to £175 and the rate of charge thereon raised once again to one-half the standard rate.

Earned and unearned incomes would be equally affected by the changes in graduation and in the personal allowances, but Mr. Snowden declared that in accordance with the general principle of ability to pay, "a relatively higher burden should be placed on investment income than on earned income in measuring the additional contribution to be levied on the community to enable the country to pay its way," and he proposed to effect this by increasing the earned income allowance from the existing rate of one-sixth of the income, with a maximum of £250, to an allowance of one-fifth with a maximum of £300. This, he claimed, was the most effective way of differentiating in practice between earned and unearned income. The various changes were to take effect from the beginning of the current financial year, but the current year's revenue would benefit by less than one-half of the increase expected in 1932-33, for income-tax changes never become fully productive in the year of their introduction, and, as Mr. Snowden explained, increasing the standard rate in the middle of the financial year would, by increasing the difficulty of collecting the full amount within the year, unduly swell the following year's revenue.

In view of the increase of 6d. in the standard rate of income-tax, Mr. Snowden had sought for some method of alleviating the additional burden on industry, by which he meant the burden on profits not distributed but reserved for developmental purposes. "Of course," he asserted, "on what is distributed the burden falls on the shareholders and not on the companies." The problem of giving some tax relief to reserves had been a frequent topic of parliamentary discussion for some years, and Mr. Snowden, admitting that he had often expressed sympathy, said that up to the present, the practical difficulties had always proved insuperable, but the question would not be allowed to drop and he did not despair of finding a satisfactory solution eventually. In the meantime, he proposed to compensate industry for the additional burden of the increase in the standard rate by a special increase of the existing depreciation allowance on plant and machinery used for earning profits.

This annual allowance for wear and tear—a certain percentage of the value varying according to the expected life of the plant and machinery—was to be increased by

10 per cent., thus excluding from taxation a corresponding amount of profit and roughly making good to industry the additional 6d. on the taxed profits placed to reserve for developmental purposes. This relief, Mr. Snowden claimed, had the merit that it was related to the actual use of plant and machinery, and accordingly the bulk of it would go to the basic industries. The relief was to be given to individuals and firms engaged in trade, as well as to companies, and was to be given against tax assessments for next year for which the current year's profits were the basis. Further relief was to be given to industry by a more liberal allowance for obsolescence of plant and machinery. In the past, complaints had been rife of the unduly narrow interpretation of what constituted replacement for the purpose of this allowance, but now, after a lengthy consideration of the problem, it had been decided to take a more liberal view in future, and thus, it was hoped, the scrapping of old plant and replacement by new would be encouraged.

The surtax payer, who in addition to his liability to the standard rate, was already liable to surtax on a sliding scale rising to 7s. 6d. in the £, was now to bear, on top of steeper graduation and the increase of 6d. in the standard rate, an increase of 10 per cent. on the total amount of surtax payable. This flat increase of 10 per cent. was claimed to be the easiest way of increasing the surtax revenue this year, and would save a vast amount of administrative work.

Indirect taxpayers were to play their part in meeting the deficit to the tune of £11½ million this year and £24 million in 1932-33. Mr. Snowden, limiting himself to what he termed well-tried revenue producers, had decided to get the indirect revenue he required from beer, tobacco, petrol and entertainments.

He proposed to increase the Customs and Excise duties on all the ordinary descriptions of beer by £1. 11s. per standard barrel, representing an increase of one penny a pint on beer of average gravity, and he expected by this means to get £4½ million this year and £10 million in a full year. The increase of this duty—already many times the pre-war level—provoked criticism in various quarters of the House. Mr. Richardson asserted that such a vicious and immoral tax was far beyond what the worker ought to be called upon to pay, while Brig.-Gen. Page Croft stressed the danger of killing the goose that laid the golden eggs and the detrimental effect on the East Anglian farmer whose only profitable crop the previous year had been barley. The Financial Secretary frankly admitted the drawbacks involved, but advanced the pressing demand for additional revenue as the justification for what he styled this grave impost upon the ordinary population.

Tobacco, Mr. Snowden claimed, was, like beer, a suitable article to bear an increased duty under existing conditions, and he proposed that the following day the main duty, on imported leaf, should be raised from 8s. 10d. to 9s. 6d. per lb., with corresponding increases in the other rates. The increased rates were expected to swell the revenue by £2,100,000 this year and by nearly double that amount in a full year. Mr. Snowden said he had no reason to anticipate that the whole of the increase would be passed on to the consumer, although at a later stage Major Elliot stated that no undertaking had been obtained from the trade, suggesting that lack of time had precluded consultations before the budget. Mr. Pethick Lawrence, criticizing the increased duty, took exception to the unfair imposition of double and treble taxation upon the poorer classes. Major Elliot, while not denying the possible sacrifices involved, pleaded that a Chancellor, hard-pressed for revenue, could not overlook a commodity the consumption of which had increased since 1928, in spite of additional taxation.

The duty on hydrocarbon oils, another increasingly productive duty, had been increased as recently as April, but Mr. Snowden, confessing that he regretted the necessity of taxing further a commodity so important to modern transport, said the needs of the moment were imperative and he could not ignore the fact that the current price of petrol, exclusive of duty, was at a very low level, having in fact fallen so as to neutralize the duty increase of 2d. imposed in April. He now proposed to increase the duty from 6d. to 8d. per gallon, from 6 p.m. on budget day, and expected thus to obtain £3,900,000 additional revenue in the current year, and £7½ million in a full year. Power was also to be sought to prohibit the mixing of heavy oil, on which a rebate had been allowed, with dutiable light oil, unless the rebate was repaid, a restriction found to be necessary to protect the revenue against evasion by persons using as motor fuel a mixture of kerosene or kerosene distillate with duty-paid petrol.

The increase in the oil duty aroused little criticism. The amendment to exempt turpentine and white spirit appeared once again, but apart from this the Opposition seemed to have some difficulty in making up its mind. Mr. Shinwell, Parliamentary Secretary for Mines in the late Government, said that " while not opposing this tax, it must be clearly understood that I am speaking for myself and those behind me when I say that we do not regard this imposition as one which industry can afford to bear." Somewhat changing his ground, he said that if the oil duty was intended to help the home oil producing industry, it had failed in its purpose. Then, declaring that although he and many of his colleagues did not consider tariff reform, protection, or preferences advantageous to British industry, they certainly did not regard unlimited and unfettered free trade as desirable, and he asked whether some assistance, such as a quota system or subsidy, not subject to such wild fluctuations as a protective duty could be given to save from destruction this hard-pressed British industry.

The final tax change to be announced was the increase of the entertainments duty. On many occasions in the past, Mr. Snowden had denounced this duty, but now, he said, that while he was no more enamoured of it than in years gone by, he felt that in the circumstances it was a ready instrument for affording all sections of the community an opportunity to contribute to the nation's needs. The new scale—slightly amended later—broadly represented a uniform rate of duty of 16⅔ per cent. on the inclusive charge for admission; a gross charge for admission not exceeding 3d. representing a tax of ½d., a charge of 3½d. but not exceeding 6d. a tax of 1d., and so on, so that out of every 1s. paid for admission, the proprietor would retain a maximum of 10d. and the Exchequer would receive the balance. The new scale rendered liable to duty the cheaper seats (not exceeding 6d.) which had been exempt since Mr. Snowden's 1924 budget, but he proposed to exempt children's—and, later, all other—entertainments where the charge for admission did not exceed 2d. Owing to administrative requirements, the new scale was not to become operative until November 9th, and was in consequence only expected to produce £1 million new revenue in the current year, but in a full year the changes were estimated to produce £2½ million.

The Finance Bill was to include provisions to facilitate conversion of the 5 per cent. War Loan to a lower rate of interest. The Treasury had had the power, since 1929, to pay off this loan on giving three months' notice, and some criticism had been aroused because the conversion had not been carried out earlier in the year when the money market was favourable for such an operation. But, as Mr. Snowden explained, we were faced even then with the threat of disturbed money conditions in Austria and Germany, and difficult as our present position actually was, it would clearly have been incomparably worse if in June or July the risk of finding £2,000 million had been undertaken.

The Finance Bill did not fix any particular date for the operation but laid down the procedure to be followed when the moment came for the Treasury to give holders the option of repayment or conversion. The clauses were necessarily very technical in character, but Mr. Snowden explained the broad outlines. Owing to the magnitude of the operation, a longer notice than three months was to be given, but holders would be allowed the three months provided for in the original prospectus in which to dissent, and provision was to be made, as with similar operations in the past, that in the case of holders not formally declining to convert, silence gives consent.

The most convenient form of offer, suggested Mr. Snowden, would be to allow holders to retain their present holdings, with a lower rate of interest and a new repayment date, but no change in the other incidents of the loan were proposed. For instance, dividends would still be payable without deduction of tax at the source. Mr. Snowden gave further explanations, but made it clear he could not pledge himself to the details of any particular operation. The Government required certain powers to enable them to frame the conversion terms, and he said he was seeking these powers in the Finance Bill so that he might be ready to seize the first suitable opportunity, but a conversion of this magnitude, by far the greatest that had ever been undertaken in the history of the world, would take some months to carry through, and he was, therefore, not allowing anything for any saving in this year's budget.

Mr. Snowden now brought his budget speech to a close with a peroration punctuated throughout with Opposition interruptions. "I have finished," he said, "what I described as my very unpleasant task. These proposals are admittedly drastic and disagreeable. They are justified only by the regrettable necessity urged upon us by the present financial position of the nation, but I have received during the last few weeks the most amazing evidence of the willingness of the nation, men and women of all classes, to make their contribution to this effort. This morning my post was like the post on every day for a week past. Old age pensioners (An Hon. Member: 'Shame!') have returned their pension books. (An Hon. Member: 'What about Lord Nelson's?'). War pensioners have offered to forego their pension for the year. National war savings certificates have been returned cancelled. (An Hon. Member: 'What about the Duke of Westminster?'). Postal orders, large and small, pour in. Children, even, have sent from their savings-boxes shillings and half-crowns to help the nation in its need. Factory girls have come to me with collections taken in the workshops; and to-day, following many other similar gifts, I received a 5 per cent. War Loan Bond for £1,000 to be cancelled."

Proceeding with this extraordinary peroration, Mr. Snowden said, "These proposals that I have submitted give everybody the opportunity of contributing. I have tried as best I could to spread the burden of the sacrifice as fairly and as evenly as human ingenuity can devise. To balance a budget with a deficit of £170 million; to spend, as we are doing this year, at the expense of the Exchequer, something like £100 million for the relief of unemployment is an achievement which no country in the world has ever attempted. The House of Commons will, I believe, accept these proposals, the country will accept them, and in doing so they will show to the world an example of the indomitable British spirit in the face of difficulty." At this point Mr. Snowden began to quote Swinburne:

"All our past proclaims our future: Shakespeare's voice and Nelson's hand,
Milton's faith and Wordsworth's trust in this our chosen and chainless land."

Here Mr. Kirkwood interrupted with "What about Dick Turpin?" Mr. Snowden continued:

"Bear us witness: come the world against her,
England yet shall stand."

During the greater part of Mr. Snowden's speech the crowded House listened with rapt attention, and the excitement of his colleagues and supporters, front and back bench alike, was roused to the highest pitch by the emotional appeal of such a peroration, and found expression, when Mr. Snowden resumed his seat, in tumultuous cheering which almost drowned the rival jeers and taunts emanating from the Opposition benches.

When the din had died down, Mr. William Graham, welcomed by an outburst of Opposition cheers, rose to make the preliminary statement customary on budget night. He repudiated any suggestion that there had ever been the slightest hesitation among the Hendersonians about balancing the budget, but said they had always made it clear during the difficult and delicate discussions which had recently taken place that they refused to submit to any dictation from outside, a statement that occasioned ironical cheers and cries of "What about the Trade Union Congress?" from the Government benches. He also denied that he and his colleagues had agreed to the bulk of the economies proposed by the present Government, declaring that the often-quoted figure of £56 million had been agreed to "subject to the presentation of a complete picture," which was never provided, as to the sacrifices to be demanded from all classes. The late Government broke up, he said, on the peremptory demand for a ten per cent. cut in unemployment benefit, and the Opposition would continue to oppose that cut, which, together with the cuts in teachers' salaries, could have been entirely avoided by a temporary suspension of the sinking fund.

Anticipation of an important declaration from Mr. Runciman on the question of tariffs had prevented the House from emptying so rapidly as it usually does on budget night. In the course of his speech—which, coming from so prominent a free-trader, aroused widespread attention throughout the country—Mr. Runciman, analysing the financial position, said the prime difficulties of the moment were due to the war and to the continuous payment of reparations, aggravated by the budget provisions of 1925 to 1928; heavy expenditure on sugar beet subsidies and grants for roads, which we could afford only in times of prosperity, ought to have been terminated earlier, while the rapidity of advances under the Trade Facilities Act was another direction in which our financial security had been impaired. At the moment, he said, sterling had been re-established on a gold basis, but, unless drastic steps were taken to assure the world that the £ sterling was not going to slip off the gold basis and that we were going to meet all our obligations punctually and provide those lending us money with the fullest and most ample security, there was nothing to prevent the £ sterling following the franc.

Continuing, Mr. Runciman said that to cope with this important problem, it might be necessary to limit purchases from abroad which could only be paid for by borrowing, and if so, two alternatives faced us, namely, to peg the exchanges, a delicate and difficult process fraught with grave dangers and disadvantages, or to follow the policy of not buying more than we could pay for. He declared himself to be a life-long free-trader, perhaps "the most bigoted free-trader in the House," but he was not, he said, so bigoted as to shut his eyes to the terrible risks inseparable from the existing adverse balance of trade. A tariff, he declared, would not solve the problem ; what was required was the absolute prohibition of imported luxuries, and he suggested that the war-time system of import licences, revised to meet current needs, should be re-introduced.

A better way, in Mr. Wise's opinion, to prevent people buying luxury imports was to increase the taxation on those with incomes above the surtax level by whom most of such luxuries were bought. Mr. Wise complained strongly of the attempt of Mr. Snowden and others to delude working people into believing that the only alternative to the budget, a deliberately organized attempt to reduce the standard of life, was a headlong flight from the pound and a disastrous currency collapse such as took place in Germany and Austria. All the talk, he declared, about preserving the gold standard in order to safeguard the workers' standard of life was a delusion, the real aim being to safeguard the *rentiers'* interests and to preserve a system which had brought the City of London to its present eminence and without which it believed it could not exist. Attacking the April budget, Mr. Wise said Mr. Snowden knew, or ought to have known, that he was budgeting for a deficit, yet, holding the theory that in taxation the vital thing was not to discourage business by additional taxation, a theory now proved to be completely false, he had definitely refused to tax capital or put heavier taxation on the larger incomes, thus flouting the wishes of the whole Labour party. In conclusion, Mr. Wise said that ever since 1925, Government policy had sacrificed industry in the interest of the City of London, and it was because the present budget was a bankers' budget, designed to deal with what was merely a bankers' crisis at the expense of those not in the very least responsible for it, that the Opposition would resist to the utmost the budget proposals. The attack on the budget was continued by Dr. Marion Phillips who emphasized the futility of trying to get back to prosperity by ruining the nation's consuming power. Lieut.-Commander Kenworthy laid the responsibility for the unhappy state of the country at the door of Mr. Snowden, and asserted that the obstinacy and stubbornness with which the Chancellor had stuck to his rigid, orthodox, Gladstonian principles had paved the way for an old-fashioned protectionist tariff budget in the spring, unless the country was saved from it by the Labour party. Mr. Pethick Lawrence took the line that, allowing for sinking fund payments, there had so far been no budget deficit, that the crisis had been caused not by a budget deficit but by the policy of the City of London and the Bank of England during the last month, and that the placing of Great Britain's neck under the foot of foreign finance—the express purpose, he said, for which the new Government had been formed—was both wholly unnecessary and definitely degrading.

On the following day, the second reading of the Economy Bill was moved by the Prime Minister. The emergency, he explained, demanded emergency measures; normal parliamentary procedure would involve endless delay, and delay meant disaster. The Government, therefore, were asking for power to effect economy measures by orders in council where statutory powers were required before changes could be effected, as in the case of certain salaries, education, national health insurance, police, unemployment insurance, and the Road Fund.

Among the various economy measures proposed were reductions in the emoluments of Ministers and Members of Parliament, judges, civil servants, and members of the defence services. Ministerial salaries were to be reduced by cuts varying from 10 per cent. on salaries less than £2,000 a year to 20 per cent. on salaries of £5,000 and over, and a slightly different scale of cuts was to be applied to judges and officers of the four Crown services with salaries of £2,000 or more. Provision had already been made by the late Government in the current year's estimates for a 10-point drop from March 1st, 1931, and a further 5-point drop from September 1st in the civil service cost of living bonus, and, assuming no further change took place, a saving of £800,000 was expected in 1932. Changes in the defence services included the application to all personnel of the new rates introduced in 1925 for the men and lower ranks of officers but applied hitherto only to new entrants, a momentous cut destined to have grave results.

Savings on education were to total £10,700,000 in a full year, a substantial part of which was to come from a reduction in the central grants towards teachers' salaries. These were to be reduced by 15 per cent., the Government having decided, for various reasons, that the 20 per cent. cut recommended by the May committee was too severe.

National Health Insurance economies included a cut of one-ninth from the existing rate of 9s. per annum paid to a medical practitioner for every insured person on his list, and a similar deduction from the remuneration of insurance chemists.

Police changes were to include various administrative economies and lower rates of pay for new entrants, and in addition there were to be what the White Paper styled " substantial sacrifices on the part of serving members of the forces." The May committee had recommended reductions in the pay of all ranks of 6¼ per cent. in the first year and a further 6¼ per cent. in the following year, but the Government had decided, after consulting councils representing the forces concerned, to impose instead supplementary deductions from pay on a graduated scale rising from 5s. weekly in the lowest rank—that of constable with weekly pay ranging from 70s. to 95s. These deductions were to continue for a year from October 1st, 1931, while " the detailed measures for effecting the additional savings of similar amount to be secured in the second year are reserved for further consideration."

A reduction of half-a-million was to be effected in grants made by the unemployment grants committee towards works schemes designed to relieve unemployment. Save in exceptional circumstances, no application by local authorities received after June 30th, 1931, was to be considered, while grants were in future to be reduced and in no case were to exceed one-quarter of the cost of the scheme.

The most important of the cuts, from the point of view of size and of political and economic significance, were those on unemployment insurance. Firstly, the benefit rates (except the weekly rate of 2s. for each dependent child) were to be reduced by 10 per cent., rounded off to the nearest 3d., thus reducing the weekly rate for a man from 17s. to 15s. 3d., for a woman from 15s. to 13s. 6d., and making corresponding reductions in the rates for adult dependents, young men, young women, and juveniles, the total saving under this head in a full year being estimated at £12,800,000. Mr. MacDonald maintained that the unemployed would, in spite of the cuts, be 1½ per cent. better off than in 1929, seeing that the 10 per cent. cut in benefit was more than counterbalanced by an 11½ per cent. drop in the cost of living. The second step to be taken towards putting unemployment insurance on a sound basis was the increase of the existing weekly contributions (*e.g.* employed adult man, 7d. ; employer, 8d. ; Exchequer, 7½d. to 10d. in each case). The employed man thus had to meet a larger increase than either the employer or the Exchequer, a point the Opposition did not overlook when calculating the additional burdens on the working classes.

Further changes included the limitation of insurance benefits (as distinct from "transitional" benefit) to 26 weeks in any insurance year, after which a fresh insurance qualification would be necessary. After insurance rights had expired, a means test was to be imposed before any "transitional" benefits were paid. The Public Assistance Authority was to assess claimant's need in each case—a process subsequently denounced by the Opposition as the pauperization of the unemployed—and the proper transitional benefit, not exceeding the relative unemployment benefit scale, was to be paid to claimants by the employment exchange. The means test was estimated to result in a saving to the Exchequer of £10 million. Henceforward, borrowing for the fund, other than that already authorized, was to cease, and it was estimated that the deficiency grant the Exchequer would have to provide to balance the fund's accounts in 1932-33 would amount to £22,200,000.

The economy measures as a whole were expected to result in a total saving of £70 million in 1932-33. The cuts in pay, etc., were to be imposed from October 1st, 1931, and the other economy measures as soon as possible, the total savings in the current year being estimated at £22 million. The White Paper (Cmd. 3952), which gives details of the Government's economy proposals, and to which Mr. MacDonald frequently referred in his speech, enumerates the full savings to be effected in 1932-33, as follows :

	Saving in 1932-33
Reduction of Emoluments of Ministers, Members of Parliament, Judges, Civil Servants and Members of the Defence Services - - - -	£4,534,000
Defence Services (in addition to reductions of £3,614,000 in pay and pensions) - - -	5,000,000
Education (Great Britain) - - - - - -	10,300,000
University Grants - - - - - -	150,000
Ministry of Health and Scottish Department of Health - - - - - - - -	1,250,000
Police (Great Britain) - - - - - -	500,000
Agriculture (Great Britain) - - - - -	655,000
Forestry - - - - - - - -	478,000
Empire Marketing Board - - - - -	250,000
Colonial Development Fund - - - -	250,000
Unemployment Grants - - - - -	500,000
Unemployment Insurance :	
(*a*) Reduction of expenditure from the Unemployment Fund - - - -	25,800,000
(*b*) Increased income of the Unemployment Fund from contributions of employers and workmen - - - - -	10,000,000
Road Fund - - - - - - - -	7,865,000
Miscellaneous - - - - - - -	2,500,000
Total - - - - - - -	£70,032,000

The Opposition expressed its formal opinion on the Economy Bill in the amendment, moved by Mr. Clynes, that "This House, while recognizing the necessity for preserving the country's finances on a sound basis, cannot accept proposals which will deprive masses of the people of necessities of life whilst others remain in the enjoyment of luxuries, and will aggravate unemployment by restricting the purchasing power of wage-earners ; nor can this House approve the second reading of a Bill abrogating Parliamentary control by authorizing the making of orders in council designed to supersede existing Acts of Parliament or reverse settled national policy without the previous specific assent of the House of Commons." The

Bill, said Mr. Clynes, made a mockery of parliamentary government, and was a precedent which might be adopted for other purposes by his own party at no distant date, for this disturbing and revolutionary measure might well be taken as fully justifying what he termed "the drastic manœuvres which a Socialist majority in a future Parliament will take to give effect to its will."

Mr. Pethick Lawrence, referring to the Government's plea for courageous spending, said it was quite incomprehensible to him that the Government, in order to relieve the crisis, should economize as a State, cut down people's wages, salaries, and remuneration of all kinds, thus necessarily inducing them to reduce their own expenditure, yet, at the same time, invite private individuals, in official speeches, on the wireless and in other ways, to spend, if possible, even more than before. That, he suggested, merely added to the muddled thinking, which was at the bottom of the whole of the Government's policy, an incomprehensible illogicality.

To the Opposition criticism that the figure of three millions unemployed, upon which the estimates were based, was deliberately exaggerated in order to swell the apparent deficit and thus make a better case for cuts and economies, Mr. Neville Chamberlain, the Minister of Health, replied, "I hope it is too high, perhaps it is. But surely it is better in this case to be a little too high than a little too low, because if it is too low people will say that your finance is not showing a true balance of your account and that you are trying to deceive people." A moment or two later, however, he added, "No one can say that three millions is exaggerated, having regard to the trend in unemployment in the past few months."

The economy cuts, naturally enough, were not welcomed by any of the classes concerned, and in a few cases, notably that of the teachers and certain sections of the Navy, the cuts were strenuously opposed. The teachers voiced their grievances in the advertisement pages of the national press, while the unrest amongst the lower ranks of the

Atlantic Fleet was evidently regarded by the Admiralty in such a serious light that the ships were recalled to their home ports pending an investigation of the men's grievances.

How far exaggerated reports of the trouble affected foreign opinion and subsequent events cannot be definitely known, but, in spite of the further credits of £40 million which had been secured in Paris and New York, our gold deposits sank so low that on September 20th, the Government, in consultation with the Bank of England, decided to suspend the gold standard. The formation and existence of a " National " Government had thus proved to be insufficiently potent to have more than a temporary effect on the outflow of gold, owing, the ministerialists alleged, to the action of the dissident Labour members in refusing to join in a really united Government and by continuing to make lavish promises to the electorate. Amongst other possibilities, the suspension of the gold standard involved the risk of a serious rise in prices, a point the Opposition were not slow to emphasize in the debate on the following day when the Gold Standard (Amendment) Bill, legalizing the action the Government had taken, was rushed through all its stages.

Before the debate commenced, however, the Prime Minister announced that the Government, realizing there were classes of persons who were unfairly affected, had come to the conclusion, in view of all the circumstances, that the simplest way of removing just grievances was to limit reductions as regards teachers, police, and the three defence services (excluding the higher ranks of commissioned officers) to not more than 10 per cent. But when asked whether, in view of the falling value of the pound and the fact that other classes singled out for a reduction had been granted concessions, some concession would be granted to the unemployed, Mr. MacDonald replied with the words—for some, pregnant with meaning—" the handling of the unemployment cuts was necessitated by special conditions of borrowing and they must remain."

Owing to the demands on parliamentary time, the Government introduced a guillotine resolution on September 22nd, allocating four days for the second reading and later stages of the Finance Bill, and a similar number for the National Economy Bill.

At a later stage of the National Economy Bill, Sir Henry Betterton, Minister of Labour, dealing with the question whether a means test was justifiable, pointed out that he was administering a compulsory, contributory system, and he had to consider the rights not only of the unemployed but also of the employed ; the Minister of Labour was not a mere automatic distributor of compassionate grants, he was the trustee for an insurance fund. As for the suggestion that the means test should be undertaken not by public assistance committees but by some other body under the Minister of Labour and free from the poor law taint, Sir Henry said he agreed with the May committee that Government departments had not the necessary machinery and that to set up special machinery would be wasteful duplication.

It was urged by many speakers that the average working man, while having no objection to drawing insurance benefit when unemployed, objected very strongly to asking for poor relief. That was both natural and creditable, commented Mr. Oswald Lewis, but was it a reason why the House should seek to deceive themselves, to deceive the unemployed and the rest of the people by describing as insurance benefit what was in effect poor relief. Transitional benefit, he declared, was in fact poor relief, whatever it might be called, for it was not a payment that came from any contribution made, it was a payment made to a man because he could not get means of subsistence elsewhere.

At the third reading of the National Economy Bill, Sir Stafford Cripps moved that the Bill be read "upon this day three months." The proposals, he said, were sufficiently unjust and illogical at the time of their introduction, but in the changed circumstances, there was no single argument which could now be brought forward to justify the Bill. It had been hoped, he continued, that if the right atmosphere of panic could be produced, the country might be made to swallow these cuts as an act of patriotism without any realization of their significance, and thus the bulwark of unemployment benefit which the Labour party had built up against the lowering of the standard of life might be swept away in a frenzy of flag-wagging. For many years, capitalists and financiers, he declared, had adopted a policy of deflation, and the fact that our real trouble was an adverse balance of trade arising almost entirely from that policy was to be kept in the background as the Government had no remedy for it.

In the final division, the Government, with 297 supporters, secured a majority of 55. The next day (September 30th), the House of Lords, after discussing the Bill at the second reading, passed it through all its stages, and within an hour or so, it received the Royal Assent and became the National Economy Act, 1931.

The main Opposition attack on the budget was led by Mr. William Graham, President of the Board of Trade in the late Government and Financial Secretary to the Treasury under Mr. Snowden in 1924. In a lengthy speech on the ways and means resolutions, he argued that balancing the budget would be of little avail unless effective measures were taken to deal with the world gold problem, which, like many other difficulties, could and would be solved only by international co-operation. Dealing in detail with the Government's financial proposals, he suggested, as alternatives to the cuts, the complete suspension of the sinking fund, the withdrawal of derating relief from brewers, tobacco manufacturers, newspapers, and other prosperous concerns, coupled with further increases in taxation of larger incomes, including the doubling of the budget increase on surtax. As for a revenue tariff, he would, he said, prefer it to the cuts, if it were the sole alternative, but he believed both could be avoided. Tariffs, he added, were not a fundamental question for the Socialist movement, and neither free trade nor protection would solve our problems, but he pointed out that protection might involve serious dangers for our export trade and harmful repercussions in other directions.

Mr. Noel Baker brought a four-fold indictment against the Chancellor : firstly, that he had accepted from the May committee a wholly false view of our financial position ; secondly, that his allowing the report to be published without explanation or comment had destroyed our credit abroad ; thirdly, that the Chancellor allowed the panic created on August 24th, wholly to divert his mind from any effective policy ; and, lastly, that by allowing the crisis to develop, he allowed himself to be forced into a position in which he had to present such a budget, which, however necessary on August 24th, could now only make the situation worse. Mr. Baker contrasted the Government's present policy with the policy, embodied in the April budget, of borrowing for the unemployment insurance fund and for public works designed to reduce unemployment, in his opinion a sound policy and one approved by every economist of note.

Mr. Dalton, Under Secretary for Foreign Affairs in the late Government and a well-known authority on public finance, pointed out that according to Mr. Snowden's present criteria, at least two of Mr. Churchill's budgets were unbalanced, yet on neither occasion had there been any mention of a flight from the £. Nor was there in the United States or in France, where budget deficits were relatively greater than ours, any suggestion made of a flight from the dollar or franc, and, therefore, he argued, the recent flight from the £ was not due to our budget being unbalanced, but had been brought about by other causes, such as reckless over-lending abroad by the City of London, the sensational and distorted report of the May committee, and, most important of all, poisonous and unpatriotic propaganda. Mr. Dalton poured scorn on the idea that the Government's financial proposals were based on equality of sacrifice, for, said he, let us take the cases of three "unemployed" men, one with £5,000 a year, the second with £500, and the third now drawing 17s. weekly unemployment benefit, the first is going to pay £170, or 3½ per cent., in additional taxation, the second £27 or 5 per cent., while the man receiving 17s. weekly in unemployment benefit would have a cut of 1s. 9d. or 10·3 per cent., in addition to extra taxation if he spent anything on beer, tobacco, or entertainments.

Mr. Snowden, replying to some of these criticisms, flatly denied that the panic had been caused by the publication of the May report, pointing out that the Bank of England credits had been arranged before the report was issued, and asserted that our budgetary position was due in the main to the excessive cost of unemployment, a statement greeted with cries of "nonsense" from the Opposition benches. No budget in the world, he reaffirmed, could stand such a strain and it was this which had made it necessary for "us to balance the budget." Referring to Mr. Churchill's suggestion that additional revenue might have been obtained from tea and sugar, Mr. Snowden said he had refrained from calling upon the consumers of tea and sugar, as he "was not prepared to place an additional burden upon the poorest classes in the community."

The Opposition during the rest of the limited time available continued their attack on the budget proposals. At the second reading, Mr. Pethick Lawrence moved "that this House declines to assent to the second reading of a Bill which in raising additional revenue, inflicts disproportionate hardships upon those least able to bear new taxes and treats with comparative leniency the resources of the rich and those who live upon unearned income." But he admitted that the budget, considered alone—apart from the much-debated cuts in the Economy Bill, and the probable results of the abandonment of the gold standard—might be regarded, in spite of injustices in the income-tax changes, as being "not wholly unfair."

The income-tax changes encountered much criticism, the debates often resolving themselves into battles of figures, percentage versus actual increase, increase in burden versus total burden. Although the Opposition raised practically no objections to the widening of the net and the taxation of incomes as low as £101, they claimed that the proposals abounded with the most fantastic and indefensible anomalies, and that, taken as a whole, the proposals violated the basic income-tax principle of progressive graduation, and were in fact definitely regressive beyond a certain point. In support of this thesis, Mr. Benson quoted figures to show that in the case of a single man the total increase in tax payable would on an income of £500 be £31, on £1,000 only £27, and on £1,500, £33 10s., so that the additional burden on a man with an income of £1,500 would be only £2 10s. more than that on a man with one-third his income. The main criticism of the revised allowances appeared to be that the differentiation between married and single ought, in view of the single man's greater ability to pay, to have been increased rather than decreased.

The comparison between married and single was, said Mr. Snowden, unfair, and only made possible by the generous way the married man had been treated in the past. He pointed out that the Royal Commission had recommended the various allowances subject to revision if and when there should be a substantial change in the cost of living. And Major Elliot, with the help of more figures, claimed to prove that in general the burdens laid upon the taxpayers in this time of emergency were not greater than those remaining after Mr. Snowden's 1924 budget, a budget introduced during a time of relative prosperity and welcomed rapturously by the whole Labour party.

The Opposition attack on the income-tax proposals had little effect, except in the case of their complaint that the serious burdens resulting from the increased rate and reduced allowances would be vastly and unbearably increased by the provision of the April budget that three-quarters instead of one-half would have to be paid in January. Mr. Snowden, although admitting that undoubted hardship would result, declined to make any legislative change but agreed to do something through administrative action to meet cases of exceptional hardship. The Inland Revenue Commissioners would issue special instructions to collectors of taxes for dealing with cases of special hardship, but this was not to be a general concession—each application was to be dealt with separately according to the facts and circumstances of the case.

Major Elliot, dealing with the broader aspects of the budget, maintained that its main outlines had originally been approved by the present Opposition leaders, that it showed no departure from the main outlines of the April budget, and that the Chancellor had made no special concessions to the political prejudices of his new colleagues.

At the third reading of the Finance Bill, Major Attlee, Postmaster-General in the late Government, summed up for the Opposition. The budget, he said, had been designed to help to keep us on the gold standard, but the pound had since fallen—amid the plaudits of the press and public who saw in the Chancellor's failure to save the gold standard the one hope in the industrial situation. But, declared Major Attlee, this failure to save the pound made extremely doubtful the balancing of the budget, which was, in fact, like its predecessor merely balanced on paper. The budget, he continued, was the result of a mind which had not moved forward, but had gone farther and farther back, while the Finance Bill was the result of a total misconception of financial conditions ; the April budget, Major Attlee conceded, had retained to some extent the social philosophy which Mr. Snowden had preached for the last thirty or forty years, but the present proposals were based on a wholly different outlook, and he regretted that the Chancellor should have closed his career with the production of such a budget.

Replying to these and other criticisms, Mr. Snowden said the Finance Bill was just the Bill the Hendersonians and the late Cabinet would have introduced, had not Major Attlee "and other members of the Cabinet and of the Government been *dismissed* from their office," for every financial proposal in the Bill had been agreed to by the late Cabinet. As for Major Attlee's complaint that the Bill had been unduly rushed through the House, Mr. Snowden acidly commented on the fact that two days previously the Opposition had not been able to occupy in debate the very limited time allotted by the guillotine resolution. Turning to those who had reproached him for his alleged inexcusable and almost fatal procrastination in putting the nation's finances on a sound basis, he asked them to read his speeches, where, he declared, they would see that over and over again he had said that the necessary economies were so unpopular that their enforcement could only be carried through either by a united House of Commons or by a large majority. "We had to wait," he argued, "for the report of the Economy Committee," and as soon as that report was received, it was acted upon, and, fortified by that, the Government had come to the House with the present proposals.

Mr. Henderson had told the Trade Union Congress he was prepared to impose a 10 per cent. tariff rather than reduce unemployment benefit, but this, said Mr. Snowden, meant that instead of a straightforward 10 per cent. cut for the unemployed, Mr. Henderson was prepared to burden both the unemployed and the rest of the people with a 10 per cent. tariff upon the cost of living, which would probably have meant a 15 per cent. increase when it reached the consumer. Then, confessing he had not read *Labour and the Nation*, he said that from a summary of the proposals he had calculated that, if they were carried out, the additional cost to the Exchequer would amount to no less than £1,000 million a year, and he caustically added, for the benefit of the Hendersonians who had denounced him for not imposing still heavier taxation, that they should "remember that if that programme is to be carried out they ought not to blame me for leaving some treasure in the locker which will still be available for them." The budget, he concluded, with all its shortcomings, had been welcomed with unparalleled acceptance by the whole country, and although it would not deal permanently with the national financial position—for a great deal more than balancing the budget was required, including the fundamental necessity of increasing national productivity—the budget placed the internal resources of the country upon a sound financial basis, a basis upon which we could build.

The Finance (No. 2) Bill, 1931, reached the House of Lords on October 5th, and after a very brief debate at second reading, passed through its remaining stages and received the Royal Assent the same day.

A budget designed to wipe out a prospective deficit of £74 million in the current year and £170 million in the following year was clearly a task and an achievement of the first magnitude. Two paths had stretched out before Mr. Snowden—the obvious one of increased taxation and drastic economies, and the other, enthusiastically advocated by certain economists and politicians, the less dismal-looking but unknown and dangerous path of further borrowing, leading to inflation and all it entailed, economically, financially, and politically. This path was one which Mr. Snowden, with his orthodox principles of budgetary balancing, would probably neither care nor dare to look at twice, even if an overwhelming majority of his new colleagues and the full force of the City, fearful at the possible loss of the gold standard, had not irresistibly forced him towards the other path of crushing taxation and rigorous retrenchment—the path of safety and of sacrifice.

And if the whole of the real sacrifices involved are considered, no previous budget can be compared with this. Let us take one last brief glance at the proposals. The budget was to be balanced this year and next as shown below :

	1931-32	1932-33
To meet estimated deficits, on existing basis, of - -	£74,679,000	£170,000,000
There were to be :		
Economies - - - -	£22,000,000	£70,000,000
Reduction in debt amortization	13,700,000	20,000,000
And new taxation :		
Inland Revenue amounting to	29,000,000	57,500,000
And Customs and Excise to -	11,500,000	24,000,000
Making a total in all of - -	£76,200,000	£171,500,000
Leaving estimated surpluses, on new basis, of - - -	£1,521,000	£1,500,000

The war and early post-war budgets no doubt imposed heavier nominal tax burdens, but, instead of being intensified, they were more than counterbalanced in many homes, by the expenditure side of the budget—money ran like water, and incomes, whether earned or unearned, were in many cases rising almost continuously. Furthermore, when due allowance is made for the change in the level of prices (see Table IV), it is apparent that the actual burden of taxation in 1931-32 was much heavier than at any previous time. Add to this the fact that in that year very few homes escaped the depression—the capitalist class seeing their capital and profits, the other classes their salaries, wages, or other income falling, maybe to zero, and it at once emerges beyond dispute that the real sacrifices involved in the budget, more particularly for those subjected to both economy cuts and additional taxation, were such as had never previously been envisaged in a single budget.

In the framing of this, his fourth and last budget, Mr. Snowden obviously had less of a free hand even than with its predecessors, for once it had been decided definitely to cease borrowing many of the proposals were practically forced upon him by the necessity for very substantial reductions in expenditure and increases in revenue. But it is probable that in the circumstances no living politician would have conceded less to political expediency. The Financial Secretary even claimed that this budget agreed in its " main outlines " with the April budget—although the latter was admittedly a makeshift arrangement founded on borrowing, while Mr. Snowden himself claimed that the greater part of the additional burden would be borne by the direct taxpayer. The figures for a full year were £51½ million from income-tax and £6 million from surtax against £24 million from Customs and Excise, which seem amply to support the thesis that this budget —apart from the " cuts "—continued a policy he had so long pursued, with the qualification, however, that a substantial part of the new income-tax revenue would be drawn, by the reduction of the exemption limit and the allowances, from those classes in the community who had, recently at any rate, been taxed mainly through indirect imposts.

The time has perhaps not arrived to pass final judgment on Lord Snowden's reign at the Treasury. Some of the qualities of a great Chancellor he undoubtedly possessed, strength of character and the power to say " No " on occasion, together with a knowledge of economic principle and an academic consistency in its application which almost attained, as in the case of free trade, to the heights of the fanaticism displayed in his attitude towards drink and gambling. As a parliamentary speaker he was direct and incisive and his neglect of the arts of conciliation detracted less from the influence he exercised in the House of Commons and the general respect in which he was held than might have been expected. He was unfortunate in that, during his second period of office as Chancellor of the Exchequer, he was never a free agent, for besides the fact that his party was dependent on a group of Liberals for its existence, he must—to judge from his subsequent attacks upon them—have been for some time out of sympathy with many of his Labour colleagues and with the bulk of the Labour party. He was also, perhaps, unfortunate in falling upon days when a larger admixture of suppleness and opportunism with the moral and intellectual strength which he so eminently possessed was required. The budget of 1930 is an instance in point. In accordance with principles of dealing with debt and expenditure, which in quieter times would have been wholly admirable, he pursued a policy of imposing largely increased direct taxation upon a falling national income, with the result that, before the year was out, he was forced to recognize the reality of the dangers of the deepening industrial depression of which he had been warned and, in the first budget in 1931, to have recourse to measures, both as regards debt and the raising of revenue, which he had previously condemned in unmeasured terms. Lord Snowden has been criticized for having acquiesced against his better judgment in a policy of drift after his own grave warnings about the financial situation in February 1931. But he cannot fairly be blamed if he deliberately decided not to take the responsibility of causing, by his resignation, the panic and break-up which did actually occur a few months later, and which he was probably optimistic enough to believe could still somehow be avoided.

It is an astonishing tribute to Lord Snowden's character and personality that the disaster, when it happened, should not have overwhelmed him. So colossal a deficit alone would have been the grave of the reputation of any ordinary Chancellor of the Exchequer. Not only, however, did he survive it, but he actually turned his September budget into something like a triumph. It is true that the growth of expenditure, which he had been less able even than his predecessors to keep within bounds, combined with his inopportune insistence on driving up direct taxation, had broken down the traditional fiscal system and made recourse to a tariff inevitable. But he could still claim that in meeting the new situation, which he did with universally acclaimed courage and determination, he had departed in no way from the path of fiscal rectitude as he understood it, and had merely given a fresh turn of the screw to his favoured sources of revenue. More significant still was the fact, which was not likely to facilitate the task of remodelling the system of taxation by a succeeding Parliament of a different political complexion, that he did all this with the full support of most of those who had hitherto been bitterly opposed to all his fiscal methods.

MR. NEVILLE CHAMBERLAIN'S BUDGETS.

FIRST BUDGET, 1932-33.

April 19, 1932.

THE introduction of the September budget described in the last chapter was far from being the end of the crisis, for neither the severe economies and taxation effected by the National Government nor the large credits obtained in Paris and New York arrested the flow of gold from this country. Ten days later, as we have seen, it had been necessary to suspend the gold standard ; and it was under the fear of a ruinous rise of prices and before the echoes of the controversies as to economy " cuts " which had rent the Labour Government had died away that one of the most remarkable general elections ever held in this country took place. Parliament was dissolved on October 7th and the election which took place on the 27th gave the National Government a quite unprecedented majority of 556, composed of 472 Conservatives, 35 " Simonite " Liberals, 33 Samuel Liberals and 13 National Labour, while reducing the Labour representation to a figure of about 50 and depriving it of all its principal leaders. A reconstruction of the National Government followed on November 5th under Mr. Ramsay MacDonald as Prime Minister.

Of the new coalition of Labour, Conservative and Liberal Ministers it is sufficient for our purpose to note that Mr. Snowden, whose unsparing attacks upon his former colleagues and followers had greatly contributed to this result, entered the House of Lords as Viscount Snowden and Lord Privy Seal, while Mr. Neville Chamberlain succeeded him as Chancellor of the Exchequer, and Mr. Walter Runciman took the office of President of the Board of Trade. Upon these two Ministers fell the main responsibility for the new orientation of fiscal policy which necessarily followed upon the general election and which gives so much significance to the termination at this point of the present historical record.

The tariff legislation which was undertaken without delay included the Abnormal Importations (Customs Duties) Act, the Horticultural Products (Emergency Customs Duties) Act, and the Import Duties Act with a general revenue duty of 10 per cent. *ad valorem* and an advisory committee to recommend additional duties for protection not exceeding 100 per cent. *ad valorem*. A short description of this legislation and of the gradual growth of the protection movement since the war will be found in the chapter on Customs and Excise; and this, with the account of Mr. Chamberlain's budget which follows, will complete the picture of the situation with which the National Government had to deal in the first year of its existence.

The way was thus cleared for the introduction of the budget on April 19th. The figures in the revenue returns at the close of the financial year had relieved the nation from the fear of another deficit, but had given little encouragement to hopes of any serious mitigation of the burden of taxation in the immediate future. The budget, after the provision of £32,508,000 for the redemption of debt, had been balanced with a small surplus of £364,000—more than a million short of the surplus estimated for in Lord Snowden's emergency budget. But the result was at once better and worse than it looked. It was better because the surplus had been arrived at after appropriating only £12¾ million from the dollar exchange reserve instead of the £23 million contemplated in Lord Snowden's budget. On the other hand the surplus had only been arrived at by the aid of non-recurrent items of revenue, such as the above-mentioned appropriation from the dollar exchange reserve fund and the collection of the additional quarter's income-tax under Schedules B, D and E in January, provided for in Lord Snowden's budget of April, 1931; and the decrease in the expenditure, which had proved to be £12½ million better than had been anticipated, had been due less to increased economies than to the fact that unemployment had by no means reached the three million mark—the figure adopted as the basis of the September estimates. Mr. Chamberlain's warnings against exaggerated expectations of relief in the coming year were therefore not unnecessary, disappointing as they were to those who realized the depressing effect upon industry of high direct taxation, and who insisted with justice that the magnificent response of the taxpayer to the calls made on him by the last budget could not be repeated in 1932.

The public, however, was hardly prepared for what *The Times* newspaper described as the " puritanical severity " of the proposals of Mr. Chamberlain's budget speech, although on reflection relieved that they were based " neither upon vague optimism, nor upon clever but dishonest stratagems."

The Chancellor of the Exchequer was able to congratulate his hearers on the remarkable result of the September budget which, he said, had " made a profound impression upon instructed opinion in all parts of the world." Taking into account the fact that it had been necessary to take from the dollar exchange account £10¼ million less than had been estimated, the small realized surplus of £364,000 did not, he said, give a true picture of that result, since the Exchequer was really better off than had been estimated by £9 million. And in addition a sum of £32½ million, the reduced sinking fund charge to meet contractual obligations, had been duly provided out of revenue.

On the expenditure side Mr. Chamberlain gave the following figures. Under the Finance Bill (No. 2) of 1931 the fixed Debt Charge was reduced from £355 million to £322 million, mainly because the half year's payment of interest and sinking fund on the American debt had been excluded in accordance with the Hoover moratorium. The sum arrived at for supply services, which had been increased by £34 million over the estimate of April, 1931, owing to the decision to stop borrowing for unemployment insurance and the Road Fund, and then decreased by £22 million by economies, had finally stood at £452,300,000 after allowing for £514,000 supplementary estimates. The final Exchequer issues had amounted to £439,200,000. In spite of substantial concessions in the pay cuts, the economies had been more than made good, and a reduction in the figure of unemployment had materially increased the savings so that instead of the estimated economies of £22 million, savings were shown amounting altogether to £34½ million.

On the revenue side "sundry loans" showed a falling off of £1½ million, due to postponement of certain repayments by Colonial Governments; and miscellaneous receipts a decline of nearly £13 million, owing to the fact that only £12¾ million had been taken from the dollar exchange fund. There was a reduction of £700,000 in Post Office receipts, but Customs and Excise showed an increase of £3 million over the September estimate, largely due to measures not anticipated when those estimates were framed; for the abnormal importation duties had produced £1,165,000, the horticultural products duties £164,000, and the 10 per cent. tariff £760,000. Beer, the over-taxation of which was universally admitted, had produced an additional £3¼ million instead of £4½ million, and the tobacco, sugar, oil and entertainments duties had all shown increases, while spirits had declined by more than £1 million.

Inland Revenue had produced £1,513,000 less than had been estimated in September, the chief deficiency having been in death duties, which had produced £18 million less than the September estimate (which in turn had been £7 million less than had been estimated in April, 1931).

Mr. Chamberlain surprisingly expressed himself as "puzzled" by this fall, which, however, he accounted for by the tremendous depreciation of capital and particularly Stock Exchange values, as well as by the shrinkage of millionaire estates. There was a deficiency on stamp duties of £3 million and the yield of £17 million was the lowest since the war, another natural result of the depression. But the situation had been saved by the income-tax which had yielded a surplus of £15,400,000, and the surtax a surplus of £4 million; and Mr. Chamberlain handsomely acknowledged his sense of this great achievement, which was due to "heroic efforts" on the part of the taxpayers.

As regards the debt, the £32½ million for sinking fund and various minor receipts applicable to debt redemption, bringing the total up to £33,688,000, had resulted in a cancellation of debt to the nominal amount of £39,720,000; but against this there had to be set the borrowing of £22,711,000 to meet the loss on the reimbursement of foreign credits, which Mr. Chamberlain claimed was a book-keeping loss only, so long as it could be set against the enhanced value of the gold reserve. Further additions to the nominal amount of the debt were due to certain operations connected with National Savings Certificates, a conversion offer having for some time been open to holders, under which a considerable amount of accrued interest had been capitalized; and a conversion of 4½ per cent. Treasury Bonds which fell due on April 15th had been successfully carried out.

With this Mr. Chamberlain concluded his review of a year which in its financial and commercial aspects had been "one of the gravest in our history." Trade depression, unemployment, cuts, and reductions had signalized it, he said, and "taxes have been piled upon taxes until it has no longer been possible to meet them out of revenue, and capital has had to be sacrificed to meet them. Taken as a whole the year has been one of anxiety, difficulty and hardship, and it is only in the last few months that some revival of trade and employment has led us to hope that at last the worst has passed." There was to be little in what followed to relieve the gloom of the situation described in these terms.

The Chancellor announced that, pending the result of the forthcoming Lausanne conference, he had decided to include no receipts from reparations and allied war debts or suspended Dominions war debts payments, and no outgoings for our own war debt payments to the United States in the new budget, but to treat them as in suspense till later in the year. The fixed Debt Charge accordingly was reduced from £322 million to £308½ million, which included the sinking fund of £32½ million, and with Northern Ireland payments at £6,800,000 and miscellaneous services at £3½ million, the total consolidated fund services, including sinking fund, would amount to £318,800,000.

In dealing with the supply services, Mr. Chamberlain reminded the committee that besides the decision to bear on the votes the services of the unemployment insurance fund and the Road Fund instead of borrowing for them, the Government were pledged to effect savings of £70 million in the year 1932-33. He now announced that in spite of concessions on pay-cuts amounting to £3½ million and an unexpected addition of £1¼ million for income-tax and Customs duties collection the " savings " to be anticipated would amount to £79 million—savings which arose from some increased reductions in departmental expenditures, but mostly from an anticipated continued reduction in the figure of unemployment. The total of the supply services would be £447,204,000 which, added to the consolidated fund services, £318,800,000, brought the total estimated ordinary expenditure to £766 million, including the sinking fund, but, of course, not including the two " self-balancing " items, the Post Office at £59,188,000 and the roads at £22,910,000.

Warning the committee that the next quarter of an hour would not be an agreeable one, Mr. Chamberlain proceeded to estimate the revenue to meet this expenditure on the existing basis of taxation. After dealing with some minor items, the most important of which was the decrease in the estimate for sundry loans and miscellaneous receipts owing to the exclusion of Reparations and War Debts and the cessation of the special transfer from the exchange account which appeared in last year's estimates, and the disappearance from the budget picture of the rating relief suspense account set up by Mr. Churchill in 1928, he turned to the Inland Revenue, which was of course his chief concern. Lord Snowden had in September reduced his previous estimate from Inland Revenue by £35 million but imposed additional taxation of £57½ million, and the total revenue then anticipated for 1932-33 had amounted to £459½ million. Mr. Chamberlain, expecting a slow but continuous recovery in values during the current year, estimated the stamp duties at £23 million, an increase of £6 million, and death duties at £76 million, an increase of £11 million over the last year's receipts. But his optimism did not extend to income-tax and surtax, the assessment of which would be principally based on the last year's profits ; and he therefore reduced the estimate for surtax to £66 million, and for income-tax (allowing in this case for the promised extra allowances for wear and tear on machinery and equipment) to £260 million, bringing the total for Inland Revenue to £427 million, or £32½ million below the estimate put forward by Lord Snowden in September. This was, as he observed, "a convincing demonstration of the fact that we have approached the practical limits of the return from direct taxation."

Customs and Excise presented features of even greater interest in view of the recent tariff legislation. On the basis of existing taxation, and excluding the new Customs duties, he estimated Customs at £140,275,000, and Excise at £124,200,000, total £264,475,000, or £10 million excess over the last year's receipts, mainly because there would be a full year's yield from the taxation imposed in

September, 1931. Adding his revenue totals together, he found a total of £731¼ million as against an expenditure of £766 million, a deficit of £34¾ million. This theoretical deficit gave Mr. Chamberlain the opportunity of deriding the critics of the new import duties, and especially of the revenue tariff, which had been the basis of their new proposals. "Where," he wondered, "could we have found this great sum if we had been debarred from the consideration of import duties?"

The estimate, necessarily conjectural, of the yield of the 10 per cent. revenue duty was put at £27 million. The abnormal importation duties, on the assumption that they would shortly expire or be superseded by the advisory committee, would bring in £250,000, and the horticultural products duty, to continue till December, £750,000—exactly £1 million between them. Finally the yield of the "additional" duties, which were to be announced at the end of the week, was estimated at £5 million only—making £33 million in all from the new tariffs—bringing the revenue up to £764,300,000 and leaving still an estimated deficit of £1,700,000.

Before dealing further with certain revenue changes which would first increase and then extinguish the estimated deficit, Mr. Chamberlain described a very important feature of the budget which was the winding up of the old exchange account and the creation of an exchange equalization account, in order to enable the Government to keep the sterling exchange and currency steady.

The main object was to give the Government, through the Bank of England, the command of adequate reserves of gold and foreign exchange so as to enable them to deal with the flow of liquid capital which had again been setting in strongly towards these shores, and to meet any sudden withdrawal which might give rise to dangerous developments—in short to check and repel speculative movements of capital. This would also enable them to deal with the technical matter of the accountancy arrangements of the issue department of the Bank. For this purpose, up to £150 million would be borrowed; to the account would be charged the loss of £8 million incurred by the credits raised in the preceding year from the Banque de France and the Federal Reserve Bank of the U.S.A. But as this did not affect the figures of revenue and expenditure, no more need be said of it in this connection.

The Chancellor next proceeded to some minor matters to be contained in the Finance Bill, the extra allowance for wear and tear of machinery and a provision that such allowances should not necessarily take priority over the carry forward for losses, unless favourable to the trader; compensation to collectors of taxes who might be displaced by the new system of appointment of collectors by the Board of Inland Revenue; and a provision as to the pensions of certain retired employees not paid under contract which a recent decision of the court had ruled were not chargeable to income-tax.

With regard to revenue, the Chancellor now announced that there could be no relief this year to the income-tax payer. The only suggestion he had to make was that local authorities and large industrial concerns should endeavour to make permanent the public-spirited arrangements which some had made in the last winter to pay the income-tax for their employees and deduct it in monthly instalments from their remuneration.

Very regretfully also he announced that he could do nothing this year for beer, which he considered was overtaxed. But if the 31s. per barrel were remitted it would cost him £10 million, and he could not find such a sum. Another disappointment to the House was his inability to deal with the grievance of the privileged position in regard to income-tax enjoyed by the co-operative societies, a grievance with which to some extent he appeared to sympathize. But the subject was highly contentious and all he could undertake was to set up a small impartial committee to investigate it—an announcement received with groans and laughter. A small change in the rates of duty on motor cycles to complete what had been done in the last budget in changing the basis of taxation from unladened weight to cylinder capacity was described by Mr. Chamberlain before he turned to more important matters.

The first of these was the position of the sugar industry both at home and in the colonies which had caused the Government great anxiety. "We could not," he said, "possibly contemplate with equanimity the collapse of either the beet sugar industry at home or the cane sugar industry in our colonial territories." With regard to the first of these, the Labour Government had, on account of the substantial fall in the price of sugar, increased the beet sugar subsidy of 7s. 3d. per cwt. by 1s. 3d. per cwt. for one year, and this with the difference between the Excise duty and the Customs duty of 3s. 6d. had brought the total maximum assistance to the home sugar industry up to 12s. per cwt. Mr. Chamberlain decided to maintain this rate of assistance by lowering the Excise duty by the 1s. 3d. special advance given last year and to appoint a committee—another committee !—to inquire into the whole subject and to report before the present subsidy cut was due to expire in 1934. The colonial sugar planters were in a desperate condition owing to a further precipitate fall in prices since 1929 and the Government could no longer withhold relief. It was decided, therefore, that there should be an increase, during the next five years, of 1s. per cwt. in the preference on all colonial sugar imported into Great Britain, the duties on foreign and Dominion sugar remaining at their present rate ; and also that during the same period, there should be a special supplementary preference equal to 1s. on a limited quantity of colonial sugar, to be allocated by the Colonial Office among the several producing colonies in proportion to their total sugar exports. These concessions were to cost £1,100,000 in the current year. This, together with a small change in the silk duties repealing a concession of 1926 as regards articles of apparel imported for private use and estimated to yield £25,000, brought the net deficit to £2,800,000.

To fill this gap Mr. Chamberlain proposed to re-impose the duty on tea, repealed by Mr. Churchill in 1929, at the rate last in force of 4d. per lb. on foreign tea, but with a preference on Empire tea increased from two-thirds of a penny to 2d. per lb. The yield in the current year, with an Excise duty at 2d. per lb. on the large stocks actually in the country, would bring in £3,600,000 in the current year, and the final surplus, with expenditure at £766,004,000 and revenue at £766,800,000, would stand at £796,000.

That a budget statement aptly described by Major Nathan as a budget of disillusionment and presented without any of the oratorical arts which might have made it more palatable should have been coldly received was inevitable. It was in effect a prolongation of the emergency budget of the preceding September, and there was no alternative open to the great majority which had endorsed the financial policy of the emergency National Government but to accept, more or less grudgingly, Mr. Chamberlain's proposals. A natural result of this general feeling and of the disproportionate size of the majority was that the discussions which followed were largely carried on by supporters of the Government, and that the diminutive regular Opposition played a smaller part than usual, though a heavy burden was thrown on the few leaders such as Sir Stafford Cripps, Major Attlee and Mr. Greenwood, and others like Mr. T. Williams, Mr. D. Grenfell, Mr. Tinker, and Mr. George Hall.

The outstanding result of the budget, having due regard to the fact that the cost of unemployment insurance and of the Roads was now a charge upon revenue instead of upon capital, was an increase of the public burden. The receipts from Inland Revenue, it is true, owing to vanishing profits from industry, were estimated, in spite of a very considerable anticipated increase from stamps and death duties, at £22,487,000 below those of 1931-32; but Customs and Excise were to produce £43,948,000 more, of which £33 million was to come from the new import duties, so there was a net increase of over £21½ million from taxation. It was inevitable, therefore, that unfavourable comment should soon arise from the fact that while over-taxation, direct and indirect, was both implied and admitted in every sentence of the budget speech, no relief should have been given to the taxpayer, no hope held out of any relief in the future except such as might come from a revival of industry, and hardly an allusion made to the possibility or necessity of a further reduction of public expenditure. Nor was any reference made in the speech to the possibility of savings from a conversion of the 5 per cent. War Loan, the only immediately practicable form of economy, which was certainly in the mind of the Government and for which operation preparations had been made in Lord Snowden's last budget.

Reduction of expenditure thus seemed to be relegated to the background and other remedies for the nation's ills began, as we shall see, to occupy the attention of the House. The national revenue depends, as finance ministers have often insisted, on industry and production. Industry and production cannot recover activity until profits promise a sufficient return to capital, and future profits could only be looked for either from a rise in the price level, or from a reduction of costs, including wages. Many therefore turned to the hope that world prices could be influenced by an international agreement on some form of currency management or the fuller utilization of the precious metals; or that internal prices would be favourably affected by tariffs. But as the weeks passed, such hopes began to weaken and a growing feeling may perhaps be traced in the debates succeeding the budget that it would be unwise to rely too exclusively upon any results which might be obtained from the Lausanne and Ottawa conferences. The result was a very marked recurrence of the sentiment in favour of public economy among independent Members of Parliament, which was reinforced by continued trade depression and some increase of unemployment; and a realization of the truth that even if the present budget could be balanced without it a further drastic reduction of public expenditure was an indispensable preliminary to any relief from the burden of taxation.

Sir Robert Horne, in the striking speech in which he replied to Major Attlee's opening attack on the budget on April 20th, staked out the lines followed in all the subsequent discussions. He began by congratulating the House on the success of the tariff policy in checking imports without decreasing the export trade. He thought the Chancellor had made a mistake in not remitting the additional beer duty, and expressed the opinion that the spirit and beer duties "did us no credit," and needed revision. He was disappointed that the Chancellor had not dealt with the case of raw silk, and completed his list of comments "not entirely laudatory" by saying that one of the chief characteristics of the budget seemed to him to be the persistence of the unfortunate factor of high expenditure.

But he then proceeded to his main topic with the remark that though the tariff was of first-class importance it was in present circumstances entirely over-shadowed by the question of currency. He traced the blight from which the world was suffering to the devastating fall of prices which had taken place since 1921 and again since 1929, so that they were now below the 1913 level, while costs were a great deal higher, and in a great mass of cases well below the cost of production. One of the consequences he mentioned was that the real burden of the debt had been increased from seven or eight to fourteen or fifteen thousand millions, and he quoted and endorsed the conclusions of the Macmillan committee that the prime objective both of international and of British statesmanship should be to raise prices a long way above the present level, and to maintain them at such a level with as much stability as could be managed. He insisted that the policy of the Treasury and the Bank of England should be directed, with the assistance of the new exchange equalization account, to prevent the pound sterling from rising and to bring about a rise of prices, and that the Chancellor of the Exchequer should " go to the utmost limit of discretion " in disclosing his monetary policy to the business community. In an eloquent peroration he urged that we should take warning from the fate of the Roman Empire whose " plunge into the abyss " had been attributed by Alison and other historians to the contraction of the national currency.

This speech which held out hopes of a monetary solution of the nation's difficulties made a profound impression on the House, discouraged as it had been by the Chancellor's cautious reserve. If it failed to point out any assured method by which the solution could be reached, it did much to arouse both in Parliament and in the country a realization of the overwhelming importance of the currency problem, which thenceforth largely dominated the budget discussions of the session. Very few speeches refrained from some allusion to the subject, which was discussed with much ability not only by leading members like Major Nathan, Mr. Amery, Mr. Churchill and Colonel Wedgwood, but by the banking experts and others, like Mr. Boothby, on many successive occasions. Sir Arthur Samuel who contributed more than one important speech was almost alone in holding that " juggling and tinkering " with the currency standards and values would do more harm than good ; but Lord Snowden, in the Upper House later in the session, showed that a time like this was " always a happy hunting-ground for monetary cranks " and that the " monetary crank was a man who was showing signs of incipient insanity "

A very full discussion naturally took place on the resolution moved by Major Elliot to establish the exchange equalization account. Major Elliot replied with great effect to criticisms by Sir S. Cripps and Mr. Maxton. He vindicated the competence of the Treasury and the Bank of England to manage the fund and incidentally the currency, and disposed of amendments to appoint a committee to assist them, deprecating the publication weekly or at longer intervals of its transactions. He further demonstrated the impracticability of acceding to the demand which was raised over and over again that the Government should disclose the policy they were to pursue in the immediate future in regard to sterling. It was clear that much apprehension existed in the House that the fund would be used to facilitate a renewal of the policy of deflation and a return to the gold standard, which Mr. Mason and Mr. Herbert Williams were almost alone in openly advocating ; and it was not until the third reading that the suspicions of members were more or less allayed by a cautious endorsement by Mr. Chamberlain himself of the objects of the fund in relation to monetary policy as defined by Mr. Albery, the member for Gravesend. Mr. Albery thought that "this fund of £150 million had been put up for no other object than merely the steadying of the sterling exchange," and deduced from the various speeches or answers made in debate that the main points of the Government's money policy were a return to some form of gold standard, not barring the possibility of a gold-cum-silver standard ; that the eventual return would be at a figure below the previous gold standard parity, and was not expected to take place in the near future ; and that it was intended to control fluctuations in sterling exchange with a view to bringing about a higher price level for commodities.

Tariffs, the other great issue of the day, took a very secondary part in these discussions. The law of the Import Duties Act, 1932, was expressly excluded from the resolution to amend the laws relating to the National Debt, the Customs and Excise and the Inland Revenue ; and this exclusion gave rise to a discussion in which Mr. Baldwin admitted that to limit discussion in this way was creating a precedent, but defended it on the ground that having placed the details of tariff work in the hands of the advisory committee, it would be a bad thing to run the risk of having the recently passed Import Duties Act " ripped to pieces " during the process of the budget.

An important discussion, however, took place on the Government amendment, which had been foreshadowed by Mr. Chamberlain in his speech on the Import Duties Bill, that the Treasury should be authorized, on the recommendation of the advisory committee, to remove goods from the first schedule of the Act, *i.e.* from the free list. The line taken by Sir S. Cripps, Mr. A. Bevan, Major Attlee and other Opposition members was that this was contrary to constitutional practice and removed the initiation of taxation from the House of Commons ; and in particular that it would remove the question of the taxation of meat and wheat, which were on the free list, from the consideration of the House. The reply of the Government was that the resolution was in fulfilment of a pledge publicly given by the Chancellor of the Exchequer on February 18th when for technical reasons his amendment to enable the advisory committee to propose subtractions from, as well as additions to, the free list had been ruled out of order. There was no proposal to tax anything by this resolution, but merely to allow the advisory committee full latitude which it did not at present possess to make recommendations for taxation. Such limitation of the direct taxing power of the House of Commons as had undoubtedly occurred and which, as some Labour speakers warned the Government, was creating a precedent which might well be used against them when the time arrived, had already been sanctioned by the Import Duties Act ; and this resolution was merely a logical extension of the powers conferred on the advisory committee and the Treasury. But to that extent it did remove an obstacle to the imposition of duties as to which the attitude of the Government was still somewhat ambiguous ; and the opportunity of rubbing in the previous utterances of some of its members, and especially of Mr. Runciman, on the taxation of meat and wheat, was too tempting to be lost.

The tea duty was discussed on the resolution and also at other stages of the Finance Bill, but no novel arguments were advanced on either side. The duty was defended firstly as a simple method of raising revenue, a method to which the nation had become accustomed by long usage and which owing to the fall in the cost of living could not be felt as oppressive, especially since 80 per cent. of the tea consumed was Empire tea and the amount of the tax affecting the poorer classes would, therefore, only be 2d. per lb.; and secondly as an assistance, through the 50 per cent. preference, to the tea-growing industry of India and Ceylon, a point of view ably expounded by Sir Walter Smiles. The Opposition argued that a time of such depression, when no addition to direct taxation was possible, was not one in which to levy further imposts on the poorest of the people, and that this duty was one of a series of steps which were transferring the burden of taxation from the rich to the poor, and reversing the process by which the proportion of indirect to direct taxation had gradually been decreased.

This was the theme of a good deal of Labour oratory during the session, and was the main subject of the motion to reject the budget by Mr. Charles Brown on the second reading. Major Elliot's reply dealt with this question with the statement that the direct taxpayer was still bearing 61 per cent. and the indirect taxpayer 39 per cent. of the tax burden. But discussion of this topic seemed to arouse less interest in the present House than it had done in its predecessors, in spite of the fact that the introduction of tariffs had given it a new significance. After the discussion and rejection of amendments respecting the stocks held by branch establishments of multiple stores and of stocks at the margin of the one thousand lbs. exemption limit, the resolution was passed by the usual immense majority.

On the sugar duty resolution the main question dealt with was the distinction it was proposed to make between the Dominions and the non self-governing Colonies in the matter of preference. Mr. Amery thought that the whole sugar problem had been dealt with in a "niggling, Treasury fashion," and that it would have been better to have put an additional ¼d. or better still ½d. on foreign sugar and to have given both the Dominions and the Colonies adequate preference, which would have given them a chance of carrying on their industry and created a favourable impression throughout the Empire towards the coming negotiations at Ottawa. Major Elliot pleaded guilty to having dealt with these matters in a Treasury spirit, and urged that a sacrifice of revenue on the one hand or, on the other, an increase in the duties which might lead to an increased cost of living and prejudice the popular mind against the great experiment on which the country was embarking "had to be approached in the most gingerly fashion at the present time."

Sir Robert Horne and Mr. Amery had both from the outset drawn attention to the unsatisfactory position in which the silk duties had been left by recent legislation. Under the Abnormal Importations Act a Customs duty of 50 per cent. in addition to the existing duty had been imposed upon all garments and hosiery, except underwear of whatever material, and also upon certain cotton manufactures containing a component of silk or artificial silk, which disappeared when the additional duties were imposed. The silk trade were aggrieved not only by the sudden removal of this considerable measure of protection, but also by the fact that they were precluded from receiving the same measure of protection as other textile industries because they were already the subject of duties imposed for revenue purposes; in addition, they pointed out that with the fall of prices, the existing duties—*ad valorem* on finished articles but specific on semi-finished materials—were in some cases lower on finished articles than on the material of which they were made. Representatives of the silk trade in the House, such as Mr. Remer and Mr. Levy, had pressed their case with much pertinacity, and the result was that the Chancellor of the Exchequer, on May 10th, after the second reading of the Finance Bill, introduced a resolution making an interim arrangement to give some assistance to the industry pending the possibility of framing a complete scheme for its protection, after investigation by the tariff advisory committee who, though they had no statutory power to deal with this matter, would consider it at his personal request.

Mr. Chamberlain could not alter the whole complicated system of the existing silk duties in the time available, nor could he afford the revenue to free the raw material from duty altogether. But he proposed to leave the duties as they were and put a surtax of 10 per cent. on imported yarns, tissues and other articles (except articles of apparel) made wholly or partly from silk or artificial silk. In these cases a difficulty arose because of the very low price at which they were being imported and on which the existing duties did not give adequate protection ; and he proposed for them either a 10 per cent. *ad valorem* duty or a specific rate of duty (embodied in the resolution), whichever was the higher. (A previous resolution introduced on April 26th in accordance with the budget statement had removed the anomaly by which, while a trader was charged an *ad valorem* duty on imported articles of apparel, private individuals had been able to bring over quantities of silk goods at a lower, specific rate of duty.) The new proposals were accepted by the Silk Association as a temporary arrangement, and the resolution was passed, not, however, without comment from Sir Percy Harris and others on the procedure which had been adopted in this matter and taunts that the Government had yielded at the last moment to political and interested pressure.

Owing to a misunderstanding on the part of the Member who had intended to raise the question in committee, which created some amusement at the time, the beer duty did not come up for discussion until the report stage of the Bill on June 8th, when Sir William Wayland, Member for Canterbury, was given a fresh opportunity to move his amendment. The postponement had one advantage in that Mr. Chamberlain, who had been absent from most of the budget discussions from illness, was able to attend and state the case for the retention of the additional duty. The discussions showed, as Colonel Spender Clay remarked, that the tax had strained the loyalty of a great many followers of the Government; and almost the only whole-hearted support of the duty came from Dr. Salter, who spoke as a temperance advocate. Mr. Chamberlain of course admitted that the beer industry was over-taxed and that the tax had gone on being increased time after time with obvious detriment to the industry itself and, in the long run, to the revenue. But he maintained that it was inaccurate to attribute the whole of the depression in the brewing trade and allied industries to the increase in the beer duty in September, as the depression could be paralleled over and over again in the staple trades of the country; he considered the estimate of unemployment due to the increased tax, which had been put at 80,000, was fantastic and incredible; and he showed that any loss of income-tax in the various trades concerned owing to diminution of profits, which it was rather wildly asserted would be so great as to counterbalance the £10 million he would lose if the duty were remitted, would fall not on this year's revenue, but on next year's. He thought that in view of the changing habits of the people, it was unlikely that, if the duty were remitted, the consumption of beer would at once go back to what it was before; and finally fell back on the plea that he could neither afford to remit the duty nor have recourse to the alternative suggested sources of revenue which he wished to keep in reserve.

Mr. Churchill as usual made the most effective contribution to the discussion, in the course of which he intimated once more his opinion of the clumsy and vexatious manner in which Lord Snowden had imposed in September the burden which the nation was ready to assume, and while urging that the motion should not be pressed to a division he marshalled the arguments against the tax in a manner which probably accorded better with the feelings of the majority than the Chancellor's defence had done. The question was not, he said, in answer to Dr. Salter, whether we should tax beer, but whether we should over-tax it. During the five years of his own budgets he had received an average of £81 million a year from the duty, which had fallen to £76 million for the three subsequent budgets since the duty had been raised, a net and absolute loss of £5 million a year. He agreed that it would not be fair to attribute the whole of this loss to the tax, but thought that three-quarters of it might be due to over-taxation, and argued that the Gladstonian theory of very few taxes had been superseded by the modern view that taxation should be spread over a number of separate commodities. It is true that the old theory had broken down under the pressure of higher rates of taxation than the Gladstonian financiers had ever contemplated and which had reached a point where they were inflicting serious permanent injury on the trades concerned. Mr. Churchill had been much denounced for suggesting that the loss of duty by remission might well have been met from the moneys set aside to form the new exchange equalization fund, which, he said, would have been no more unorthodox than other uses made of it to meet recurrent expenditure both by the late and the present Government. But why not, at all events, have replaced the sugar duty at the point at which it stood before the reliefs given by the late Chancellor of the Exchequer and himself, which would have yielded £20 million, while leaving the cost of sugar below what it was in 1928? To suggest alterations, however, is always a somewhat delicate matter, and Mr. Tinker countered this proposal by the suggestion that the revenue might well be raised by increasing the rates of the estate duty. The question was pressed to a division and Sir William Wayland's motion lost by 301 votes to 71.

The debate on the second reading, as Mr. Chamberlain observed, was of a much more general character than was usual on such occasions, so much so that the Finance Bill itself was somewhat neglected. But there was a succession of speeches of exceptional interest and value. Colonel Moore Brabazon thought the debate would "live in history as the inflation debate" and mentioned the fact that "for the first time we have had pleas for bimetallism advanced from very respectable quarters." Sir Robert Horne as before set the tone in another remarkable speech in which again, quoting the "Economist," he pressed for a declaration of monetary policy, suggesting that prices could be raised by expanding credit and lowering the Bank rate, and argued forcibly that inflation or "reflation" was necessary and no more to be feared than deflation.

Mr. Amery took a similar line on the currency question and his speech was of interest for his historical review of the course of taxation. Since the introduction of free trade the theory had prevailed that our taxes should avoid doing anything either to help or to hinder industry, a theory which had held good so long as the sum total of the tax burden remained too small to exercise any indirect influence on the course of industry. Now, however, when as Lord Snowden had pointed out, one-third of the whole product of industry went in taxation, it was time to discard the idea of taxation for revenue only, and the first thing to be considered in imposing or removing taxation was the effect on production, on employment and indirectly on the income-tax, the death duties, or the tobacco or sugar revenue.

Another fine speech was delivered by Mr. Churchill, notable for a graphic elaboration of Sir Robert Horne's theme of the overshadowing importance of the monetary problem and for his advocacy of immediate co-operation with the United States in an attempt to arrest the fall of prices as the sole hope of averting a world crash. It was notable also for his insistence on the need for economy, which had, almost for the first time in these discussions, been raised by Lord Borodale in a maiden speech and by Mr. Buchan, and was the subject of excellent speeches in the same debate by Mr. Maitland, Mr. Kimball, Lord Lymington, Sir Vivian Henderson, Mr. Rankin and Mr. Atkinson. The Chancellor of the Exchequer, in the reply which he delivered on the first night of the debate, after dealing with the silk duties and the question of the suspension instead of repeal of the land tax, referred in rather general and non-committal terms to Sir Robert Horne's currency speech and to his appeal for a statement of the objective of the Government. But the chief interest of his speech was his treatment, in answer to Mr. Buchan, of the question of public economy. He rightly deprecated the expectation of important results from departmental economies, which would, however, not be neglected, and then made the famous remark that not only hard work but "hard thinking," for which ministers had not yet been able to find time, would be needed if we were to go further than the parings of which he had spoken.

It may not be out of place to quote here the important pronouncement of the Chancellor of the Exchequer at the Bankers' Dinner on the next evening, May 10th, on this subject:

"When the Government took office they did so with two main objects—to balance the budget and to correct the adverse balance of payments. We have balanced the budget, by a combination of economy and increased taxation, which have inflicted heavy burdens and sacrifices on all classes of the community. You have only to consider the great reductions in the yield of revenue which I have been obliged to estimate for the current year to realize that we have, if not reached, at any rate approached, the practical limits of what can be obtained from direct taxation. I am not surprised that in such circumstances the overburdened taxpayer should be crying out for still further efforts on the part of the National Government to induce still greater economies in national expenditure.

Last September the Government anticipated that they would be able to make economies in expenditure this year of £70 million. The revised estimates showed that they expected to increase that economy to £79 million. He hoped that by continuous and day-to-day attention it might be possible to make further economies. But when he considered all the factors of uncertainty, some of them beyond the control of the Government, which might yet falsify some of the anticipations on which the budget was based, he felt that they might yet have to anticipate savings and economies more drastic than those that could be effected merely by paring down this or that item in the expenses of the various departments.

But I have recently made careful examination and careful analysis of the national expenditure, and I cannot but come to the conclusion that to make the substantial reductions in expenditure which would be necessary in order to give real effective relief to the taxpayer would involve changes of national policy which would go far beyond anything that has yet been contemplated.

I do not say at this moment that it may be necessary to inflict further trials of that kind on the nation, but I do say that if we should be forced by the pressure of circumstances to bring about these new and more drastic reductions of expenditure I trust that we shall have the support of all clear-thinking and responsible citizens." (*The Times*, 11th May, 1932.)

The committee stage of the Bill occupied four Parliamentary days, and among the subjects not yet referred to were two or three which require mention. Mr. Amery moved an amendment, supported by Sir Robert Horne, Lt.-Colonel Sandeman Allen, Mr. Hammersley and Mr. Gurney Braithwaite, and opposed by Sir Arthur Samuel, to enable the exchange equalization fund to purchase silver. He disclaimed any desire to commit the Government to any far-reaching scheme of bimetallism, but he argued that the power to purchase silver would do something to correct the very serious fluctuations in the silver price of sterling, and that a stabilization of, or improvement in, the value of silver would be beneficial to our trade with China and also to our trade with India and to the whole political and social conditions in that country. He held also that in view of the coming discussion of the currency question, including the question of silver, at Ottawa, it would be helpful that our Government should not be precluded from using the fund to further co-operation with Canada and other countries.

Sir E. Hilton Young in his reply admitted that issues had been raised of the greatest gravity and of real magnitude, which he did not wish to forejudge. But he proceeded to put the difficulties of adding silver to gold as part of the metallic standard of currency (one of the wider issues raised) and the possible effects upon international trade of increasing the purchasing power of silver, and he concluded that to add silver to the assets of the fund would be of no practical service in steadying the sterling exchange and that to use silver to plane out and balance the exchange between this country and China would necessitate the control of the world-price of silver, a task much too big to be achieved by any kind of silver holding that could be contemplated. For these reasons he asked that the amendment should not be pressed, and Mr. Amery, satisfied that it had achieved its object in drawing a sympathetic reply from the Government, consented to withdraw it.

On another day (May 26th) Colonel Acland Troyte, supported by Mr. George Lambert, Sir George Courthope and Mr. Michael Beaumont, raised the question of the suspension of the land value tax which they hotly urged should have been repealed, and they drew from Mr. Baldwin a defence of the policy of leaving the Act as a "statute in coma." He stated bluntly that the National Government could not be expected to disregard the reluctance of those of its members who, like Lord Snowden, had contributed so greatly to their success in the late general election, to see the Act taken finally off the Statute Book, and the advocates of repeal were obliged to console themselves with the reflection that a state of coma usually precedes death. Lord Strachie raised the question again in a caustic speech in the House of Lords (June 14th) and was answered in a somewhat similar sense by Lord Hailsham.

The question of the income-tax allowances gave rise to another discussion which must be alluded to. Mr. Parkinson and Mr. Tinker moved to increase the personal allowances by the amount by which they had been reduced in September, dwelling especially on the hardship of the case of those income-tax payers with £500 per annum or less. Major Elliot gave a sufficient answer to this appeal when he showed that to meet the demands of all the new clauses which had been put down to restore the allowances as a whole which were in force before the second Finance Act of 1931 would cost £19 million or £25½ million in a full year. The Opposition proposal did not include a reduction of the earned income allowance to the former one-sixth, so that the rate of taxation now suggested would actually be lower than the rate in force in April, 1931. He pointed out how greatly all these personal allowances, including children's allowances, had been increased in recent years, so that even since the reduction they were still more generous than they had been in 1924.

The report stage took place on June 8th and 9th, and was signalized by the presence of the Chancellor of the Exchequer, who had been prevented by illness from attending the committee stage. During all this time his place had been taken, to the satisfaction and admiration of the whole House, by the Financial Secretary, Major Elliot, to whom Mr. Chamberlain took the opportunity of paying a well-deserved tribute in his speech on the third reading.

In that speech Mr. Chamberlain protested against the assumption which had been made in many quarters that a second budget this year was inevitable and that the people of this country must look forward to a further increase in their burdens. He drew a comparison between the position as it was when the National Government came into office and the country was thought to be " down and out " and as it was to-day. They had restored confidence, not only in our own eyes but in the eyes of the world, the figures of unemployment had been checked, the 3½ per cent. Conversion Loan had risen ten points and the trade figures, both imports and exports, compared favourably with those of the United States, of Germany and of France. No single country, however, could be prosperous when all the rest of the world was depressed, and it was not reasonable to expect to derive the full benefits of the various measures taken by the Government till a change occurred in world conditions. If, however, the coming Lausanne conference were to disappoint hopes of some favourable solution, and further progress should still be delayed, it need not be supposed that further taxation was inevitable. Mr. Chamberlain was no doubt speaking with foreknowledge of his great conversion operation (of which indeed he had already indicated the early probability in very carefully chosen phrases) when he remarked that an "increase of taxation was not the only way to meet the problems which lie before us, and I decline altogether," he said, "to accept the view . . . that we have come to the end of the possibilities of reduction in the national expenditure." The matter was constantly before his mind, and he was all the time taking measures to ascertain how further reductions in expenditure could take place. But he deprecated "economy undertaken in haste and repented of at leisure," and after enumerating the item of defence, "only" £106 million, war pensions £47½ million, old age and widows' pensions, health and unemployment insurance £122 million, block grant to local authorities £46 million, education £50 million and housing £15 million, the items which formed a great part of the national expenditure apart from the Debt Charge, he observed, "I do not say that in no circumstances should any of those things be touched, but I do say that we want to be very sure that changes are necessary before we undertake them." If the Government saw that serious changes "which vitally affect the life of many millions of the people" were necessary, they would not "flinch from the task of telling the House and the country."

It did not appear from such phrases as these that the Chancellor of the Exchequer was convinced that the necessity for so painful a course had yet arisen. He thought on the contrary that "we had no cause for pessimism to-day," and looked rather to the hope that the measures taken by the Government in regard to monetary and tariff policy, together with the beginning of an era of cheap and plentiful money, would be given their chance to "prepare the way for a rapid advance as soon as general conditions became favourable."

The second reading of the Bill in the House of Lords took place on June 14th, moved by Lord Londonderry, and the Royal Assent was given on June 16th, 1932.

Here we may take leave of a budget the result of which is still in the future. It was perhaps a disadvantage to Mr. Chamberlain, in a position of much greater parliamentary strength and authority than either of his two predecessors, that unreasonable expectations should have been formed of his first budget, but unsensational as it was, its plain realism did much to inspire a belief in his ability to grapple successfully with tasks of such magnitude as had fallen to very few of those who have held his high office in the past.

New Form of Financial Statement, 1928.

From the year 1928, when the new form of Financial Statement was introduced (see p. 217), the sinking fund provision and the "self-balancing" expenditure of the Post Office and Road Fund were excluded from the total of ordinary expenditure, and only the surplus of the Post Office and the excess of motor vehicle duties over the Road Fund were shown on the revenue side. In addition, certain items which had hitherto appeared on both the revenue and the expenditure side were excluded.

Before comparing budget figures for years before 1928-29 with those for 1928-29 onwards, therefore, it is necessary to allow for the sinking fund and the self-balancing changes, and, in addition, to deduct from the pre-1928-29 figures the amounts shown below.

	1913–4	1921–2	1922–3	1923–4	1924–5	1925–6	1926–7	1927–8	1928–9
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Interest on Victory Bonds, etc., and on Ways and Means borrowing from Government Depts.	—	3,435	2,695	3,026	3,478	3,887	4,273	4,802	—
Interest on money raised under Unemployment Insurance Acts - -	—	103	718	784	406	361	573	1,178	—
Receipts from Fee Stamps - -	835	1,381	1,259	1,265	1,234	1,226	1,237	1,260	—
Teachers' Pensions Contributions -	—	—	—	—	—	—	2,779	2,896	7
Total deductions from Audited expenditure - - -	835	4,919	4,672	5,075	5,118	5,474	8,862	10,136	7

The figures for 1928-29 are shown in the old form on pp. 440-441, and in the new form on pp. 442-443; the totals, identical in the two tables, are the new net figures.

(BUDGET. APRIL 25TH, 1921.

(OPENED BY

REVENUE.

	ESTIMATE. On basis of existing Taxation.	ESTIMATE. After proposed Changes.	RESULT: Exchequer Receipts.	
	£	£	£	
Customs	126,800,000	126,800,000	130,052,000	CUSTOMS AND EXCISE.—Sparkling Wine: duty altered from 7s. 6d. per gallon plus 33⅓ per cent. *ad valorem* to single duty of 15s. per gallon (no est.). Cigars: surtax of 50 per cent. *ad valorem* repealed (no est.). INLAND REVENUE.—Excess Profits Duty repealed (no est.). Excess Mineral Rights Duty repealed (no est.).
Excise	196,200,000	196,200,000	194,291,000	
Total Customs and Excise	323,000,000	323,000,000	324,343,000	
Motor Vehicle Duties	9,000,000	9,000,000	11,096,000	
Estate, etc., Duties	48,000,000	48,000,000	52,191,000	
Stamps	21,000,000	21,000,000	19,638,000	
Land Tax and House Duty	2,500,000	2,500,000	2,590,000	SUBSEQUENT CHANGES. CUSTOMS AND EXCISE.—Railway Passenger Duty: basis of exemption altered (no est.). Entertainments Duty: certain exemptions extended (Excise −£100,000). Mechanical Lighters Duties repealed (−£3,000). Spirits allowances and differential duties amended (no est.). INLAND REVENUE.—STAMPS: relief from increased rate of Companies Capital Duty in certain cases (−£100,000). INCOME-TAX: Exemption of lands owned and occupied by Charities (−£100,000). Abolition of ⅔ limit of annual value of dwelling houses used for trade (−£80,000). Superannuation Funds—exemption of income from investments (−£30,000); exemption of sewers (−£40,000). EXCESS PROFITS DUTY; various concessions (−£5,000,000). CORPORATION PROFITS TAX: Exemption of certain income and profits (no est.).
Income-tax (including Super-tax and Mineral Rights Duty	410,500,000	410,500,000	398,887,000	
Excess Profits Duty, etc.	120,000,000	120,000,000	30,452,000	
Corporation Profits Tax	30,000,000	30,000,000	17,516,000	
Total Inland Revenue	632,000,000	632,000,000	521,274,000	
Produce of Taxes	964,000,000	964,000,000	856,713,000	
Postal Service	43,000,000	43,000,000	40,000,000	
Telegraph Service	5,000,000	5,000,000	5,900,000	
Telephone Service	12,000,000	12,000,000	10,500,000	
Crown Lands	650,000	650,000	820,000	
Receipts from Sundry Loans, etc.:				
Ordinary	1,000,000	1,000,000	13,807,000	
Special	11,000,000	11,000,000		
Miscellaneous:				
Ordinary	21,500,000	21,500,000	26,334,000	
Special	158,500,000	158,500,000	170,806,000	
Produce of Non-tax Revenue	252,650,000	252,650,000	268,167,000	
Total Revenue	1,216,650,000	1,216,650,000	1,124,880,000	

SAFEGUARDING OF INDUSTRIES ACT, 1921.—Under this Act duties were imposed from October 1st, 1921, on Key Industry goods, and, later in the year, on certain Depreciated Currency goods.

NOTE.—The Statement of Revenue and Expenditure laid before the House when the budget was opened was divided into an Ordinary Budget and an Extraordinary Budget, the latter consisting, on the Revenue side, of Special Miscellaneous Revenue "arising from the realization of War Assets," £158,500,000, and, on the other side, of Liquidation of War Commitments, £65,705,000, leaving an Estimated "Special" surplus of £92,795,000. All these figures, however, are shown in the single budget table above, as the distinction between Ordinary and Extraordinary was not maintained in the accounts of Exchequer Receipts.

SIR ROBERT HORNE.)

MR. AUSTEN CHAMBERLAIN.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
	£	£	£	
National Debt :				
Fixed Charge -	24,500,000	24,500,000	24,500,000	
Other Charges -	320,500,000	320,500,000	307,794,000	
Road Fund - -	8,400,000	8,400,000	10,795,000	
Local Taxation Accounts - -	11,115,000	11,115,000	11,172,000	
Payments to Northern Ireland Exchequer - -	—	—	1,104,000	
Land Settlement -	5,000,000	5,000,000	2,647,000	
Other Consolidated Fund Services -	1,757,000	1,757,000	1,868,000	
Total Consolidated Fund Services -	371,272,000	371,272,000	359,880,000	
Army (including Ordnance Factories)	106,665,000	95,963,000	95,110,000	£24,221,000 deducted by Revised Estimate for services transferred to the Vote for Middle East (Civil Services, Class V).
Navy - - -	82,479,000	80,479,000	80,770,000	Supplementary Army Vote, £12,660,000.
Air Force - -	18,411,000	16,940,000	13,560,000	Supplementary Navy Vote, £2,598,000.
Civil Services - -	379,035,000	327,503,000	449,700,000	Supplementary Civil Vote, £129,606,000.
Customs and Excise, and Inland Revenue - -	14,701,000	14,701,000	14,190,000	Supplementary Tax Collection Vote, £150,000.
Post Office Services	67,165,000	67,165,000	65,977,000	
Total Supply Services - -	668,456,000	602,751,000	719,307,000	
Liquidation of War Commitments -	—	65,705,000	—	
Total - - -	1,039,728,000	1,039,728,000	1,079,187,000	

Estimated Surplus { Ordinary, £84,127,000* / Special, £92,795,000† } £176,922,000

Realised „ - - - £45,693,000‡

* Against this surplus were set contingencies, in particular in connection with the Coal Stoppage, which would adversely affect estimates of revenue and expenditure.

† Against this surplus, arising from excess of Special Receipts over Special Expenditure, were set liabilities not then ascertained arising out of the liquidation of War Agreements for the control of railways, in particular, arrears of maintenance and deterioration.

‡ This surplus was applied in purchasing and paying off debt during the year 1921-22, and under section 46 of the Finance Act, 1921, it did not become Old Sinking Fund, but was deemed to be expenditure within the meaning of the Sinking Fund Act, 1875.

(BUDGET. MAY 1st, 1922.

REVENUE.

	Estimate. On basis of existing Taxation.	Estimate. After proposed Changes.	Result: Exchequer Receipts.	
	£	£	£	
Customs - - -	117,250,000	112,250,000	123,043,000	Customs and Excise.—The following duties reduced by one-third: Tea (Customs −£4,400,000); Cocoa (Customs −£440,000); Coffee (Customs −£140,000); Chicory (Customs −£20,000; the Excise loss was negligible). Excise duties on sugar and molasses made from home-grown beet repealed (Excise *nil*). Inland Revenue.—Income-tax: standard rate reduced from 6s. to 5s. (−£32,500,000); other changes in income and super-tax, including reduced basis of assessment for Sch. B (−£700,000). Excess Profits Duty.—Various changes (−£2,000,000). Post Office.—Reduction in postage, etc., rates (−£4,850,000). Reduction in telephone charges (−£800,000). These reductions, plus the cost of restoring Sunday collections, represented the surrender out of the Post Office surplus on the Commercial Account basis of about £6,250,000.
Excise - - -	160,750,000	160,750,000	157,275,000	
Total Customs and Excise - -	278,000,000	273,000,000	280,318,000	
Motor Vehicle Duties	10,600,000	10,600,000	12,321,000	
Estate, etc., Duties -	48,000,000	48,000,000	56,871,000	
Stamps - - -	18,250,000	18,250,000	22,222,000	
Land Tax, House Duty and Mineral Rights Duty	3,000,000	3,000,000	2,980,000	
Income-tax and Super-tax -	362,200,000	329,000,000	379,045,000	
Excess Profits Duty, etc. - - -	29,800,000	27,800,000	2,004,000	
Corporation Profits Tax - - -	19,750,000	19,750,000	18,977,000	
Total Inland Revenue - -	481,000,000	445,800,000	482,099,000	
Produce of Taxes -	769,600,000	729,400,000	774,738,000	
Postal Service -	40,517,000	35,667,000	34,150,000	
Telegraph Service -	5,230,000	5,230,000	5,500,000	
Telephone Service -	14,528,000	13,728,000	13,550,000	
Crown Lands - -	750,000	750,000	900,000	
Interest on Sundry Loans - -	14,000,000	14,000,000	10,016,000	
Miscellaneous:				
Ordinary - -	22,000,000	22,000,000	24,140,000	
Special - -	90,000,000	90,000,000	51,018,000	
Produce of Non-tax Revenue -	187,025,000	181,375,000	139,274,000	
Total Revenue -	956,625,000	910,775,000	914,012,000	

SUBSEQUENT CHANGES.

(No revised balance sheet issued.)

Customs and Excise.—Import duty on cinema films by British producers, reduced rate (Customs −£6,000); club duty reduced from 6d. to 3d. (Excise −£160,000); entertainments duty, relief for charities and art shows (Excise −£33,000); Private brewers' concession (Excise −£1,000).

Inland Revenue.—Income-Tax: Exemption of war widows' allowances in respect of children (−£20,000); allowance in respect of superannuation contributions (−£50,000); expenses of management of mineral royalties (−£15,000).

Excess Profits Duty: Reduction in rate of interest on arrears (−£300,000).

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
	£	£	£	
National Debt:				
Fixed Charge -	16,000,000	16,000,000	14,209,000	
Other Charges -	319,000,000	319,000,000	309,781,000†	† Including £21,753,000 for Sinking Fund payments not provided for in the budget estimates.
Road Fund - -	10,000,000	10,000,000	11,772,000	
Local Taxation Accounts - -	9,788,000	9,788,000	10,471,000	
Payments to Northern Ireland Exchequer - -	2,500,000	2,500,000	3,323,000	
Land Settlement -	3,500,000	3,500,000	1,236,000	
Other Consolidated Fund Services -	2,650,000	2,650,000	2,704,000	
Total Consolidated Fund Services -	363,438,000	363,438,000	353,496,000	
Army (including Ordnance Factories)	62,300,000	62,300,000	45,400,000	Supplementary estimate, £340,000.
Navy - - -	64,884,000	64,884,000	56,200,000	
Air Force - -	10,895,000	10,895,000	9,400,000	
Civil Services - -	317,455,000	317,455,000	286,826,000	Supplementary estimate, £18,491,000.
Customs and Excise, and Inland Revenue - -	12,275,000	12,275,000	11,317,000	
Post Office Services -	53,822,000	53,822,000	49,857,000	
Provision for Supplementary Estimates - -	25,000,000	25,000,000	—	
Total Supply Services - -	546,631,000	546,631,000	459,000,000	
Total - - -	910,069,000	910,069,000*	812,496,000	* This total represented "Ordinary" Expenditure, £823,846,000; "Special" Expenditure, £61,223,000; Contingencies, £25,000,000.

Estimated Surplus, £706,000.

Realized Surplus, £101,516,000. This amount was applied in purchasing and paying off debt during the year 1922-23, and under section 39 of the Finance Act, 1922, it did not become Old Sinking Fund, but was deemed to be expenditure within the meaning of the Sinking Fund Act, 1875.

(BUDGET. APRIL 16TH, 1923.

REVENUE.

	Estimate.		Result: Exchequer Receipts.
	On basis of existing Taxation.	After proposed Changes.	
	£	£	£
Customs - - -	118,300,000	116,900,000	119,958,000
Excise - - -	155,700,000	143,850,000	147,970,000
Total Customs and Excise - -	274,000,000	260,750,000	267,928,000
Motor Vehicle Duties	13,250,000	13,250,000	14,691,000
Estate, etc., Duties -	52,000,000	52,000,000	57,800,000
Stamps - - -	20,000,000	20,000,000	21,570,000
Land Tax, House Duty and Mineral Rights Duty	3,000,000	3,000,000	2,760,000
Income Tax - -	280,000,000	261,000,000	269,331,000
Super-tax - -	58,000,000	58,000,000	60,640,000
Excess Profits Duty, etc. - - -	12,000,000	12,000,000	—
Corporation Profits Tax - - -	20,000,000	20,000,000	23,340,000
Total Inland Revenue - -	445,000,000	426,000,000	435,441,000
Produce of Taxes -	732,250,000	700,000,000	718,060,000
Postal Service -	34,500,000	33,200,000	32,840,000
Telegraph Service -	5,250,000	5,250,000	5,570,000
Telephone Service -	14,750,000	14,150,000	14,390,000
Crown Lands - -	900,000	900,000	920,000
Receipts from Sundry Loans -	12,500,000	12,500,000	12,607,000
Miscellaneous:			
Ordinary - -	12,500,000	12,500,000	15,981,000
Special - -	40,000,000	40,000,000	36,801,000
Produce of Non-tax Revenue -	120,400,000	118,500,000	119,109,000
Total Revenue -	852,650,000	818,500,000	837,169,000

CUSTOMS AND EXCISE.—Beer: rebate granted of £1 per bulk barrel (Customs −£1,400,000; Excise −£11,600,000); Cider and Perry duty repealed (Customs insignificant, Excise −£90,000); *Excise* duty on sweetened or fermented table waters reduced from 4d. to 2d. per gallon (Excise −£160,000).

INLAND REVENUE.—INCOME-TAX: Standard rate reduced from 5s. to 4s. 6d. (−£19,000,000).

CORPORATION PROFITS TAX. — Rate reduced from 1s. to 6d. in the £. (Estimated effect this year, *nil*.)

POSTAL SERVICE.—Reductions in postal rates, etc. (−£1,300,000).

TELEPHONE SERVICE.—Reductions in telephone charges (−£600,000).

SUBSEQUENT CHANGES.

(No revised balance sheet issued.)

CUSTOMS AND EXCISE.—Entertainments duty, extension of exemptions (Excise −£40,000); Coffee and Chicory extracts, allowance of drawback (Customs −£1,000); Cinematograph films, minor concession (Customs −£500).

INLAND REVENUE.—INCOME-TAX: increased repairs allowances (−£240,000).

INHABITED HOUSE DUTY. Revised scale (−£500,000).

EXPENDITURE

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
National Debt:	£	£	£	
Interest, etc. -	310,000,000	310,000,000	307,309,000	
Sinking Funds -	40,000,000	40,000,000	40,000,000	The New Sinking Fund (1923).
Road Fund - -	12,650,000	12,650,000	14,090,000	
Local Taxation Accounts - -	10,348,000	10,348,000	13,662,000*	* Including £2,832,000 additional grant for England, and £389,000 for Scotland under the Agricultural Rates Act, 1923.
Payments to Northern Ireland Exchequer - -	3,000,000	3,000,000	3,967,000	
Land Settlement -	1,500,000	1,500,000	1,209,000	
Other Consolidated Fund Services -	2,972,000	2,972,000	2,803,000	
Total Consolidated Fund Services -	380,470,000	380,470,000	383,040,000	
Army (including Ordnance Factories)	52,000,000	52,000,000	43,600,000	
Navy - - -	58,000,000	58,000,000	52,600,000	
Air Force - -	12,011,000	12,011,000	9,600,000	
Civil Services - -	251,670,000	251,670,000	239,366,000	Supplementary estimate £13,143,000.
Customs and Excise, and Inland Revenue - -	11,591,000	11,591,000	10,823,000	
Post Office Services -	50,874,000	50,874,000	49,811,000	
Total Supply Services - -	436,146,000	436,146,000	405,800,000	
Total - - -	816,616,000	816,616,000†	788,840,000	† This total consisted of £801,013,000 "Ordinary" Expenditure, and £15,603,000 "Special" Expenditure.

Estimated Surplus, £1,884,000.

Realized Surplus, £48,329,000, which was applied in purchasing and paying off debt during the year 1923-24, and under Section 35 of the Finance Act, 1923, it did not become Old Sinking Fund, but was deemed to be expenditure within the meaning of the Sinking Fund Act, 1875.

(BUDGET. APRIL 29TH, 1924.

REVENUE.

	Estimate. On basis of existing Taxation.	Estimate. After proposed Changes.	Result: Exchequer Receipts.
	£	£	£
Customs - - -	127,500,000	101,800,000	99,344,000
Excise - - -	140,000,000	135,900,000	135,128,000
Total Customs and Excise - -	267,500,000	237,700,000	234,472,000
Motor Vehicle Duties	15,600,000	15,600,000	16,164,000
Estate, etc., Duties -	56,000,000	56,000,000	59,450,000
Stamps - - -	21,000,000	21,000,000	22,850,000
Land Tax, House Duty and Mineral Rights Duty	3,000,000	1,250,000	1,450,000
Income-tax - -	265,000,000	265,000,000	273,836,000
Super-tax - -	61,000,000	61,000,000	62,680,000
Excess Profits Duty, etc. - - -	8,000,000	8,000,000	700,000
Corporation Profits Tax - - -	22,000,000	20,000,000	18,100,000
Total Inland Revenue - -	436,000,000	432,250,000	439,066,000
Produce of Taxes -	719,100,000	685,550,000	689,702,000
Postal Service -	33,250,000	33,250,000	34,850,000
Telegraph Service -	5,500,000	5,500,000	5,600,000
Telephone Service -	15,250,000	14,750,000	15,000,000
Crown Lands - -	900,000	900,000	960,000
Interest on Sundry Loans, etc. -	12,250,000	12,250,000	11,941,000
Miscellaneous:			
Ordinary - -	11,850,000	11,850,000	14,420,000
Special - -	30,000,000	30,000,000	26,963,000
Produce of Non-tax Revenue -	109,000,000	108,500,000	109,734,000
Total Revenue -	828,100,000	794,050,000	799,436,000

CUSTOMS AND EXCISE.—The following duties reduced by 50 per cent.: Tea (Customs −£5,000,000), Cocoa (Customs −£580,000), Coffee and Chicory (Customs −£220,000, Excise, *nil*). Sugar duties reduced, main duty 25s. 8d. to 11s. 8d. (Customs −£17,200,000, Excise −£500,000); Dried fruits duties reduced by one-third (Customs −£200,000); Table waters duties (sweetened or fermented, and herb beer only) repealed (Customs *nil*, Excise −£200,000); new import (McKenna) duties repealed (Customs −£2,500,000); entertainments duty, tickets not exceeding 6d. exempted and scale revised. (Excise −£3,400,000).

MOTOR VEHICLE DUTIES.—Revised part year rates, (negligible this year).

INLAND REVENUE.—CORPORATION PROFITS TAX: repealed as respects profits arising after June 30th, 1924 (−£2,000,000).

INHABITED HOUSE DUTY: repealed (−£1,750,000).

POST OFFICE. — TELEPHONE SERVICE: rates reduced (−£500,000).

SUBSEQUENT CHANGES.

Minor changes, including the following:
CUSTOMS AND EXCISE.—Increased rebate on black or spruce beer (Excise −£2,000).
ENTERTAINMENTS DUTY.—Exemptions extended (Excise −£45,000).
The depreciated currency duty was allowed to lapse as from August 20th, 1924.
INLAND REVENUE.—ESTATE DUTY: relief in respect of deaths from active service (−£15,000).
STAMPS.—Exemption of salary, etc., receipts from stamp duty (−£100,000).
INCOME-TAX.—Extended scope and increase of allowance for housekeeper (−£34,000), and increase of widowed mother allowance (−£16,000).

The British Sugar (Subsidy) Act, 1925, revived the Excise duty on sugar, etc., at the basic rate of 9s. 8⅔d. per cwt. (+£265,000).

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
National Debt:	£	£	£	
Interest, etc.	305,000,000	305,000,000	312,161,000	
Sinking Funds	45,000,000	45,000,000	45,000,000	The New Sinking Fund (1923) automatically increased by £5,000,000 this year.
Road Fund	15,000,000	15,000,000	15,563,000	
Local Taxation Accounts	13,150,000	13,150,000	13,967,000	
Payments to Northern Ireland Exchequer	3,500,000	3,500,000	3,822,000	
Land Settlement	750,000	750,000	664,000	
Other Consolidated Fund Services	2,440,000	2,440,000	2,430,000	
Total Consolidated Fund Services	384,840,000	384,840,000	393,607,000	
Army (including Ordnance Factories)	45,000,000	45,000,000	44,765,000	
Navy	55,800,000	55,800,000	55,625,000	Supplementary estimate, £220,000.
Air Force	14,511,000	14,511,000	14,310,000	Supplementary estimate, £350,000.
Civil Services	227,573,000	227,573,000	226,134,000	Supplementary estimate, £11,300,000.
Customs and Excise, and Inland Revenue	11,221,000	11,221,000	10,956,000	
Post Office Services	51,081,000	51,081,000	50,380,000	
Total Supply Services	405,186,000	405,186,000	402,170,000	
Total	790,026,000	790,026,000†	795,777,000	† This total consisted of £786,848,000 "Ordinary" Expenditure, and £3,178,000 "Special" Expenditure.

Estimated Surplus, £4,024,000.

Realized Surplus, £3,659,000, which was applied in purchasing and paying off debt during 1923-24, and under the Finance Act, 1924, section 40, it did not become Old Sinking Fund, but was deemed to be expenditure within the meaning of the Sinking Fund Act, 1875.

1925-

(BUDGET. APRIL 28TH, 1925.

REVENUE.

	Estimate. On basis of existing Taxation.	Estimate. After proposed Changes.	Result: Exchequer Receipts.
	£	£	£
Customs - - -	98,500,000	102,040,000	103,487,000
Excise - - -	136,500,000	137,220,000	134,560,000
Total Customs and Excise - -	235,000,000	239,260,000	238,047,000
Motor Vehicle Duties	17,500,000	17,500,000	18,056,000
Estate, etc., Duties -	62,000,000	66,500,000	61,200,000
Stamps - - -	24,000,000	24,000,000	24,700,000
Land Tax, House Duty and Mineral Rights Duty	1,000,000	1,000,000	950,000
Income-tax - -	289,000,000	262,000,000	259,411,000
Super-tax - -	70,000,000	63,300,000	68,510,000
Excess Profits Duty, etc. - - -	4,000,000	4,000,000	2,000,000
Corporation Profits Tax - - -	9,000,000	9,000,000	11,670,000
Total Inland Revenue - -	459,000,000	429,800,000	428,441,000
Produce of Taxes	711,500,000	686,560,000	684,544,000
Postal Service -	35,600,000	35,600,000	35,750,000
Telegraph Service -	5,400,000	5,400,000	5,650,000
Telephone Service -	16,000,000	16,000,000	15,950,000
Crown Lands - -	900,000	900,000	950,000
Receipts from Sundry Loans -	12,600,000	12,600,000	14,944,000
Miscellaneous:			
Ordinary - -	14,000,000	14,000,000	17,349,000
Special - -	30,000,000	30,000,000	36,925,000
Produce of Non-tax Revenue -	114,500,000	114,500,000	127,518,000
Total Revenue -	826,000,000	801,060,000	812,062,000

CUSTOMS AND EXCISE.—Increased preferences on Empire dried fruits, sugar, tobacco, and wine (Customs −£1,290,000). Resulting reductions in Excise duties on sugar (Excise −£180,000), Tobacco (negligible). New duties on silk and artificial silk (Customs +£3,100,000, Excise +£900,000); Hops (Customs +£130,000) with consequential surtax on imported beer (estimate not altered). Re-imposition of McKenna duties on films (Customs +£170,000); Clocks and watches (Customs +£315,000); motor cars, etc. (Customs +£915,000); musical instruments (Customs +£200,000).

INLAND REVENUE.—ESTATE DUTY.—Increase of certain rates of duty (+£4,500,000).

INCOME-TAX. — Standard rate reduced from 4s. 6d. to 4s. (−£24,000,000); increase of allowance in respect of earned income, including an allowance to certain taxpayers aged 65 or more in respect of investment income (−£3,000,000).

SUPER-TAX.—Reduction of certain rates of tax (−£6,700,000).

SUBSEQUENT CHANGES.

CUSTOMS AND EXCISE.—Silk duties: concessions (−£530,000). New duty on lace and embroidery (+£140,000).

INLAND REVENUE.—ESTATE DUTY: agricultural land concession (−£225,000).

The Safeguarding of Industries (Customs Duties) Act, 1925 (December) imposed duties on cutlery, gloves, and gas mantles.

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
National Debt:	£	£	£	
Interest, etc. -	305,000,000	305,000,000	308,229,000	
Sinking Funds -	50,000,000	50,000,000	50,000,000	The New Sinking Fund (1923) automatically increased by a further £5,000,000 this year.
Road Fund - -	16,900,000	16,900,000	17,455,000	
Local Taxation Accounts - -	13,329,000	13,329,000	14,454,000	
Payments to Northern Ireland Exchequer - -	4,000,000	4,000,000	4,861,000	
Land Settlement -	700,000	700,000	779,000	
Other Consolidated Fund Services -	2,000,000	2,000,000	2,372,000	
Total Consolidated Fund Services -	391,929,000	391,929,000	398,150,000	
Army (including Ordnance Factories)	44,500,000	44,500,000	44,250,000	
Navy - - -	60,500,000	60,500,000	59,657,000	
Air Force - -	15,513,000	15,513,000	15,470,000	
Civil Services - -	222,609,000	222,609,000	243,263,000	Supplementary estimate, £25,465,000.
Customs and Excise, and Inland Revenue - -	11,391,000	11,391,000	11,360,000	Supplementary estimate, £60,000.
Post Office Services	52,958,000	52,958,000	53,950,000	Supplementary estimate £847,000.
Total Supply Services - -	407,471,000	407,471,000	427,950,000	
Total - - -	799,400,000	799,400,000	826,100,000	

Estimated Surplus - £1,660,000
Realized Deficit - - £14,038,000

(BUDGET. APRIL 26TH, 1926.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	107,700,000	108,450,000	107,515,000	
Excise - - -	134,300,000	141,300,000	132,978,000	
Total Customs and Excise - -	242,000,000	249,750,000	240,493,000	
Motor Vehicle Duties	20,100,000	21,600,000	21,393,000	
Estate, etc., Duties -	66,000,000	66,000,000	67,320,000	
Stamps - - -	25,000,000	25,000,000	24,750,000	
Land Tax, House Duty and Mineral Rights Duty	1,000,000	1,000,000	880,000	
Income-tax - -	255,000,000	254,800,000	234,717,000	
Super-tax - -	64,500,000	64,500,000	65,910,000	
Excess Profits Duty, etc. - - -	2,000,000	2,000,000	4,500,000	
Corporation Profits Tax - - -	6,500,000	6,500,000	3,970,000	
Total Inland Revenue - -	420,000,000	419,800,000	402,047,000	
Produce of Taxes	682,100,000	691,150,000	663,933,000	
Postal Service -	36,500,000	36,500,000	35,600,000	
Telegraph Service -	5,600,000	5,600,000	5,900,000	
Telephone Service -	17,300,000	17,300,000	17,350,000	
Crown Lands - -	950,000	950,000	1,010,000	
Receipts from Sundry Loans, etc.	17,650,000	21,650,000	22,854,000	
Miscellaneous:				
Ordinary - -	18,600,000	25,600,000	28,214,000	
Special - -	26,000,000	26,000,000	30,840,000	
Produce of Non-tax Revenue -	122,600,000	133,600,000	141,768,000	
Total Revenue -	804,700,000	824,750,000	805,701,000	

Customs and Excise.—McKenna duties, existing exemption of motor trade vehicles, etc., repealed (Customs +£300,000); Key industry duty, extended (Customs +£50,000); exemption of certain antiques from Customs duties (negligible); Beer duty, brewers' credit period reduced from 3 to 2 months (Excise +£5,500,000); Excise duty on chicory repealed (Excise negligible). New duties: packing and wrapping paper, 16⅔ per cent. *ad valorem* (Customs +£400,000); Betting duty, 5 per cent. on legal bets, also annual licence duties of £10 on bookmakers and £10 on registration of each set of premises (Excise +£1,500,000).
Motor Vehicle Duties.—Increased licence duties on hackney vehicles (+£275,000), Commercial goods vehicles (+£1,200,000), and tractors, etc. (+£25,000).
Inland Revenue.—Income-Tax: Sch. D to be assessed on preceding year, and 3 years' average, etc., to be abolished, change to become operative in 1927-28. Income-Tax and Super-Tax, double tax agreement with Irish Free State (Income-tax −£200,000).
Receipts from Sundry Loans.—First year's payments under provisional French War Debt agreement (+£4,000,000).

Miscellaneous Revenue: Ordinary.—Transfer to Exchequer from Road Fund (+£7,000,000).

SUBSEQUENT CHANGES.

Customs and Excise.—Silk duty, articles of wearing apparel allowed to be charged on weight instead of *ad valorem* (−£17,000); betting duty, rate reduced to 2 per cent. on bets on horse-races made on course on day of race, and to 3½ per cent. on all other bets. (The estimates, based on fresh data, remained unchanged).
Motor Vehicle Duties.—Reduction of rates on certain vehicles (−£19,000).

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
National Debt:	£	£	£	
Interest, etc. -	304,000,000	304,000,000	318,584,000	
Sinking Funds -	50,000,000	60,000,000*	60,000,000	* Increased by £10,000,000. (See p. 168.)
Road Fund - -	19,500,000	17,500,000	17,373,000	
Local Taxation Accounts - -	14,100,000	14,100,000	14,172,000	
Payments to Northern Ireland Exchequer - -	5,200,000	5,200,000	5,767,000	
Other Consolidated Fund Services -	2,600,000	2,600,000	2,869,000	
Total Consolidated Fund Services -	395,400,000	403,400,000	418,765,000	
Army (including Ordnance Factories)	42,500,000	42,500,000	43,600,000	Supplementary estimate, £950,000.
Navy - - -	58,100,000	58,100,000	57,600,000	
Air Force - -	16,000,000	16,000,000	15,530,000	
Civil Services - -	234,257,000	234,257,000	240,486,000	Supplementary estimate, £10,511,000.
Customs and Excise, and Inland Revenue - -	11,784,000	11,784,000	11,514,000	
Post Office Services -	54,600,000	54,600,000	54,900,000	Supplementary estimate, £376,000.
Total Supply Services - -	417,241,000	417,241,000	423,630,000	
Total - - -	812,641,000	820,641,000	842,395,000	

Estimated Surplus - £4,109,000
Realized Deficit - - £36,694,000

(BUDGET. APRIL 11TH, 1927.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On basis of existing Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	106,550,000	112,120,000	111,620,000	Customs and Excise.—Wine duty, scale revised and rates increased (Customs +£1,250,000); tobacco duty, increased, main rate from 8s. 2d. to 8s. 10d. per lb. (Customs +£3,100,000, Excise negligible); match duty, rates revised (Customs +£370,000, Excise +£230,000); McKenna duties, exemption of tyres repealed (Customs +£700,000); cinematograph films, law amended to prevent leakage (Customs *nil*). Beer duty, reduction of credit period from 2 months to 1 month (Excise +£5,000,000). New duties: translucent pottery, 28s. per cwt. (Customs+£150,000); British wines, 1s. per gallon (Excise +£80,000).
Excise - - -	140,450,000	145,760,000	139,200,000	
Total Customs and Excise - -	247,000,000	257,880,000	250,820,000	
MotorVehicle Duties	24,100,000	24,100,000	24,518,000	
Estate, etc., Duties -	67,500,000	67,800,000	77,310,000	Inland Revenue.—Estate Duty: termination of relief under s. 16 of Finance Act, 1907 (+£300,000).
Stamps - - -	25,700,000	25,500,000	27,030,000	Stamps.—Alteration in respect of amalgamations and reconstructions of companies (−£200,000).
Land Tax, House Duty, and Mineral Rights Duty	800,000	800,000	780,000	
Income-tax - -	232,000,000	247,000,000	250,583,000	Income-Tax.—Collection of Schedule A in one instalment (+£14,800,000); taxation of literary and dramatic royalties (+£60,000); charities relief from tax in respect of certain profits (−£60,000); amendment of law regarding assessment of tax on interest (+£200,000). Change in assessment of Sch. E and super-tax. (See p. 192.)
Super-tax - -	62,000,000	62,000,000	60,600,000	
Excess Profits Duty, etc. - - -	3,000,000	3,000,000	—	
Corporation Profits Tax - - -	2,700,000	2,700,000	1,780,000	
Total Inland Revenue - -	393,700,000	408,800,000	418,083,000	
Produce of Taxes	664,800,000	690,780,000	693,421,000	
Postal Service -	37,300,000	37,300,000	38,250,000	
Telegraph Service -	5,700,000	5,700,000	6,100,000	
Telephone Service -	19,000,000	19,000,000	18,650,000	
Crown Lands - -	1,050,000	1,050,000	1,070,000	
Receipts from Sundry Loans -	23,500,000	23,500,000	23,952,000	
Miscellaneous:				
Ordinary - -	18,500,000	30,500,000	30,893,000	Miscellaneous Revenue, Ordinary. +£12,000,000 from Road Fund Reserve.
Special - -	27,000,000	27,000,000	30,488,000	
Produce of Non-tax Revenue -	132,050,000	144,050,000	149,403,000	
Total Revenue -	796,850,000	834,830,000	842,824,000	

SUBSEQUENT CHANGES.

Customs and Excise.—Wine duty, temporary concession for wine in bond (Customs −£150,000); betting duty, reduced rate extended to bets made by persons attending coursing contests and other sporting events (negligible); paper duty, imports for purpose of spinning into yarn to be exempt (Customs −£3,300); pottery duty, minor change (negligible).

There were certain other minor changes relating to motor vehicle duties, Inland Revenue, etc., but they were expected to have only a negligible effect on the revenue.

The Moneylenders Act, 1927, imposed on moneylenders an annual excise licence duty of £15. (No est.).

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
	£	£	£	
National Debt:				
Interest, etc. -	305,000,000	305,000,000	313,816,000	
Sinking Funds -	50,000,000	65,000,000	65,000,000	Sinking Fund increased by £15,000,000 to pay off part of "the arrears" of 1926-27.
Road Fund - -	19,500,000	19,500,000	19,666,000	
Local Taxation Accounts - -	14,300,000	14,300,000	15,369,000	
Payments to Northern Ireland Exchequer - -	5,400,000	5,400,000	5,277,000	
Other Consolidated Fund Services -	3,700,000	3,700,000	3,657,000	
Total Consolidated Fund Services -	397,900,000	412,900,000	422,785,000	
Army (including Ordnance Factories)	41,565,000	41,565,000	44,150,000	Supplementary estimate, £3,090,000.
Navy - - -	58,000,000	58,000,000	58,140,000	Supplementary estimate, £450,000.
Air Force - -	15,550,000	15,550,000	15,150,000	
Civil Votes - -	235,725,000	235,725,000	229,815,000	Supplementary estimate, £2,274,000.
Customs and Excise, and Inland Revenue - -	12,007,000	12,007,000	11,745,000	
Post Office Services -	57,643,000	57,643,000	56,800,000	
Total Supply Services - -	420,490,000	420,490,000	415,800,000	
Total - - -	818,390,000	833,390,000	838,585,000	

Estimated Surplus - £1,440,000
Realized " - £4,239,000

BALANCE SHEET

(See p. 425. The figures are shown

1928-

(BUDGET. APRIL 24TH, 1928.

REVENUE.

	Estimate. On basis of existing Taxation.	Estimate. After proposed Changes.	Result: Exchequer Receipts.
	£	£	£
Customs - - -	113,500,000	122,067,000	*See new form on following pages.*
Excise - - -	138,950,000	142,518,000	
Total Customs and Excise - -	252,450,000	264,585,000	
Motor Vehicle Duties	26,500,000	25,700,000	
Estate, etc., Duties -	72,000,000	72,000,000	
Stamps - - -	28,000,000	28,000,000	
Land Tax, House Duty and Mineral Rights Duty	850,000	850,000	
Income-tax - -	235,000,000	232,900,000	
Super-tax - -	60,000,000	60,000,000	
Excess Profits Duty, etc. - - -	1,000,000	1,000,000	
Corporation Profits Tax - - -	1,500,000	1,500,000	
Total Inland Revenue - -	398,350,000	396,250,000	
Produce of Taxes	677,300,000	686,535,000	
Postal Service -	39,300,000	39,300,000	
Telegraph Service -	6,100,000	6,100,000	
Telephone Service -	20,100,000	20,100,000	
Crown Lands - -	1,100,000	1,100,000	
Receipts from Sundry Loans -	27,650,000	27,650,000	
Miscellaneous:			
Ordinary - -	13,550,000	13,550,000	
Special - -	27,162,000	40,362,000	
Produce of Non-tax Revenue -	134,962,000	148,162,000	
Total Revenue -	812,262,000	834,697,000	

Customs and Excise.—Sugar duties, reduced and re-adjusted (Customs −£1,800,000, Excise −£500,000); British wines duty, increased from 1s. to 1s. 6d. per gallon (Excise +£65,000); Cinematograph films (McKenna) duty, minor concession (negligible). New duties on the following goods: mechanical lighters, 6d. each, (Customs +£37,000, Excise +£3,000); hydrocarbon oils, 4d. per gallon on imports, with non-recurrent Excise duty on existing stocks exceeding 10,000 gallons (Customs +£10,200,000, Excise +£4,000,000); Imported buttons (under Safeguarding procedure) 33⅓ per cent. *ad valorem* (Customs +£130,000).

Motor Vehicle Duties.—Amended rates on hackney vehicles and commercial goods vehicles (total −£800,000; Road Fund share £200,000, net Exchequer share −£600,000).

Inland Revenue.—Income-Tax.—Relief for children increased (−£2,100,000).

Miscellaneous Revenue, Special.—(+£13,200,000 from Currency Note Assets.)

SUBSEQUENT CHANGES.

Customs and Excise.—Hydrocarbon oils duty, exclusion of kerosene from duty and exemption of oil used in fishing boats (Customs −£1,500,000, Excise −£500,000); Betting duty, reduced from 2 to 1 per cent. on bets made on racecourse and from 3½ to 2 per cent. on other bets, (Excise −£1,250,000). New duty on hollow-ware (under Safeguarding procedure): Customs duty of 25 per cent *ad valorem* (Customs +£70,000).

Other minor changes were estimated to have negligible effects on the revenue.

The post-budget changes reduced the Customs estimate to £120,637,000, the Excise to £140,768,000, and the total estimated revenue to £831,517,000, or, excluding the self-balancing revenue, to £752,903,000.

IN OLD FORM

in New Form on pp. 442-443).

1929

MR. WINSTON CHURCHILL.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
National Debt:	£	£	£	
Interest, etc. -	304,000,000	369,000,000*	*See new form on following pages.*	* Mr. Churchill's new fixed charge, plus a special addition of £14,000,000.
Sinking Funds -	50,000,000			
Road Fund - -	21,500,000	21,300,000†		† See motor vehicle duties changes on opposite page.
Local Taxation Accounts - -	14,200,000	14,200,000		
Payments to Northern Ireland Exchequer - -	5,400,000	5,600,000‡		‡ Including £200,000 estimated share of new taxes.
Other Consolidated Fund Services -	2,600,000	2,600,000		
Total Consolidated Fund Services -	397,700,000	412,700,000		
Army (including Ordnance Factories)	41,050,000	41,050,000		
Navy - - -	57,300,000	57,300,000		
Air Force - -	16,250,000	16,250,000		
Civil Votes - -	223,804,000	223,804,000		
Customs and Excise, and Inland Revenue - -	11,777,000	11,777,000		
Post Office Services	57,314,000	57,314,000		
Total Supply Services - -	407,495,000	407,495,000		
Total - - -	805,195,000	820,195,000		

Estimated Surplus - £14,502,000
Realized " (see next table)

BALANCE SHEET
1928-
(BUDGET. APRIL 24TH, 1928.

REVENUE.

	Estimate. On basis of existing Taxation.	Estimate. After proposed Changes.	Result: Exchequer Receipts.	
Inland Revenue:	£	£	£	
Income-tax	See previous table.	232,900,000	237,620,000	See previous table.
Super-tax		60,000,000	56,150,000	
Estate Duties		72,000,000	80,570,000	
Stamps		28,000,000	30,060,000	
Excess Profits Duty		1,000,000	850,000	
Corporation Profits Tax		1,500,000	850,000	
Land Tax, etc.		850,000	840,000	
Total Inland Revenue		396,250,000	406,940,000	
Customs and Excise:				
Customs		122,067,000	118,972,000	
Excise		142,518,000	134,000,000	
Total Customs and Excise		264,585,000	252,972,000	
Motor Vehicle Duties:				
Exchequer Share		4,400,000	4,226,000	
Total Receipts from Taxes		665,235,000	664,138,000	
Post Office Net Receipts		8,186,000	8,100,000	
Crown Lands		1,100,000	1,210,000	
Receipts from Sundry Loans		27,650,000	28,111,000	
Miscellaneous:				
Ordinary Receipts		13,550,000	13,143,000	
Special Receipts		40,362,000	43,402,000	
Total Ordinary Revenue		756,083,000*	758,104,000	
Self-balancing Revenue:				
Post Office		57,314,000	57,200,000	
Road Fund		21,300,000	21,131,000	
Total Self-balancing Revenue		78,614,000	78,331,000	* Reduced by £3,180,000 by subsequent concessions. See note at bottom of p. 440.
Total Revenue (including Self-balancing Revenue)		834,697,000	836,435,000	

IN NEW FORM (See p. 425.)

1929

MR. WINSTON CHURCHILL.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
Consolidated Fund Services :	£	£	£	
Interest and Management of National Debt - -		304,000,000*	311,491,000	* This sum, together with the sinking fund provision of £65,000,000, made up Mr. Churchill's new Fixed Charge of £355,000,000 (plus the special addition this year of £14,000,000).
Payments to Local Taxation Accounts - -		14,200,000	15,203,000	
Payments to Northern Ireland Exchequer - -		5,600,000	5,100,000	
Other Consolidated Fund Services -		2,600,000	2,807,000	
Total Consolidated Fund Services -		326,400,000	334,601,000	
Supply Services :				
Navy - - -		57,300,000	56,920,000	
Army (including Ordnance Factories)	*See previous table.*	41,050,000	40,500,000	Supp. Est., £115,000.
Air Services - -		16,250,000	16,050,000	
Civil Votes - - -		223,804,000	222,493,000	Supp. Est., £3,469,000.
Customs and Excise, and Inland Revenue - -		11,777,000	11,637,000	
Total Supply Services (excluding Post Office) -		350,181,000	347,600,000	
Total Ordinary Expenditure (excluding Sinking Fund) - -		676,581,000	682,201,000	
New Sinking Fund, 1928 - -		65,000,000	57,509,000	
Total Ordinary Expenditure (including Sinking Fund) - -		741,581,000	739,710,000	
Self-balancing Expenditure :				
Post Office - -		57,314,000	57,200,000	
Road Fund - -		21,300,000	21,131,000	
Total Self-balancing Expenditure		78,614,000	78,331,000	
Total Expenditure (including Sinking Fund and Self-balancing Expenditure) -		820,195,000	818,041,000	

Estimated Surplus - £14,502,000†
Realized ,, - £18,394,000

† This estimated surplus (reduced later, see note on opposite page), plus the 1927 surplus of £4,239,000, made a total of £18,741,000, which was to be available for (a) Contingencies in 1928 Budget, and (b) Suspensory Fund for Rating Relief Scheme. At the end of 1928-29, with an actual surplus of £18,394,000, there was £22,633,000 available for the Suspensory Fund.

(BUDGET. APRIL 15TH, 1929.

REVENUE.

	Estimate.		Result: Exchequer Receipts.
	On basis of existing taxation.	After proposed Changes	
Inland Revenue:	£	£	£
Income-tax	239,500,000	239,500,000	237,426,000
Surtax †	58,000,000	58,000,000	56,390,000
Estate Duties	81,000,000	81,000,000	79,770,000
Stamps	31,000,000	31,000,000	25,670,000
Excess Profits Duty, Corporation Profits Tax	1,700,000	1,700,000	2,250,000
Land Tax, etc.	800,000	800,000	880,000
Total Inland Revenue	412,000,000	412,000,000	402,386,000
Customs and Excise:			
Customs	126,000,000	119,850,000	119,888,000
Excise	131,950,000	130,330,000	127,500,000
Total Customs and Excise	257,950,000	250,180,000	247,388,000
Motor Vehicle Duties:			
Exchequer Share	4,700,000	4,680,000	4,920,000
Total Receipts from Taxes	674,650,000	666,860,000	654,694,000
Post Office Net Receipts	8,990,000	8,900,000	9,200,000
Crown Lands	1,250,000	1,250,000	1,290,000
Receipts from Sundry Loans	30,550,000	30,550,000	32,640,000
Miscellaneous:			
Ordinary Receipts	12,500,000	12,500,000	10,433,000
Special Receipts	26,000,000	26,000,000	25,932,000
Total Ordinary Revenue	753,940,000	746,060,000	734,189,000
Self-balancing Revenue:			
Post Office	58,110,000	58,110,000	58,900,000
Road Fund	22,600,000	22,510,000	21,882,000
Total Self-balancing Revenue	80,710,000	80,620,000	80,782,000
Total Revenue (including Self-Balancing Revenue	834,650,000	826,680,000	814,971,000

† Including arrears of super-tax.

CUSTOMS AND EXCISE.—Tea duty, repealed (Customs −£6,150,000); Railway passenger duty, repealed (Excise −£300,000); Betting duty: duty on bets repealed (Excise −£1,100,000), duty on bookmaker's entry certificates repealed* (personal certificates unchanged) and new annual duty of £40 for each office telephone*; new duty of ½ per cent. on stakes laid with totalisator* (Excise +£250,000); Licence duties increased: Brewers for sale* (Excise +£350,000), Distillers* (Excise +£30,000), Tobacco manufacturers* (Excise +£100,000); Licence duties reduced: on-retailers* (Excise −£950,000).

MOTOR VEHICLE DUTIES.—Various concessions* (Exchequer −£20,000, Road Fund −£90,000).

INLAND REVENUE: STAMPS. — Amendment of F. Act, 1927, s. 55* (No est.).

POST OFFICE NET RECEIPT.—Telephone provisions (−£90,000).

* The changes marked with an asterisk were to have been included in a second Finance Bill, but the new Labour Government decided not to proceed with it. In consequence, the proposed changes in connection with betting (other than the repeal of the main duty on bets), with manufacturers' and retailers' licences, and with motor vehicle duties were not proceeded with. The revised estimates for total revenue thereupon became Ordinary Revenue, £746,300,000; Self-Balancing Revenue, £80,710,000.

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
Consolidated Fund Services:	£	£	£	
Interest and Management of National Debt - -	304,600,000	304,600,000	307,252,000	
Payments to Local Taxation Accounts - - -	15,000,000	15,000,000	13,314,000	
Payments to Northern Ireland Exchequer - -	5,400,000	5,400,000	5,526,000	
Other Consolidated Fund Services - - - -	3,500,000	3,500,000	3,312,000	
Total Consolidated Fund Services - - -	328,500,000	328,500,000	329,404,000	
Supply Services:				
Navy - - - - - -	55,865,000	55,865,000	55,750,000	
Army (including Ordnance Factories) - - -	40,545,000	40,545,000	40,500,000	Supp. Est. £560,000.
Air Services - - - -	16,200,000	16,200,000	16,750,000	Supp. Est. £760,000.
Civil Votes - - - -	223,325,000	223,325,000	246,535,000	Supp. Est. £10,584,000.
Customs and Excise, and Inland Revenue - -	11,569,000	11,569,000	12,025,000	Supp. Est. £429,000.
Total Supply Services (excluding Post Office) -	347,504,000	347,504,000	371,560,000	
New Exchequer Contribution to Local Revenues, etc. -	15,560,000	15,560,000	—*	* Included under Civil Votes above.
Total Ordinary Expenditure (excluding Sinking Fund)	691,564,000	691,564,000	700,964,000	
New Sinking Fund, 1928 -	50,400,000	50,400,000	47,748,000	
Total Ordinary Expenditure (including Sinking Fund)	741,964,000	741,964,000	748,712,000	
Self-Balancing Expenditure:				
Post Office - - - -	58,110,000	58,110,000	58,900,000	Supp. Est. £995,000.
Road Fund - - - -	22,600,000	22,510,000	21,882,000	
Total Self-Balancing Expenditure - - -	80,710,000	80,620,000	80,782,000	
Total Expenditure (including Sinking Fund and Self-Balancing Expenditure) - - - -	822,674,000	822,584,000	829,494,000	

Estimated Surplus - £4,096,000
Realized Deficit - £14,523,000

RATING RELIEF SUSPENSE ACCOUNT

	£		£
Balance on April 1st, 1929 - - (See note † at bottom of p. 443)	22,633,000	Estimated cost of anticipation of rating relief for agricultural land	2,570,000
		Balance March 31st, 1930 (estimated) - - - - - -	20,063,000
	£22,633,000		£22,633,000

(BUDGET. APRIL 14TH, 1930.

REVENUE.

	Estimate. On basis of existing Taxation.	Estimate. After proposed Changes.	Result: Exchequer Receipts.
	£	£	£
Inland Revenue:			
Income-tax	239,000,000	260,000,000	256,047,000
Surtax*	57,000,000	64,500,000	67,830,000
Estate Duties	80,000,000	83,000,000	82,610,000
Stamps	27,250,000	27,000,000	20,650,000
Excess Profits Duty, Corporation Profits Tax	1,700,000	1,700,000	3,000,000
Land Tax, etc.	800,000	800,000	830,000
Total Inland Revenue	405,750,000	437,000,000	430,967,000
Customs and Excise.			
Customs	122,500,000	122,710,000	121,401,000
Excise	127,500,000	129,860,000	124,000,000
Total Customs and Excise	250,000,000	252,570,000	245,401,000
Motor Vehicle Duties:			
Exchequer Share	4,970,000	4,950,000	4,926,000
Total Receipts from Taxes	660,720,000	694,520,000	681,294,000
Post Office Net Receipts	10,125,000	10,125,000	10,100,000
Crown Lands	1,300,000	1,300,000	1,280,000
Receipts from Sundry Loans	33,000,000	33,000,000	32,890,000
Miscellaneous	34,500,000	34,500,000	34,331,000
Total Ordinary Revenue (Tax and Non-Tax)	739,645,000	773,445,000	759,895,000
Appropriation from Rating Relief Suspense Account	16,000,000	16,000,000	16,000,000
Total	755,645,000	789,445,000	775,895,000
Self-Balancing Revenue:			
Post Office	60,275,000	60,275,000	59,000,000
Road Fund	23,650,000	23,560,000	22,866,000
Total Self-Balancing Revenue	83,925,000	83,835,000	81,866,000
Total Revenue (including Self-Balancing Revenue)	839,570,000	873,280,000	857,761,000

* Including arrears of Super-tax.

INLAND REVENUE.—INCOME-TAX: Increase of standard rate from 4s. to 4s. 6d. (+£23,500,000); change in graduation (−£2,500,000). SURTAX: Increased rates (+£7,500,000). Disallowance of interest in connection with certain policies of assurance (*nil*). Minor alterations of law (*nil*).

ESTATE DUTY: increase in rates of duty (+£3,000,000).

STAMPS: exemptions in favour of certain companies, and minor amendments (−£250,000).

CUSTOMS AND EXCISE.—Beer duty: rates increased, standard rate by 3s. per barrel (Customs +£210,000; Excise +£2,540,000); bookmakers' personal and entry certificates abolished (Excise −£180,000). The Safeguarding duties on lace, cutlery, gloves and gas mantles were to be allowed to expire (loss already allowed for, see p. 284).

MOTOR VEHICLE DUTIES.—Concessions in respect of certain motor-cycles and goods vehicles (loss to Exchequer £20,000; loss to Road Fund £90,000).

ROAD FUND.—See motor vehicle duties above.

SUBSEQUENT CHANGES.

INLAND REVENUE.—INCOME-TAX: insurance premiums relief (−£250,000). Minor inland revenue concessions (estimated cost trifling).

CUSTOMS AND EXCISE.—Concessions for petrol for Royal National Lifeboat Institution (Customs −£500).

RATING RELIEF SUSPENSE ACCOUNT.—£16,000,000 appropriated in respect of estimated excess of cost of de-rating scheme in 1930-31 over the yield of the oil duty, and £130,000 for balance of cost of anticipating agricultural relief, left a balance of £4,000,000 in the account.

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
Consolidated Fund Services:	£	£	£	
Interest and Management of National Debt - -	304,600,000	304,600,000	293,170,000	
Payments to Local Taxation Accounts	—*	—	—	* With the introduction of the de-rating scheme, these grants practically ceased, remanet payments being included with "other" services.
Payments to Northern Ireland Exchequer - -	5,700,000	6,000,000†	6,425,000	
Other Consolidated Fund Services -	3,300,000	3,300,000	2,896,000	†Including re-adjustment for Northern Ireland's share of increased taxation.
Total Consolidated Fund Services -	313,600,000	313,900,000	302,491,000	
Supply Services:				
Navy - - - -	51,739,000	51,739,000	52,574,000	Supplementary estimate, £826,000.
Army (including Ordnance Factories)	40,500,000	40,500,000	40,150,000	
Air Services - -	17,850,000	17,850,000	17,800,000	
Civil Votes - -	295,686,000	295,686,000	307,445,000	Supplementary estimate, £14,063,000.
Customs and Excise, and Inland Revenue- - -	12,134,000	12,134,000	11,881,000	
Total Supply Services (excluding Post Office) -	417,909,000	417,909,000	429,850,000	
Total Ordinary Expenditure (excluding Sinking Fund) -	731,509,000	731,809,000	732,341,000	
New Sinking Fund, 1928 - -	50,400,000	55,400,000‡	66,830,000	‡ Including £5,000,000, the first instalment towards making good the 1929-30 budget deficit. (But see note on p. 449.)
Total Ordinary Expenditure (including Sinking Fund) -	781,909,000	787,209,000	799,171,000	
Self-Balancing Expenditure:				
Post Office - -	60,275,000	60,275,000	59,000,000	
Road Fund - -	23,650,000	23,560,000§	22,866,000	§ See opposite page.
Total Self-Balancing Expenditure	83,925,000	83,835,000	81,866,000	
Total Expenditure (including Sinking Fund and Self-Balancing Expenditure) -	865,834,000	871,044,000	881,037,000	

Estimated Surplus - £2,236,000
Realized Deficit - £23,276,000

(BUDGET. APRIL 27TH, 1931.

REVENUE.

	Estimate. On basis of existing Taxation.	Estimate. After proposed Changes.	Result: Exchequer Receipts.	
Inland Revenue:	£	£	£	INLAND REVENUE.—INCOME-TAX: Schedules B, D, and E previously payable in two equal instalments to be paid henceforth in instalments of three-quarters on January 1st and one-quarter on July 1st (+£10,000,000). NEW LAND VALUE TAX: Provision for valuation, and for tax at rate of 1d. per £ of land value, but tax not to be charged until 1933-34. CUSTOMS AND EXCISE.—Customs duty on hydrocarbon oils increased from 4d. to 6d. per gallon (Customs +£7,500,000). MOTOR VEHICLE DUTIES.—Reduced duty for light motor-cycles (negligible). MISCELLANEOUS RECEIPTS.—£20,000,000 transferred from Exchange Account to the Exchequer as Miscellaneous Revenue (in addition to £3,000,000 surplus assets already included in estimate).
Income-tax	248,000,000	258,000,000	*See next Table.*	
Surtax	72,000,000	72,000,000		
Estate Duties	90,000,000	90,000,000		
Stamps	24,000,000	24,000,000		
Excess Profits Duty, Corporation Profits Tax	2,200,000	2,200,000		
Land Tax, etc.	800,000	800,000		
Total Inland Revenue	437,000,000	447,000,000		
Customs and Excise:				
Customs	118,150,000	125,650,000		
Excise	119,850,000	119,850,000		
Total Customs and Excise	238,000,000	245,500,000		
Motor Vehicle Duties:				
Exchequer Share	5,000,000	5,000,000		
Total Receipts from Taxes	680,000,000	697,500,000		
Post Office Net Receipts	12,200,000	12,200,000		SUBSEQUENT CHANGES. Minor changes—no estimate of effect on revenue.
Crown Lands	1,300,000	1,300,000		
Receipts from Sundry Loans	33,500,000	33,500,000		
Miscellaneous Receipts	35,000,000	55,000,000		
Appropriation from Rating Relief Suspense Account	4,000,000*	4,000,000*		* RATING RELIEF SUSPENSE ACCOUNT. Account now closed. See two preceding tables.
Total Ordinary Revenue (including Suspense Account)	766,000,000	803,500,000		
Self-Balancing Revenue:				
Post Office	58,232,000	58,232,000		
Road Fund	23,350,000	23,350,000		
Total Self-Balancing Revenue	81,582,000	81,582,000		
Total Revenue	847,582,000	885,082,000		

EXPENDITURE.

	ESTIMATE.		RESULT: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Consolidated Fund Services:	£	£	£	
Interest and Management of National Debt	302,950,000	302,950,000		
Payments to Northern Ireland Exchequer	6,350,000	6,350,000		
Other Consolidated Fund Services	3,000,000	3,000,000		
Total Consolidated Fund Services	312,300,000	312,300,000		
Supply Services:				
Navy	51,605,000	51,605,000		
Army (including Ordnance Factories)	39,930,000	39,930,000		
Air Services	18,100,000	18,100,000		
Civil Votes	317,812,000	317,812,000		
Customs and Excise, and Inland Revenue	11,569,000	11,569,000	*See next Table.*	
Total Supply Services (excluding Post Office)	439,016,000	439,016,000		
Total Ordinary Expenditure (excluding Sink-Fund)	751,316,000	751,316,000		
New Sinking Fund, 1928	57,050,000	52,050,000		NEW SINKING FUND, 1928.—Section 47 of Finance Act, 1930, (providing for additions to sinking fund of £5,000,000 in 1931-32 and £4,500,000 in 1932-33) was repealed, and the 1930-31 deficit was excluded from the provisions of section 48 of the same Act (which provided that any budget deficit should be subsequently covered).
Total Ordinary Expenditure (including Sinking Fund)	808,366,000	803,366,000		
Self-Balancing Expenditure:				
Post Office	58,232,000	58,232,000		
Road Fund	23,350,000	23,350,000		
Total Self-Balancing Expenditure	81,582,000	81,582,000		
Total Expenditure (including Sinking Fund and Self-Balancing Expenditure)	889,948,000	884,948,000		

Estimated Surplus - £134,000
Realized• „ See next Table.

(SUPPLEMENTARY BUDGET. SEPTEMBER 10TH,

REVENUE.

	Estimate. (Revised) on basis of existing Taxation.	Estimate. After proposed Changes.	Exchequer Receipts.	
Inland Revenue:	£	£	£	
Income-tax	247,000,000	272,000,000	287,367,000	INLAND REVENUE.—INCOME-TAX: standard rate raised from 4s. 6d. to 5s. and allowances amended (+£25,000,000). SUR-TAX: additional 10 per cent. (+£4,000,000). CUSTOMS AND EXCISE.—Beer duty increased, main rate by £1 11s. per standard barrel (+£4,500,000); tobacco duty increased, main rate from 8s. 10d. to 9s. 6d. per lb. (+£2,100,000); hydrocarbon oils duty increased from 6d. to 8d. per gallon (+£3,900,000); entertainments duty: scale revised and exemption of cheaper seats abolished (+£1,000,000).
Surtax	69,000,000	73,000,000	76,700,000	
Estate Duties	83,000,000	83,000,000	65,000,000	
Stamps	20,000,000	20,000,000	17,070,000	
Excess Profits Duty / Corporation Profits Tax	2,200,000	2,200,000	2,500,000	
Land Tax, etc.	800,000	800,000	850,000	
Total Inland Revenue	422,000,000	451,000,000	449,487,000	
Customs and Excise:				
Customs	241,500,000	131,770,000	136,152,000	
Excise		121,230,000	119,900,000	
Total Customs and Excise	241,500,000	253,000,000	256,052,000	
Motor Vehicle Duties:				
Exchequer Share	5,000,000	5,000,000	4,961,000	
Total Receipts from Taxes	668,500,000	709,000,000	710,500,000	SUBSEQUENT CHANGES.
Post Office Net Receipts	12,200,000	12,200,000	11,500,000	INCOME-TAX.—Cases of exceptional hardship to be met through administrative action (no estimate). CUSTOMS AND EXCISE.—Entertainments duty: scale amended and all admissions not exceeding 2d. exempted. Later, new Customs duties were imposed under the Abnormal Importations (Customs Duties) Act, 1931, the Horticultural Products (Emergency Customs Duties) Act, 1931, and the Import Duties Act, 1932.
Crown Lands	1,300,000	1,300,000	1,250,000	
Receipts from Sundry Loans	15,400,000	15,400,000	13,810,000	
Miscellaneous Receipts	42,800,000	42,800,000	29,913,000	
Appropriation from Rating Relief Suspense Account	4,000,000	4,000,000	3,990,000*	
Total Ordinary Revenue (including Suspense Account)	744,200,000	784,700,000	770,963,000	
Self-Balancing Revenue:				
Post Office	58,232,000	58,232,000	58,000,000	
Road Fund	23,350,000	23,350,000	22,519,000	
Total Self-Balancing Revenue	81,582,000	81,582,000	80,519,000	
Total Revenue	825,782,000	866,282,000	851,482,000	*RATING RELIEF SUSPENSE ACCOUNT. Account now closed. See previous tables.

1931. Mr. PHILIP SNOWDEN.)

EXPENDITURE.

	Estimate. Revised Estimates before taking account of proposed economies.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
Consolidated Fund Services:	£	£	£	
Interest and Management of National Debt	289,400,000*	289,400,000	289,492,000	* The Hoover plan reduced debt interest payments by £13,550,000.
Payments to Northern Ireland Exchequer	6,350,000	6,350,000	6,347,000	
Other Consolidated Fund Services	3,000,000	3,000,000	3,052,000	
Total Consolidated Fund Services	298,750,000	298,750,000	298,891,000	
Supply Services:				
Navy	51,605,000	51,605,000	51,060,000	
Army (including Ordnance Factories)	39,930,000	39,930,000	38,520,000	
Air Services	18,100,000	18,100,000	17,700,000	
Civil Votes	352,335,000†	352,335,000	320,105,000	† The increase of £34,523,000 over the April estimate was due to supplementary estimates of £523,000 (presented before this budget) and the decision to cease borrowing for the Unemployment Insurance Fund (£25,000,000) and the Road Fund (£9,000,000). Supplementary Civil Votes estimate, £439,000. Supplementary Revenue Collection estimate, £75,000.
Customs and Excise, and Inland Revenue	11,859,000‡	11,859,000	11,815,000	‡ Increase due to supplementary estimate (presented before this budget) of £290,000.
Total Supply Services (excluding Post Office)	473,829,000	473,829,000	439,200,000	
Less Economies	—	§22,000,000	—	§ These economies were not precisely allocated for 1931-32 (see pp. 379-382).
Total Ordinary Expenditure (excluding Sinking Fund)	772,579,000	750,579,000	738,091,000	
New Sinking Fund, 1928	46,300,000	32,600,000‖	32,508,000	‖ The Hoover plan reduced the provision required for debt amortization by £5,750,000. For this budget a further reduction of £13,700,000 was made.
Total Ordinary Expenditure (including Sinking Fund)	818,879,000	783,179,000	770,599,000	
Self-Balancing Expenditure.				
Post Office	58,232,000	58,232,000	58,000,000	
Road Fund	23,350,000	23,350,000	22,519,000	
Total Self-Balancing Expenditure	81,582,000	81,582,000	80,519,000	
Total Expenditure (including Sinking Fund and Self-Balancing Expenditure)	900,461,000	864,761,000	851,118,000	

Prospective Deficit (before taking account of economies and new taxation proposals), £74,679,000.

Estimated Surplus, £1,521,000.

Realized Surplus, £364,000. (This would have been £10,614,000 but only £12,750,000 was taken from the Dollar Exchange Account instead of the £23,000,000 provided for in the budget.)

(BUDGET. APRIL 19TH, 1932.

REVENUE.

	Estimate. On basis of existing Taxation.	Estimate. After proposed Changes.	Result: Exchequer Receipts.	
Inland Revenue:	£	£		Customs and Excise.—Sugar, etc.: two new preferential rates for Colonies (not Dominions) and reduction of Excise duty (Customs —£630,000, Excise —£470,000); Silk: minor concession on imports for personal use withdrawn (Customs +£25,000); Tea: duty re-imposed at 4d. per lb., preferential rate, 2d., with a non-recurrent Excise duty at 2d. per pound (Customs +£1,900,000, Excise +£1,700,000). Motor Vehicle Duties.—Motor-cycles to be taxed on new scale based on cylinder capacity (negligible).
Income-tax	260,000,000	260,000,000		
Surtax	66,000,000	66,000,000		
Estate Duties	76,000,000	76,000,000		
Stamps	23,000,000	23,000,000		
Excess Profits Duty, Corporation Profits Tax	1,200,000	1,200,000		
Land Tax, etc.	800,000	800,000		
Total Inland Revenue	427,000,000	427,000,000		
Customs and Excise:				
Customs	173,275,000	174,570,000		
Excise	124,200,000	125,430,000		
Total Customs and Excise	297,475,000	300,000,000		
Motor Vehicle Duties:				
Exchequer Share	5,000,000	5,000,000		SUBSEQUENT CHANGES.
Total Receipts from Taxes	729,475,000	732,000,000		Customs and Excise.—Silk duties: interim arrangement of additional and substituted duties (No est.).
Post Office Net Receipts	11,700,000	11,700,000		
Crown Lands	1,250,000	1,250,000		
Receipts from Sundry Loans	4,350,000	4,350,000		
Miscellaneous Receipts	17,500,000	17,500,000		
Total Ordinary Revenue	764,275,000	766,800,000		
Self-Balancing Revenue:				
Post Office	59,188,000	59,188,000		
Road Fund	22,910,000	22,910,000		
Total Self-Balancing Revenue	82,098,000	82,098,000		
Total Revenue	846,373,000	848,898,000		

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Consolidated Fund Services:	£	£		
Interest and Management of National Debt - -	276,000,000	276,000,000		
Payments to Northern Ireland Exchequer - -	6,800,000	6,800,000		
Other Consolidated Fund Services -	3,500,000	3,500,000		
Total Consolidated Fund Services -	286,300,000	286,300,000		
Supply Services:				
Navy - - - -	50.476,000	50,476,000		
Army (including Ordnance Factories)	36,488,000	36,488,000		
Air Services - -	17,400,000	17,400,000		
Civil Votes - -	330,210,000	330,210,000		
Customs and Excise, and Inland Revenue - -	12,630,000	12,630,000		
Total Supply Services (excluding Post Office) -	447,204,000	447,204,000		
Total Ordinary Expenditure (excluding Sinking Fund) -	733,504,000	733,504,000		
New Sinking Fund, 1928 - -	32,500,000	32,500,000		
Total Ordinary Expenditure (including Sinking Fund) -	766,004,000	766,004,000		
Self-Balancing Expenditure:				
Post Office - -	59,188,000	59,188,000		
Road Fund - -	22,910,000	22,910,000		
Total Self-Balancing Expenditure	82,098,000	82,098,000		
Total Expenditure (including Sinking Fund and Self-Balancing Expenditure) -	848,102,000	848,102,000		

Estimated Surplus - £796,000

PART II

NOTES AND COMMENTS.

CHAPTER I.

THE GROWTH OF EXPENDITURE.

THE fact that the close of our period happens to have coincided with the worst stage of depression in trade, finance and employment experienced within living memory has brought into unusual prominence the question of public expenditure, and the high level of taxation which this has necessitated, with some ups and downs, since the end of the war. Whatever opinion may be held as to the connection between high taxation and commercial depression, it is obvious that, when bad times come, high taxation must intensify depression and hinder recovery.

High taxation clearly becomes over-taxation when it has out-run the capacity of a country to meet it without restricting industrial development or unduly trenching upon capital resources. But it is not easy to get beyond generalities in the absence of the actual statistical proof which is unattainable in such a case; and all that a commentator can do is to show that certain conditions exist which must if continued produce certain results. If, for instance, expenditure (whether "transfer" or "exhaustive") continues to increase and national income to diminish, there is no escape from the conclusion that under existing conditions the point must sooner or later be reached, so often exemplified in history, when taxation will result in general impoverishment, and show itself in many forms such as extensive evasion, a flight of capital and dislocation of currency and prices.

The main significance therefore of the growth of public expenditure on which comment is made in the present chapter is in its relation to the national income. If national income increases step by step with expenditure the economic structure may remain unimpaired, even though changes in its distribution may create difficulties in the raising of increased revenue. Has this happened in recent years ? Such evidence as is available on this complicated statistical question indicates, on the contrary, that the national income has remained stationary, if it has not actually decreased, since the years before the war. One of the most recent estimates is that contained in a careful study made by Mr. W. H. Coates.[1] Following in the main the method adopted by Bowley and Stamp in their "National Income, 1924," he finds that their figure of £4,213 million "taxable" (as opposed to "social") income, has fallen for 1931 to £3,842 million, a reduction of approximately 9 per cent. As he says, there can be little doubt but that the national income was steadily rising (subject to a setback in 1926) from the year 1924 onwards to 1929, and he is led to the suggestion that in 1931 it fell short of the amount it had attained in 1929 by at least £500 million. There is no reason to suppose that a still further contraction of the National Income is not still in progress ; and that the National Income may not now stand at a considerably lower figure. The actual figures, as given in the following table, show, of course, a great nominal increase between the years 1913 and 1924 or 1931, but if allowance is made for the different level of prices at the various dates, it will be found, as Bowley and Stamp showed in 1924, that the real national income remained practically unchanged. On the other hand the total (central) tax revenue, which may be assumed to represent the burden of national expenditure, shows, when reduced to pre-war values on the basis of the cost of living index,[2] (see Table IV) a figure of £502 million in 1931-32 as against £163 million in 1913-14—and £405 million in the "peak" year 1920-21 !

[1] "The Citizen's Purse," a paper read to the Manchester Statistical Society by W. H. Coates, LL.B., Ph.D., on December 15th, 1931.

[2] The use of the cost of living index figure as a basis for reducing tax revenue to pre-war values is obviously not free from objection (more particularly in the case of direct taxation), but such a method, if its limitations be kept in mind, gives interesting results. (See *British Budgets*, 1913-14 to 1920-21, p. 369, etc.).

We may now give some brief notes of the amount and growth of the burden of expenditure, as measured by the taxation levied, and the proportion it bears to the national income.

The following table shows the national income, population, taxation and debt per head of the population in 1913, 1924 and 1931, and the percentage of taxation to national income at those dates. [No account is taken in this table of the effect of the change in the price level.]

NATIONAL INCOME, TAXATION AND DEBT

	1913	1924	1931
	United Kingdom.	Great Britain and Northern Ireland.	
Population - - - - - -	45,600,000	44,900,000	46,000,000
National Income - - - - -	£2,300 m.	£4,213 m.	£3,842 m.[1]
„ „ *per capita* - -	£50 9s.	£93 17s.	£83 10s.
Taxation (Central)[2] - - - -	£163 m.	£690 m.	£733 m.
„ „ as percentage of national income - -	7·1%	16·4%	19·1%
„ „ *per capita* -	£3 11s.	£15 7s.	£15 19s.
National Debt (1st April) - -	£656 m.	£7,641 m.	£7,413 m.
„ „ „ „ *per capita*	£14 8s.	£170 4s.	£161 3s.

No account, however, of the burden caused by public expenditure is complete without reference to local indebtedness and local expenditure falling on the rates; although the distinction between rates and taxes, rates being more largely in the nature of payment for services rendered, should be borne in mind.

The loan debt of the local authorities has grown from a total of £655 million for England and Wales, Scotland, and Ireland in 1913-14, to a total of £1,322 million for England and Wales, Scotland, and Northern Ireland in

[1] In the above table we have adopted the figure for the national income arrived at by Mr. W. H. Coates' calculation for 1931, but there is reason to think that there has been a considerable shrinkage since it was made (see p. 463).

[2] Budget tax revenue, Exchequer Issues; in 1924, subject to adjustment for Irish Free State and Northern Ireland; in 1931, including share of motor vehicle duties to Road Fund, but excluding Northern Ireland transferred taxes.

1928-29. That is to say it has rather more than doubled in amount, and now stands at something like one-sixth of the National Debt. The greater part of the increase has occurred in the last ten years; the debt for England and Wales had only increased from £563 million in 1913-14 to £769 million in 1921-22. The largest increase has been on account of housing, the debt on which in England and Wales has risen from £172 million in 1921-22 to £417 million in 1928-29—about 35 per cent. of the whole debt. It should be noted, however, that something like 39 per cent. of the debt represents debt on trading undertakings, markets, waterworks, gas, electricity, tramways, etc., which, taken together, earned substantial surpluses, some of which went in relief of rates. It is thus different in character from the national debt, being offset in far greater degree by valuable assets. Lord Snowden has recently stated that two-thirds of the gross capital indebtedness of the local authorities in England and Wales is of a remunerative type, £446 million being for trading concerns which bring in a profit and £382 million for housing "which brings in a return."

The fact pointed out by the May committee (paragraph 561) that between 1921 and 1928 there has been a net average excess of increased capital expenditure over repayments of loans of £65 million a year is, however, a serious matter, even presuming some increase in real assets. It has been calculated that, according to the latest available figures, the "loan charges" of the local authorities amounted to £89,391,810, which is 7½ per cent. per annum on the total outstanding loans, and suggested that only a total cessation of all fresh borrowing for a period of ten years would reduce the loan charges to something like the pre-war level.[1]

[1] If it is legitimate to attempt a valuation, such as Sir Ernest Benn has done (*Account Rendered,* by Sir Ernest J. P. Benn, 1930, pp. 40, 399) on the lines on which a business would estimate its liabilities, of the eventual cost of contractual obligations which the State has undertaken to honour out of future taxation, the liability per head rises to a fantastic figure. The May report has pointed out the bearing of future

Returning to the question of the total *annual* burden on the population, there must be added to the national taxation the rates levied by the local authorities, together with the amount of licence duties levied and retained by them, and for 1910-11 to 1920-21 the sum in respect of duties on licences for carriages which are not included in Imperial revenue. Thus the total for 1913-14 was:

		Per Head.
Rates England and Wales -	£71,276,158	£1 18 11
,, Scotland - - -	7,708,950	
,, Ireland - - - -	3,358,402	
Licence Duties, as above - -	1,191,466	
Carriage Licences - - -	536,954	
	£84,071,930	

1921-22:

Rates England and Wales -	£170,871,876	£4 10 2
,, Scotland - - -	18,377,447	
,, Northern Ireland - -	2,952,625	
Licence Duties - - - -	1,202,074	
	£193,404,022	

1927-28:

Rates England and Wales -	£166,678,842	£4 4 10
,, Scotland - - -	21,714,800	
,, Northern Ireland - -	2,286,966	
Licence Duties - - - -	1,476,288	
	£192,156,896	

1931-32:

Rates England and Wales estimated - - -	£148,000,000	£3 14 1
,, Scotland estimated -	16,915,000	
,, Northern Ireland estimated - - -	1,569,000	
Licence Duties - - -	1,500,000	
	£167,984,000	

liabilities on the revenue, and shown how that revenue is mortgaged for many years to pay off the capital cost of services which are now being enjoyed (paragraphs 17 and 18).

It will be noted that the receipts from rates in England and Wales have fallen between the last two dates by over £18 million, due of course to the operation of the Derating Act which came into operation in the interval and began to produce its effect on the receipts of rates in 1929-30. The loss to the local authorities (in England and Wales) was estimated in the budget speech of 1928 to amount to £26 million, an estimate which was subsequently reduced to £24 million. The grant of "new money," however, was, after consultation with the local authorities, raised from £3 million to £5 million so that the total estimated additional burden on the Exchequer remained, as stated in the budget speech, at £29 million. The calculations made for the actual payments showed that the estimate of £24 million for loss on account of rates was still too high. It is estimated at £22,340,000 for England and Wales in 1932-33. The fall in the receipt of rates, therefore, does not yet appear to have equalled the amount provided in the General Exchequer contribution to meet it. (For an account of the financial effect of the Local Government Act of 1929 see p. 479.)

If we now compare the total, almost wholly composed of receipts from rates, of £84 million in 1913-14, with the estimated figures for 1931-32, viz. £168 million (noting that the former total includes the whole of Ireland) it is seen that the amount has practically doubled, and if we add this £168 million to the tax revenne of £733 million for 1931-32 a total is reached of £901 million, which would be 23·4 per cent. of the national income taken as high as £3,842 million, This £901 million, however, is a minimum figure. The tax revenue in the present year, 1932, will no doubt approximate to the estimate for 1932-33 of £755 million. A further addition might be the net revenue from the Post Office, £11½ million (receipt in 1931-32), which may be considered to be in the nature of taxation ; and it is arguable that that portion of the contributions to the national insurance scheme which falls upon the employers, in so far as it is not recoverable by them out of profits or shifted to wages, partakes of the character of a tax burden. The total of employers' contributions is estimated as follows:

For Unemployment Insurance	£20,000,000
,, Health Insurance	11,850,000
,, Contributory Pensions	10,650,000
Total	£42,500,000[1]

Bearing these considerations in mind it would be legitimate to estimate the total share of the national income appropriated to national and local services at a figure not far short of the £1,000 million which is the amount habitually quoted in public discussion of the question. This would amount to 26 per cent. of the national income taken at £3,842 million.

What proportion such a sum may really be of the national income depends, of course, on the figure at which this latter may be estimated. The best recent considered estimate, as we have seen, is that made by Mr. W. H. Coates for 1931 of £3,842 million, but it is generally assumed this estimate is too high for 1932, though by what amount is a matter of conjecture. Figures of £3,500 million and even lower have been quoted by competent practical authorities, but necessarily only as guesses at the truth, and all, therefore, that can be affirmed is that the burden of taxes and rates must be somewhere between one quarter and one-third of the national income.

It is generally considered, as Mr. Snowden himself stated in a broadcast to the United States in February, 1930, that "our people are the most heavily taxed in the world." It is the most difficult of statistical exercises to estimate the comparative taxation of different countries whose national, state, provincial and local taxation systems differ materially from one another and from our own,

1 The total contribution from beneficiaries and employers was in 1929, £77,967,000, allocated as follows: Unemployment Insurance £21,899,000, Health Insurance £31,992,000, and Contributory Pensions £24,076,000.

and where profits from State monopolies and State property are among the obstacles (not the least of which is the necessary calculation of the relative value and purchasing power of the pound, the dollar and the franc) to any accurate comparative statement. But Professor Bowley, basing himself on the comparative computations published by the League of Nations, made an attempt for the years 1913-14 and 1923-24 which may be accepted as the best estimate so far made.[1] As regards the percentage of national and local taxation to national income, the proportion in 1913-14 was, he considers, somewhat over 10 per cent. of the national income for the four chief European countries, but in the United States it was only half that in France, which had the highest proportion (13½ per cent.) of all these countries. By 1924 the proportions were generally about doubled in the United Kingdom and Italy, more than doubled in Germany, and increased by about one-half in France and the United States. The proportion for the United Kingdom stood higher than in any country save Germany. The table showing taxation per head of the population is probably less uncertain as it avoids the difficulty of estimating national incomes, and this shows for Germany £6·7, for France £9, for Italy £5, for the United States £12·9, and for the United Kingdom £19. (These figures relate to national and local taxation except in the case of Germany where national taxation only is included.)

Returning to the safer ground of our own burden, the question remains whether a proportion of between a quarter and a third of the national income is excessive. Before the war the late Sir Robert Giffen was thought by some to overstate the case when he expressed the opinion that ten per cent. was a not unreasonable proportion to appropriate for public purposes. The fact that the proportion of national and local taxation actually levied on the population now approaches three times that

[1] See Tables XVI. and XVII. in *Some Economic Consequences of the Great War*. Home University Series, 1930.

amount is not in itself a sufficient answer to the question, and percentages are never so convincing as practical experience. The practical problem which the country had to face in the summer of 1931 was that of the difficulty of meeting its growing expenditure on the existing basis of revenue. The effort to do so had led, as we have seen in our accounts of budget discussions, to many expressions of opinion, both by responsible statesmen and industrialists of all parties, that the limits of taxable capacity had been reached, if not passed. It was this difficulty which led also to the appointment of the May committee, whose verdict was to the effect that under post-war conditions of "unprecedented trade depression, heavy unemployment, falling price level and declining incomes" the addition to the national burdens since 1924 had "attained such a proportion of the total national income that they must now be considered definitely restrictive of industrial enterprise and employment."

The events which followed, culminating in the introduction of Lord Snowden's revised budget in September, 1931, naturally confirmed this belief; and the fact that, in spite of a certain measure of economy and of large increases both of direct and indirect taxation, the new budget was in the event only balanced by appropriations of some £18 million from the Dollar Exchange Reserve Fund and the Rating Relief Suspense Account was pointed to by the supporters of the National Government as a convincing proof of the necessity from the revenue point of view of the new tariff policy. What seemed a final turn of the screw had indeed been given to the great direct taxes and the duties on tobacco and alcohol, but it is not irrelevant to point out that, if revenue alone had been in question, there were other untapped resources available, as during the war, which might, combined with more drastic economies, have obviated this necessity. However this may be, what passed in the winter and following spring amounted to a clear recognition that a political impasse, at all events, had been reached in the raising of revenue, and that any hope of reduction in the future must be based on a recovery of trade prosperity or on further public economy, or on both combined.

Two distinct schools of thought appeared to emerge from the discussions in Parliament and the country—the school of inflation and the school of economy. The one laid special stress on the question of the general price level and on the need to raise it if possible by concerted action with other countries, while the other attached greater importance to the need for a reduction of expenditure. The Macmillan committee (paragraphs 266-276) very clearly pointed to the great and continuing fall in wholesale prices as the main cause of the world crisis, and stated that monetary policy should be directed to raising the general price level a " long way above the present level " and then to " maintain it at the level then reached with as much stability as can be managed." The harmful effects of the policy of deflation which had been followed since the war, and even maintained for some months after the departure from the gold standard, were insisted on in these quarters, as was the necessity for a calculated and controlled expansion and cheapening of the supply of money in this country through the bank rate. As long as production was not only not being carried on at a remunerative level, but indeed at a loss which was depleting the resources and reserves of industry, the sacrifices which the country had been called upon to suffer through taxation, tariffs and economy, would, they held, be of no avail. A deliberate policy of controlled inflation, or reflation as it was now termed, if possible in conjunction with the United States of America, was, therefore, necessary to revive the prosperity on which the balancing of the new budget depended.

On the other side there was a weight of cautious instructed opinion with a deep sense of the possible dangers of inflation which doubted the efficacy of the means suggested of influencing prices, and considered that enough had been done by the successive reductions of the bank rate from 6 per cent. on February 18th, 1932, to 2 per cent. on June 30th, 1932,[1] to ensure the provision of cheap and plentiful supplies of money. To neither section of opinion could the question of economy be indifferent, but those who relied upon an effort to raise the price level relegated it to a secondary position. That its great importance was recognized in official quarters was, however, made clear by the grave warning of the Chancellor of the Exchequer at the bankers' dinner on May 10th, 1932, that " we might have to anticipate savings and economies more drastic than those which could be effected by merely paring down this or that item in the expenses of the various departments," and that to " make the substantial reduction in expenditure which would be necessary in order to give real effective relief to the taxpayer would involve changes of national policy which would go far beyond anything that has yet been contemplated." On the same day in the House of Commons Mr. Winston Churchill, while insisting that the monetary problem was the dominating factor in the situation, spoke with no uncertain voice on the " unfashionable subject of economy," and pleaded that the existence of the National Government made it possible to do the " salutary unpopular things " which an ordinary party Government cannot do.

Before referring to the further progress made during the session in the direction of public economy it may be useful for purposes of record to refer to the efforts which have been made by various Governments during our period to control expenditure.

The two chief landmarks are, of course, the reports of the Geddes and May committees in 1921-22 and 1931 respectively, both of which led to some reduction, though in neither case to the full amount recommended. It was

[1] February	18th	from 6 to 5 per cent.
March	10th	to 4 per cent
,,	17th	to 3½ ,,
April	21st	to 3 ,,
May	12th	to 2½ ,,
June	30th	to 2 ,,

in 1924, to quote from the report of the May committee, that a "policy of expansion and development replaced the policy of retrenchment" which had rapidly diminished expenditure since 1921, and "additional commitments were undertaken in a number of directions including education, an ambitious housing scheme and extended old-age pensions, and a programme of cruiser building which had been for some time under consideration. In 1925, the policy of expansion continued with the grant of widows' pensions and the beet sugar subsidy. A further naval building programme was begun and an increased State contribution was provided for the unemployment fund." With the coal subsidy in the same year the new commitments soon reached a large total, and the Government was faced in the spring of 1926 with an estimated increase over the original estimate for 1925 of £34,747,000, of which £24,447,000 was due to decisions of the then Parliament and £8¼ million to the development of schemes approved by previous Parliaments and Governments.

Before the introduction of the 1926 budget, retrenchment began to be seriously considered, the Government set themselves to redeem election pledges of economy, and the result was seen in the introduction of the Economy (Miscellaneous Provisions) Bill on March 16th, 1926, when the second reading debate was opened by Mr. Winston Churchill with a detailed survey of the whole field of public expenditure. It would be difficult to recall any previous occasion on which a Chancellor of the Exchequer himself inaugurated a full-dress discussion of the question of economy; and it is of interest both as an honest attempt to deal with public expenditure and as an illustration of the difficulty of doing so. Some account of Mr. Churchill's speech will be found in the chapter on his second budget (pp. 156-158) but the upshot of it may be repeated here in a few words. The great bulk of the national expenditure, which he put at the "formidable and tremendous" total of £800 million, had for one reason or another to be regarded as sacrosanct, and there only remained a total of £165 million, the cost of the whole national administration, the fighting and civil services, national insurance fund, etc., on which it was then considered possible to operate, and on these the combing process steadily maintained by the Treasury had, and still has, considerable effect. The special economies, however, effected by this Act were estimated to produce a saving to the Exchequer of from £8,300,000 to £10,160,000 in 1926, and from £7,030,000 to £8,800,000 in 1927, and consisted mainly of reduction in the State Grant to the National Health Insurance and in the contributions from the Exchequer to the unemployment fund.

These proposals, though based on sound and reasonable arguments, aroused fierce party opposition, Mr. Snowden himself describing the proposals as designed to "rob the sick, the disabled, the unemployed and the children." That it was possible for a statesman who is often described as an old-fashioned economist to use the language he did about a serious attempt to save public money—he described it as "dastardly, contemptible and at the same time ridiculous" and only contributed one suggestion, namely, that the recipients of war loan interest should be taxed more highly by income-tax—shows how completely the idea of public economy in the Gladstonian sense had faded from the minds of even responsible statesmen. The vested interests which always grow up in expenditure had extended, as one of the speakers pointed out, to all the new national services which had quickly come to be looked on as essential, and which, once begun, must go on undiminished for all time. As a matter of fact in this instance the largest continuing item of reduction—that on the State contribution to the unemployment fund—reduced the Exchequer charge, but only by increasing the borrowings of the Fund to the same extent.

Then followed the coal stoppage and the general strike with their grave reactions on expenditure and revenue, which maintained the pressure for economy in the sessions of that year and of 1927; but in 1928 the derating scheme and the institution of the block grant system imposed a fresh heavy burden on the Exchequer, which, however, was in the main "a shifting of part of the burden of Government from the ratepayer to the taxpayer and not an addition to the total burden." In 1929 further new expenditure was sanctioned by the new Parliament involving, as stated in the House of Commons on November 17th, 1929, additional expenditure estimated at £8,243,000 for that year; and £18,967,000 for 1930; and on April 23rd, 1931, it was stated in the House of Commons that the expenditure involved in the commitments of the then Government amounted to £14,086,000 in 1931, in addition to £30 million for transitional benefit under the Unemployment Insurance Scheme (May report, paragraphs 4 to 7).

The Tables in paragraph 35 of that report compared the expenditure of the year 1924, the lowest year of expenditure since the war, with the estimated expenditure for 1931. In the group of "Nationally administered services" there had been reductions amounting to £38,100,000 spread over every item except old age and widows' pensions and Unemployment and Health Insurance, where there was an increase of £54,600,000. In the second group of "Grants towards services administered by other bodies, mainly the local authorities," there had been an increase of £70,800,000 spread over every item. A further analysis showed that of the increases totalling £125,400,000, £46 million might be regarded as in respect of National Development—derating, roads, agriculture and grants for unemployment works; and about £76,700,000 in respect of Social services—pensions, insurances, education, housing, etc.

Taking first the charges for National Development and leaving aside increases for annual expenditure on derating, the only important item is the expenditure upon roads. A recent writer has calculated that from the establishment of the Road Fund to 1928-29 the cost of the roads in Great

Britain increased from £16 million in 1910-11 to £58 million and amounted during these 19 years to £651 million (England and Wales £512 million), not including expenditure from loans; and that in respect of this sum payment from the Road Fund and the Treasury amounted to £139 million, leaving £512 million to be contributed by the ratepayers. Such figures as these indicate the importance of this field for economy, and indeed Mr. Chamberlain warned the House of Commons in July that a most careful review of this expenditure was required. It is almost unnecessary to add that the method of financing the roads through the Road Fund has been condemned both by the May committee and the Estimate committee in the strongest terms.

Turning now to the group of subjects comprised in the term Social Services, we may refer to the following table taken from paragraph 366 of the May report, amended as regards the latest year by the figures given in the last Return of Public Social Services published in November, 1931, (Cmd. 3971, 1931)—the return due to the persistent efforts for many years past of Mr. Geoffrey Drage, and known as the Drage return. War pensions are excluded from the table as being of a different character and origin from the general class of social services.

The report of the May committee added that, since the latest year, 1929, for which full figures are available, there had been, up to July, 1931, a " further increase of roughly £70 million in the gross cost of unemployment insurance and a steady increase of most of the other items," which brought the cost of these services to about seven times what they had cost in 1911; and that the " enormous increase " in the Exchequer charges for these had been the " prime cause of the present crisis in the national finances."

Taking the figures as they stand in the following table, it may be noted that the total expenditure in 1929 was, according to the figures given in the Drage return, shared in the following manner. There fell upon the Exchequer

£132,643,000, upon the Rates £94,164,000, and upon contributions by the beneficiaries or their employers, rents, fees, etc., £124,306,000. The principal items of expenditure from rates were in respect of education, £43,632,000 out of a total expenditure on this item of £100,510,000, and poor relief £38,104,000 out of a total of £44,953,000. Similarly from contributions, etc., there came for unemployment insurance £33,861,000 out of a total expenditure of £53,296,000; for health insurance £31,992,000 out of £38,570,000; for widows', orphans' and old age contributory pensions £24,076,000 out of £26,445,000; and for Housing £20,284,000 (rents, etc.) out of £35,598,000.

Service.	Total Expenditure in Great Britain. 1911	1929 (or latest) attainable year).
	£	£
Unemployment Insurance	—	53,296,000
National Health Insurance	—	38,570,000
Widows', Orphans' and Old Age Contributory Pensions	—	26,445,000
Old Age Pensions, non-contributory	7,360,000	35,780,000
Education	33,489,000	100,510,000
Reformatory and Industrial Schools	690,000	690,000
Hospitals and treatment of disease	2,231,000	8,757,000
Maternity and Child Welfare	*Not ascertainable*	2,661,000
Housing	888,000	35,598,000
Poor Relief	16,158,000	44,953,000
Lunacy and Mental Deficiency	2,105,000	5,271,000
	£62,921,000	£352,531,000

This table raises most of the questions both in Imperial and local finance, apart from roads and departmental charges, on which the advocates of economy are concentrating their attention at the present time.

Up to the passing of the Finance Bill, 1932, the utterances of the Chancellor of the Exchequer did more to point out difficulties than to encourage hopes in the matter of reducing expenditure. But an important debate in the House of Lords on June 22nd and 29th, 1932, on a motion by Lord Hunsdon, gave a fresh impetus to the economy movement, which had been kept well to the fore in the country and among members of Parliament by Sir Ernest Benn's "Friends of Economy" committee. Lord Hunsdon was supported by vigorous speeches from Lords Reading, Linlithgow, Jessel, Plender, and Novar, among others, and he drew from Lord Snowden a wise, incisive and very sympathetic reply, which expressed the "anxiety of the Chancellor of the Exchequer and every member of the Government to effect as large a reduction of national expenditure as was possible without impairing or seriously injuring the efficiency of the services," but which appeared to look rather to an improvement in trade, which would diminish unemployment, than to any drastic action in the direction of economy.

This was followed on July 11th by another speech from Mr. Chamberlain, just back from Lausanne, in which he sought to remove the impression of any want of keenness on the part of the Government in the matter of economy, and made two important announcements. It had been stated in *The Times* of July 5th that the Government had invited the London County Council and the various associations representing the local authorities in England and Wales, and in Scotland, to set up a committee to consider the whole field of local expenditure as a matter of "grave importance and urgency," and to make recommendations at the earliest possible date for securing reductions in local expenditure whether defrayed from Exchequer grants, rates or other sources. Mr. Chamberlain now announced the appointment of an expert committee for England and Wales which was followed by the appointment of another for Scotland; and in this connection he noted that the total expenditure of local authorities for the year ended 31st March, 1932, had been £318 million, of which £165 million was derived from rates, etc., and £153 million from grants—all this, including local indebtedness, was to be examined by the committee. Such a survey has been long overdue, and it will form an invaluable complement to the work of the May committee in Imperial finance. Mr. Chamberlain next referred to the unofficial economy committee of 142 private members which had been set up in his absence under the chairmanship of Sir Gervase Rentoul. This committee, it may be added, was to work throughout the summer with a view to reporting to the Government in October ; and it was divided into five sub-committees dealing with all the different branches of public expenditure. Mr. Chamberlain heartily welcomed the appointment of this committee which, he said, would mean that "when the Government put forward their proposals for economies . . . there would be a much larger proportion of the House that is fully equipped to appreciate both the difficulties and the possibilities of the situation than there ever has been before in my recollection."

Mr. Chamberlain then assured the House that a scrutiny into the expenditure of all departments was being continuously carried on and that the reports and recommendations of the select committees on estimates and public accounts were being carefully considered. The report of the Royal Commission on Unemployment Insurance was also, it may be noted, awaited in the autumn. He further gave a careful and valuable analysis of public expenditure indicating in which directions economies were or were not possible—an analysis of which the following is a brief summary. Leaving aside the sinking fund already barely sufficient, and the self-supporting services (including the Road Fund which would be carefully reviewed), the ordinary expenditure for 1932-33 amounted to £733½ million divided into nationally administered services £587,800,000, and grant services to local authorities and others £145,700,000. [These were the totals after accounting for the reductions effected by the last year's economy measures, £60½ million and £17½ million respectively.] Taking first the grant services, the figure of £145,700,000 was £49,200,000 above the 1924 figure, largely accounted for by the new general Exchequer grant in connection with derating described elsewhere. The total figures, however, as well as those of local expenditure generally, formed the field for the investigation of the committee on Local Government to which Mr. Chamberlain referred on this occasion. In the group of nationally administered services, £587,800,000 debt interest had already been dealt with by the conversion scheme from which there would be a gross saving of £30 million next year. Defence could not be further reduced except as part of a general scheme of disarmament. Nor could war pensions be touched. There remained, therefore, in this group, widows' and orphans' and old age pensions, National Health and Unemployment Insurances £122,200,000 ; and all other expenses, £35,900,000, which included the ordinary expenses of civil administration, and on which, if all the suggestions for economy could be adopted, a saving to the budget would not amount to more than £8 million. While minor economies in various directions might indeed amount to " quite a substantial sum, really big reductions of expenditure could," he said, " only be effected in the fields of pensions and insurance, among the national administrative services, or in grants to local authorities."

It was the same conclusion at which he had arrived on previous occasions, and he had warned the House a month earlier that in this field of domestic and social expenditure economy might mean " changes which vitally affect the life of many millions of the people."

Both Mr. Chamberlain and Lord Snowden have shown the highest wisdom in deprecating, as they have done, interference with this class of expenditure without proved necessity, and in warning their hearers against hasty and ill-considered changes which could not be permanently maintained. In the course of the economy debate from which we have just quoted Mr. Chamberlain's observations, Mr. Harold Macmillan usefully drew attention to some bearings of public economy and reduction of expenditure upon industry. "You have to choose," he said, "between the beneficial market results of large Government expenditure, and the beneficial psychological and subsequent economic results of a reduction of taxation." The existing high rate of direct taxation, he declared, "tends to destroy the incentive and initiative of business." Diminished expenditure on social services, for instance, which had the effect of merely transferring the power of spending on consumption goods from the poorer to the richer, might merely depress the condition of the poor and "further increase the vicious circle of deflation," without assisting industrial recovery. Lord Snowden had already put the same point in the House of Lords, when he said that a reduction of the taxation of the rich secured by a reduction of the contributions to the social services "will certainly reduce the standard of living of a considerable part of our population." It will "enable them (the rich) either to save more—a very desirable thing . . . or to spend more, but not to spend more upon primary commodities, nor even upon reasonable and moderate comforts, but upon luxury." No evidence was adduced of the relative effects on industry and employment of expenditure on "primary commodities" and expenditure on "comforts" or "luxuries," but the argument presumably was that the mass expenditure of the poorer classes counts for more in stimulating production than the expenditure of a small minority of the population, however rich. Mr. Macmillan's reply to it was that the real object of economy and a reduction of taxation should be to secure expenditure on capital goods. One of the main troubles of the present economic situation was the "failure of the rate of investment, of new capital investments to keep up with the rate of savings," and it was, therefore, essential to guide back into capital investment, by some such method of organized co-operation between finance and industry as had been suggested in the report of the Macmillan committee, all the present uninvested pool of liquid savings and also the additional savings which would arise from the reduction of taxation.

As regards expenditure on the social services, it is certainly true that this may be carried to the point of undermining self-reliance and individual energy, and that its ultimate justification, from the economic point of view, must depend on whether it increases the productivity of the community from which both the national income and the public revenues are derived. But it is also true that the demands and aspirations of an educated democracy could not have been denied, and cannot now be postponed, without the gravest social and political danger. Expenditure which has not only averted such a danger but has tended to raise, permanently it is to be hoped, the standard of living of the population has been willingly borne in the past, and there is no section of responsible opinion which does not look forward to further progress in the same direction in the future.

There is, therefore, no fear that a reaction against expenditure on social services will be carried too far. The fear is rather that they will be imperilled by their cost exceeding the capacity of the State to meet it. The limits of that capacity have been revealed by the crisis of 1931 which showed how easily the whole life of a community, largely dependent on imports from abroad, might be endangered by a failure of public credit. Only moderation in the claims made upon the taxpayers can ensure the continuance of these services, as of others still more vital to the nation.

Such considerations do not appeal either to those who are looking forward to the foundation of the socialist state on the ruins of the capitalist system, or to those who have become obsessed by the belief that social progress is bound up with the indiscriminate and even wasteful expenditure of public money. To the latter it may be suggested in reply that the very opposite is the truth, and that efficient administration, upon which social progress and much else largely depends, can only be ensured by strict public economy. But what in the end must dictate the policy to be followed in the matter of economy is the capacity of the taxpayer, upon which some observations have been offered in the foregoing pages.

In a speech which was described at the time as a masterly survey in picturesque language of the present position, Mr. Churchill, in the debate already referred to, enumerated the " four grim evils by which we are now harried—over-taxation, unemployment, the fall in prices through gold cornering, and the obstruction of the channels of world trade ;" and affirmed the undeniable fact that " these four dark horsemen of the economic Apocalypse have become more formidable . . . and more oppressive than they were at this time last year." Gloomy as the situation thus described may be it is not irremediable ; but whether recovery is destined to be rapid or long delayed, it is not to be expected that the history of the recovery from the Napoleonic wars can be repeated, or that an advance in prosperity and productivity like that which placed this country at the head of all competitors in the Victorian era can be looked for in the present century.

If the policy of inflation be discarded there seems, therefore, no alternative but to realize that the costs of Government must be brought down to a level more consonant than they now are with the present economic situation of the country ; and that, in order to obtain the necessary reductions, recourse must be had to those items of expenditure which have shown the most rapid expansion in the past and which may be expected to yield the most adequate results. From this point of view it is all to the good that the very large field which includes such subjects as education, roads, pensions, insurances, grants to local authorities and local expenditure generally, is no longer debarred from consideration and examination as it was when Mr. Churchill undertook his review of expenditure in 1926. Complaints against the National

Government for delay in tackling this great question cannot fairly be maintained in view of the various agencies set up, as we have seen, to secure a critical and sweeping investigation into every aspect of the problem. One great measure of economy stands already to their credit, that arising from Mr. Chamberlain's bold and skilful conversion of the 5 per cent. war loan—an " immense and salutary financial operation " and the indispensable accompaniment of the scaling down of money incomes, salaries, and wages, which must be effected before any permanent recovery can be assured.

NOTE ON LOCAL EXPENDITURE AND SOME FINANCIAL PROVISIONS OF THE LOCAL GOVERNMENT ACT OF 1929.

The total expenditure of local authorities in England and Wales for 1929-30 is summarized in a new form in Part III. of the Local Taxation Returns published in June, 1932.

From this it appears that the net expenditure (other than capital expenditure which amounted to £108,873,627) was £423,655,418, including trading services and special funds. The trading services were practically self-supporting, deficiencies in some of those services being largely balanced by contributions from others of £1,894,285 in aid of rates.

The expenditure on rate fund services was £311,761,038 (including the sum of £2,521,181 to meet deficiencies on trading services) and was defrayed as follows : (*a*) partly from fees, rents and other annual income not being grants or rates, £47,501,987 ; (*b*) partly from Exchequer grants for specific services, such as education, public health, hospitals, housing, poor relief, highways, police, etc., £87,066,399, leaving £177,192,652. Towards this balance of expenditure there was available £6,913,278 from Exchequer grants not allocated to specific services and £1,906,848 from certain miscellaneous income, leaving a balance of £168,372,526 falling on rates (£156,311,767) and transitory grants in compensation for loss of rates.

Excluding the transitory grants in compensation for loss of rates, the total of the Exchequer grants was £87,066,399 + £6,913,278 = £93,979,677, an amount nearly equal to one-third of the expenditure on rate fund services. This sum includes the grants which have been discontinued under the Local Government Act, 1929, amounting in 1928-29 to about £16,270,000. The remainder of the grants were unaffected by the institution of the block grant system under the Act of 1929, of which some account must now be given, and remain in the form of percentage grants as with education, police and roads, or of grants per unit of service as with housing.

Block Grant System.

The changes and readjustments in the powers and responsibilities of the various classes of Local Authorities, and in the rateable values on which rates were leviable, which were the result of the abolition of the Poor Law Guardians and the derating and other measures of the Local Government Act of 1929, made it advisable and opportune to deal with certain Exchequer grants, some of them fixed on an obsolete basis and some on a percentage basis which had long been considered unsatisfactory. These comprised percentage grants in aid of certain health services, certain maintenance grants for roads, and the assigned revenue grants paid through the Local Taxation Account, including grants under the Agricultural Rates Acts of 1896 and 1923. The total of these grants was estimated in the explanatory memorandum issued in connection with the Bill (Cmd. 3273 of 1929) at £16½ million (the latest figure is £16,270,000) and these discontinued grants were replaced through the medium of the new " General Exchequer Contribution."

This annual " General Exchequer Contribution " is, under the Act, composed of three elements, (*a*) an amount equal to the amount of rate income lost to Local Authorities by derating (calculated on the basis of the figures of the standard year 1928-29), (*b*) an amount equal to the amount for 1928-29 of the discontinued grants, and (*c*) for the first " fixed grant period " of three years beginning on April 1st, 1930, an annual additional amount of £5 million and for subsequent grant periods such additional sum as is determined by Parliament subject to a certain minimum referred to below.

The latest figures relating to the General Exchequer Contribution, shown below, are taken from the Parliamentary Estimate of the Exchequer Contributions to Local Revenues for England and Wales, 1932-33, and are approximately those which will hold for each year of "the first fixed grant period" of three years which commenced on April 1st, 1930.

GENERAL EXCHEQUER CONTRIBUTION (SECTION 86).

Losses of rates through de-rating, Section 86 (3) (*a*) -	£22,340,000
Losses of discontinued grants, Section 86 (3) (*b*) -	16,270,000
Additional money, Section 86 (3) (*c*) - - -	5,000,000
Total - - - - - - - -	£43,610,000

In order to implement certain guarantees embodied in the Act, notably a guarantee that under the scheme each County and County Borough as a whole shall be ensured a minimum "gain" of 1s. per head and a further guarantee that in no rating area shall there be any higher rate necessitated in the earlier years of the scheme by the provisions of the Act, the estimate includes provision for the following further sums:

	£
Additional Exchequer grants (Sections 90, 96, and 99) and grant under proviso to Section 89 - - -	510,000
Supplementary Exchequer grants (Sections 94, 97, and 100) - - - - - - - - - -	1,030,000
The total grants to Local Authorities in England and Wales provided in the estimate is therefore -	45,150,000

To complete the account the details from the separate Vote for Scotland (1932-33) under the Local Government (Scotland) Act, 1929, must be added:

GENERAL EXCHEQUER CONTRIBUTION (SECTION 53).

Losses of rates through de-rating, Section 53 (3) (*a*) -	£3,338,450
Losses of discontinued grants, Section 53 (3) (*b*) -	2,039,459
Additional money, Section 53 (3) (*c*) - - -	750,000
	£6,127,909
Additional Exchequer grants, Sections 57 and 62 -	7,816
Supplementary Exchequer grants, Sections 60 and 63	184,695
Total grant for Scotland in respect of the financial year ending May 15th, 1933 - - - -	£6,320,420
Thus the approximate total for Great Britain of the new grants payable for each year of the 3 years commencing in England on April 1st, 1930, under the Local Government Act, 1929, and commencing in Scotland on May 16th, 1930, under the Local Government (Scotland) Act, 1929, will be - -	£51,470,420

The actual sum to be voted is diminished, however, by annual appropriations-in-aid in the form of a contribution from the Road Fund. This annual contribution in the first fixed grant period amounted to £5,790,000 for England and Wales (Section 87) and £683,541 for Scotland (Section 54 (1) (*a*) and (*b*) of the Scottish Act), viz., £6,473,541 in all.

The net additional cost to the Exchequer (including the Road Fund) of the new arrangements is found by deducting the discontinued Exchequer grants, viz., £16,270,000 + £2,039,459 = £18,309,459, from the total of the new grants for Great Britain, and is thus £33,160,961. (The additional liability of the Exchequer was estimated for the budget speech of 1928 at £29 million for England and Wales, *i.e.* £26 million for loss of rates and £3 million for " Additional money ").

Of the sum of £33,160,961, £25,678,450 is the amount of the transfer from rates to taxes and is, therefore, not a real additional burden on the public, which accordingly amounted, on the figures above quoted, to £7,482,511 for Great Britain. (It will be seen that the difference between this sum and the total of the " Additional money," £5¾ million, is accounted for by the " additional " and " supplementary " Exchequer grants.) So much for the first fixed grant period of three years. The second fixed grant period will be for four years, beginning April 1st, 1933, and the third and subsequent grant periods will be for five years each.

For grant periods after the first the " additional money " of £5 million, forming part of the General Exchequer contribution for England and Wales for the first grant period, is to be replaced by such sum as Parliament may determine, subject to the condition that the total General Exchequer contribution for each period is not to fall below a certain ratio. The " additional money " for the second or any subsequent fixed grant period is to be such that the proportion which the amount of the annual General Exchequer contribution for that fixed grant period bears to the total amount of " rate and grant-borne expenditure " incurred by all authorities for the last year but one of the preceding fixed grant period shall never be less than the proportion which the annual General Exchequer contribution for the first fixed grant period bears to the total amount of " rate and grant-borne expenditure " of the first year of that period. This proportion is thus fixed for all time and the proportion which the General Exchequer contribution for a certain fixed grant period is to bear to the total rate and grant-borne expenditure for the last year but one of the preceding grant period is not to be less than this fraction. " Rate and grant-borne expenditure " is defined in the Act as meaning local expenditure met out of rates and the General Exchequer contribution. A corresponding provision is included in the Scottish Act.

Thus the total " rate and grant-borne expenditure " of any year is reckoned not on a gross figure corresponding to the figure of £311,761,000 for the year 1929-30, but on the gross figure reduced by all receipts other than (*a*) income from rates and (*b*) grants paid out of the General Exchequer contribution. Taking actual figures, the General Exchequer contribution for England and Wales for each year of the first grant period is, as stated above, approximately £43,610,000. If the rate-borne expenditure rose from say £145 million in 1930-31 (the first year of the first grant period) to £147 million in 1931-32 (the last year but one of the first grant period), then for the second grant period beginning on April 1st, 1933, the Act contemplates that the minimum increase in the General Exchequer contribution would be approximately £460,000 or about one-fourth of the amount of the increase in the rate-borne expenditure.

The question of the distribution of the new Exchequer contribution to the various Local Authorities gave rise to much discussion during the passage of the Bill in Parliament, and in deference to the view that Exchequer assistance should be given on the basis of need and not merely on a population basis, provisions of an elaborate character were finally reached which may be briefly summarized. Eventually the whole of the General Exchequer contribution is to be distributed among Counties and County Boroughs on the basis of " need " estimated according to a formula. This formula assumes that " need " is in the main determined by population weighted for the factors of the number of children under five, low rateable value, unemployment and sparsity of population. As a distribution on this basis at the outset would have caused too great a dislocation of local authorities' finances, the Act provides that the formula shall be brought into operation gradually. Thus, for the first seven years the distribution of the General Exchequer contribution is approximately only one-third on the formula basis, the remaining two-thirds being on the basis of the sum lost by de-rating and the discontinuance of certain grants. In the next five years the distribution will be on the basis of approximately 55 per cent. on formula and 45 per cent. on the loss of rate and grant income, and in the following five years on the basis of nearly 80 per cent. on formula and 20 per cent. on loss of rate and grant income. Thereafter the distribution is to be entirely on the basis of the formula.

CHAPTER II.

INLAND REVENUE.

THE statistics of the three great direct taxes given in the tables at the end of this volume reflect the disappointment of the hopes entertained in the earlier years of our period of a continued reduction in the cost of government and taxation. The income-tax, which has the largest yield of any single tax in the British system and is to the extent of nearly 90 per cent. a tax on the incomes of individuals, stood at the standard rate of 6s. in the first year, 1921-22. It was reduced successively to 5s., to 4s. 6d., and finally, by Mr. Winston Churchill in 1925, to 4s., at which figure he succeeded in maintaining it, in spite of the setback caused by the coal stoppage in the following year, during the rest of his term of office. But in 1930 it was raised by Mr. Snowden to 4s. 6d. and again in September, 1931, to 5s. The actual rate in the £ payable by individual taxpayers is, however, governed by differentiation, graduation, and allowances of various kinds.

The present system of differentiation and graduation dates from the Finance Act of 1920 and was briefly described in the second series of *British Budgets, 1913-4 to 1920-1* (pp. 324-5). It is imposed in terms of a standard rate for a year of assessment running from April 6th in one calendar year to April 5th in the following year, and the effective rate borne by any individual is determined by four factors, (*a*) a differentiation in favour of earned income, (*b*) certain personal allowances and deductions expressed in terms of assessable income, (*c*) two rates of tax, half the standard rate[1] and the full standard rate, and (*d*) certain reliefs expressed in terms of tax (see Table V). The result is that, if the total tax payable by any individual is divided by the total "statutory" or "actual" income, the effective rate of tax per pound of "actual" total income rises gradually from a fraction of a penny in the £ till, in combination with the surtax, it closely approaches for the highest incomes a rate represented by the sum of the standard rate of income-tax and the highest rate of surtax (see Table XI).

Administrative changes in the income-tax are described in the text and changes affecting the rates in Table V. Among these latter are the increases of the earned income allowance from one-tenth to one-sixth in 1925 and to one-fifth in September, 1931, with alterations of the limit of allowance from £200 to £250 and then to £300 respectively, and the changes in children's allowances.

As regards exempt incomes, up to 1919-20 it was expressly provided that when an individual's total income did not exceed a fixed amount which in that year stood at £130 he should be entitled to exemption (see *British Budgets*, second series, p. 326). Under the present law there is no such provision, but exemption is in practice effected by personal allowance and deduction for wife, children and so on, being set against the assessable income, so that when the total allowances, etc., are equal to or exceed the assessable income no tax is payable. The assessable income is dependent on the earned income allowance, and when, for example, between 1925 and 1931 the personal allowance stood at £135 for single and £225 for married persons, and the deduction on account of earned income at one-sixth, the minimum effective exemption limit was £135 (investment income) and £162 (earned income).

The effect of the changes made since the institution of the new scheme of the income-tax had been to relieve increasingly the smaller incomes. Mr. Snowden, when

[1] This proportion was altered to four-ninths in 1930 but restored in 1931.

adding 6d. to the standard rate in 1930, had even relieved about three-quarters of the whole number of income-tax payers of any increase by adding to the " slice " of income charged at half the standard rate, making it £250 instead of £225, and charging it at four-ninths instead of five-tenths of the standard rate. The extra taxation was thus concentrated on the small minority who already bore the brunt of the tax, and Table No. XI shows how income-tax then fell comparatively lightly on quite substantial incomes.

A rather striking reversal of this process took place in September, 1931, when it was presumably felt that members of the poorer classes ought to be asked to contribute their share to the public needs, and Mr. Snowden accordingly reduced the personal allowance to £100 for single persons and £150 for married persons, at the same time reducing the " slice " to £175, and increasing the charge upon it to one-half of the new standard rate of 5s. At the same time he increased the differentiation in favour of earned income by raising the allowance on it from one-sixth to one-fifth and the limit from £250 to £300, and the minimum exemption limit became £100 (investment income) and £125 (earned income). It might be argued in defence of the changes that if the various allowances fixed in 1920 had moved since then with the cost of living figure, they would have dropped below the new figure (£135 and £225 in 1920 would be roughly equivalent to £77 and £128 respectively in 1931).

No official statistics as to the result of these changes can be expected for some time, but it is conjectured that the addition to the number of persons actually paying income-tax will be from 1,500,000 to 2,000,000 who would consist both of persons who owing to the lowered exemption limit come for the first time within view of the tax and of those who had been within its range but had been entirely relieved by the allowances. Of the total estimated increase in the yield (£51½ million in a full year) Mr. Snowden estimated that £24 million would come from the raising of the standard rate by 6d. and £27½ million from the changes above mentioned. Of this, £13 million would be due to the reduction of the "slice." The increased earned income allowance would involve a loss of unstated amount, and this, with the other items, reduction of personal and children's allowances, etc., would be responsible for a net increase of £14½ million. No estimate was given of how these increases would affect the different classes of income-tax payers, but a critic of the changes in the budget debate asserted that only £2½ million of the £27½ million would fall on incomes of over £2,000, and that the class most affected would be that between £500 and £700 per annum. The amount of tax which would fall on the new income-tax payer was probably only a small proportion of the total. An unofficial estimate has put it at £1½ million. But if the amount is comparatively small, this rather belated assertion of the principle reaffirmed in the Colwyn report (paragraph 688) that a larger proportion of citizens should pay taxes of which they are conscious is of considerable interest. Indirect taxation, however, is now the recognized method of levying unobtrusively a contribution to national expenditure from the masses of the wage earners, and, in view of the extension of indirect taxation now in progress through tariffs, it may be doubted whether it will long be possible to retain the new development of direct taxation downwards as a permanent feature of the fiscal system. The following table illustrates the effect of the above-mentioned changes, and shows the point at which income-tax became payable in the years 1913-14, 1920-21, 1928-29, and 1931-32, in the case of

(*a*) single persons ;
(*b*) married couples without children ; and
(*c*) married couples entitled to the allowance for three children.

Whether: (a) Single; (b) Married, no children; or (c) Married, and 3 children.	1913-14.		1920-21.[1]		1928-29.		1931-32.	
	All Earned Income.	All Investment Income.	All Earned Income.	All Investment Income.	All Earned Income.	All Investment Income.	All Earned Income.	All Investment Income.
	£	£	£	£	£	£	£	£
Single - -	160	160	150	135	162	135	125	100
Married (No children) -	160	160	250	225	270	225	187½	150
Married (Three children) -	190	190	350	315	462	385	350	280

The effective rates now charged on the lower incomes up to £800 per annum vary between Nil and 3s. 10d. in the £ according as the income is earned or investment income and belongs to persons single, married without children and married with one or more children. For rates on some specimen incomes see Table XI.

Of the super-tax transformed into surtax (see p. 192 and Tables VIII to X) little need be said except that Mr. Winston Churchill in 1925, by lowering the rates in the middle ranges, reduced the yield by £10 million, recouping himself from the estate duty, and that Mr. Snowden in 1930 raised the rates of the new surtax from 1929-30, the increase ranging from 3d. in the £ on the first £500 chargeable, up to 1s. 6d. in the £ on that part of an income in excess of £50,000. The initial rate was thus raised from 9d. to 1s. and the rate on that part of the income in excess of £50,000 per annum from 6s. to 7s. 6d., the yield in a full year being estimated to amount to an additional £12½ million. And, in September 1931, he increased by 10 per cent. the amount of surtax payable to produce £4 million in 1931-32 and £6 million in a full year. The yield so far has responded to these increased calls and the total recorded for 1931-32, £76,700,000, is accordingly higher than that of any previous year.

The estate duty is the only one of the three great direct

[1] From 1925-6 to 1927-28, the "All Earned Income" exemption limits were £162, £270, and £378 respectively.

taxes in which no reduction has ever been made even temporarily. As recorded in our last volume (*British Budgets*, 2nd series), the war was responsible for increases which transformed the duty from a moderate into a highly onerous impost, the largest increase having been due to Sir Austen Chamberlain's budget of 1919, which raised all the rates on estates exceeding £15,000, and raised those on the largest estates from 20 to 40 per cent. Mr. Churchill, in his first budget in 1925, was unable to resist a call upon the estate duty, though he balanced it, as far as annual revenue was concerned, by a reduction of the super-tax; he arranged to draw an additional £10 million from it by increasing the rates on estates between £12,500 and £1 million to cover, as far as possible, the same range of taxpayers as would benefit by the reduced rates of super-tax. This was not all, for Mr. Snowden, in his attentions to the other direct taxes in 1930, did not neglect to "amend" the rates of the estate duty on all estates in excess of £120,000, raising the maximum from 40 per cent. to 50 per cent., and he estimated for an increased receipt of £7 million in a full year. (See Table XII.) Increasing recourse to the estate duty has no doubt been encouraged by the improvement, at all events until 1929-30, in the aggregate capital value of the property coming within its scope. Since 1921-22 this rose, for Great Britain, from £402 million to £538 million in 1929-30, and then a substantial fall took place, while the yield of the death duties as a whole, owing to higher rates, rose (for Great Britain only) from £44 million in 1921-22 to £73¾ million in 1930-31 and has nearly trebled since 1913-14. The year 1931-32, however, witnessed a startling decline in the yield of the death duties to £65 million, falling short of the estimate by £18 million, but whether this is due wholly to the depreciation of Stock Exchange values, or partly to that cause and partly to the growing exhaustion of the number of war fortunes or again to a real shrinkage of the nation's capital wealth, it is as yet too soon to judge.

The notable fact, as the Colwyn committee pointed out, (Majority report, paragraphs 331-3) is the steep graduation which has been applied to all these taxes since the war (see Tables VIII, XII, etc.). Progressive taxation, as they observe, is the " fairest, as between individual taxpayers, since it allows for the increased capacity of each additional pound of income to bear taxation," but the principle " may be carried to such a point as to lead, in turn, to unfairness against the wealthier taxpayer " (paragraph 686), and again " highly progressive taxation is a growth of the last decade and it is still too early to speak of its final economic effects on the community " (paragraph 693).

The five years or more which have passed since these words were written may still perhaps be insufficient to enable a final opinion to be formed in this weighty matter, even though the process of expansion and development, which has characterized public expenditure with but a brief interval since the war, has culminated in a more rapid and sensational fashion than even its most alarmist critics expected. But, as we showed in the preceding chapter, it is not too soon to ask ourselves once again, as the most vital of the questions which the nation has to face, whether or how far the burden of taxation, and especially of direct taxation, is responsible for the financial and industrial difficulties in which it now finds itself.

Reference has already been made to the most authoritative and comprehensive investigation into the whole subject which has appeared in our time, the report of the Committee on National Debt and Taxation presided over by Lord Colwyn. Partial quotation from this document is a somewhat dangerous exercise as the use made of it in many Parliamentary discussions is sufficient to show ; but its main conclusions will be present to the minds of all students of financial policy and must be alluded to if an opinion is to be formed as to how far they have been affected by recent events.

Whatever may be the case as regards the classes affected by direct taxation, a point to which we shall return, the opinion of the committee that " post-war taxation does not appear to have reduced the average or general standard of living of the working classes below the pre-war level" happily remains true to-day, in spite of a decrease in total production. The general condition of these classes, indeed, as regards ability to spend not only on the necessaries of life but on luxuries like amusements and locomotion, is still apparently superior to what it was before the war. If Customs and Excise duties have had any adverse effect on the purchasing power of the people, more than one Chancellor of the Exchequer has on the other hand pointed out that the large expenditure (made possible by heavy taxation) on the social services, unemployment, etc., has been instrumental in maintaining and even increasing the level of consumption of dutiable articles like tea and sugar.

Nothing is more valuable, both for the purpose of determining whether the indirect taxation of necessaries is of a kind which affects the general wages level by creating a demand for higher wages and of estimating the changes which are taking place in apportioning the burden of taxation between the different social classes, than such statistics as those given in the committee's table analysing the burden of direct and indirect taxation over a series of some 25 years upon specimen incomes of from £50 to £50,000 per annum. It supplied an estimate for which we called at the beginning of our budget studies and which we were glad to reproduce as Table XXI in the second series of *British Budgets* published in 1929. Its interest for the public was shown by the constant use made of it in the course of budget discussions, more particularly, perhaps, by speakers endeavouring to show the regressive effect of indirect taxes on the poorer classes, and contending that, in spite of the continuous relief which had been given them and the immense and undeniable increases of taxation upon the rich, those classes were still bearing a disproportionate share. It was as constantly pointed out in reply that, leaving aside the almost penal taxation of alcohol and tobacco and the tax on entertainments which, as the authors of the report explained, affect expenditure of a "voluntary" nature and which differ alike from income-tax and surtax—inevitable burdens above a certain limit—and from taxation of articles of practically universal consumption which may, therefore, be also regarded as inevitable, the proportion of "obligatory" taxation imposed on the non-income-tax-paying classes is far from burdensome. Too much may evidently be made of the distinction between "voluntary" and "obligatory" taxation, especially in regard to such articles as tobacco and beer. But it is certain that the percentage of total taxation derived from the "necessities and comforts of the people" (defined as the "breakfast table" duties and the match tax), which, after Mr. Churchill's abolition of the tea duty in 1929, had fallen from 4·43 per cent. in 1924-25 to 2·91 per cent., was then lower than it had ever been in this country, and in spite of the reimposition of the tea duty in 1932 the percentage is still lower than in 1924-25 (cf. Table XVIII).

It is outside the scope of these observations to attempt a general survey of social conditions since the war, but it is nevertheless pertinent to our present subject to quote a summary of the changes in the distribution of income by the eminent statistician, Professor A. L. Bowley.[1] "The general result," he observes, "of the whole system of taxation, wage adjustments and social expenditure has been a very marked redistribution of the national income which in the aggregate was nearly the same per head in 1924 as in 1914. The very rich have less than half their pre-war income (allowing for taxes and change of prices); the least well-off of the working classes have gained most. Between these two extremes the tendency is almost throughout in the same direction. . . . This general statement must, however, be qualified by reference to unemployment in those industries and localities in which it is severe and to the hard case of persons with small fixed money incomes and unable to earn. . . . Great

[1] *Some Economic Consequences of the War*, by Arthur L. Bowley, Home University Library Series, published 1930.

progress has been made towards the extinction of remediable poverty, considerable inroads have been made on excessive wealth, and generally income is less unequally distributed than it was ten years ago. The changes are due to many factors, some of which are directly traceable to the war, while others, such as the fall of the birth-rate and the extension of social services, are the continuation of processes that began before the war. . . ." The fall in the cost of living since the return to the gold standard in April, 1925, has had the effect, among others, of raising real wages, so that "artisans are definitely better off than in 1914 and unskilled workers have a further advantage."

It is safe to conclude that the increase of direct taxation, and especially the great development of the principle of progression, has, whether designedly or not, played a very large part in this process of reducing the incomes of the well-to-do classes. It may also be concluded that indirect taxation has had little or no effect in affecting unfavourably the national well-being or in accentuating industrial depression. Can the same be said of the effect of direct taxation ?

In many carefully balanced passages the Colwyn committee dealt with this matter ; and it would be easy to quote phrases which show appreciation of the fact that heavy direct taxation, by its action in crippling industry and creating unemployment, may be quite as disastrous to the working classes as even heavy indirect taxation. "Progressive taxation," for instance (paragraph 686 (ii)), "such as the present income-tax and death duties, cannot be carried beyond a certain point without jeopardy to saving and enterprise. Harm may be done to trade, and, if so, there will be reactions on employment and on the standard of living of the poor." The opinion was further expressed that "heavy taxation has had an appreciable effect on consumption, at least in the lower levels of income liable to super-tax," and that, with regard to the highest incomes, "little need be said as to the effect of the tax on the taxpayer's personal standards," but "the important question is the effect on his savings." . . . "The industrial aspect is vital." (Paragraphs 362 and 363.)

Such observations were certainly significant, but a stronger impression on public and Parliamentary opinion was made by the arguments of the most important official and economic authorities that income-tax, as a general rule, cannot be shifted by being passed on in higher prices and, therefore, does not enter into costs, and that the depressing effect caused on enterprise, more especially in private concerns, as distinguished from public companies, is largely "psychological" in character. Their broad conclusions were expressed as follows (Majority report, paragraph 702): "The burden of direct taxation, while we do not wish to belittle it, is less crushing than is frequently represented. It does not, with trivial exceptions, enter directly into prices, and its indirect effects are not such as substantially to affect the general price-level. It has a materially adverse effect on savings, but this does not hold good, so far as the receipts are applied to payments on account of the internal debt. Again, it has widely diffused psychological effects, and has been responsible for a good deal of discouragement, while trade has been suffering from long-drawn-out depression due to wider causes; on the other hand, some of the psychological effects have been actually beneficial. In our opinion the present taxation—even in conjunction with the loss of material wealth due to war expenditure, which lies behind the national debt—is not one of the main causes of industrial difficulty. . . . So far as taxation is concerned, we think that, if general conditions improve and times become more prosperous, the burden will be carried with comparative ease."

It is not surprising that expressions of opinion such as this, carefully qualified though they were throughout, should have been utilized by the ablest of the advanced leaders in the House of Commons and outside to justify their advocacy of increased expenditure on "social uplift." While, on the one hand, it was contended that the only way to stimulate industry was to increase the purchasing power of the working people, even if presumably this purchasing power were increased by contributions from the Exchequer irrespective of any increase in productive capacity ; on the other hand, arguments drawn from the reading or misreading of the Colwyn committee report were used to cover an interpretation of the economic expression " equality of sacrifice " which ignored all considerations of practical expediency, and were used to excuse resort to an unlimited extent to direct taxation. It was often assumed as necessarily true that indirect taxation was always taxation of the poor, and direct taxation of the rich ; income-tax did not constitute a burden on industry because when no profit was made no tax was levied, and a large proportion of the tax revenue, corresponding to the interest of the internal debt, was mainly in the nature of redistribution of income, and the direct taxpayer was getting back out of the national expenditure not far short of what he paid in taxation. The publication of the report did in fact give a certain impulse to that " devotion to the formal logic of public finance without reference to realities," which, as one of their critics remarked, was characteristic of the Labour administration and its supporters ; and it had some considerable influence in weakening the opposition to methods of taxation which many were beginning to fear were being carried to a dangerous extreme.

The " legitimate hope," however, on which the comparatively optimistic analysis of the Colwyn committee was founded has not been realized, and no solution of the abnormal economic conditions affecting the whole world is yet in sight. It can hardly, therefore, be disputed that if their report had been published to-day an altogether different emphasis would have been laid by the committee on results of heavy direct taxation. This impression is confirmed by Lord Snowden's most recent observations on a high income-tax in the House of Lords (June 29th, 1932) when he strongly emphasized its bad psychological effect. "It discourages enterprise," he said, "it makes people, if I may so put it, lose their pluck. It makes them feel 'what is the use of going on,' and that is a practical fact that cannot be ignored. Moreover it reduces the sum available for saving. . . ." Mr. W. H. Coates, one of the most important witnesses before the committee and both an economic and practical expert, takes a similar line in the paper above referred to (p. 458). While maintaining the view that income-tax does not enter into costs, he asserts, "with equal conviction, the view that excessive direct taxation has an unmeasurable but very marked psychological effect, not only upon the investor, but also upon those who direct the enterprises in which his investments lie." He traces with convincing force the various ways in which, through the reactions which it sets up in the economic order, taxation of this kind carried to excess tends to defeat itself, and hints that "a dispassionate judgment of the burden of our present taxation, particularly of direct taxation in relation to the shrunken national income, suggests that except for a limited period it will endanger our whole economic structure."

We may now refer to an interesting analysis of the distribution of the tax among different classes of income-tax-payers taken from Mr. Coates' paper. Fixed budgetary charges upon a falling income are serious enough, but when additional taxation such as that imposed by Mr. Snowden's budgets of April, 1930, and September, 1931, was required, the breaking point was not far away.

Out of a net produce of the tax estimated by him at £274 million (£54 million of which was accounted for in undistributed profits) there would be :

508,000 taxpayers with incomes from £500 to £1,000 paying £44 million ;
169,000 taxpayers with incomes from £1,000 to £2,000 paying £42 million ;
85,000 taxpayers with incomes over £2,000 paying £107½ million.

But upon this last class falls also the whole of the surtax £76 million, and in addition the bulk of the death duties which Mr. Coates took at £69 million for 1932, so that in sum the State will take in direct taxes no less than *£253 million* from a class of taxpayers whose income is estimated at £467 million. Local taxation and many other charges, including some part of £42½ million per annum, the amount of the contribution of the employers to the compulsory insurance schemes, it may be observed, still further diminish the income of the class from which in the past the bulk of the national saving was derived.

Figures such as these or tables showing the weight and growth of our taxation such as are to be found in this volume may be eloquent enough, but it was only when disclosures, such as those of the Macmillan and May committees, of weaknesses in the monetary position and of great prospective budget deficits, combined with other influences to produce all the symptoms of a flight from the currency, that the danger of inflated and unbalanced Government expenditure began to be fully realized even in Parliamentary circles. It would, of course, be entirely misleading to ignore the causes other than taxation which contributed to the crisis. First among these was the fall in the gold prices of wholesale commodities or the rise in the value of all money and currencies based on gold, which has worked havoc in the relations between debtor and creditor, and been the main factor in the world economic crisis. In this country, which failed to lower nominal wage rates and salaries and other costs of production in conformity with the rising value of money, but instead followed a policy of deflation in order to maintain the gold parity of the pound sterling, the result was to place at a disadvantage all those industries which were subject to foreign competition, to create unemployment, to diminish exports and increase imports and unfavourably affect the balance of trade. So great a strain was thus placed on the economic structure that when, owing largely to the revelation to the world of budgetary and unemployment difficulties, the withdrawal of foreign balances took place in August, 1931, a breakdown was caused which drove the country off the gold standard. Over-taxation, therefore, was not the primary cause of the country's economic troubles, nor can recovery be expected without a radical amendment in the monetary situation.

That a close connection, however, exists between budget embarrassments and an adverse balance of trade and currency failure was demonstrated not only by this crisis but by others. An earlier example had been the flight from the franc in the summer of 1926 which was arrested by the same measures as those taken in this country, namely, an honest attempt to balance the national accounts. But in France recovery was assisted by the stabilization of the greatly devalued franc, which gave a powerful stimulus to her foreign trade ; whereas here, notwithstanding a limited measure of devaluation and economy, the main remedy sought to be applied was further taxation, which in the end may aggravate the evil.

Those who have in mind the manner in which this country has so far contrived to meet the immense and increasing burden imposed upon it during and since the war will hesitate to dogmatize on the question whether taxation can be maintained indefinitely at its present level. Nor can the existence of a powerful body of theoretical and political opinion which continues to favour high and even increased direct taxation, and welcomes the social implications involved, be ignored in this connection. Those on the other hand who dread the further encroachment of State action on the domain of industry and finance and who hold that the well-being of the community depends on the maintenance in private hands of the present highly developed organization of capital and credit take the view very definitely that taxation has already passed the bounds of safety. The remarkable response of the income-tax payers in the winter of 1931-32 to the call upon them necessitated by the crisis is considered by some to have thrown doubt upon this view. But the unanimous opinion of the practical world of business and finance, so far as it can be ascertained, is to the effect that this result was due rather to the high efficiency of the administrative machinery and to the goodwill and patriotism of the taxpayer rather than to his ability. They tell us that in order to meet the demands of the Exchequer the public has been driven to expedients which must progressively impair the national taxable capacity; that as the margin between income and normal expenditure decreases, saving is restricted, and normal expenditure either on commodities or services, or both, has been reduced with inevitable and apparent consequences both to profits and employment; and that extensive resort has been had, not only to anticipating income by borrowing from the banks for taxation requirements, but also to meeting such requirements by the sale of securities. Income-tax and surtax, in short, have been largely paid out of capital.

It is, of course, argued that in so far as heavy taxation is levied for social services the aggregate expenditure of the people is not reduced, and that purchasing power is merely transferred from one class to another. How such a transference from the "rich" to the "poor" through the engine of taxation affects the national income depends on whether it increases production or the reverse, and this again depends, not only on how the "will to work" may be affected by spending power thus acquired, but also on the balance of advantage between encouragement to the staple industries from increased spending on primary commodities by the "poor" and decreased saving and decreased spending on luxuries by the "rich." But from the narrower point of view with which we are concerned it may be observed that, however unfortunate the inequality of fortunes in this country may be, it has provided immense and easily-tapped resources of which the Exchequer has freely availed itself by means of the progressive taxation of the wealthier classes, and that the more these resources are impaired, whether by industria depression or by excessive taxation, the more difficult it will be to raise the necessary revenue in the future. If indeed the conditions which led to, and permitted, a rapid accumulation of wealth in the nineteenth century have passed away and we are tending in the direction of a far greater equality and a far more stationary condition of wealth, then, as Lord Eustace Percy suggested in a recent debate, we may "have to finance our social services, if we finance them at all, not by taxing the vast accumulation of wealth but by the co-operative effort of hundreds of thousands of people with small incomes."

Similar considerations apply to a question of supreme importance to industry, namely, that of the effect of high taxation on the national savings. It is true that owing to the development of public companies and State enterprise the savings of individuals are no longer so important as in the last century, when saving was practically a monopoly in the hands of the wealthier classes. The members who signed the Colwyn Minority report stated the theoretical considerations in favour of the view that "existing direct taxation distributed over existing Government expenditure is not seriously prejudicial to our aggregate capacity to save, and that existing taxation as a whole is even less so" (paragraph 133). They admit, however (paragraph 118), that while the incentive to save is not impaired by taxation, the individual's margin for saving is limited by it; and they quote Mr. Gordon Selfridge to the effect that though the existing taxes may not prevent the individual or company from "trying to save" they have of course "a very serious effect on the result of that effort." It has often been pointed out that, from the point of view of saving, the diminution of the large incomes is not compensated for by any increase in the number of small incomes, and that the redistribution of incomes which has taken place has, therefore, been unfavourable to the maintenance of the national saving by individuals. The conclusion on the whole subject reached by the Colwyn committee (Majority report), after exhaustive expert inquiry, was that increased "direct taxes have contributed appreciably to a *pro rata* decline in saving—not startling, but very substantial—below the pre-war amount." The deficiency was put at "as much as £150 million to £200 million in present money values." No similar inquiry has been made since, but there is no reason to doubt that national savings must have shrunk materially since that date.

A shortage of capital which is the inevitable result of continued shrinkage in savings would be the more serious because, with the development of productive processes the capital equipment required is increasing, and the average amount of capital per worker is growing. Capital is required to cover wastage and obsolescence of assets, and to provide factories, plant and machinery of the newest improved type, and it is also needed for the investment abroad upon which our export trade so largely depends and for the development of the Dominions. The danger of a shortage in the supply of capital which will be required whenever a revival of business should occur, is a matter of great concern, for such a shortage would show itself in a high and rising general rate of interest which must restrict enterprise and react unfavourably on the earnings of labour. The most important proportion of savings in these days is derived from profits not distributed by companies and private traders but held in reserve for investment in their own business—a proportion which may be as high as 30 per cent. to 40 per cent. of the whole —and from this point of view the discussions which took place on the 1930 budget on the taxation of reserves and on the income-tax allowances for the wear and tear of plant and machinery are of special interest. Lord Snowden, who resisted all amendments on these subjects which would reduce the yield of his additional taxation, has since, in the House of Lords, expressed the opinion that a high income-tax reduces the sums available for the saving which is necessary to replenish our diminished capital resources, and that it is particularly harmful in the case of the taxation of company reserves. "I have always," he observed, "held the view, and often expressed it in another place, that, if the finances of the country permitted, something ought to be done to deal with the undoubted hardship which is inflicted upon companies by the taxation of the sums which they place to reserve." In his budget of September, 1931, it will be remembered, he made special arrangements to compensate industry for the extra burden which would otherwise have fallen on it in consequence of the increase in the standard rate of income-tax by increasing the allowance for depreciation of plant and machinery, and for obsolescence, and held out hopes that a more liberal view would be taken of this particular matter in the future. Sir Austen Chamberlain was quoted in the budget discussion on this subject in 1930 as having stated that £195 millions were provided every year by companies out of income for reserves upon which, at 4s. in the £, £40 million was taken by income-tax, and Sir Robert Horne, writing in *The Times* of January 28th, 1931, stated that "within the last twelve years the Inland Revenue had collected in the shape of income-tax from the public companies of this country approximately £600 million out of monies put to reserve." It should be noted that these reserves are taxed only at the standard rate, and are not affected by surtax.

To the extent to which the country has not only failed to add to its savings but may have been living on its capital a shortage will be severely felt when a revival of trade occurs, and there is, therefore, no direction in which relief from income-tax is more essential than in the matter of the taxation of reserves and the insufficient provision for wastage and obsolescence of assets.

In no great modern state has direct taxation stood at so high a level for a long period as in Great Britain. Apart from the other considerations which have been discussed in the foregoing pages, such as the effect of high direct taxation upon industry and savings, it is an obvious danger that the rates of the income-tax and other direct taxes should be already so high as to make their increase in cases of special emergency a matter of immense difficulty. In the sense that the yield of the direct taxes has so far been well maintained and that the immense revenues derived from them, owing to the severe application of the principle of progression, have enabled unexampled demands, not only for the National Debt but for other national services, to be met, these taxes have triumphantly survived the test of the war and post-war years. It is no doubt to the advantage of the community as a whole that glaring inequalities of fortune should have been to some extent corrected, in spite of the hardship to individuals and the social revolution in the agricultural areas of the country, not always beneficial to the poorer classes, which accompany the process. But whether the demands of the Exchequer upon the incomes, and, above all, upon the accumulated wealth of the taxpayer, which have certainly done something to check savings and the growth of the national income, may not already be diminishing that income so as to cripple the revenue drawn from it is a question which may demand attention in some future budget, and even necessitate a revision of the whole system of direct taxation with a view to its reduction and readjustment.

CHAPTER III.

CUSTOMS AND EXCISE.

THE upheaval of the Great War left its mark upon the general structure of British public finance. For some years Customs and Excise, although increasing in actual yield, had been producing a steadily decreasing proportion of the total tax revenue. This proportion, which owing to the increasing importance of Inland Revenue had fallen by 1913-14 to 46 per cent., fell precipitately during the war until 1918 when a reversal set in. But the upward movement had spent itself by 1921-22, the first year of our present period, when, largely owing to the huge shrinkage in the yield from the excess profits duty, the proportion of the total tax revenue derived from Customs and Excise rose to 38 per cent. Then for some years it fluctuated round a somewhat lower level, and in 1931-32, in spite of many new duties and the beginning of a protectionist régime, it amounted to only 35 per cent. The fuller development of the protectionist movement will considerably increase the revenue importance of indirect taxation but it is unlikely that Customs and Excise will regain their pre-war importance relative to Inland Revenue, and still more improbable that the fifty-fifty relation of direct and indirect taxation, extolled by Mr. Gladstone and still occasionally advocated by Parliamentary speakers, will ever be attained.

Wages and prices—two important factors affecting the yield and burden [1] of indirect taxation—have undergone considerable changes during recent years. In 1920-21, the cost of living index figure, on a basis of 100 in 1914,

[1] Cf. Table IV.

averaged 255, falling the next year to 208 and the following year to 179. Changes were then less rapid, but the average yearly figure showed an almost continuous fall until in 1931-32 the relatively low level of 146 was reached. The general movements of wages are less easy to measure, but it may be broadly stated that the average nominal earnings of all manual workers in the United Kingdom for a normal week, which in 1924 showed an increase of about 95 per cent. over the 1914 level, has since fallen by about 5 per cent. But, allowing for the lower cost of living, the real earnings of a wage-earner fortunate enough to be employed for a normal week still show a very material increase over 1914, and even when allowance has been made for the appalling increase in unemployment, it is probable that the wage-earning classes as a whole, employed and unemployed, have substantially increased their total real earnings. Furthermore, their purchasing power has been augmented by the vastly increased expenditure on social services, such as pensions and insurance, to which the Government and employers contribute, and in other directions, including poor relief which rose in England and Wales alone from £15 million in 1913 to £40½ million in 1930.

The relative importance of Customs and Excise during our period may be traced in the following table, which shows the results of the final budgets of Mr. Austen Chamberlain and Sir Robert Horne under the Lloyd George Coalition, the Conservative budget of Mr. Baldwin, the first Labour budget of Mr. Snowden, the fifth Conservative budget of Mr. Winston Churchill, and, finally, figures for the year 1931-32 resulting in the main from Mr. Snowden's last two budgets although the new tariff experiments had already begun to yield some revenue. It will be seen that the political changes from 1920 onwards had so far had surprisingly little effect upon the broad financial structure, the percentage of total revenue obtained from Customs and Excise varying only slightly, while the percentage obtained from Inland

Revenue (if we include the excess profits duty) varied even less.

The table shows the result of the respective budgets, so far, at least, as it is reflected in the current year's revenue (Exchequer receipts to nearest £ million) from (1) Customs and Excise; (2) Motor vehicle duties; (3) Inland Revenue (excluding Excess profits duty up to 1924-25 inclusive); and (4) Excess profits duty, as percentages of the total tax revenue.

			The last financial year budgeted for by:					
		Pre-war.	Mr. Austen Chamberlain.	Sir Robert Horne.	Mr. Baldwin.	Mr. Snowden [1]	Mr. Winston Churchill	Mr. Snowden
		1913-14	1920-1	1922-23 [2]	1923-24 [2]	1924-25 [2]	1929-30 [2] [3]	1931-32 [2] [3]
Customs and Excise.	Receipts -	£75 m.	£334 m.	£280 m.	£268 m.	£234 m.	£247 m.	£256 m.
	Percentage of total	46%	32%	36%	37%	34%	36%	35%
Motor Vehicle Duties.	Receipts -		£7 m.	£12 m.	£15 m.	£16 m.	£27 m.	£27 m.
	Percentage of total		1%	2%	2%	2%	4%	4%
Inland Revenue (except E.P.D.)	Receipts -	£88 m.	£472 m.	£480 m.	£435 m.	£438 m.	£402 m.	£449 m.
	Percentage of total	54%	46%	62%	61%	63%	59%	61%
Excess Profits Duty.	Receipts -		£219 m.	£2 m.	*nil*	£1 m.	Included under Inland Revenue.	
	Percentage of total		21%	-%		-%		
Total	Receipts	£163 m.	£1032m.	£775 m.	£718 m.	£690 m.	£677 m.	£733 m.
	Percentage	100%	100%	100%	100%	100%	100%	100%

Such figures, of course, show only the bare outline of the financial structure, and may, and in fact do, mask internal changes of considerable importance. Some of these may be traced in the following table which, giving a bird's-eye view of Customs and Excise during the same period, shows the changing relative importance of the various

[1] Mr. Snowden's first Chancellorship.

[2] Great Britain and Northern Ireland (reserved taxes) only.

[3] The 1929-30 and 1931-32 figures include the portion of motor vehicle duties shown as self-balancing.

duties classified under six heads. The table shows the net receipts (to nearest £ million) derived from (1) pre-war liquor and tobacco duties; (2) pre-war "breakfast table" duties; (3) miscellaneous pre-war duties; (4) new duties introduced during the war; (5) new post-war duties; and (6) remaining items of insufficient importance to be separately classified, as a percentage of the total Customs and Excise revenue. (For details, see pp. 572-3.)

CUSTOMS AND EXCISE DUTIES.

		Pre-war.	The last financial year budgeted for by: Mr. Austen Chamberlain.	Sir Robert Horne.	Mr. Baldwin.	Mr. Snowden [1]	Mr Winston Churchill	Mr. Snowden
		1913-14	1920-21	1922-23[2]	1923-24[2]	1924-25[2]	1929-30[2]	1931-32[2]
Pre-war Liquor and Tobacco Duties.	Netreceipts	£62 m.	£257 m.	£212 m.	£195 m.	£193 m.	£192 m.	£182 m.
	Percentage of total	82%	77%	75%	73%	82%	77%	71%
Pre-war "Breakfast Table" Duties.	Netreceipts	£11 m.	£50 m.	£52 m.	£52 m.	£28 m.	£15 m.	£18 m.
	Percentage of total	14%	15%	18%	19%	12%	6%	7%
Miscellaneous Pre-war Duties.	Netreceipts	£3 m.	£5 m.	£2 m.	£2 m.	£2 m.	£2 m.	£2 m.
	Percentage of total	4%	2%	1%	1%	1%	1%	1%
New War Duties.	Netreceipts	*nil*	£22 m.	£16 m.	£16 m.	£10 m.	£15 m.	£14 m.
	Percentage of total		6%	6%	6%	4%	6%	6%
New Post-war Duties.	Netreceipts	*nil*	*nil*	£1 m.	£1 m.	£ – m.	£24 m.	£39 m.
	Percentage of total			–%	–%	–%	10%	15%
Remaining Items.	Netreceipts	£ – m.	£ – m.	£ – m.	£2 m.	£1 m.	£ – m.	£1 m.
	Percentage of total	–%	–%	–%	1%	–%	–%	–%
Total - -	Netreceipts	£75 m.	£334 m.	£283 m.	£268 m.	£235 m.	£248 m.	£256 m.
	Percentage	100%	100%	100%	100%	100%	100%	100%

It is clear that the duties on alcoholic liquors and tobacco, providing 71 per cent. of the total Customs and Excise revenue in 1931-32, are still, as they were in pre-

[1] Mr. Snowden's first Chancellorship.

[2] Great Britain and Northern Ireland (reserved taxes) only.

war days, the mainstay of the indirect tax system. On the other hand, the "breakfast table" duties, which provided 14 per cent. in 1913-14, have considerably less revenue importance than formerly. The 1920-21 figure of 15 per cent. was unduly low on account of the world shortage of sugar, and the yield subsequently recovered until Mr. Snowden's first Labour budget reduced it very considerably, but, strangely enough, it fell to Mr. Churchill, a Conservative Chancellor, to abolish the tea duty and, with other changes, to reduce the yield of the "breakfast table" duties to the lowest relative level ever reached. Their higher percentage yield in 1931-32 was largely due to forestalling and other temporary factors rather than to any permanent change, but the net effect of the 1932 budget changes will doubtless be more than sufficient to maintain the yield of these duties at this level.

In 1913-14, the liquor and tobacco duties, together with the "breakfast table" duties, provided 96 per cent. of the total Customs and Excise revenue, almost the whole of the remaining 4 per cent. coming from motor spirit, licences other than liquor, the railway passenger duty, and the patent medicine stamp duty, classified in the table under the head of miscellaneous pre-war duties. These duties in time became even less important, the motor spirit duty (although reappearing later in another guise) and the railway passenger duty being repealed, while in 1921 the motor vehicle duties, which had yielded a large part of the "other licences" revenue, appeared in the budget as an independent item, so that by 1931-32, the miscellaneous pre-war duties, now consisting of only the remaining non-liquor licences and the patent medicine duty, yielded little more than £1½ million, less than one per cent. of the Customs and Excise revenue.

The war duties (on table waters, on matches, and on entertainments, and the McKenna duties) have been very consistent, yielding 6 per cent. throughout the table, except in Mr. Snowden's first year at the Treasury when, with his amendment of the entertainments duty, the partial repeal of the table waters duty, and the lapse of the McKenna duties, the yield fell to 4 per cent. But with the subsequent reimposition and extension of the McKenna duties by Mr. Churchill, coupled with other factors, the group of war duties as a whole have managed to regain and maintain their former revenue importance.

New post-war duties, whatever their protective effect, were of little revenue importance until Mr. Winston Churchill's appearance on the scene, and his ingenuity in discovering new sources of indirect tax revenue is reflected in the figure of 10 per cent. for 1929-30. The still more substantial figure of 15 per cent. for the post-war duties in 1931-32 was largely due to Mr. Snowden's increase of the hydrocarbon oil duty, although the " New Import Duties " (abnormal importation, horticultural products, and general *ad valorem* duties) imposed after he had left the Treasury accounted for £2 million of the additional revenue.

Glancing at the duties in detail (see Table XIV) one sees that the spirits duty, which formerly headed the list, had by the end of our present period sunk to third place and is even being challenged by the new duty on hydrocarbon oils. The *per capita* consumption of spirits, which in 1913-14 was 0·71 proof gallons for the United Kingdom, and 1·45 proof gallons for Scotland alone, had fallen by 1920-21 to 0·43 and 0·87 proof gallons respectively. Ten years later, the figure for Great Britain and Northern Ireland (the absence of Southern Ireland did not affect the *per capita* figure very much) had fallen to the low level of 0·25, and that for Scotland alone to 0·44 proof gallons. Such an astounding fall in consumption—approximately two-thirds in seventeen years—is partially due to a change in habits, to restrictions on consumption, and to the economic depression, but a good deal of it is no doubt directly attributable to the very heavy increase in the duty, the last increase, in 1920, raising the duty to nearly five times the nominal pre-war level. Since that year, the burden of this, like that of every specific duty has increased with the fall in the price level.

The beer duty has, since 1919-20, been the most productive of the indirect taxes; in 1920-21, it provided as much as 37 per cent. of the total Customs and Excise revenue, and in 1931-32, in spite of a heavy fall in consumption, still yielded nearly 30 per cent. Annual consumption per head, which in 1913 was 27·82 standard gallons, was 18·56 in 1921, and had fallen by 1930 to 15·65 standard gallons. The consumption of beer, although like that of spirits affected by other factors, was very substantially affected by the war and early post-war increases which raised the rate of duty to nearly thirteen times its pre-war level, and by the subsequent changes. The introduction in 1923 of the rebate of £1 per bulk barrel with the resulting reduction in price gave a temporary fillip to consumption, but owing to industrial troubles consumption fell in 1926-27. A year or two later, it recovered slightly, but in 1930-31, when the duty was increased by 3s. a barrel, consumption fell by 5 per cent., not because of the increase in the duty which was too small to affect retail prices very materially, but rather because of the trade depression and unfavourable weather. Beer was one of the well-tried revenue producers chosen by Mr. Snowden in September, 1931, to assist him in balancing the budget, the main duty being increased by £1 11s. 0d. per standard barrel, which represented an increase of a penny a pint on beer of average gravity. But although a substantial decline in consumption was anticipated, this was in the event actually exceeded, with the result that instead of an increase in revenue of £4½ million, only £3¼ million was produced. The point of decreasing returns, under existing conditions, was being approached.

Tobacco, in recent years, has been almost like the widow's cruse of oil to hard-pressed Chancellors. In spite of unemployment and hard times generally, and in the face of increases in the duty, smokers seem willing to contribute more and more to the Exchequer. Tobacco is apparently one of the last things to be sacrificed. Consumption, in fact, far from falling, continuously and substantially increased for many years up to the last financial year. In addition to various adjustments in the preferential rates on Empire tobacco, the full rates of duty have been altered on two occasions during our period. The main rate of 8s. 2d., dating from 1919, was raised by Mr. Churchill in 1927 to 8s. 10d., and was further raised to 9s. 6d. in September, 1931, by Mr. Snowden. This last increase seems to have checked consumption somewhat, but to a less degree than would appear from the receipts for 1931-32 which were reduced by heavy forestalments in the previous year.

Among the " breakfast table " duties, the two principal revenue producers, the tea and sugar duties, have been subjected to considerable changes in recent years. The duty on tea was reduced in 1922 from 1s. to 8d. per lb. by Sir Robert Horne, and to 4d. by Mr. Snowden in 1924. Then, in 1929, Mr. Churchill decided that the duty, from many points of view the least objectionable of the " breakfast table " duties, should be repealed, but its disappearance from the tariff was destined to be short, for in 1932, Mr. Neville Chamberlain, seeking new sources of revenue, decided to reimpose it. The sugar duty has undergone more varied changes, for the sugar industry has for many years been the peculiar plaything of the British, as of many other governments. The main pre-war Customs duty of 1s. 10d. per cwt. was increased during the war by steps until in 1918 it reached the high figure of 25s. 8d., at which it stood until 1924, when Mr. Snowden reduced it to 11s. 8d. The preferential rebate fell automatically with the duty, but in 1925 it was restored to its former level and stabilized by Mr. Churchill, who, three years later, reduced and amended the duty scale in a way favourable to the home refiner. The Customs duty on fully refined sugar remained unchanged, so with the reduction on raw sugar, British refiners ceased to manufacture in bonded warehouses where duty was payable on their products, and henceforward worked with duty-paid raw sugar. The statistics of previous years' deliveries of sugar and molasses are not, therefore, comparable with those for subsequent years. In 1932, interesting changes which are described in detail elsewhere were made in the preferential and Excise sugar duties.

Of the new war and post-war duties, three were to be found among the seven most productive Customs and Excise duties in 1931-32, the hydrocarbon oils duty taking fourth place, the entertainments duty sixth and the silk duties seventh. The duty on hydrocarbon oils, which rose Phœnix-like from the ashes of the motor spirit duty, was imposed in 1928 by Mr. Churchill at the rate of 4d. per gallon. In April, 1931, Mr. Snowden increased it to 6d., and in his supplementary budget five months later, increased it by a further 2d., but consumption was relatively inelastic, the yield of the duty for 1931-32 being over £29 millions or almost twice that of the previous year. The entertainments duty is much less productive. In 1921-22, it yielded £11½ million, but after the introduction of additional exemptions and, in 1924, the important concessions of Mr. Snowden, the yield fluctuated for some years round about the £6 million line, and then showed some signs of a definite rise. In September, 1931, Mr. Snowden stiffened the scale and withdrew the exemption of the cheaper seats—changes he subsequently modified—with the result that the yield for 1931-32 was over £7¾ million, the highest figure since 1923-24. The duties on silk and artificial silk, apart from minor alterations, had an uneventful career from their introduction by Mr. Churchill in his first budget until 1932, and their yield slowly but steadily increased until, in 1931-32, it amounted to over £6¾ million.

The period under review has seen a fundamental change in the British tariff, which as late as 1920 might still be regarded as one "for revenue only." The relapse of this country into Protection really began with the Safeguarding of Industry Act of 1921. The McKenna duties admittedly had a protective effect, but although this may have been largely responsible for their continuance in later years, it was not the avowed, nor by any means the sole reason for their original imposition in 1915. On the other hand, the Safeguarding of Industries Act of 1921 was definitely and avowedly protective. It provided for three duties, firstly, the key industry duty to protect and foster certain so-called key industries ; secondly, a duty of 33⅓ per cent. *ad valorem* on imports sold, on account of currency depreciation, at prices below the cost of production here ; and, finally, a duty aimed against " ordinary " dumping, that is, the sale here of foreign goods below the cost of production in the country of origin.

The key industry duty, imposed on goods specifically scheduled in the Act, was to be in force for five years, a period, in the words of Mr. Baldwin, long enough for any industry to prove that when it was not having special financial assistance, it could so solidify its position as to be able to stand and flourish in free competition. But when the five years expired, Mr. Baldwin's government deemed it necessary to extend the duty and renew it for a further ten years.

The duties designed to prevent (*a*) exchange dumping and (*b*) ordinary dumping were only leviable after certain conditions had been fulfilled, including a favourable report from a specially appointed committee. One or two industries petitioned for " ordinary dumping " duties, but none was imposed and in 1930 the provisions for protecting British industries against ordinary dumping were repealed. On the other hand, depreciated currency duties were imposed on several commodities but only when of German origin. These were allowed to lapse in 1924 by the Labour Government who meted out similar treatment to the McKenna duties.

In the following year, however, the Conservatives, returned to power, reimposed the McKenna duties and reintroduced " safeguarding," but adopted a new procedure. A White Paper (Cmd. 2327) was issued announcing that any safeguarding duties imposed would be for a period limited and prescribed in a Finance Bill, following certain detailed procedure including a favourable report, made by a specially appointed committee and then approved by the Board of Trade and the Treasury. Under the new procedure, safeguarding duties, to be in force for five years (but in many cases allowed to lapse during the Labour party's second term of office), were imposed in successive years on lace and embroidery, cutlery, gloves and incandescent mantles, packing and wrapping paper, translucent and vitrified pottery, buttons and hollow-ware.

But if this was Protection, it was only partial and surreptitious. The Conservatives admittedly had no mandate for Protection and insisted on the difference between Protection and what they termed "Safeguarding." The accentuation of nationalistic sentiment by the war had apparently been insufficient to carry this country the whole of the way towards Protection. But what the Great War failed to do, the economic, financial and political crisis of 1931 brought about.

This crisis produced many kaleidoscopic changes. Mr. Ramsay MacDonald, one day head of the second Labour Government, the next day deserted by most of his followers and head of a Coalition Government, carried on for two eventful months which saw an emergency budget and the suspension of the gold standard, and then appealed to the country for a "free hand." Mr. Lloyd George came forth as an uncompromising defender of free trade, advising Liberals to vote against all MacDonaldites of whatever colour, and after the election, which took place on October 27th, 1931, found himself in the House with but one or two supporters. The Labour Opposition almost disappeared, all the former Labour Cabinet Ministers who had declined to join the National Government being defeated with the exception of Mr. Lansbury, who now had the task in the new House of leading a party of about fifty against an overwhelming host, under Mr. MacDonald's leadership, of 472 Conservatives, 35 "Simon" Liberals, 33 "Samuel" Liberals, and 13 National Labourites.

With the nation fearful of the future, and now particularly apprehensive of an unfavourable balance of trade, it was clear to the most casual observer that this election at once sealed the fate of free trade. Mr. Snowden, at one time perhaps one of the most extreme free-traders in the House, went to the Lords, and was followed at the Exchequer by Mr. Neville Chamberlain, a whole-hearted advocate of protection and Imperial preference. Another key position in the new Government, that at the Board of Trade, was given to Mr. Runciman, a prominent free-trader but one willing to review his principles in the light of the changing conditions of the times. Upon these two ministers fell the main responsibility for carrying into effect the new and epoch-making tariff policy of the Government.

Effective steps having, as we have seen, been taken by the first short-lived National Government to balance the budget, it became the immediate object of the new administration to deal with what Mr. Runciman had described on September 10th as the "terrible risks inseparable from the existing adverse balance of trade." On that occasion he had suggested that the only satisfactory solution was the absolute prohibition of the importation of luxuries, but he now considered a resort to tariffs a more practicable method of meeting an emergency which was becoming increasingly serious, as foreign goods were being rushed into the country in anticipation of the introduction of a permanent tariff.

The Abnormal Importations (Customs Duties) Act was accordingly passed rapidly through all its stages in Parliament (November 17th to 20th), giving power to the Board of Trade, when satisfied that articles of any class or description comprised in Class III. (manufactured and mainly manufactured) of the Import and Export List were "being imported into the United Kingdom in abnormal quantities," to make Orders, to be subsequently approved by the House of Commons, imposing on any such articles duties not exceeding 100 per cent. *ad valorem* (in addition to any other Customs duties already chargeable). The duration of the Act was limited to six months, and Empire products were excluded from its provisions.

Three Orders were issued under the Act, No. 1 on November 20th, the day the Bill received the Royal Assent, No. 2 ten days later, and No. 3 on December 17th, and they were all revoked by an Order dated April 19th, 1932. Under them a duty of 50 per cent. *ad valorem* was imposed on a great number of articles. In order to give some idea of the scope and importance of the Act, it may be stated that, taking the 1930 statistics as a basis, the total value of the Class III. (manufactured or mainly manufactured) goods imported in a full year was £307 million, and of these, goods to the value of £75 million, say 25 per cent., were already subject to Customs duties before the passing of the new Act. After the last of the three Orders under the Act had been promulgated, Mr. Hore Belisha, the Parliamentary Secretary to the Board of Trade, stated that "40 per cent. of the goods falling within Class III." were liable either to the new abnormal importations duties or to Customs duties under some previous statute. He claimed that the new duties had done what was intended—they had checked the forestalling of any formal tariff which the House might decide to set up, and, in addition, had provided a controlled experiment in the restriction of imports. In moving on February 3rd that Order No. 3 be approved, he claimed that "we had actually saved from the market £5,236,000 worth of sterling which represented the reduction in the importation of articles included in the Orders," while exports, contrary to the forecasts of certain critics, had increased rather than decreased.

The Horticultural Products (Emergency Customs Duties) Act, which became law on December 11th, 1931, and was to remain in force for twelve months, was in some respects similar to the Abnormal Importations Act. It provided that the Minister of Agriculture, if he considered it desirable so to do, might, with the concurrence of the

Treasury, issue Orders to be subsequently approved by the House of Commons, imposing duties on any of the fresh fruits, fresh vegetables, and flowers, etc., set out in the schedule to this Act. The duties might be on either a specific or an *ad valorem* basis, but in neither case were they to exceed 100 per cent. of the value of the articles ; Empire products were to be exempt. In moving the second reading of the Bill, Sir John Gilmour, the Minister of Agriculture, said it was designed to reduce the importation of these commodities the production of which could be increased in the United Kingdom or which could properly be regarded as articles of luxury, but the object was, he declared, somewhat different from that of the Abnormal Importations (Customs Duties) Act " which was designed to enable immediate action to be taken to deal with an exceptional situation which had arisen." The Opposition denounced the Bill on the ground that it could be of no real advantage to the British farmer or the agricultural worker and could not improve the economic position of the country, but would hinder trade and increase the cost of living, and marked the first step in the taxation of food.

The first Order was issued on December 24th, and was soon followed by others, imposing (within the statutory maximum of 100 per cent. of the wholesale price prevailing at the corresponding period in the previous year) specific duties varying with the classes of products taxed and, in many cases, according to the period of the year. The duty on asparagus, for example, was to be 1s. per pound from January 5th to February 29th, but from March 1st to May 31st it was to be charged at only 4d. per pound.

Such were the preliminaries to the introduction of a permanent tariff system, both for revenue and protection, which was the most notable event of the closing financial year. Never was so momentous a change proposed in a more staid and sober manner than in the speech delivered by Mr. Neville Chamberlain on February 4th, 1932, although the passage at its close, in which he refers with modest eloquence to the privilege which had been vouchsafed to him of setting the seal on the work which his distinguished father had begun but had perforce to leave unfinished, was memorable and impressive. Mr. Chamberlain, summarizing the reasons for the Bill, said, "We desire to correct the balance of payments by diminishing our imports and stimulating our exports . . . to fortify the finances of the country by raising fresh revenue by methods which will put no undue strain upon any section of the community . . . to effect an insurance against a rise in the cost of living which might easily follow upon an unchecked depreciation of our currency . . . (and finally) by a system of moderate protection, scientifically adapted to the needs of industry and agriculture, to transfer to our own factories and our own fields work which is now done elsewhere, and thereby decrease unemployment in the only satisfactory way in which it can be diminished."

The basis of the Government's proposals was a general *ad valorem* duty of 10 per cent. on all imports into this country, with the exception of those which were already subject to Customs duties, such as sugar and tobacco and the goods subject to the McKenna, safeguarding, and key industries duties, and to the abnormal importation and horticultural products duties, so long as these should continue. A free list was to be embodied in a Schedule to the Act exempting wheat in grain (which was to be dealt with by the quota system), meat (including bacon), fresh fish of British taking, raw materials of the two great textile industries (cotton and wool), and other articles.

The purpose of the general *ad valorem* duty, Mr. Chamberlain said, was two-fold : firstly, to raise a substantial contribution to the revenue, and, secondly, to put a general brake upon imports. To this duty was to be added a superstructure of additional duties on non-essential articles, either luxuries not essential to the individual, or imports non-essential in the sense that they could now, or could shortly, be produced at home in sufficient quantity. The additional duties were to be imposed on the recommendation of an independent advisory committee, an interesting proposal designed to avert the dangers of "lobbying" in the House of Commons. Neither the general tariff nor the additional duties were to become operative in the case of the Dominions, including India and Southern Rhodesia, before the conclusion of the Ottawa Conference, while the Colonies, Protectorates and Mandated Territories, whose products Mr. Chamberlain said were not of the kind which competed with our products and who in present circumstances could not be asked to make sacrifices of revenue by lowering their tariffs in our favour, were to be completely exempted from both the general and the additional tariff duties. Finally, power was to be given to the Board of Trade to impose a duty not exceeding 100 per cent. *ad valorem* on goods from any country discriminating against British goods, and, in order to facilitate negotiations for the lowering of foreign tariff barriers, power was also given to remove or lower the general or additional duties on goods from any particular country.

Mr. Chamberlain's allusion to the fact that the Cabinet were not agreed upon the measure was followed by Sir Herbert Samuel's speech in strong opposition on the same day, and by a discussion, on February 8th, on Cabinet responsibility in connection with the famous "agreement to differ." But the passage of the Import Duties Bill proceeded until it became law on February 29th, 1932, with but little sign of any widespread opposition or disagreement, nor on the other hand much unqualified assertion of a belief that tariff legislation alone could cure the evils from which the country was suffering. Perhaps the most influential defence of the measure was a speech delivered on February 9th by Mr. Runciman who asked himself, as a practical business man, not what theory appealed to his mind as most attractive, but what condition of trade, what incidence of taxation was best for British finance, industry and commerce, in these strange times, and who laid stress on the fact that the crisis, of which one indication was the fact that in 1931 we had lived on our capital to the extent of £100 million, was by no means over.

The day following that on which the Import Duties Act became law, the Government formally appointed the import duties advisory committee, which consisted of Sir George May, who had presided over the now-famous "May" committee as Chairman, Sir Sydney Chapman, and Sir Allan Powell. Their first recommendations for the imposition of additional duties and for additions to the free list, together with the resulting Orders, may be found in Cmd. 4066, Cmd. 4100, and Cmd. 4101.

Almost hand in hand with the change of sentiment and practice in connection with protection there has proceeded corresponding changes in the national outlook on Imperial preference, although the latter never apparently arouses quite the same Party cleavages. When, in 1919, Imperial preference was reintroduced, after half a century, into the British tariff, it took the form in the main of reductions of duty. The Customs duties on Empire tobacco, sugar, tea, cocoa, coffee, chicory, dutiable fruits, and motor spirit were subject to a rebate of one-sixth, the Excise duties on tobacco, chicory, and sugar, etc., being correspondingly reduced; Empire products liable to the McKenna duties were granted a rebate of one-third, while the Empire preference in the case of the various wine duties varied from one-third to one-half. Spirits were a noteworthy example of preference involving not a lower but a higher rate of duty. A reduction of the Customs duty on spirits would have involved a corresponding reduction of the Excise duty, and rather than face the serious loss of revenue entailed, it was decided that Empire preference should be secured by imposing a surtax, amounting to 2s. 6d. per proof gallon on the main rates, on non-Empire spirits.

The Safeguarding of Industries Act of 1921 which imposed the key industry duty and provided for the imposition, under certain conditions, of depreciated currency duties and dumping duties did not treat Empire products in one uniform manner. In the case of the key industry duty, Empire goods were specifically exempted from duty, which meant an Empire preference of 100 per cent. As regards the provisions for imposing depreciated currency duties, which were to apply only to goods from countries where certain conditions prevailed and which were, in fact, levied only on goods from Germany, the exclusion of Empire goods from the provisions was not of much practical importance. In the case of "ordinary dumping" the Government refused to exclude Empire goods from the provisions of the Act, but this also proved to be of little practical importance as no duties under this part of the Act were ever imposed.

Two years later came the Imperial Economic Conference where the Conservative Government tabled proposals for extending and stabilizing the system of preference, but when Mr. Baldwin went to the country with a policy including a protective tariff and extended preferences, free trade gained the day, and, as we have seen, the first British Labour Government came into power. Mr. Snowden, the new Chancellor of the Exchequer, did not interfere directly with the preferential system, but his reduction of many duties and abandonment of the McKenna duties automatically reduced or abolished the relative preferential rebates. A couple of days were subsequently devoted to discussing the Conservative party's preference proposals but, by free-voting of the House, they were ultimately rejected.

The return of the Conservatives to power was soon followed by substantial changes in the system of Imperial preference. In 1925, Mr. Churchill in his first budget replaced the existing preference of one-sixth on sugar, which with the 1924 reduction of the duty had fallen, in the case of fully refined sugar, to less than 2s. per cwt., by a specific preference of 4s. 3⅓d. (*i.e.*, the preference in force before Mr. Snowden's budget). It was to be maintained at this figure for a period of ten years, with the proviso that in the unlikely event of the full duty being reduced below 4s. 3½d., Empire sugar would be admitted free. The preferences on tobacco and wines were also substantially increased, while Empire dried fruits were granted total exemption from duty. Empire preferences of one-sixth were granted in the case of the new duties on silk and artificial silk, and preferences of one-third in the case of the newly-imposed duties on lace, embroidery and hops, and the re-imposed McKenna duties, while the Safeguarding of Industries (Customs Duties) Act of December, which imposed duties on cutlery, gloves and gas mantles, also provided for a preferential rebate of one-third.

In 1926, the policy of stabilization, applied to the sugar duties in the previous year, was now extended to all the preferential rebates. In other words, the preferential rebates were changed from a proportional to a specific basis, and they were to remain unchanged for ten years unless the full duty fell below the amount of the preferential rebate. In any such case, the Empire product was to be exempt from duty.

In the following year, the policy of stabilization did not appear to the Empire producer in quite so favourable a light, for the increase of the wine duties brought no corresponding increase in the preferential rebate, which now—on a specific basis—constituted a smaller proportion of the full duty. Empire wine, however, received a new form of preference, for the dividing line between the higher and lower rates of duty, hitherto 30 degrees for Empire and non-Empire wines alike, henceforward became 25 degrees for non-Empire and 27 degrees for Empire products. Empire wines between 27 and 30 degrees, although now subject to the higher rate of duty applicable to heavier wines, became entitled to the proportionately higher preferential reduction accorded to that class.

This year and next saw new duties on translucent pottery, buttons and hollow-ware, and in each case Empire products received a preference of one-third. The 1928 reduction of the sugar duties and their revision in favour of the home refiner was accompanied by a new privilege for the Empire producer who, while benefiting from a stabilized preferential rebate on a reduced duty, was granted a preferential step in the duty scale reminiscent of that introduced for Empire wine a year earlier.

The temporary repeal of the tea duty in 1929, followed later by the lapse of various minor duties, automatically removed the relative preferences, but the more recent changes of the tariff have been in the opposite direction and on a much larger scale, with a corresponding expansion of the preferential system. In the case of the abnormal importation duties and the horticultural products duties, Empire products were specifically exempted ; in other words, the preference was 100 per cent. The Import Duties Act of 1932, which provided for a general 10 per cent. *ad valorem* duty and additional duties, was noteworthy in that it distinguished between " Colonial preference " and preference for the Dominions, India, and Southern Rhodesia ; the Colonies were granted total exemption but, in order to give the mother country fuller bargaining power at the forthcoming Ottawa Conference, the exemption of " Dominion goods " was to continue only until November, 1932, or any later date as fixed by the House of Commons.

This differentiation between one part of the Empire and another—a new departure pregnant with possibilities and, perhaps, dangers—reappeared in the 1932 budget when Mr. Chamberlain, leaving the duties on Dominion and foreign sugars unchanged, proposed to increase for the next five years the preference on Colonial sugar by 1s. per cwt., and in addition to grant a special supplementary preference, equal to a further 1s. per cwt., on a limited quantity of Colonial sugar to be allocated by the Colonial Office among the several sugar-producing Colonies in proportion to their total sugar exports. These two additional preferences, which Sir Philip Cunliffe-Lister, Secretary of State for the Colonies, afterwards described as grants-in-aid to the sugar-producing Colonies to enable them to pay their way, were to be subject to adjustment if, during the five years, the sterling wholesale price of foreign sugar rose above 7s. 6d. per cwt.

What exact effect the existing preferential system has had on our imports it is, of course, impossible to determine, for no one can ascertain to what extent any increase in the proportion of imports from the Empire is directly due to tariff preferences or to other factors, but a comparison of the figures for 1920-21 with those for 1930-31 gives some interesting results. During this period, the percentage of our imports of spirits, raw sugar and coffee received from the Empire show on the whole no marked change. On the other hand, imports of Empire wine have increased from 6·0 to 20·6 per cent.; the Empire percentage of our raw sugar imports has increased from 22·0 to 33·3, tobacco from 3·3 to 17·5, motor cars from 4·0, after wide fluctuations, to 11·9, and dried fruits, with the exception of figs, show a very substantial increase in Empire imports. But even if the whole of these increases be credited to the existence of preferential rebates, Imperial preference cannot be regarded as having played—up to the present—a very important part in our economic life. Enthusiastic advocates of the system, however, believe that Ottawa marks the beginning of a new era in which Empire preferences will be carried to a stage at present undreamt of by the vast majority. Ottawa undoubtedly opens a new chapter in the history of Imperial preference, but what that chapter will hold only time can show.

CHAPTER IV.

THE NATIONAL DEBT, INTER-ALLIED DEBTS, AND REPARATIONS.

THE Great War of 1914-18, like most of the wars of recent times, was financed largely by loans. In our last volume, we saw that the war finance of Great Britain, riddled though it was with faults and failings, compared very favourably with that of the other belligerents, but it was clear that a far greater proportion of war expenditure could have been met by taxation without in any way reducing the nation's power or will to fight. Some go further and maintain that, even without conscripting labour, the whole of the war costs could, and should, have been covered by taxation, but whatever may be said on other grounds for such a course, expenditure on the scale entailed by the Great War could not be met entirely by taxation—at least of the types imposed at present—without grave danger of seriously weakening the nation's will to fight. The moralist may deem this desirable but the statesman, having once decided on the necessity for waging or continuing war, will and should endeavour to secure the nation's maximum fighting power, and, under existing conditions, it is clear that, in a war of any magnitude, loans must play a more or less important part.

And they played such a part in British war finance that the National Debt, which on March 31st, 1914, amounted to £650 million, was magnified twelve-fold, and after falling somewhat from the peak of December, 1919, stood on March 31st, 1920, at over £7,830 million. Since then, as the result of sinking fund and conversion operations, the total has varied considerably from year to year —sometimes in an upward, sometimes a downward direction. Conversion operations have shown little signs of reducing the debt total, or, until the great scheme of 1932, of making any substantial reduction in the interest charge. As a matter of fact, the conversion operations from 1920-21 to 1925-26, instead of making reductions, involved increases in the face value of the debt of over £280 million without, however, very substantially affecting the interest charge.

Sinking funds, although playing a less important part than they might have done, have been more effective in reducing debt. The various sinking funds in force during our period may be classified broadly under three heads : firstly, the so-called " old sinking fund " which normally is nothing more or less than the accidental excess of revenue over expenditure ; secondly, the planned sinking fund, when there is laid down for a lengthy or indefinite period the annual provision to be made for general debt redemption, the fund being cumulative like the 1875 fund, or non-cumulative like that instituted by Mr. Baldwin in 1923 ; thirdly, there are the specific sinking funds attached to certain loans and provided for in the prospectus when the loan (*e.g.*, the 3½ per cent. Conversion Loan) was issued, the primary object being not so much the redemption of debt as the maintenance of the price of the particular stock, such provision being held out to the original purchasers of the stock as an additional incentive to lend.

The first of the three types of sinking fund, the " old sinking fund," was of little importance during many of the years under review, either owing to the appearance of a budget deficit or to the provision embodied in the Finance Act of 1920, and renewed in each Finance Act until 1924 inclusive, whereby any surplus available in the Exchequer Account might be applied during the financial year to purchasing and paying off debt so that at the end of the year the surplus disappeared. In 1921-22, for example, there was a budget surplus of £45 million, but this was applied during the course of the financial year to debt redemption, and was then technically, therefore, not " old sinking fund " but was deemed to be " expenditure within the meaning of the Sinking Fund Act of 1875."

This last-named Act, which it will be remembered was due to Sir Stafford Northcote, instituted a fixed annual debt charge rising to £28 million—a figure subsequently reduced on various occasions. The fixed charge was intended to provide for debt interest and other charges, and, in addition, to provide a balance available for debt reduction which would automatically increase as debt was paid off and interest charges were thereby reduced. The balance available was known as the " new sinking fund " to distinguish it from the " old sinking fund."

Shortly after the outbreak of war in 1914, the fixed charge which had been reduced in the budget of the previous May to £23½ million was cut down further in the supplementary war-time budget by the partial suspension of the " new sinking fund." This suspension subsequently became practically complete and continued until 1920-21 when the " new sinking fund " was revived only, as we shall see, to be suspended again in 1922 and to disappear altogether in its existing form a year later. The revival in 1920 was due to Mr. Austen Chamberlain who, in that year, adopted the policy of budgeting for a very substantial surplus to be used for debt reduction. On the existing basis of taxation, he had an estimated surplus of no less than £164 million, but not content with that he called for " a further generous effort to improve our credit, and by present sacrifice, to lighten our future burden, and establish securely our national credit." By the imposition of increased tax burdens, he raised his prospective surplus available for debt reduction to £234 million, and hoped that after meeting all maturing liabilities without re-borrowing except by the continued sale of savings certificates, he would have over £70 million available for reducing the floating debt which then stood at the high level of over £1,300 million.

His hopes were almost realized; the year finished with a surplus of £230½ million, and this, augmented by the sums for debt reduction included in expenditure (*e.g.*, terminable annuities £2 million, new sinking fund £7¼ million, "specific" sinking funds £4 million, and Funding Loan and Victory Bonds tendered in payment of death duties £8 million), brought the total sum available for debt redemption up to £259½ million. The actual reduction in the debt total was somewhat lower than this, partly owing to the effect of adverse exchanges upon the repayment of foreign debt. The surplus enabled improvements to be made in the external debt which was reduced by over £100 million, and in the floating debt, ways and means advances falling by £50 million.

The following year the policy of budgeting for a heavy surplus was again adopted, but with less happy results for the surplus was only partially realized, and instead of an estimated sum of £103 million, there was only £70¾ million, including the sinking funds charged against expenditure, available for debt redemption. And in spite of this surplus, the debt total increased by £80 million, mainly owing to the issue of 3½ per cent. Conversion Loan, £266 million of which was issued during the year in return for surrendered securities of the face value of £164 million. In the 1922 budget speech, Sir Robert Horne, when dealing with the debt question, claimed that although the nominal total had been increased, the Conversion Loan had not increased the real burden, and he pointed out that, apart from the additional charge of £20 million for interest on our American debt, he had been able to reduce the estimates for debt interest and management by £17 million compared with the previous year.

The economic prospect, however, was so bad that Sir Robert proposed to make no provision for debt redemption in 1922-23, to suspend the Northcote sinking fund, and to meet the specific sinking funds and other obligations to holders of securities by re-borrowing. The Treasury prophets were so far out that in the event over £126 million was available during the year for debt redemption and was so applied. Owing, however, to further conversions which increased the face value of the debt by £135½ million and the inclusion of the arrears of interest due to the United States, the national debt, instead of falling, once again showed, as in the previous year, an increase, this time of £88 million.

In the 1923 budget speech, Mr. Baldwin announced that in view of the importance to the national credit of an avowed and sustained programme of debt reduction, he proposed to institute a new sinking fund. Such a fund was intended to further the great conversions which—it was hoped—would in the future enable the debt burden to be substantially alleviated. Under the new scheme, Sir Stafford Northcote's fixed Debt Charge, with its sinking fund balance, was repealed, and in its place was instituted a definite annual sinking fund provision of £40 million for 1923-24, increasing to £45 million the next year, and to £50 million from 1925-26 onwards. These amounts were to include all the sums required under specific sinking funds and any portion of terminable annuities representing capital.

But Mr. Baldwin's sinking fund, termed the "new sinking fund (1923)," had many weaknesses and could hardly be regarded as a very serious attempt to wipe out the debt, particularly if one remembers that the annual sums for debt redemption were not additional to but only in place of the fixed charge; that they were little more than sufficient to meet the contractual obligations and counterbalance the increasing liabilities for savings certificates interest and War Bonds premiums; that the fund, unlike Northcote's, was not cumulative so that the amount available for debt redemption would not automatically increase as the debt shrunk; and that it would, in fact, take over one hundred and fifty years to wipe out the total debt. These weaknesses might have been avoided had the introduction of a new sinking fund scheme been postponed until our finances were strong enough to provide easily a large sum for debt redemption. But Mr. Baldwin, over-estimating perhaps the effect of sinking funds on national credit and wanting to make plain to the world " our constancy in the debt policy outlined in the budget," or maybe wanting some counterblast to the capital levy so strenuously advocated by the Labour Party as a means of wiping out a large part of the debt, decided in favour of a small sinking fund at once rather than a larger one at some future date.

There were some who, at such a time, considered there should be less or no debt redemption rather than more, and some would even have gone as far as to fund the war pensions. At the other extreme, the Labour party had for a long time strenuously advocated the use of a capital levy as a means of wiping out a large part of the debt at one swoop, but more orthodox views prevailed. Five years later, another and more ambitious sinking fund was instituted, but in the meantime debt reduction did not proceed quite according to plan. In 1923-24, the sinking fund was swollen by a budget surplus of £48 million, and a small surplus appeared the following year, but Mr. Churchill's first year at the Exchequer ended in a deficit of £14 million which correspondingly reduced the sinking fund provision. He increased the sinking fund in 1926-27 to £60 million but his good intentions were more than neutralized by a deficit of £36½ million. Undaunted, he raised the provision for debt redemption to £65 million in 1927-28, and this time his hopes were realized as his budget resulted in a surplus. The character of this surplus and the widely-discussed general financial methods pursued by Mr. Churchill need not detain us here.

In the budget of 1928, one of the most notable of recent years, Mr. Churchill decided to abolish Mr. Baldwin's " New Sinking Fund (1923) " and in its place to reintroduce the principle of a fixed Debt Charge which he proposed should stand at £355 million. Under such a scheme, the amount available for debt redemption would, of course, automatically increase as the debt decreased, and was calculated, even if interest rates fell no lower than 4½ per cent., to wipe out the whole of the debt in fifty years—compared with the one hundred and fifty year period of the Baldwin sinking fund.

The first year, Mr. Churchill, never a man for half measures, added £14 million (mainly from the Treasury Note Reserve) to the fixed charge, " as a special means of strengthening the sinking fund for this year, and of inaugurating the new debt redemption scheme," thus carrying the sinking fund to the " record figure of £65 million at which it was placed last year." When the year ended, Mr. Churchill's hopes were more than realized (if we ignore borrowings outside the budget), but the following year, the fixed charge dropped to the standard figure of £365 million, and as, in addition, the year ended with a deficit, the sum nominally available for debt redemption fell to £33 million.

In the 1930 budget speech, Mr. Snowden spoke rather critically of his predecessor's fixed charge scheme and of the deficit of £14½ million in the year just closed. He estimated that in the coming year, after providing £264¼ million for debt interest and management, £50½ million for specific sinking funds, and £23 million for savings certificates interest, there would be left out of the £355 million fixed charge, the sum of £17¼ million for the reduction of floating debt. In these circumstances, he said, he felt justified in leaving the fixed Debt Charge where it stood but something had to be done about the previous year's deficit, for there was one certain method by which all schemes to reduce debt could be rendered futile, and that was by leaving budget deficits uncovered. He therefore proposed to meet the deficit by making additional provision for debt redemption of £5 million in the current year and in 1931-32, and of £4½ million in 1932-33. A Clause was also inserted in the Finance Bill providing that in the case of a deficit arising in the future, a corresponding addition was to be made to the provision for debt redemption in the succeeding year. This Clause could not, of course, bind future Parliaments, and its efficacy merely consisted—as does that of sinking funds—in the necessity imposed upon future Chancellors of the Exchequer of securing the permission of Parliament for any alteration, with the additional publicity such a course entails.

Mr. Snowden's financial austerity was not destined to be of much avail, for 1930-31 ended in a deficit of over £23 million. And conditions were so unfavourable that in his 1931 budget speech, he was obliged to ask for Parliamentary permission not only to give up the idea of meeting Mr. Churchill's deficit but also to leave his own deficit of £23 million uncovered.

Then came the financial upheaval of 1931, and it is not a little surprising that, comparing the budget figures, as they stand, for this year of crisis with those of 1929, and making the necessary adjustment for the deficit, the sum available for debt redemption was almost the same in each year, namely, £33 million. Owing, however, to the increased cost in the payment of foreign credits advanced to the Treasury in the summer of 1931 and to the capitalization of interest under the savings certificates conversion scheme, the year 1931-32 ended with a £7 million increase in the debt total—the first for nine years.

The net results of the various operations on the debt may be seen in Table No. XVII, where we find that the total debt was reduced from £7,829 million on March 31st, 1920, to £7,574 million a year later, but the net effect of all sinking fund and other operations during the next eleven years was a reduction of only £154 million, or an average of £14 million a year—at the best not a very rapid reduction seeing it would take, at that rate, over five hundred years to clear off the debt. But the picture is gloomier still if we take account of such items as accrued interest on savings certificates and the sale of war stores which more than counterbalance the debt reduction, while if we consider the overwhelmingly important factor of the falling price level, it is clear that the value represented by the nominal debt total is considerably greater now than it was in 1921.

The nominal total of debt is, of course, not necessarily a satisfactory criterion of the debt burden. A funded debt of £2,000 million, for example, bearing interest at 2 per cent. would be, under ordinary circumstances, no greater burden than a debt of £1,000 million on which 4 per cent. interest had to be paid. Clearly the interest charge is in many ways a far more important guide to the burden of a national debt than the nominal debt total, but if we look at the changes in the interest burden during recent years, the picture, though a little brighter, is far from satisfactory. The following table shows the expenditure on debt interest and management from 1921-22 to 1931-32.

Year.	Debt interest and management. £
1921-22	303,900,000
1922-23	296,600,000
1923-24	304,300,000
1924-25	308,700,000
1925-26	304,300,000
1926-27	314,300,000
1927-28	309,000,000
1928-29	311,500,000
1929-30	312,100,000
1930-31	293,200,000
1931-32	289,500,000

In 1921-22, the charge for debt interest and management was £303,900,000, while in 1931-32 the charge amounted to £289½ million. This represents a nominal reduction of about one-eighth, but it will be seen from the table that no substantial reduction appeared until the last two years, when the figures are unduly affected by the suspension of interest payments to America and the abnormally low money rates prevailing in recent times which will not continue indefinitely. As a matter of fact, the charge for 1929-30 compared with that for 1921-22 shows not a decrease but an increase. And even if allowance is made for the numerous disturbing factors (*e.g.*, higher provision now made for savings certificate interest, payments under the debt settlements, etc.), such changes as have taken place in the interest burden can hardly be regarded with any satisfaction. If allowance be made for the different price level, there seems little doubt that the real burden of the debt interest was far greater in 1931-32, and it may possibly remain greater, even when the savings effected by the 5 per cent. War Loan and other recent conversions become fully operative, than it was in 1921-22.

We may now turn to the two important questions of Reparations and War Debts which may yet vitally affect our debt problem. Under the Treaty of Versailles, Germany found herself obliged to hand over to the victors the whole of her colonial empire and large slices of her home territory, including very valuable industrial and agricultural areas, and to make enormous payments in kind, cede to the Allies the greater part of her mercantile fleet, grant them the right to retain and liquidate all property and other rights of German nationals in the former German colonies and elsewhere, and surrender numerous other valuable rights and interests. And over and above all this, Germany was called upon to pay the huge amount of £1,000 million in cash or kind—at the option of the Reparations Commission—before May 1st, 1921, the appointed day when the Commission was to have ready for presentation to her the complete bill for reparation damages.

In the Treaty of Versailles, Germany accepted, in Article 231, " the responsibility of Germany and her Allies for causing all the loss and damage to which the Allies and Associated Governments have been subjected as a consequence of the war," which might be read, as Mr. Keynes pointed out, as an admission of either moral or financial responsibility, according to one's viewpoint. In the next Article, the victors recognized that the resources of a mutilated Germany would not be sufficient to " make complete reparation for all such loss and damage," but they required, and Germany undertook, that

" she will make compensation for all damage done to the civilian population of the Allied and Associated Powers and to their property during the period of the belligerency of each . . . by such aggression by land, by sea and from the air, and in general all damage defined in Annex I. hereto." Annex I. was of vital importance, for it definitely, some say unjustifiably, included in the reparations account the cost of pensions, separation allowances and other items, in spite of the objections of President Wilson and the Germans, thus more than doubling the bill to be paid.

The Treaty of Versailles, however, as we have seen, only laid down the items in the bill, and left it to the Reparations Commission, set up for the purpose, to fill in the figures and then prepare an instalment scheme by which Germany could discharge her debt within thirty years. The Commission was to consist of one chief delegate from the United States, Great Britain, France and Italy, and for most business, a Belgian delegate. On a body so constituted, moderate opinions would probably have prevailed, but, owing to the United States declining to ratify the Treaty of Versailles, the one nation not directly interested in reparations was not represented on the Commission, and the one most interested—France—took the chair and the casting vote.

The Reparations Commission was given two years to settle on the total amount due from Germany. Some of the principal claimants no doubt hoped that two years would allow time for the passions and prejudices inflamed by war to subside a little, and thus make it easier to bridge the wide gap between the highest figure not too impossible for Germany to agree to and the lowest which might, without undue danger to the negotiators, be mentioned to the nations they represented.

It would be tedious to enumerate the almost continuous series of conferences of the Allies to discuss reparations, but one or two deserve special mention. At the early conferences, some slight progress was made; then, at Spa, in July, 1920, the Allies faced the Germans in public conference for the first time. The question of coal deliveries was dealt with, but the main question of reparations was untouched, save that the Allies agreed amongst themselves how the reparation receipts—the total of which had not yet been fixed by the Reparations Commission—should be divided. Of the main beneficiaries, France was to get 52 per cent., the British Empire 22 per cent., Italy 10 per cent., and Belgium 8 per cent., leaving 8 per cent. for the other claimants. (The provisions were eventually slightly modified.) In the case of reparation payments from Austria-Hungary and Bulgaria, one-half was to be divided in the same proportions, and the other half on a somewhat different basis.

Then followed further lengthy conferences and negotiations in the course of which very heavy demands were made upon Germany, and eventually, in March, 1921, sanctions were enforced which included the occupation of certain towns on the right bank of the Rhine, the imposition of the German Reparation Levy on payments to German exporters, and the establishment of a customs barrier between the occupied area of Germany and the Fatherland.

Nearly two months later (on April 27th, 1921) the Reparations Commission announced that they had unanimously fixed the total of the damages for which reparation was due from Germany, which meant the damage done not only by Germany but also that done by her Allies, at 132 milliard gold marks. In this figure deductions had been made in respect of restitutions under the Treaty, but the sum for reimbursement of Belgium's borrowings had not been included. The total of 132 milliards (about £6,600 million), which—theoretically—was an impartial assessment of the legal claims against Germany, uninfluenced in any way by Germany's capacity to pay, was much lower than was generally expected at the time, and impossibly great as it even then was, it was not much more than one-quarter of the total arrived at by widely accepted authorities a year or two before.

The claims submitted to the Commission had amounted to about 220 milliard gold marks, of which about 90 milliards were in respect of the disputed item of pensions and allowances. The Commission's report gave no details of how its figures were reached, but although the aggregate amount claimed was cut down by about 40 per cent., it may be assumed that the claims in respect of pensions and allowances, being largely a matter of actuarial calculation, were cut relatively little compared with the other claims, from which it may be deduced that at least one-half of the Reparations Commission's bill against Germany was in respect of an item which some maintain could be neither morally nor legally defended.

A few days later, the Allies met in London once again, and, inviting the Reparations Commission at once to prescribe how the reparations bill should be paid, sent another ultimatum to Germany in which she was declared to be still in default in fulfilling treaty obligations relating to disarmament, the trial of war criminals, the payments due on May 1st, and in other ways, and she was informed that if certain conditions were not complied with, including an immediate and categorical declaration by her that she would, without reserve, meet the demands of the Reparations Commission, the Allies would occupy the Ruhr. The terms Germany was thus forced to accept included the delivery of bonds and payments in cash and kind amounting to two milliard gold marks yearly, plus 26 per cent. of the value of her exports. The terms showed a heavy cut in the original bill presented by the Commission, and, although still beyond Germany's capacity, they included nothing immediately impossible while the task of finding £600 million in gold, the balance which under the Treaty should have been paid before May 1st, was excused her.

For a time Germany managed to make some show of meeting the Allies' demands, but in 1922, although payments in kind continued to some extent, the Reparations Commission was obliged to allow the deferment of instalment payments, and finally, in August, all cash payments were temporarily suspended. Such payments as had been made came not from a real budget surplus or a net export balance—both of which were essential in the long run if Germany were to remain solvent—but had been made by export of part of the gold and silver reserves upon which her monetary system rested, by the sale of some of the foreign property and investments left to her, by the sum, estimated at the astounding figure of £200 million or more, derived from foreigners who for a long time held blindly to the idea that the mark must one day recover and were therefore willing to buy paper marks as a speculation, and, finally, there was the very substantial and important item of loans from abroad.

Much trouble might have been avoided had it been found practicable to allow Germany to repair the damage done in the French and Belgian war areas and undertake reconstruction and developmental work for the Allies, and to have secured the balance due from her by payments in kind and modest cash payments easily within her power. Germany had the men, and the materials, and was anxious to get out of debt in this way. Sir Arthur Salter, in *Recovery*, estimates, rather optimistically perhaps, that " had reparation been so arranged, it could have been settled and finished in three years or so." Unfortunately, although both French and German labour organizations openly supported such a scheme, the building trade and sections of opinion in France were definitely against the proposals, and little was done in this direction, even after the Wiesbaden agreement of 1921 under which it was agreed that Germany should supply France with reconstruction materials for an indefinite number of years in part payment of reparation demands.

This was only one of the innumerable instances in recent world history which illustrate the most fundamental problem of post-war international indebtedness, the problem that arises from the continual struggle, not in one country alone but throughout the world, between man, the political, taxpaying unit who demands that debts shall be paid, and man the producer who opposes their payment in the only way they can ultimately be paid, that is, by the export from creditor countries of goods and services. This struggle, which is largely responsible for the world's present troubles, is none the less real because it is not yet generally realized, and until this blindfold tug-of-war between political, taxpaying man and his industrial self ceases, there seems little hope of finding a way out of our present troubles.

After a time Germany became less and less able to meet her obligations. As the mark fell, exchange difficulties materially worsened, and in January, 1923, growing suspicion and passion culminated in the occupation of the Ruhr by the French and Belgians. The occupation of the Ruhr closed one chapter in the reparations story, and we may well retrace our steps to see how the Allies—whose relations as the result of recent events were not too happy just now—had been acting in relation to the other group of international obligations arising out of the war, the inter-Allied debts, which in origin differed from reparations in that they were debts voluntarily incurred, but in repayment presented many similar problems.

For some time after the Armistice the Allies continued to borrow from the United States. There had been for some time talk in Europe of an all-round cancellation of War Debts, but the United States, adopting the attitude she afterwards maintained that the debts must be honoured and eventually paid in full, gravely hinted at ceasing to lend to any government supporting such unwelcome views, and for a time the matter dropped. Many discussions on the war debt question subsequently took place, but it was not until the early part of 1922 that the first definite step towards repayment was taken. Then, in February, United States Congress created the World War Foreign Debt Commission, which, subject to certain conditions and to the President's approval, was to see to the funding of foreign debts to America, and, a little later, the United States Government formally requested the countries concerned to fund their debt.

Then followed the famous Balfour Note (Cmd. 1737) in which Great Britain pointed out to her Allies that the war debts, exclusive of interest, due to her amounted to £3,400 million, of which Germany owed £1,450 million, Russia £650 million, and the Allies £1,300 million, while her own debt to the United States was only about a quarter of this amount—£850 million at par of exchange and exclusive of interest since 1919. The note declared that His Majesty's Government had hitherto silently abstained from making any demands upon her Allies, but such a policy, unless adopted generally, could obviously not be continued, and if her undoubted obligations were to be enforced by the American Government, who admittedly were acting "with the most perfect courtesy and in the exercise of their undoubted rights," then Great Britain's equally undoubted rights as a creditor could not be left wholly in abeyance. The note went on to say that Great Britain, deeply convinced of the economic injury inflicted on the world by the existing state of things, advocated the policy of surrendering her own share of German reparation payments and writing off through one great transaction the whole body of inter-Allied indebtedness, but if this were found to be impossible, she had no wish to make any profit out of any less satisfactory arrangement, and under no circumstances did she propose to ask more from her debtors than was necessary to pay her creditors.

At this point, a somewhat different tone seemed to creep into the note. "And, while we do not ask for more, all will admit that we can hardly be content with less. For it should not be forgotten, though it sometimes is, that our liabilities were incurred for others, not for ourselves. The food, the raw material, the munitions required by the immense naval and military efforts of Great Britain and half the £2,000 million advanced to Allies were provided, not by means of foreign loans, but by internal borrowing and war taxation. Unfortunately, a similar policy was beyond the power of other European nations. Appeal was, therefore, made to the Government of the United States ; and under the arrangement then arrived at the United States insisted, in substance if not in form, that, though our Allies were to spend the money, it was only on our security that they were prepared to lend it. This co-operative effort was of infinite value to the common cause, but it cannot be said that the role assigned in it to this country was one of special privilege or advantage."

The Balfour Note, Mr. Lloyd George tells us in his recently published book on Reparations and War Debts, was drafted by himself and "submitted to and agreed by the Cabinet, although Sir Robert Horne, who has in more recent times voiced his disagreement in letters to the Press, may have done so at that date." The note, addressed to a world not yet prepared for such sentiments, probably did more harm than good, high though its motive, for it threw upon the United States and France—who, for different reasons, declined to discuss, in this connection, war debts and reparations in the same breath—the blame for any subsequent enforcement of debt or reparation payments. And, as might be expected, they resented it, and denied some of its implications. Furthermore, the note was, in effect, the unconditional wiping out, whether or not general cancellation resulted, of debts amounting to £400 million (*i.e.*, the difference between the debt owed to the United States by Great Britain and the debts owed to the latter by her Allies, excluding Russia whose obligations might be written off as a bad debt), in addition to the surrender of the 22 per cent. of German reparation payments due to Great Britain under the Spa agreement, and thus a sacrifice which might have proved useful in subsequent bargaining was made unconditionally and for nothing, at least, nothing tangible.

Great Britain was the first of the Allies to respond to the request of the United States for a debt funding agreement. In January, 1923, Mr. Bonar Law, who had recently become Premier in succession to Mr. Lloyd George, sent Mr. Stanley Baldwin, then at the Exchequer, and Mr. Montagu Norman, the Governor of the Bank of England, to negotiate at Washington the funding of the British debt. The Act of Congress creating the Debt Commission had provided that the rate of interest on bonds should not be less than 4¼ per cent. and that debts should be paid off not later than 1947, but the British negotiators argued that the latter limitation was impracticable and the former unjust, seeing that the prevailing rate was about 3½ per cent. and was not likely to exceed this during the term of the bonds. The United States finally agreed to the issue of bonds, to be redeemed by payments extending over a period of 62 years, and bearing interest at the rate of 3 per cent. for the first ten years and 3½ per cent. thereafter. The total British indebtedness, plus interest at the rate of 4¼ per cent. from 1919 to 1922, but less payments already made by Great Britain, was calculated at 4,604,128,085 dollars and 74 cents. The four million odd dollars and the 74 cents were paid in cash in March, 1923, thus leaving 4,600 million dollars to be funded into bonds.

It could hardly be called a generous settlement, and there seems little doubt but that the British mission might have secured better terms than they did, but the extent of the concessions that might have been obtained is a matter of conjecture, and it is very doubtful whether Mr. Baldwin and his colleagues deserve all the hard things that have been said about them. And some of them have been very hard—but it is difficult to decide how far they are the result of impartial and instructed judgment and how far to lack of sympathy or mere wisdom after the event. Mr. Baldwin, as Mr. Lloyd George tells us, proceeded contrary to his instructions and in spite of the most express protests of his chief, to fix terms of a most onerous settlement, which was approved by a section of the British Cabinet, and Mr. Bonar Law, not wishing to split a Government so recently formed, gave in—a decision, we are informed, he afterwards sorely regretted.

In this connection it is worth while to glance briefly at the other principal American debt settlements. In some respects the British settlement set the precedent for subsequent fundings, which were all based on 62 year periods, no capital was wiped out (according to the American theory which we refer to later), and accrued interest was calculated in all cases at 4¼ per cent. up to December, 1922, then at 3 per cent., the commencing rate of the British bonds, up to the date of funding in each case. But if the accrued interest rate was uniform in all cases, there was a very wide difference in the rate of interest the bonds carried, the average rate over the whole period being as low as 0·4 per cent. for Italy, the most favoured debtor, rising to 1·0 per cent. for Jugo-Slavia, 1·6 per cent. for France, 1·8 per cent. for Belgium, and to the highest figure of all, 3·3 per cent., for Great Britain. The differences are still more marked when reflected in the total interest payments to be made in the sixty-two years. Whereas Italy, on a debt of 2,042 million dollars, was required by her American debt funding agreement to make interest payments (as distinct from the part of the instalments allocated to repayment of principal) amounting to about 366 million dollars—less than one-sixth of the capital to be repaid, Great Britain, on a funded debt of 4,600 million dollars, was to pay in respect of interest the total sum of 6,506 million dollars—nearly one and a half times the capital to be repaid.

Some explanation of these differences may be found in two important statements made to the ways and means committee of the House of Representatives in January and May, 1926, by Mr. Mellon, then Secretary of the United States Treasury and Chairman of the Debt Commission. Repayment of principal, he said, was insisted on " in order that the debtor might feel that it had paid its debt in full and that we might know that we had our capital returned to us . . . and thus we have maintained the integrity of international obligations," while adjustment to capacity to pay in each case was made in the interest to be paid over the period of the agreement. He went on to say that calculating the present value of the British instalments on the basis of the current interest rate of 4¼ per cent., the United States had cancelled 20 per cent. of the debt Great Britain owed her. "The settlement," he declared, "was, however, entirely based on our estimation of Great Britain's capacity to pay."

Obviously, the amount of cancellation arrived at by such calculations depends on the rate of interest adopted as the basis of calculation, and if the original rate of 5 per cent. be adopted, as it has been by some American writers, then it might be said that 30 per cent. of our debt to the United States had been wiped out. But, on the other hand, if we work on the basis, as Mr. Mellon did for certain other calculations in his second speech, that the average cost of money to the United States Government during the following 62 years would be in the neighbourhood of 3 per cent., then it could be demonstrated that instead of the British debt being partially wiped out, Great Britain, as well as the smaller nations who funded on an average rate of 3·3 per cent. would, when if ever the instalments were completed, have paid considerably more than was due.

The following table, based on figures given in the Combined Annual Reports of the United States Foreign Debts Commission, shows how one may get widely different results merely by altering the rate of interest upon which the calculations of the present value of the war-debt annuities are calculated. The crucial point is, therefore, what basic rate should be adopted. Should it be 5 per cent. the rate payable on the original loans, or the existing prevailing rate, or the estimated average rate at which the creditor country can borrow during the currency of the bonds, or should it be some other hypothetical rate?

The table shows the "present value" (at time of funding) of the Annuities payable under the American debt settlements with Great Britain, France, Italy, and Belgium, and the percentage cancellation of debt in each case, with calculations based on interest rates of 3, 4¼ and 5 per cent. respectively.

Debtor Country.	Debt prior to funding.	Basic rate 3 per cent.		Basic rate 4¼ per cent.		Basic rate 5 per cent.	
		Present Value of Annuities.	Cancellation.	Present Value of Annuities.	Cancellation.	Present Value of Annuities.	Cancellation.
	Thousand Dollars.	Thousand Dollars.	Per Cent.	Thousand Dollars.	Per Cent.	Thousand Dollars.	Per Cent.
Great Britain	4,715,310	4,922,702	[1]	3,788,470	19·7	3,296,948	30·1
France	4,230,777	2,734,250	35·4	1,996,509	52·8	1,681,369	60·3
Italy	2,150,150	782,321	63·6	528,192	75·4	426,287	80·2
Belgium	483,426	302,239	37·5	225,000	53·5	191,766	60·3

[1] With a basic rate of 3 per cent. there would be no cancellation, for Great Britain would be paying, *on this basis*, 4·4 per cent. more than she had borrowed.

Great Britain's debt agreement with America left her with heavy payments to meet, and she naturally turned to her own debtors for relief. Her principal debtors were Russia, France, and Italy. Russia's debt originally amounted to £560 million, but all this country has secured from her is an unratified treaty, which was in any case of very limited value, and although in the Finance Accounts compound interest is religiously added every year so that the debt now amounts to £1,066 million, hope of securing any substantial repayment may now be abandoned.

The British-Italian debt negotiations ended in January, 1926, with the signing of what was generally regarded as a generous settlement. It resembled the agreement which Italy had concluded with the United States only a month or two before, in being based on a 62 year period, but there were important differences. The British agreement, as a whole, was far more generous than the American, but, on the other hand, and what was perhaps of greater practical importance, the early instalments payable by Italy to Great Britain were considerably heavier than those she had agreed to pay during the corresponding years to the United States. In the first five years, for example, Great Britain was to receive from Italy a total sum of £18½ million, while the United States would get only 25 million dollars.

Negotiations for the funding of the debt of France to Great Britain did not begin in earnest until 1925, but after lengthy and intermittent parleyings, an agreement was finally signed on July 12th, 1926, by M. Caillaux. At one time, deadlock was reached, the French insisting on a "safeguard clause," which would have made the continuance of the annuities to Great Britain dependent upon the German payments to France under the Dawes Agreement, while the British insisted that the annuities should rest upon the sole credit of France. Eventually it was agreed that while no safeguard clause should be inserted in the agreement, letters should be exchanged between the two governments making it clear that should German payments under the Dawes plan fall by more than one-half, the French were to be entitled to ask for a reconsideration of the terms in the light of all the circumstances then prevailing. France secured better terms from Great Britain than she had from America over the 62-year period as a whole, but during the first few years her payments to Great Britain would be the heavier.

The payments to be made to Great Britain by the French Government from 1926-27 to 1987-88 totalled £799½ million. Assuming that £653 million is in respect of the capital repayment of debt and the remaining £146½ million in respect of interest on the outstanding yearly balance, the latter sum spread over a period of 62 years clearly represents a very low rate of interest which could in no way be regarded as extortionate. But this method of allocating so much of the annual instalments to repayment of capital as to show the capital repaid, a method Mr. Mellon regarded so highly because amongst other things it "maintained the integrity of international obligations and enabled the debtors to feel that they had paid their debts in full," is, after all, based on a rather arbitrary allocation of the instalments. If, as seems equally logical, we charge to interest payments the amount due at a reasonable rate, say, three per cent., it may be shown that most of the debt settlements were very favourable to the debtors.

Our debt settlement, for example, with France, the least generous we made, would appear in a very favourable light, for assuming a rate of interest of 3 per cent. on a debt of £650 million odd, the annual charge for interest alone would be £19½ million, and as France's maximum annual payment under the agreement was only £14 million, it could be said that on this basis of calculation, France, instead of paying off debt, would at the end of the 62 years be further in debt than ever.

The most satisfactory criterion, however, of war-debt settlements is, perhaps, the "present value" of the instalments at the date of funding, providing a satisfactory basic interest rate is adopted. The following official table (262 H.C. 5s. 1417), which has met with a good deal of publicity, is based on an interest rate of 5 per cent.—an extreme figure difficult to justify in the light of prevailing money rates, but although the calculated percentages of debt cancellation are, in consequence, of more than doubtful value, the table may be useful as a guide to the relatively different treatment meted out by Great Britain to her various debtors, and for comparison with the figures relating to the United States settlement with her debtors. (See Table on page 545, where the last two columns are based on a similar rate of 5 per cent.).

Debtor Country.	Amount of Debt at funding.	Capitalized present value of Annuities (at date of funding) *on 5 per cent. basis.*	Percentage of debt remitted *on this basis.*
France -	£600,000,000 (net)	£227,000,000	62
Italy -	560,000,000 (net)	77,800,000	86
Rumania -	18,448,200	6,744,000	63½
Portugal -	20,133,000	6,992,000	65¼
Greece -	21,440,000	6,719,000	68½
Yugo-Slavia	25,591,000	8,232,000	67¾

Liability for the war-debt of Belgium was assumed by Germany under the Treaty of Versailles and the war-debt of Russia has not yet been funded.

The table gives details of the whole of the British settlements with her debtors. The particularly generous settlement with Italy, shown in the table as having remitted 86 per cent. of the debt, provided for instalments over the 62-year period which not only included nothing at all for current interest but in the aggregate amounted to less than one-half of the debt at funding. The least generous settlement, that with France, showed, on the basis of 5 per cent. adopted in the table, a cancellation of 62 per cent. In all the agreements, a clause was inserted embodying the principle of the Balfour Note whereby Great Britain would distribute *pro rata* amongst her debtor Allies any net balance of her receipts from reparations and war-debt payments over her annual payments to the United States.

Here we may resume the story of reparations where we left it. The invasion of the Ruhr was followed by Germany's further disorganization and demoralization which led finally to unconditional surrender. In November, 1923, the difficult task of finding a way out acceptable to all the nations concerned was given to a committee of experts, subsequently known as the Dawes committee after the name of its American president. Their proposals, completed in April, 1924, and put into operation four months later, provided for annual payments by Germany of 1,000 million gold marks (equivalent to £50 million) in 1924-25, rising to the standard figure of 2,500 million gold marks payable in 1928-29 and thereafter, subject to certain adjustments in accordance with changes in Germany's prosperity. The annual payments were inclusive of all claims on reparations accounts, and the responsibility for exchanging marks into foreign currencies was accepted henceforward by the Allies. Provisions were made for allied financial controls inside Germany, for the reorganization of the Reichsbank, for a partial moratorium to give Germany time to reorganize her public finance, and for a loan of £40 million from the Allies to support her note issue and help meet her first year's payments under the plan.

The Dawes report opened a new chapter in the history of reparations, for not only did it express an entirely different attitude towards Germany but it substantially reduced her financial burden; even when the maximum annual payment was reached, Germany would clear herself of all reparation claims—for the time being—by payment of the inclusive yearly sum of 2,500 million gold marks (£125 million), a much lower figure than that fixed three years before. It was the lowest France would discuss, but it was still substantially higher than anything Germany was likely to continue paying for any length of time. It should be noted, however, that the Dawes committee had left untouched the question of Germany's total indebtedness, and as the maximum annual payment of £125 million would be insufficient to cover the interest on the outstanding balance of the Reparations Commission's bill of £6,000 million odd, Germany, even if she maintained her payments, would be further in debt every year.

For some years after the Dawes plan came into operation, Germany met her payments—but only on paper, for foreign debts can be reduced in the long run only by a net export balance of goods and services, and during this period, Germany's exports were not more but considerably less than her imports. This excess of imports was not the normal import of an old country, but was due to the fact that Germany had borrowed abroad very considerably more than she had paid in reparations, so that she was in this direction also increasing instead of decreasing her foreign indebtedness.

But before the crash came, another step forward in the long-drawn-out struggle between reason and national passions was taken when, in September, 1928, the Belgian, British, French, German, Italian and Japanese Governments agreed to set up another committee of independent financial experts to draw up proposals for what was optimistically described as "a complete and final settlement of the reparation problem." Each of the six nations concerned nominated two representatives. In addition, two American experts were appointed by the Reparations Commission conjointly with the German Government, and at the first meeting one of the Americans, Mr. Owen D. Young, was unanimously voted to the chair.

The report of the Young committee (June 1929 ; Cmd. 3343) was an able and interesting document, in which they declared that they had made no attempt to establish the causes leading up to the existing state of things, adding rather bravely if not hopefully " we have attempted to go further, and through the proposed creation of the machinery which we recommend, to set up an institution whose direction from the start shall be co-operative and international in character, whose members shall engage themselves to banish the atmosphere of the war, to obliterate its animosities, its partisanships, its tendencious phrases, and to work together for a common end in a spirit of mutual interest and goodwill."

In place of the existing system of transfer protection with its semi-political controls, its derogation from Germany's initiative, and its possible reactions upon credit, they recommended a scheme of annuities, not only appreciably smaller than those of the Dawes plan, but also subject to new and elastic conditions, which it was claimed would involve for Germany a materially smaller tax burden, would be closely assimilated to commercial and financial obligations, would carry with it welcome freedom from interference and supervision, and was provided with adequate safeguards against any period so critical as to endanger Germany's economic life. Payments under the Young plan were based on the broad principles that the annuities should be divided into an unconditional part and a conditional part postponable, under conditions to be arranged, in times of exceptional difficulty, and that it was necessary, in order to avoid harmful economic dislocation, that deliveries in kind should be continued, though in decreasing amounts, for a limited period.

Unfortunately, however, the policy followed in the Dawes plan of providing adjustments for changes in gold prices was dropped, in order to bring German payments into line with the gold payments due from the Allies under the American debt settlements. As Sir Josiah Stamp, one of the outstanding members of the Young committee, has told us, the European creditors at this time were anxious that reparation payments should be as nearly as possible "matched up" to the Allies' debts payments to the United States so that the latter country might the better realize that the greater part of the German payments went ultimately over the Atlantic. But the change was to have far-reaching results, for with the subsequent rapid fall in gold prices the burden of the Young plan payments became greater than that of the superseded Dawes plan.

The Young plan provided also for the institution of the Bank for International Settlements to take over such functions of existing agencies as it might be necessary to continue, and to perform the whole work of external administration such as the receipt and distribution of payments and the commercialization, as far as possible, of the annuities. Such a banking institution, with its organization outside the field of political influences, would, it was claimed, justify and make logical the liquidation of all political controls, and provide instead machinery essentially commercial and financial in character, thus marking one step further in the process, begun in the Dawes plan, of removing the reparation problem from the political to the financial sphere.

But, as we have seen, Germany during all this time had been borrowing from abroad far more than she had paid. With the continuance of her prosperity, and almost her existence, depending on the continuance of foreign borrowing, Germany was clearly in a precarious position, and when, with the coming of the slump in 1929, foreign lenders not only ceased to lend but attempted to withdraw the sums they had already lent, trouble was inevitable. But short-term borrowing postponed the evil hour, and she continued to meet her payments under the Young plan, although with increasing difficulty, her troubles being aggravated by the falling price level which, while magnifying the real burden of her payments, brought many other evils in its train.

Then came the world crisis. Germany looked like being utterly submerged until, in June, 1931, Mr. Hoover's proposal for a twelve months' moratorium for all war debts and reparations offered a gleam of hope, but the unfortunate, if understandable, attitude of France which prevented immediate acceptance, allowed the crisis to gather momentum for a further critical seventeen days until any hope the moratorium had offered of restoring confidence and arresting the crisis had practically disappeared. Then followed the Basle report, the bankers' "standstill" arrangement which strictly but only temporarily limited the withdrawal of loans from Germany, and other attempts to mend matters, finally leading up to the Lausanne Conference.

There, in Mr. MacDonald's words, the agreement reached "put a new page in history" in the sense, at all events, as he expressed it in the House of Commons, that the "conference and its results can lead to a settlement of the question of reparations which lies somewhere at the root of every economic trouble that has overtaken the world since the war." "What Lausanne did," he further observed, "was to straighten out the internal difficulties of Europe, which in all conscience were many and difficult, and agree to proposals which the nations there represented believe are both essential and possible."

It is no disparagement of their work to add that no actual solution has yet been more than offered, and that solution depends on ratification by the various nations, and this again—to a large extent—on the settlement which may ultimately be arrived at of their debts, of which our own to the United States is by far the most important. One salient fact, however, is that Germany has been virtually freed from the burden of reparations imposed upon her in 1919. The "Carthaginian peace" has been turned into a liquidation of all her liabilities within less than fifteen years of the war. The annual reparations payments demanded have dwindled successively from a nominal £330 million to another nominal and quite problematical figure of £7½ million, while Germany's loans from other countries, and particularly Great Britain and the United States, amount, it has been estimated, to nearly double what Germany has paid in reparations.

It is a sorry tale and reflects little credit on the statesmanship of Europe in 1919 as compared with 1815—a comparison which does not tell in favour of the modern-style diplomacy. In the year 1815, the victorious Allies, after a war which had lasted off and on for twenty-three years and had devastated or revolutionized the whole of Europe from Russia to Portugal, stipulated for a moderate financial indemnity and stuck to it, with the result that in three years it had been paid in full, the occupation of France brought to an end, and the whole business disposed of. A similar course in 1919 might well have saved Europe many years of disastrous unrest. But the Treaty of Versailles first of all prepared the way for a fantastic indemnity and then allowed two years to elapse before the actual amount to be demanded was settled—we have described the results of this course which not only made successive concessions unavoidable and encouraged Germany to evade or postpone payment, but accentuated the great internal difficulties of that country until her financial position became, as Mr. MacDonald expressed it, "a menace to the whole of Europe."

For every reason it is devoutly to be hoped that the chapter opened by the Lausanne Conference may end in a complete wiping of the slate. Financially, this country has suffered more than any of the allied nations from these years of misunderstanding, while the compensation she has received for her great war-time losses have been relatively nominal. Reparations have fallen below the lowest expectations. And as regards loans to her Allies, although Great Britain lent more than twice as much to them (including Russia) as she herself borrowed from the United States, she had, up to November, 1931, paid to America £326,200,000, and against this had received on account of her Allies' debts to her the sum of £71,275,000—less than a quarter of her outgoings.

TABLE

IMPERIAL REVENUE (EXCHEQUER

(Compiled from the

	Great Britain and Ireland.				
	1913-14.	1920-21.	1921-22.	1922-23.	1923-24.
	£000	£000	£000	£000	£000
Customs	35,450	134,003	130,052	123,043	119,958
Excise	39,590	199,782	194,291	157,275	147,970
Total Customs and Excise	75,040	333,785	324,343	280,318	267,928
Motor Vehicle Duties	—	7,073	11,096	12,321	14,691
Estate, etc., Duties	27,359	47,729	52,191	56,871	57,800
Stamps	9,966	26,591	19,638	22,222	21,570
Land Tax, House Duty, etc.*	2,700	2,550	2,590	2,980	2,760
Income-Tax	47,249	394,146	398,887	379,045	269,331
Super (later Sur) Tax					60,640
Excess Profits Duty, etc.	—	219,181	30,452	2,004	—
Corporation Profits Tax	—	650	17,516	18,977	23,340
Land Value Duties	715	20	*	—	—
Total Inland Revenue	87,989	690,867	521,274	482,099	435,441
Total Tax Revenue	163,029	1,031,725	856,713	774,738	718,060
Postal Service	21,190	36,100	40,000	34,150	32,840
Telegraph Service	3,080	5,200	5,900	5,500	5,570
Telephone Service	6,530	8,200	10,500	13,550	14,390
Crown Lands	530	660	820	900	920
Receipts from Sundry Loans, etc. — Ordinary	1,580	991	13,807	10,016	12,607
Receipts from Sundry Loans, etc. — Special		29,780			
Miscellaneous — Ordinary	2,304	25,389	26,334	24,140	15,981
Miscellaneous — Special		287,940	170,806	51,018	36,801
Total Non-Tax Revenue	35,214	394,260	268,167	139,274	119,109
Appropriation from Rating Relief Suspense Account	—	—	—	—	—
Total Revenue	198,243	1,425,985	1,124,880	914,012	837,169
Self-Balancing Revenue:					
Post Office					
Road Fund					
Total					
Total Ordinary and Self-Balancing Revenue					

* Land Value Duties were shown separately until 1921-22, in which year they were lumped with Income-Tax. From 1922-23 onwards, the Mineral Rights Duty was included with "Land Tax, House Duty, etc."

I.

RECEIPTS) OF THE UNITED KINGDOM.

separate Budget Tables.)

GREAT BRITAIN AND NORTHERN IRELAND (RESERVED TAXES).

1924-25.	1925-26.	1926-27.	1927-28.	1928-29.†	1929-30.†	1930-31.†	1931-32.†
£000	£000	£000	£000	£000	£000	£000	£000
99,344	103,487	107,515	111,620	118,972	119,888	121,401	136,152
135,128	134,560	132,978	139,200	134,000	127,500	124,000	119,900
234,472	238,047	240,493	250,820	252,972	247,388	245,401	256,052
16,164	18,056	21,393	24,518	4,226	4,920	4,926	4,961
59,450	61,200	67,320	77,310	80,570	79,770	82,610	65,000
22,850	24,700	24,750	27,030	30,060	25,670	20,650	17,070
1,450	950	880	780	840	880	830	850
273,836	259,411	234,717	250,583	237,620	237,426	256,047	287,367
62,680	68,510	65,910	60,600	56,150	56,390	67,830	76,700
700	2,000	4,500	—	850	2,250	3,000	2,500
18,100	11,670	3,970	1,780	850			
—	—	—	—	—	—	—	—
439,066	428,441	402,047	418,083	406,940	402,386	430,967	449,487
689,702	684,544	663,933	693,421	664,138	654,694	681,294	710,500
34,850	35,750	35,600	38,250				
5,600	5,650	5,900	6,100	8,100	9,200	10,100	11,500
15,000	15,950	17,350	18,650				
960	950	1,010	1,070	1,210	1,290	1,280	1,250
11,941	14,944	22,854	23,952	28,111	32,640	32,890	13,810
14,420	17,349	28,214	30,893	13,143	10,433	34,331	29,913
26,963	36,925	30,840	30,488	43,402	25,932		
109,734	127,518	141,768	149,403	93,966	79,495	78,601	56,473
—	—	—	—	—	—	16,000	3,990
799,436	812,062	805,701	842,824	758,104	734,189	775,895	770,963
				57,200	58,900	59,000	58,000
				21,131	21,882	22,866	22,519
				78,331	80,782	81,866	80,519
				836,435	814,971	857,761	851,482

† New form of accounts on modified basis. See p. 425.

TABLE

IMPERIAL EXPENDITURE (EXCHEQUER

(Compiled from the

	Great Britain and Ireland.				
	1913-14.	1920-21.	1921-22.	1922-23.	1923-24.
	£000	£000	£000	£000	£000
National Debt: Fixed Charge	24,500	24,500	24,500	14,209	—
,, ,, Other Charges	—	325,099	307,794	309,781	—
,, ,, Interest, etc.	—	—	—	—	307,309
,, ,, Sinking Funds	—	—	—	—	40,000
Road Fund - - - -	1,395	8,937	10,795	11,772	14,090
Local Taxation Accounts -	9,734	10,785	11,172	10,471	13,662
Payments to Northern Ireland Exchequer - - - -	—	—	1,104	3,323	3,967
Land Settlement - - -	—	6,930	2,647	1,236	1,209
Other Consolidated Fund Services - - - - -	1,694	1,796	1,868	2,704	2,803
Total Consolidated Fund Services - - - -	37,323	378,047	359,880	353,496	383,040
Army - - - - - -	28,346	181,500	95,110	45,400	43,600
Navy - - - - - -	48,833	88,428	80,770	56,200	52,600
Air Force - - - - -	—	22,300	13,560	9,400	9,600
Civil Votes - - - - -	53,901	460,216	449,700	286,826	239,366
Customs and Excise and Inland Revenue - - - - -	4,483	11,259	14,190	11,317	10,823
Post Office Services - -	24,607	53,678	65,977	49,857	49,811
Total Supply Services -	160,170	817,381	719,307	459,000	405,800
Total - - - - - -	197,493	1,195,428	1,079,187	812,496	788,840
New Sinking Fund, 1928 -					
Total Ordinary Expenditure (including 1928 Sinking Fund)					
Self-Balancing Expenditure:					
Post Office - - - -					
Road Fund - - -					
Total Self-Balancing Expenditure - - -					
Total Expenditure (including Sinking Fund and Self-Balancing Expenditure) -					
Surplus - - - - - -	750	230,557	45,693	101,516	48,329
Deficit - - - - - -	—	—	—	—	—

II.

ISSUES) OF THE UNITED KINGDOM.

separate Budget Tables.)

GREAT BRITAIN AND NORTHERN IRELAND (PAYMENTS).

1924-25.	1925-26.	1926-27.	1927-28.	1928-29.*	1929-30.*	1930-31.*	1931-32.*
£000	£000	£000	£000	£000	£000	£000	£000
—	— *	—	—	†	†	†	†
—*	—	—	—	—	—	—	—
312,161	308,229	318,584	313,816	311,491	307,252	293,170	289,492
45,000	50,000	60,000	65,000	—	—	—	—
15,563	17,455	17,373	19,666	†	†	†	†
13,967	14,454	14,172	15,369	15,203	13,314	—	—
3,822	4,861	5,767	5,277	5,100	5,526	6,425	6,347
664	779	—	—	—	—	—	—
2,430	2,372	2,869	3,657	2,807	3,312	2,896	3,052
393,607	398,150	418,765	422,785	334,601	329,404	302,491	298,891
44,765	44,250	43,600	44,150	40,500	40,500	40,150	38,520
55,625	59,657	57,600	58,140	56,920	55,750	52,574	51,060
14,310	15,470	15,530	15,150	16,050	16,750	17,800	17,700
226,134	243,263	240,486	229,815	222,493	246,535	307,445	320,105
10,956	11,360	11,514	11,745	11,637	12,025	11,881	11,815
50,380	53,950	54,900	56,800	—	—	—	—
402,170	427,950	423,630	415,800	347,600	371,560	429,850	439,200
795,777	826,100	842,395	838,585	682,201	700,964	732,341	738,091
				57,509	47,748	66,830	32,508
				739,710	748,712	799,171	770,599
				57,200	58,900	59,000	58,000
				21,131	21,882	22,866	22,519
				78,331	80,782	81,866	80,519
				818,041	829,494	881,037	851,118
3,659	—	—	4,239	18,394	—	—	364
—	14,038	36,694	—	—	14,523	23,276	—

* New form of accounts on modified basis. See p. 425.

† The fixed charge was shown from 1928 under "Interest, etc.," and "New Sinking Fund, 1928."

TABLE

NATIONAL EXPENDITURE

(Compiled from figures given in the main tables of the Report of the May Committee, than £50,000 being

	1913-14.	1921-22.	1922-23.	1923-24.	1924-25.	1925-26.	1926-27.
I. Grant Services.	£000	£000	£000	£000	£000	£000	£000
In Great Britain.							
Exchequer Contributions to Local Revenues - - -	7,900	9,400	10,100	13,300	13,600	14,100	14,200*
Education (including Teachers' Pensions) - - - - -	16,500	53,700	47,400	46,300	46,600	47,100	48,400
Agriculture (including Forestry, Development Fund, Beet Sugar Subsidy) - - -	400	24,000	2,400	5,900	3,300	3,800	5,500
Road Fund Expenditure - -	900	8,500	12,200	12,900	15,100	16,500	17,400
Health Services - - -	200	4,400	3,600	3,200	3,200	3,500	3,700
Housing - - - - - -	—	9,100	8,000	8,300	9,100	9,100	10,000
Police - - - - - -	400	7,800	7,100	6,700	7,100	7,700	8,100
Unemployment Grants and Loans	100	3,800	2,300	3,000	3,500	3,600	6,100
Coal Mines Subsidy - - -	—	7,000	†	†	—	19,000	4,200
Miscellaneous - - - - -	400	2,600	1,300	1,200	1,400	2,100	1,400
Total Grant Services in Great Britain - - -	26,900	130,500	94,400	100,700	102,800	126,700	118,900
Total Irish Services - -	10,700	28,400	14,300	12,800	8,800	9,600	8,800
Total Grant Services - -	37,600	158,900	108,700	113,500	111,600	136,300	127,700
II. Services Nationally Administered.							
Debt Interest and Management	16,900	303,900	296,600	304,300	308,700	304,300	314,300
Defence - - - - - -	78,100	178,300	118,000	112,400	116,900	121,500	117,400
Tax Collection - - -	4,300	12,900	10,700	10,000	10,300	10,700	10,900
War Pensions - - - - -	—	95,800	80,600	72,600	69,900	67,300	63,600
Old Age Pensions, Non-Contributory - - - - -	9,800	22,000	22,400	23,200	24,900	27,000	30,000
Widows, etc., Contributory -	—	—	—	—	—	—	4,000
National Health Insurance -	4,000	9,200	5,800	6,100	7,100	6,900	6,400
Unemployment Insurance -	600	7,800	12,000	12,800	13,100	13,500	10,800
Total National Pensions and Insurance - - - -	14,400	134,900	120,800	114,700	115,100	114,700	114,800
All other Services.							
Foreign and Colonial Services -	1,500	30,900	13,100	17,400	7,600	7,100	5,400
Works, Buildings, and Stationery	2,900	7,400	5,000	4,900	5,300	5,700	5,300
Civil Superannuation (excluding Revenue Depts.) - - -	800	1,700	1,500	1,400	1,500	1,600	1,600
Training of ex-Service Men -	—	12,200	7,100	4,200	2,500	1,000	200
Liquidation of War Commitments - - - - - -	—	86,100	47,100	7,200	1,200	600	700
Remainder§ - - - - -	6,200	37,500‖	14,200	14,500	16,700	14,600	17,300
Total (All other Services) -	11,400	175,900‖	88,000	49,600	34,800	30,600	30,500
Total Ordinary Expenditure	162,700	964,800	742,800	704,500	697,400	718,100	715,700
Statutory Sinking Fund¶ -	7,600	25,000	24,700	40,000	45,000	50,000	60,000
Amount deducted from pre-1928 Expenditure to adjust to present basis** - - -	800	4,900	4,700	5,100	5,100	5,500	8,900
Post Office - - - - -	24,200	56,400	50,000	49,300	50,900	53,900	54,700
Road Fund (excess of issue over expenditure) - - -	400	2,100	*−500*	1,100	400	800	*−200*
Total Published Figure -	195,800	1,053,200	821,700	799,900	798,900	828,300	839,100

NOTE.—The figures for the years 1913-14 to 1927-28 are Audited Expenditure, and for 1928-29 and 1929-30 the Appropriation Accounts figures.

* In 1929-30 Exchequer Contributions include £2,570,000 borne directly on Rating Relief Suspense Account, and Debt Interest includes £4,800,000 interest on National Savings Certificates met by borrowing, which explain the discrepancy of £7,400,000 in the total shown for the year.

‡ Included in "Remainder."

III.

1913-14 AND 1921-22 TO 1931-32.

Cmd. 3920, pp. 272-277. The figures are shown to the nearest £100,000, totals of less denoted by the sign †).

1927-28.	1928-29.	1929-30.	1930-31 Estimates.		1931-32 Estimates.	
			Original.	Total.	Original.	
£000	£000	£000	£000	£000	£000	*I. Grant Services.*
						In Great Britain.
15,700	16,400	31,500*	45,500	45,700	46,200	Exchequer Contributions to Local Revenues.
48,700*	47,800	48,200	53,500	53,500	56,800	Education (including Teachers' Pensions).
7,000	5,600	8,300	9,100	9,800	5,400	Agriculture (including Forestry, Development Fund, Beet Sugar Subsidy).
19,400	17,500	20,300	27,700	27,700	33,000	Road Fund Expenditure.
4,100	4,000	4,200	500	500	200	Health Services.
11,100	12,100	12,800	13,700	13,700	14,500	Housing.
8,100	8,300	8,400	11,500	11,500	12,000	Police.
2,000	1,800	1,900	2,500	3,000	3,600	Unemployment Grants and Loans.
†	—	—	—	—	—	Coal Mines Subsidy.
1,300	2,200	1,800	1,100	1,100	900	Miscellaneous.
117,300	115,600	137,500	164,900	166,300	172,600	Total Grant Services in Great Britain.
9,000	9,000	9,500	9,300	9,300	9,800	Total Irish Services.
126,300	124,600	147,000	174,200	175,600	182,400	Total Grant Services.
						II. Services Nationally Administered.
309,000	311,500	312,100*	304,600	304,600	302,900	Debt Interest and Management.
118,600	115,700	115,400	111,900	112,700	111,400	Defence.
11,100	11,600	11,500	12,000	12,000	11,500	Tax Collection.
60,200	57,100	54,500	52,000	52,200	50,400	War Pensions.
32,800	34,100	34,900	36,500	36,800	38,200	Old Age Pensions, Non-Contributory.
4,000	4,000	4,000	9,000	9,000	10,000	Widows, etc., Contributory.
6,700	6,300	6,200	6,700	6,700	6,500	National Health Insurance.
12,000	11,800	19,400	26,500	37,000	45,100	Unemployment Insurance.
115,700	113,200	119,000	130,700	141,800	150,200	Total, National Pensions and Insurance.
						All other Services.
4,300	2,100	2,200	2,400	2,800	2,800	Foreign and Colonial Services.
5,100	5,000	4,800	5,100	5,400	5,500	Works, Buildings, and Stationery.
1,700	1,700	1,800	1,900	1,900	1,900	Civil Superannuation (excluding Revenue Depts.).
100	†	†	†	†	‡	Training of ex-Service Men.
700	600	700	200	200	‡	Liquidation of War Commitments.
14,400	15,700	15,300	16,700	17,200	16,100	Remainder.§
26,300	25,100	24,800	26,300	27,500	26,300	Total. (All other Services).
707,000	701,700	729,800	759,700	774,200	784,700	Total Ordinary Expenditure.
65,000	57,500	47,700	55,400	55,400	52,000	Statutory Sinking Fund.¶
10,100	†	—	—	—	—	Amount deducted from pre-1928 Expenditure to adjust to present basis.**
56,800	57,100	58,700	60,300	60,300	58,200	Post Office.
100	3,500	1,300	*−4,300*	*−4,300*	*−10,000*	Road Fund (excess of issue over expenditure).
839,100	819,800	830,300*	871,000	885,400	884,900	Total Published Figure.

§ Remainder includes "General Administration, etc.," Imperial War Graves Commission, Oversea Settlement, Export Credits, Empire Marketing, Colonial Development Fund and Trade Facilities Acts Payments, Prisons, "Scientific Investigations, etc.," Currency Note Services, and Training of Unemployed.

|| Includes Post Office excess expenditure of £9,300,000.

¶ The amounts actually applied or available out of Revenue for Reduction of dead weight debt differed from these figures owing to budget surpluses or deficits.

** For details, see p. 425.

TABLE IV.

TAX REVENUE, 1915-16 TO 1931-32, REDUCED TO PRE-WAR VALUES ON THE BASIS OF THE COST OF LIVING INDEX FIGURE.

(Exchequer Receipts, to nearest £ million.)

		1913–14.	1914–15.	1915–16.	1916–17.	1917–18.	1918–19.	1919–20.	1920–21.	1921–22.	* 1922–23.	* 1923–24.	* 1924–25.	* 1925–26.	* 1926–27.	* 1927–28.	* 1928–29.	* 1929–30.	* 1930–31.	* 1931–32.
Customs and Excise.	Actual - -	£m 75	£m 81	£m 121	£m 127	£m 110	£m 162	£m 283	£m 334	£m 324	£m 280	£m 268	£m 234	£m 238	£m 240	£m 251	£m 253	£m 247	£m 245	£m 256
	Pre-war value	—	—	93	82	60	77	130	131	156	156	154	134	137	140	151	153	151	159	175
Motor Vehicle Duties.	Actual -	—	—	—	—	—	—	—	7	11	12	15	16	18	21	25	25†	27†	28†	27†
	Pre-war value	—	—	—	—	—	—	—	3	5	7	8	9	10	12	15	15	17	18	18
Inland Revenue (excluding E.P.D. up to 1928-29).	Actual - -	88	108	169	247	283	337	426	472	491	480	435	438	426	398	418	406	402	431	449
	Pre-war value	—	—	131	159	155	159	195	185	236	268	250	251	246	231	252	245	246	279	307
Excess Profits Duty.	Actual - -	—	—	—	140	220	285	290	219	30	2	—	1	2	5	—	1	‡	‡	‡
	Pre-war value	—	—	—	90	120	135	133	86	15	1	—	—	1	3	—	1	‡	‡	‡
Total Tax Revenue.	Actual - -	163	189	290	514	613	784	999	1032	857	775	718	690	685	664	693	685†	677†	704†	733†
	Pre-war value	—	—	224	330	335	371	458	405	412	432	413	394	394	386	418	414	415	456	502
Average cost of living index figure for financial year -		—	In-com-plete	129·4	155·7	182·8	211·4	218·2	254·8	207·8	179·3	173·9	175·1	173·8	172·0	165·8	165·5	163·2	154·4	146·1

* Great Britain and Northern Ireland (reserved taxes) only.

† Including the Motor Vehicle Duties apportioned to the Road Fund, and now shown in the Finance Accounts under the head of "Self-Balancing Revenue and Expenditure."

‡ Included with Inland Revenue.

Note.—The use of the cost of living index figure for reducing taxation to pre-war values is obviously not free from objection, but such a method, if its limitations be kept in mind, gives interesting results. For example, the table shows that the total tax burden *on this basis* was much greater in 1931-32 than in the nominal peak years, 1919-20 and 1920-21.

TABLE V.

INCOME-TAX: RATES, ALLOWANCES, ETC., IN FORCE FOR THE YEARS 1920-21 TO 1931-32.

(Compiled in part from 74th Inland Revenue Report, Table 42.)

Standard rate of Tax	1920-21 and 1921-22	6s. in the £.
	1922-23	5s. in the £.
	1923-24 and 1924-25	4s. 6d. in the £.
	1925-26 to 1929-30	4s. in the £.
	1930-31	4s. 6d. in the £.
	1931-32	5s. in the £.

The following allowances, deductions and reliefs were granted to individuals, the age allowance only being contingent upon the total amount of the income:

Earned Income Allowance	1920-21 to 1924-25, one-tenth of the earned income, not exceeding £200 for any individual. 1925-26 to 1930-31, one-sixth of the earned income, not exceeding £250 for any individual. 1931-32, one-fifth of the earned income, not exceeding £300 for any individual.
Age Allowance, to individuals aged 65 years or upwards whose total income does not exceed £500.	1925-26 to 1930-31, one-sixth of such total income; 1931-32, one-fifth.
Personal Allowance	Married persons, £225; Other persons, £135. 1931-32, married persons, £150. Other persons, £100.
Increased Personal Allowance where Wife has earned income.	Up to £45.
Widower's or Widow's Housekeeper taking care of children.	1920-21 to 1923-24, £45.
Widower's or Widow's Housekeeper	1924-25 to 1930-31, £60. 1931-32, £50.
Unmarried persons' widowed mother taking care of children.	1920-21 to 1923-24, £45; 1924-25 to 1930-31, £60; 1931-32, £50.
Children under 16 years of age, or over 16 if continuing full-time education.	1920-21 to 1927-28, £36 for one child and £27 for each subsequent child; 1928-29 to 1930-31, £60 and £50 respectively; 1931-32, £50 for one child and £40 for each subsequent child.
Certain Dependent Relatives incapacitated by old age or infirmity.	£25 for each such relative.

TABLE V.—*Continued.*

RATES OF TAX IN THE £ CHARGEABLE ON THE TAXABLE INCOME.

	1920-21 and 1921-22	1922-23	1923-24 and 1924-25	1925-26 to 1929-30	1930-31	1931-32
On the first £225 (up to 1929-30)	3s. 0d.	2s. 6d.	2s. 3d.	2s. 0d.	2s. 0d.*	2s. 6d.†
On the remainder	6s. 0d.	5s 0d	4s. 6d.	4s. 0d.	4s. 6d.	5s. 0d.

Allowance for Life Insurance Premiums - -	Tax calculated at defined rates on premiums, subject to various restrictions.
Dominion Income-Tax Relief - - - - -	Tax calculated in accordance with statutory provisions.

The terms used in the following tables are defined as follows :

Gross Income means the income brought under the review of the Department, before adjustments are made in respect of repairs to lands, houses, etc., empty property, wear and tear of machinery, overcharges in the assessments, etc. It includes certain income belonging to individuals whose total income is below the effective exemption limit of £135 assessable income.

Actual Income means the statutory income of the taxpayer, estimated in accordance with the provisions of the Income-Tax Acts, after deduction of the income of individuals below the effective exemption limit and of the adjustments referred to under the definition of Gross Income.

Assessable Income is the actual income less the earned income allowance or, in the case of persons aged 65 years and upwards, the age allowance granted by section 15 of the Finance Act, 1925.

Taxable Income represents that part of the assessable income upon which Income-Tax is actually calculated. It is thus the assessable income less the personal allowances and deductions.

Effective Exemption Limit. It will be remembered that the provision of the Income-Tax Acts up to 1919-20 that where an individual's total income did not exceed a fixed amount (then £130) he should be entitled to exemption no longer exists, but that an effective exemption limit is retained in practice by not bringing into assessment income belonging to individuals whose total income does not exceed the minimum personal allowances, viz., which from 1920-21 to 1930-31 stood at £135 of assessable income—except in certain cases which are either due to the system of collection at the source or to administrative reasons. This effective exemption limit was then £135 of assessable income which was equal to £135 of investment income or £150 of earned income. Owing to a change in the earned income allowance in 1925, the figures in the tables are not strictly comparable throughout. From 1920-21 to 1924-25 £135 assessable income was equivalent (as we have seen) to £150 earned income; for 1925-26 to 1930-31 it was equivalent to £162 earned income. By changes in the Finance (No. 2) Act of 1931 the minimum personal allowance was reduced to £100 and the effective exemption limit became accordingly £100 of assessable income corresponding to £125 earned income. The numbers of taxpayers (Table VII.) are similarly affected by these changes.

* On the first £250. † On the first £175.

TABLE VI.

INCOME-TAX: ACTUAL INCOME, ALLOWANCES, AND TAXABLE INCOME; NET PRODUCE OF THE TAX; THE EFFECTIVE RATE IN THE £; THE NORMAL RATE IN THE £; AND THE PRODUCE FOR EACH PENNY OF THE NORMAL RATE.

(Compiled from the Annual Reports of the Inland Revenue Department.)

Years ended 5th April.	Actual Income.*	Allowances from Actual Income.				Taxable Income (Actual Income *less* Allowances).	Net Produce of the Tax. †	Effective rate of Tax levied on each Pound of Actual Income.	Normal Rate in the £.	Produce for each Penny of the Normal Rate	Years ended 5th April.
		Abatements.	Life Insurance Premiums.	Relief in respect of Children (and Wife, etc., from 1918-19).	Total Allowances.						
	£	£	£	£	£	£	£	d.	s. d.	£	
1913-14	951,040,487	139,772,193	13,304,633	6,248,796	159,325,622	791,714,865	43,523,345	10·98	1 2	3,108,810	1913-14
		Earned Income Allowance.		Personal Allowance, etc.							
1921-22	2,462,478,379	141,429,351		1,012,771,017	1,154,200,368	1,308,278,011	345,963,237	33·72	6 0	4,805,045	1921-22
1922-23	2,353,184,449	128,742,123		909,822,205	1,038,564,328	1,314,620,121	294,994,186	30·09	5 0	4,916,570	1922-23
1922-23‡	2,317,884,616	126,507,458		894,557,028	1,021,064,486	1,296,820,130	291,246,244	30·16		4,854,104	1922-23‡
1923-24‡	2,303,308,424	121,833,708		858,681,608	980,515,316	1,322,793,108	262,877,254	27·39	4 6	4,868,097	1923-24‡
1924-25‡	2,400,725,356	126,984,217		925,208,608	1,052,192,825	1,348,532,531	272,978,496	27·29	4 6	5,055,157	1924-25‡
1925-26‡	2,336,890,382	190,675,272		834,138,474	1,024,813,746	1,312,076,636	236,039,841	24·24	4 0	4,917,497	1925-26‡
1926-27‡	2,337,041,674	189,719,891		823,552,940	1,013,272,831	1,323,768,843	233,688,180	24·00	4 0	4,868,504	1926-27‡
1927-28‡	2,416,232,595	208,583,570		906,594,595	1,115,178,165	1,301,054,430	227,022,102	22·55	4 0	4,729,627	1927-28‡
1928-29‡	2,494,448,822	210,996,764		937,594,773	1,148,591,537	1,345,857,285	235,625,933	22·67	4 0	4,908,874	1928-29‡
1929-30‡	2,530,757,329	216,900,405		966,450,215	1,183,350,620	1,347,406,709	234,014,265	22·19	4 0	4,875,297	1929-30‡
1930-31‡‖	2,440,000,000	210,000,000		930,000,000	1,140,000,000	1,300,000,000	247,000,000	24·30	4 6	4,574,000	1930-31‡‖
1931-32	(Not available)										1931-32

* For definition of "Actual" income, see preceeding Table. ‖ Estimates.
† The Net Produce represents the ultimate yield of the assessments made in any particular year.
‡ Excluding Irish Free State.

The stages by which the "Taxable" income is arrived at from the Actual (or *Statutory*) income may be seen from the above Table; but it may be added that "Actual" income is arrived at by deduction from "Gross" income, as exemplified in the following figures for 1929-30:

GROSS INCOME		£3,183,476,146
Exemptions:		
For incomes not exceeding the exemption limit§	£59,419,012	
For Charities, Hospitals, Friendly Societies, etc.	39,958,919	
For Dominion and Foreign dividends belonging to persons not resident in the U.K.	6,786,905	
Reductions for Repairs (Land or Houses)	87,451,846	
Reductions for Wear and Tear of Machinery or Plant	87,750,606	
Other Reductions and Discharges	371,351,529	
		652,718,817
ACTUAL INCOME		£2,530,757,329

§ This figure represents only that portion of the income of exempt persons which for administrative reasons come within the purview of the department.

TABLE VII

INCOME-TAX: ESTIMATED NUMBER OF INDIVIDUALS WITH TOTAL INCOMES ABOVE THE EXEMPTION LIMIT.

Year.	Number of Individuals.		Total Number of Individuals.
	Entirely relieved from tax by the operation of abatements and allowances.	Chargeable with tax.	
UNITED KINGDOM.			
1920-21 - - - - -	3,150,000	3,000,000	6,150,000
1921-22 - - - - -	2,900,000	2,600,000	5,500,000
GREAT BRITAIN AND NORTHERN IRELAND.			
1922-23 - - - - -	2,700,000	2,375,000	5,075,000
1923-24 - - - - -	2,350,000	2,450,000	4,800,000
1924-25 - - - - -	2,800,000	2,400,000	5,200,000
1925-26 - - - - -	2,400,000	2,200,000	4,600,000
1926-27 - - - - -	2,250,000	2,250,000	4,500,000
1927-28 - - - - -	2,750,000	2,200,000	4,950,000
1928-29 - - - - -	2,800,000	2,200,000	5,000,000
1929-30 - - - - -	2,900,000	2,250,000	5,150,000
1930-31 - - - - -	2,750,000	2,200,000	4,950,000
1931-32* - - - - -	5,000,000	4,000,000	9,000,000

* "Rough forecasts" of the result of the changes in differentiation and graduation introduced by the Finance (No. 2) Act, 1931. Out of the four million odd persons brought within the income tax net, the additional number actually paying tax is estimated at between 1,500,000 and 2,000,000. [In this connection it must be borne in mind that this number now paying tax includes individuals who were previously under review but not chargeable.]

TABLE VIII.

SUPER-TAX AND SURTAX: SUPER-TAX.

(Compiled in part from 74th Inland Revenue Report.

Year.	Incomes Chargeable.	Rates of Super-Tax.	
1921-22 to 1924-25	Exceeding £2,000 -	In respect of the first £2,000 of the income - - - -	Nil.
		,, the excess over £2,000—	s. d.
		For every £1 of the first £500 of the excess (to £2,500) -	1 6
		,, £1 of the next £500 ,, ,, (,, £3,000) -	2 0
		,, £1 ,, ,, £1,000 ,, ,, (,, £4,000) -	2 6
		,, £1 ,, ,, £1,000 ,, ,, (,, £5,000) -	3 0
		,, £1 ,, ,, £1,000 ,, ,, (,, £6,000) -	3 6
		,, £1 ,, ,, £1,000 ,, ,, (,, £7,000) -	4 0
		,, £1 ,, ,, £1,000 ,, ,, (,, £8,000) -	4 6
		,, £1 ,, ,, £12,000 ,, ,, (,, £20,000) -	5 0
		,, £1 ,, ,, £10,000 ,, ,, (,, £30,000) -	5 6
		,, £1 ,, remainder ,, ,, (above £30,000) -	6 0
1925-26 to 1928-29	Exceeding £2,000 -	In respect of the first £2,000 of the income - - - -	Nil.
		,, the excess over £2,000—	s. d.
		For every £1 of the first £500 of the excess (to £2,500) -	0 9
		,, £1 of the next £500 ,, ,, (,, £3,000) -	1 0
		,, £1 ,, ,, £1,000 ,, ,, (,, £4,000) -	1 6
		,, £1 ,, ,, £1,000 ,, ,, (,, £5,000) -	2 3
		,, £1 ,, ,, £1,000 ,, ,, (,, £6,000) -	3 0
		,, £1 ,, ,, £2,000 ,, ,, (,, £8,000) -	3 6
		,, £1 ,, ,, £2,000 ,, ,, (,, £10,000) -	4 0
		,, £1 ,, ,, £5,000 ,, ,, (,, £15,000) -	4 6
		,, £1 ,, ,, £5,000 ,, ,, (,, £20,000) -	5 0
		,, £1 ,, ,, £10,000 ,, ,, (,, £30,000) -	5 6
		,, £1 ,, remainder ,, ,, (above £30,000) -	6 0

SURTAX.

Year.	Incomes Chargeable.	Excess of Income-Tax over Standard Rate.	
1928-29 -	Exceeding £2,000 -	In respect of the first £2,000 of the income - - - -	Nil.
		,, the excess over £2,000—	s. d.
		For every £1 of the first £500 of the excess (to £2,500) -	0 9
		,, £1 of the next £500 ,, ,, (,, £3,000) -	1 0
		,, £1 ,, ,, £1,000 ,, ,, (,, £4,000) -	1 6
		,, £1 ,, ,, £1,000 ,, ,, (,, £5,000) -	2 3
		,, £1 ,, ,, £1,000 ,, ,, (,, £6,000) -	3 0
		,, £1 ,, ,, £2,000 ,, ,, (,, £8,000) -	3 6
		,, £1 ,, ,, £2,000 ,, ,, (,, £10,000) -	4 0
		,, £1 ,, ,, £5,000 ,, ,, (,, £15,000) -	4 6
		,, £1 ,, ,, £5,000 ,, ,, (,, £20,000) -	5 0
		,, £1 ,, ,, £10,000 ,, ,, (,, £30,000) -	5 6
		,, £1 ,, remainder ,, ,, (above £30,000) -	6 0
1929-30* -	Exceeding £2,000 -	In respect of the first £2,000 of the income - - - -	Nil.
		,, the excess over £2,000—	s. d.
		For every £1 of the first £500 of the excess (to £2,500) -	1 0
		,, £1 of the next £500 ,, ,, (,, £3,000) -	1 3
		,, £1 ,, ,, £1,000 ,, ,, (,, £4,000) -	2 0
		,, £1 ,, ,, £1,000 ,, ,, (,, £5,000) -	3 0
		,, £1 ,, ,, £1,000 ,, ,, (,, £6,000) -	3 6
		,, £1 ,, ,, £2,000 ,, ,, (,, £8,000) -	4 0
		,, £1 ,, ,, £2,000 ,, ,, (,, £10,000) -	5 0
		,, £1 ,, ,, £5,000 ,, ,, (,, £15,000) -	5 6
		,, £1 ,, ,, £5,000 ,, ,, (,, £20,000) -	6 0
		,, £1 ,, ,, £10,000 ,, ,, (,, £30,000) -	6 6
		,, £1 ,, ,, £20,000 ,, ,, (,, £50,000) -	7 0
		,, £1 ,, remainder ,, ,, (above £50,000) -	7 6
1931-32 to —		On September 10th, 1931, Mr. Snowden increased by ten per cent. the amount of surtax payable under §6 of the Finance Act, 1931; this was estimated to produce £4,000,000 increase in 1931-32 and £6,000,000 in a full year.	

* Higher rates of surtax for 1929-30 (prescribed by 1930 Budget) became payable in 1930-31.

TABLE IX.

SUPER-TAX AND SURTAX.

NUMBERS AND INCOME ASSESSED, AND NET RECEIPTS.

1913-14 AND 1921-22 TO 1931-32.

	Number of Persons charged.	Total Income assessed (including first portion on which no Super-Tax or Surtax is payable).	Net Receipts within the year irrespective of year for which charged.
UNITED KINGDOM.		£	£
1913-14 (Incomes exceeding £5,000)	14,008	175,605,053	3,339,008
1921-22 (" " £2,000)	93,127	586,467,739	61,351,366
GREAT BRITAIN AND NORTHERN IRELAND.			
1922-23 (Incomes exceeding £2,000)	91,216	526,831,109	63,910,221
1923-24 (" " ")	94,471	550,344,574	61,746,785
1924-25 (" " ")	96,682	559,799,383	62,989,313
1925-26 (" " ")	98,030	560,311,364	67,833,068
1926-27 (" " ")	99,321	559,026,541	66,295,611
1927-28 (" " ")	99,380	550,499,840	60,052,833
1928-29 (" " ")	100,626	555,130,669	56,214,168
SURTAX.			
1928-29 (Incomes exceeding £2,000)	103,027	570,127,339	
1929-30 (" " ")	—	—	56,624,217
1930-31 (" " ")	—	—	67,657,195
1931-32 (" " ")	—	—	76,700,000*

* Exchequer Receipts.

TABLE X.

SUPER-TAX AND SURTAX.*

DISTRIBUTION OF INCOMES.

(The latest figures available.)

Class.		Super-Tax 1928-29.		Surtax 1928-29.	
Exceeding	Not exceeding	Number of Persons.	Total Incomes Assessed.	Number of Persons.	Total Incomes Assessed.
£	£		£		£
2,000	2,500	24,602	55,287,006	25,400	57,159,546
2,500	3,000	16,816	45,971,540	17,337	47,361,612
3,000	4,000	19,803	68,297,028	20,262	69,752,226
4,000	5,000	11,067	49,381,828	11,229	50,049,997
5,000	6,000	6,873	37,595,820	7,045	38,559,623
6,000	7,000	4,542	29,351,984	4,655	30,158,894
7,000	8,000	3,312	24,709,067	3,302	24,706,387
8,000	10,000	4,229	37,618,712	4,163	37,030,698
10,000	15,000	4,666	56,504,564	4,775	57,752,131
15,000	20,000	1,859	31,911,135	1,907	32,809,126
20,000	25,000	958	21,271,012	983	21,819,392
25,000	30,000	535	14,671,778	579	15,861,537
30,000	40,000	596	20,573,310	578	19,778,574
40,000	50,000	271	12,144,552	272	12,171,436
50,000	75,000	261	15,686,329	282	16,925,536
75,000	100,000	106	9,240,341	101	8,756,359
100,000	—	130	24,914,663	157	29,474,265
Total		100,626	555,130,669	103,027	570,127,339

The change from Super-Tax to Surtax was prescribed by Part III. of the Finance Act, 1927, as part of a scheme for the simplification of the Income-Tax to come into operation in the year 1928-29. The main objects of the scheme were: (1) to combine Income-Tax and Super-Tax into one tax with one basis of assessment, and (2) to arrange that a single return of income annually should suffice for all purposes. The 71st Inland Revenue Report (pp. 57-58) gives the following explanation of the change.

The Super-Tax, described as an additional duty of Income-Tax, had been charged for any year of assessment on the individual's total income as computed for Income-Tax purposes for the preceding year. Under the new scheme it was imposed—under the name of Surtax—upon the total income as computed for Income-Tax purposes for the year of assessment, and was so imposed as a deferred instalment of Income-Tax for that year, payable on January 1st in the year following the year of assessment. Thus, for the year 1928-29, Income-Tax was imposed both at the standard rate (payable either on January 1st, 1929, or in two instalments on January 1st and July 1st, 1929) and also at rates on a graduated scale exceeding the standard rate in respect of the excess over £2,000 of incomes which exceed that limit. The difference between the total amount of tax payable in respect of an income exceeding £2,000 and the amount which would have been payable if tax had been chargeable at the standard rate only is the deferred instalment of Income-Tax which, under the name of Surtax, was payable on January 1st, 1930. It took the place of what, under the old procedure, would have been the Super-Tax for the year 1929-30. The Super-Tax was, therefore, charged for the last time for the year 1928-29. The Surtax is assessed by the Special Commissioners, who were responsible for the assessment of the Super-Tax.

As a result of this scheme, the year 1928-29 is the last year for which a taxpayer was required to make a separate return of his total income for Super-Tax purposes. For the future, instead of having to make one or more returns for Income-Tax and a further return in the following year where liability to Super-Tax arises, the taxpayer was called upon to make one return only—that of the various sources of his income and the amount derived from each source for the preceding year. The various personal allowances and reliefs for earned income, children, etc., which, with one small exception, were continued in precisely the same amounts as before, were granted in terms of deductions of tax instead of deductions from income as hitherto.

* The Super-Tax for 1928-29 was charged on the 1927-28 Income-Tax income, and was payable on January 1st, 1929. The Surtax for 1928-29 was charged on the 1928-29 Income-Tax income, and was payable on January 1st, 1930. The net receipt in 1928-29 is wholly Super-Tax. The net receipt in 1929-30 is made up of Surtax for 1928-29 and arrears of Super-Tax for 1928-29 and earlier years.

TABLE XI.

INCOME-TAX AND SUPER- (OR SUR-) TAX.

Table showing the effective rate of Tax (Income-Tax plus Super-Tax or Surtax, if any) payable per £ of total income in the years 1913-14, 1929-30, 1930-31, and 1931-32:
(*a*) by single persons;
(*b*) by married couples without children; and
(*c*) by married couples entitled to the allowance for three children.

Total Income £	Whether: (*a*) Single; (*b*) Married, no children; or (*c*) Married, and three children.	1913-14.		1929-30.		1930-31.		1931-32.	
		All Earned Income.	All Investment Income.	All Earned Income.	All Investment Income.	All Earned Income.	All Investment Income.	All Earned Income.	All Investment Income.
		s. d.	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*
100	Single	—	—	—	—	—	—	—	—
	Married	—	—	—	—	—	—	—	—
	„ (3 children)	—	—	—	—	—	—	—	—
150	Single	—	—	—	0 2½	—	0 2½	0 4	0 10
	Married	—	—	—	—	—	—	—	—
	„ (3 children)	—	—	—	—	—	—	—	—
200	Single	0 2	0 3	0 4	0 8	0 4	0 8	0 9	1 3
	Married	0 2	0 3	—	—	—	—	0 1½	0 7½
	„ (3 children)	0 0½	0 0½	—	—	—	—	—	—
300	Single	0 4	0 6½	0 9	1 1	0 9	1 1	1 2	1 10½
	Married	0 4	0 6½	0 2	0 6	0 2	0 6	0 9	1 3
	„ (3 children)	0 3½	0 5	—	—	—	—	—	0 2
400	Single	0 5½	0 8½	1 0	1 6½	1 0	1 5	1 8	2 8
	Married	0 5½	0 8½	0 6½	0 10½	0 6½	0 10½	1 1	2 0½
	„ (3 children)	0 4½	0 7½	—	0 1	—	0 1	0 3	0 9
500	Single	0 6½	0 10	1 4	2 0	1 3½	2 0½	2 1½	3 1½
	Married	0 6½	0 10	0 9	1 3½	0 9	1 2½	1 7½	2 7½
	„ (3 children)	0 6	0 9	0 1½	0 5½	0 1½	0 5½	0 7	1 4
1,000	Single	0 9	1 2	2 4	3 0	2 6	3 3	3 1	4 1
	Married	0 9	1 2	2 0	2 8	2 1½	2 10½	2 10	3 10
	„ (3 children)	0 9	1 2	1 4	2 0	1 4½	2 1½	2 2	3 2
2,000	Single	0 9	1 2	3 0	3 6	3 4	3 10½	3 9½	4 6½
	Married	0 9	1 2	2 10	3 4	3 1½	3 8	3 8	4 5
	„ (3 children)	0 9	1 2	2 6	3 0	2 9	3 4	3 4	4 1
5,000	Single	1 2	1 2	4 6½	4 8½	5 3	5 5½	5 10½	6 2
	Married	1 2	1 2	4 5½	4 8	5 2	5 5	5 9½	6 1½
	„ (3 children)	1 2	1 2	4 4	4 6½	5 0½	5 3	5 8	6 0
10,000	Single	1 6	1 6	6 1	6 2	7 0½	7 1½	7 9½	7 11½
	Married	1 6	1 6	6 0½	6 1½	7 0	7 1	7 9	7 11
	„ (3 children)	1 6	1 6	5 11½	6 1	6 11	7 0½	7 8½	7 10½
20,000	Single	1 7	1 7	7 5	7 5½	8 7½	8 8½	9 6½	9 7½
	Married	1 7	1 7	7 4½	7 5½	8 7½	8 8	9 6½	9 7½
	„ (3 children)	1 7	1 7	7 4½	7 5	8 7	8 7½	9 6	9 7
50,000	Single	1 7½	1 7½	8 10½	8 10½	10 3	10 3½	11 4	11 4½
	Married	1 7½	1 7½	8 10½	8 10½	10 3	10 3	11 4	11 4½
	„ (3 children)	1 7½	1 7½	8 10	8 10½	10 3	10 3	11 4	11 4

For more complete figures see the White Paper, Cmd. 3954, issued in connection with the Budget of September, 1931.

NOTE.—The total amount of Tax payable (Income-Tax plus Super-Tax or Surtax, if any) may be calculated approximately by multiplying the effective rate by the relative figure in the "total income" column. The effective rate is calculated to the nearest halfpenny, so the result thus obtained may differ somewhat from the precise amount payable. It should be noted that in a few cases where the Table shows the same effective rate (*e.g.*, 11s. 4d. for incomes of £50,000, whether the taxpayer is single or married without children), there may actually be a relatively small difference in the total amount of tax payable in the two cases, but it is too small to change the effective rate by one-halfpenny.

TABLE XII.

ESTATE DUTY: RATES OF DUTY.

(From 74th Inland Revenue Report.)

Small estates—where the gross value does not exceed £300—a fixed duty of 30s. may be paid
Small estates—where the gross value exceeds £300 and does not exceed £500—a fixed duty of 50s. may be paid
} Inclusive of all other Death Duties.

Estates not exceeding £100 net are exempt.

Where the Net Principal Value of the Estate		Rate of Duty per cent. when the death occurred:						
Exceeds.	And does not exceed.	After 1st August, 1894, and before 19th April, 1907.*	After 18th April, 1907, and before 30th April, 1909.	After 29th April, 1909, and before 16th August, 1914.	After 15th August, 1914, and before 1st August, 1919.†	After 31st July, 1919, and before 30th June, 1925.†	After 29th June, 1925, and before 1st August, 1930.†	After 31st, July 1930.†
£	£							
100	500	1	1	1	1	1	1	1
500	1,000	2	2	2	2	2	2	2
1,000	5,000	3	3	3	3	3	3	3
5,000	10,000	3	3	4	4	4	4	4
10,000	12,500	4	4	5	5	5	5	5
12,500	15,000	4	4	5	5	5	6	6
15,000	18,000	4	4	5	5	6	7	7
18,000	20,000	4	4	5	5	6	8	8
20,000	21,000	4	4	6	6	7	8	8
21,000	25,000	4	4	6	6	7	9	9
25,000	30,000	4½	4½	6	6	8	10	10
30,000	35,000	4½	4½	6	6	9	11	11
35,000	40,000	4½	4½	6	6	9	12	12
40,000	45,000	4½	4½	7	7	10	13	13
45,000	50,000	4½	4½	7	7	10	14	14
50,000	55,000	5	5	7	7	11	15	15
55,000	60,000	5	5	7	7	11	16	16
60,000	65,000	5	5	7	8	12	16	16
65,000	70,000	5	5	7	8	12	17	17
70,000	75,000	5	5	8	8	13	17	17
75,000	80,000	5½	5½	8	8	13	18	18
80,000	85,000	5½	5½	8	9	13	18	18
85,000	90,000	5½	5½	8	9	13	19	19
90,000	100,000	5½	5½	8	9	14	19	19
100,000	110,000	6	6	9	10	14	20	20
110,000	120,000	6	6	9	10	15	20	20
120,000	130,000	6	6	9	10	15	21	22
130,000	140,000	6	6	9	10	16	21	22
140,000	150,000	6	6	9	10	16	22	22
150,000	170,000	6½	7	10	11	17	22	24
170,000	175,000	6½	7	10	11	17	23	24
175,000	200,000	6½	7	10	11	18	23	24
200,000	225,000	6½	7	11	12	19	24	26
225,000	250,000	6½	7	11	12	20	24	26
250,000	300,000	7	8	11	13	21	25	28
300,000	325,000	7	8	11	14	22	25	30
325,000	350,000	7	8	11	14	22	26	30
350,000	400,000	7	8	11	15	23	26	30
400,000	450,000	7	8	12	16	24	27	32
450,000	500,000	7	8	12	16	25	27	32
500,000	600,000	7½	9	12	17	26	28	34
600,000	750,000	7½	9	13	18	27	28	36
750,000	800,000	7½	10	13	18	27	29	36
800,000	1,000,000	7½	10	14	19	28	29	38
1,000,000	1,250,000	8	11 ‡	15	20	30	30	40
1,250,000	1,500,000	8	11 ‡	15	20	32	32	42
1,500,000	2,000,000	8	12 ‡	15	20	35	35	45
2,000,000	2,500,000	8	13 ‡	15	20	40	40	50
2,500,000	3,000,000	8	14 ‡	15	20	40	40	50
3,000,000	—	8	15 ‡	15	20	40	40	50

* Other rates of Estate Duty, viz., ½, 1½, 2½ and 3½ per cent. may also arise in the circumstances set out in section 12 (2) of the Finance Act, 1900.

† The amount of duty is, where necessary, to be reduced so as not to exceed the highest amount which would be payable at the next lower rate plus the amount by which the value of the estate exceeds the value on which the highest amount of duty would be so payable at the lower rate.

‡ The first £1,000,000 chargeable at 10 per cent.; the remainder at the rate shown.

TABLE

ESTATE DUTIES: CLASSIFICATION OF THE NUMBER OF ESTATES TO ESTATE DUTY IN EACH

(Compiled for the 75th Statistical Abstract for the United Kingdom

Class.		1913-14.	1921-22.	1922-23.*	1923-24.*	1924-25.*
		I. Number of Estates.				
Small Estates	Not exceeding £300 gross value	21,818	28,504	25,143	24,860	26,206
	Exceeding £300 but not exceeding £500 gross value.	10,806	16,101	14,970	15,180	15,958
Net— Exceeding	£100 but not exceeding £500	6,199	25,546	24,051	24,166	25,754*
,,	500 ,, ,, 1,000	11,857				
,,	1,000 ,, ,, 5,000	16,004	24,731	23,766	24,378	25,855
,,	5,000 ,, ,, 10,000	3,537	5,145	5,127	5,209	5,721
,,	10,000 ,, ,, 15,000	2,239	1,921	2,014	2,046	2,152
,,	15,000 ,, ,, 20,000		950	1,027	1,035	1,186
,,	20,000 ,, ,, 25,000	475	578	619	657	701
,,	25,000 ,, ,, 30,000	723	445	383	462	459
,,	30,000 ,, ,, 40,000		513	550	542	571
,,	40,000 ,, ,, 50,000	226	272	306	331	349
,,	50,000 ,, ,, 60,000	236	203	207	205	212
,,	60,000 ,, ,, 70,000					
,,	70,000 ,, ,, 75,000	49	227	240	290	246
,,	75,000 ,, ,, 80,000	155				
,,	80,000 ,, ,, 100,000		119	136	152	146
,,	100,000 ,, ,, 150,000	155	134	162	173	185
,,	150,000 ,, ,, 200,000	55	73	69	70	84
,,	200,000 ,, ,, 250,000	22	38	30	51	57
,,	250,000 ,, ,, 300,000	37	23	23	20	26
,,	300,000 ,, ,, 400,000		25	30	34	24
,,	400,000 ,, ,, 500,000	17	20	9	10	13
,,	500,000 ,, ,, 600,000	10	7	12	5	10
,,	600,000 ,, ,, 800,000	8	5	11	8	12
,,	800,000 ,, ,, 1,000,000	3	5	2	7	7
,,	1,000,000 ,, ,, 1,500,000	7	6	9	2	5
,,	1,500,000 ,, ,, 2,000,000	2	2	3	2	7
,,	2,000,000 ,, ,, 3,000,000	2	2	1	3	—
,,	3,000,000 - - - - -	—	1	2	2	1
Total - - - - - -		74,642	105,596	98,902	99,900	105,947
		II. Capital Value of Estates (in thousand £).				
Small Estates	Not exceeding £300 gross value.	4,180	5,473	4,882	4,902	5,256
	Exceeding £300 but not exceeding £500 gross value.	4,318	6,303	5,939	5,791	6,030
Net— Exceeding	£100 but not exceeding £500	2,705	19,266	17,547	17,475	18,518
,,	500 ,, ,, 1,000	9,943				
,,	1,000 ,, ,, 5,000	42,783	67,047	63,155	64,303	67,942
,,	5,000 ,, ,, 10,000	28,646	43,112	43,816	44,387	47,884
,,	10,000 ,, ,, 15,000	35,146	28,987	30,068	31,033	31,842
,,	15,000 ,, ,, 20,000		19,134	20,622	20,793	23,865
,,	20,000 ,, ,, 25,000	11,356	15,359	16,410	17,616	19,442
,,	25,000 ,, ,, 30,000	23,956	14,001	12,890	13,698	14,701
,,	30,000 ,, ,, 40,000		20,415	21,282	21,911	23,726
,,	40,000 ,, ,, 50,000	10,548	14,557	15,822	18,401	18,240
,,	50,000 ,, ,, 60,000	15,450	13,462	12,403	12,639	12,231
,,	60,000 ,, ,, 70,000					
,,	70,000 ,, ,, 75,000	3,686	19,845	22,215	23,761	20,221
,,	75,000 ,, ,, 80,000	14,275				
,,	80,000 ,, ,, 100,000		13,190	14,843	16,188	14,900
,,	100,000 ,, ,, 150,000	18,614	19,684	21,515	26,605	27,169
,,	150,000 ,, ,, 200,000	8,964	13,993	14,377	14,823	19,503
,,	200,000 ,, ,, 250,000	5,067	11,192	9,306	9,477	14,762
,,	250,000 ,, ,, 300,000	13,761	9,951	6,218	7,471	10,561
,,	300,000 ,, ,, 400,000		10,558	13,503	15,383	11,354
,,	400,000 ,, ,, 500,000	7,115	9,415	6,317	7,085	7,133
,,	500,000 ,, ,, 600,000	3,396	4,802	8,259	1,894	7,253
,,	600,000 ,, ,, 800,000	5,382	8,362	8,113	7,478	7,136
,,	800,000 ,, ,, 1,000,000	5,275	4,020	4,354	9,947	4,344
,,	1,000,000 ,, ,, 1,500,000	7,641	9,826	17,432	5,185	10,004
,,	1,500,000 ,, ,, 2,000,000	322	3,148	8,842	10,411	12,027
,,	2,000,000 ,, ,, 3,000,000	6,870	3,773	3,111	3,119	484
,,	3,000,000 - - - - -	7,038	10,960	7,957	10,120	4,607
Total - - - - - -		296,432	419,835	431,198	441,896	461,135

* Great Britain only.

XIII.

AND CAPITAL VALUE OF ESTATES OR PORTIONS OF ESTATES LIABLE
YEAR ENDED MARCH 31ST.

from the Annual Reports of the Inland Revenue Department.)

1925-26*	1926-27*	1927-28*	1928-29*	1929-30*	1930-31*	Class.
			I. Number of Estates.			
25,439	27,841	28,583	27,095	30,437	30,088	Small Estates: Not exceeding £300 gross value.
15,641	15,371	15,993	17,953	19,500	18,990	Small Estates: Exceeding £300 but not exceeding £500 gross value.
26,107	27,168	28,743	29,135	32,591	30,939	Net— Exceeding £100 but not exceeding £500
26,236	27,026	28,960	28,800	31,571	30,516	,, 500 ,, ,, 1,000
5,722	6,063	6,548	6,612	7,233	7,035	,, 1,000 ,, ,, 5,000
2,140	2,371	2,490	2,717	2,787	2,788	,, 5,000 ,, ,, 10,000
1,134	1,236	1,341	1,421	1,505	1,420	,, 10,000 ,, ,, 15,000
730	786	934	868	998	885	,, 15,000 ,, ,, 20,000
479	528	587	561	616	638	,, 20,000 ,, ,, 25,000
603	674	673	728	833	740	,, 25,000 ,, ,, 30,000
345	375	455	446	504	415	,, 30,000 ,, ,, 40,000
195	263	257	297	295	301	,, 40,000 ,, ,, 50,000
256	286	363	329	355	324	,, 50,000 ,, ,, 60,000 ,, 60,000 ,, ,, 70,000 ,, 70,000 ,, ,, 75,000
205	117	169	186	236	165	,, 75,000 ,, ,, 80,000 ,, 80,000 ,, ,, 100,000
169	228	196	215	264	214	,, 100,000 ,, ,, 150,000
92	100	98	110	103	93	,, 150,000 ,, ,, 200,000
47	38	64	54	56	61	,, 200,000 ,, ,, 250,000
25	26	38	24	39	30	,, 250,000 ,, ,, 300,000
21	27	36	53	51	27	,, 300,000 ,, ,, 400,000
17	16	26	21	20	18	,, 400,000 ,, ,, 500,000
13	8	8	12	13	4	,, 500,000 ,, ,, 600,000
6	14	9	18	15	17	,, 600,000 ,, ,, 800,000
7	6	2	8	5	11	,, 800,000 ,, ,, 1,000,000
5	6	7	8	5	8	,, 1,000,000 ,, ,, 1,500,000
—	1	3	6	4	3	,, 1,500,000 ,, ,, 2,000,000
1	—	1	5	4	6	,, 2,000,000 ,, ,, 3,000,000
1	3	4	1	2	5	,, 3,000,000.
105,636	110,578	116,588	117,683	130,042	125,741	Total.
			II. Capital Value of Estates (in thousand £).			
4,959	5,337	5,720	5,636	6,017	5,966	Small Estates: Not exceeding £300 gross value.
5,838	6,096	6,375	7,395	7,733	7,542	Small Estates: Exceeding £300 but not exceeding £500 gross value.
18,741	19,369	20,516	20,830	23,065	21,713	Net— Exceeding £100 but not exceeding £500
68,738	70,009	77,082	75,950	79,703	72,598	,, 500 ,, ,, 1,000
48,699	49,033	51,331	49,806	55,604	52,246	,, 1,000 ,, ,, 5,000
31,935	32,964	34,924	36,286	36,637	35,351	,, 5,000 ,, ,, 10,000
23,452	23,681	26,989	25,887	26,908	26,016	,, 10,000 ,, ,, 15,000
19,259	18,742	22,788	19,268	22,878	20,288	,, 15,000 ,, ,, 20,000
15,462	16,263	16,563	16,033	17,528	17,856	,, 20,000 ,, ,, 25,000
23,369	26,302	25,301	27,333	28,491	26,590	,, 25,000 ,, ,, 30,000
17,332	18,058	20,314	20,670	22,139	19,029	,, 30,000 ,, ,, 40,000
13,583	15,745	14,871	17,143	16,483	16,819	,, 40,000 ,, ,, 50,000
19,730	21,885	25,988	23,623	25,467	22,220	,, 50,000 ,, ,, 60,000 ,, 60,000 ,, ,, 70,000 ,, 70,000 ,, ,, 75,000
18,446	12,113	15,394	17,070	20,235	15,760	,, 75,000 ,, ,, 80,000 ,, 80,000 ,, ,, 100,000
22,901	29,773	25,057	28,560	31,068	27,743	,, 100,000 ,, ,, 150,000
18,420	16,290	16,332	20,785	18,438	15,873	,, 150,000 ,, ,, 200,000
9,459	10,354	14,280	10,463	13,563	14,041	,, 200,000 ,, ,, 250,000
10,200	9,054	9,058	6,829	8,904	8,272	,, 250,000 ,, ,, 300,000
9,196	8,500	11,630	18,817	17,381	9,804	,, 300,000 ,, ,, 400,000
7,768	7,914	9,479	10,057	7,509	9,810	,, 400,000 ,, ,, 500,000
6,590	6,740	6,248	7,465	5,570	2,566	,, 500,000 ,, ,, 600,000
8,871	11,285	5,993	10,310	11,059	11,938	,, 600,000 ,, ,, 800,000
9,713	5,553	2,375	9,060	3,292	8,992	,, 800,000 ,, ,, 1,000,000
13,630	4,620	9,233	8,543	7,983	10,665	,, 1,000,000 ,, ,, 1,500,000
—*1,419*†	2,460	6,544	6,105	8,506	3,858	,, 1,500,000 ,, ,, 2,000,000
2,748	2,947	2,155	11,932	3,806	12,829	,, 2,000,000 ,, ,, 3,000,000
8,770	15,380	28,530	13,277	12,409	20,415	,, 3,000,000.
456,390	466,467	511,070	525,133	538,376	516,800	Total.

† Capital transferred, in the year, to other classes exceeded that brought into this class.

TABLE

CUSTOMS AND EXCISE DUTIES,

SUMMARY OF

Classified under the heads of:
(1) Pre-War Liquor and Tobacco Duties;
(2) Pre-War Breakfast Table Duties;
(3) Miscellaneous Pre-War Duties;

Heads of Revenue.	UNITED KINGDOM.			GREAT BRITAIN		
	1913-14. £000's.	1920-21. £000's.	1921-22. £000's.	1922-23.† £000's.	1923-24. £000's.	1924-25. £000's.
Spirits	23,976	71,048	62,831	53,704	54,037	51,054
Beer	13,655	123,406	121,865	100,033	81,702	81,987
Wine	1,152	2,913	2,751	3,033	3,369	3,752
Liquor Licences, etc.	4,517	3,922	4,565	4,187	4,307	4,658
Tobacco	18,284	55,532	55,208	50,831	51,882	51,913
Total Pre-War Liquor and Tobacco Duties	61,584	256,821	247,220	211,788	195,297	193,364
Sugar, etc.	3,329	30,445	36,760	38,470	38,117	20,532
Tea	6,499	16,861	17,582	11,144	10,731	5,971
Cocoa	341	1,793	1,865	1,256	1,258	669
Coffee, Chicory, etc.	223	660	691	483	494	250
Fruits, Preserved, etc.	514	696	773	816	928	731
Total Pre-War Breakfast Table Duties	10,906	50,455	57,671	52,169	51,528	28,153
Motor Spirit‡	841	2,559	*−169*	—	—	—
Other Licences§	1,201	1,096	487	465	468	468
Railway Passengers	288	8	191	493	450	427
Patent Medicines	360	1,370	1,328	1,220	1,307	1,323
Total Miscellaneous Pre-War Duties	2,690	5,033	1,837	2,178	2,225	2,218
Table Waters and Cider	—	1,281	1,263	1,001	740	548
Matches and Mechanical Lighters	—	3,051	3,224	2,982	3,121	3,295
New Import (McKenna) Duties	—	5,481	1,698	2,357	2,590	110
Entertainments	—	11,736	10,280	9,603	9,285	6,249
Total New War Duties	—	21,549	16,465	15,943	15,736	10,202
Hops	—	—	—	—	—	—
British Wines	—	—	—	—	—	—
Silk and Artificial Silk	—	—	—	—	—	—
Hydrocarbon Oils	—	—	—	—	—	—
Safeguarding of Industry Duties	—	—	140	565	631	476
Betting Duty and Certificates	—	—	—	—	—	—
"New Import Duties":						
Abnormal Importation	—	—	—	—	—	—
Horticultural Products	—	—	—	—	—	—
General *ad valorem* Duty	—	—	—	—	—	—
Total New Post-War Duties	—	—	140	565	631	476
Remaining Items	48	*−44*	20	*−24*	2,314¶	593¶
Total Customs and Excise Net Receipts.	75,227	333,813	323,355	282,620	267,731	235,007

* Excluding receipts from "Transferred Taxes" in Northern Ireland, *i.e.*, entertainment duty and licence duties other than those on brewers, distillers, and tobacco manufacturers.

† Attributable Revenue.

‡ Disappeared January 1st, 1921. Duty on hydrocarbon oils imposed in 1928.

XIV.

1913-14 AND 1920-21 TO 1931-32.

NET RECEIPTS.

Classified under the heads of:
(4) New War Duties (introduced during the War);
(5) New Post-War Duties; and
(6) Remaining items of insufficient importance to be separately classified.

AND NORTHERN IRELAND.*

1925-26. £000's.	1926-27. £000's.	1927-28. £000's.	1928-29. £000's.	1929-30. £000's.	1930-31. £000's.	1931-32.‖ £000's.	Heads of Revenue.
49,928	43,553	47,368	45,667	42,599	40,639	34,982	Spirits.
82,403	84,196	83,319	75,825	77,151	75,698	75,165	Beer.
3,746	4,329	4,149	4,248	4,881	4,096	3,802	Wine.
4,554	4,498	4,624	4,571	4,587	4,582	4,628	Liquor Licences, etc.
53,498	53,859	58,104	59,087	62,794	64,077	63,298	Tobacco.
194,129	190,435	197,564	189,398	192,012	189,092	181,875	Total Pre-War Liquor and Tobacco Duties.
19,371	18,784	18,742	15,288	13,549	14,881	16,433	Sugar, etc.
5,780	5,953	5,781	5,740	43	—	—	Tea.
735	754	697	709	689	815	776	Cocoa.
249	250	248	244	236	260	248	Coffee, Chicory, etc.
565	588	615	643	474	507	520	Fruits, Preserved, etc.
26,700	26,329	26,083	22,624	14,991	16,463	17,977	Total Pre-War Breakfast Table Duties.
—	—	—	—	—	—	—	Motor Spirit.‡
470	466	510	530	531	529	524	Other Licences.§
414	388	376	367	52	—	—	Railway Passengers.
1,290	1,295	1,249	1,334	1,234	1,098	1,029	Patent Medicines.
2,174	2,149	2,135	2,231	1,817	1,627	1,553	Total Miscellaneous Pre-War Duties.
414	401	387	391	399	373	341	Table Waters and Cider.
3,345	3,579	3,954	3,960	4,170	4,153	4,137	Matches and Mechanical Lighters
1,081	2,712	3,563	3,515	3,692	2,768	1,878	New Import (McKenna) Duties.
5,714	5,729	6,120	6,004	6,696	6,952	7,857	Entertainments.
10,554	12,421	14,024	13,870	14,957	14,246	14,213	Total New War Duties.
118	174	317	290	206	159	211	Hops.
—	—	119	202	210	203	204	British Wines.
3,199	5,667	5,992	6,063	6,243	6,642	6,846	Silk and Artificial Silk.
—	—	—	12,982	15,042	15,909	29,276	Hydrocarbon Oils.
749	1,917	2,140	2,335	2,431	1,575	853	Safeguarding of Industry Duties.
—	835	2,669	2,245	286	16	—	Betting Duty and Certificates.
							"New Import Duties":
—	—	—	—	—	—	1,165	Abnormal Importation.
—	—	—	—	—	—	164	Horticultural Products.
—	—	—	—	—	—	760	General *ad valorem* Duty.
4,066	8,593	11,237	24,117	24,418	24,504	39,479	Total New Post-War Duties.
136¶	62	93	578	*−210*	112	955	Remaining Items.
237,758	239,988	251,138	252,819	247,982	246,045	256,052	Total Customs and Excise Net Receipts.

§ Motor Vehicle Licence Duties were included under this head until January 1st, 1921, from which date they were paid to the Ministry of Transport.

‖ Approximate figures from Financial Statement (1932-33).

¶ Including adjustments with Irish Free State in respect of attributable revenue for 1922-23.

TABLE XVI.

ESTIMATED POPULATION OF EACH DIVISION OF THE UNITED KINGDOM AS AT THE MIDDLE OF EACH YEAR 1913, AND 1921 TO 1932.

(Compiled from the Annual Reports of the Registrar-General for each Division of the United Kingdom.)

	1913.	1921.	1922.	1923.	1924.	1925.	1926.	1927.	1928.	1929.	1930.	1931.*	1932.*
ENGLAND AND WALES :	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.	Thousands.
Males	17,687	18,075	18,225	18,342	18,545	18,602	18,698	18,804	18,896	18,969	19,075	19,160	19,280
Females	18,887	19,811	19,933	20,061	20,201	20,288	20,369	20,486	20,586	20,638	20,731	20,828	20,921
Persons	36,574	37,887	38,158	38,403	38,746	38,890	39,067	39,290	39,482	39,607	39,806	39,988	40,201
SCOTLAND :													
Males	2,296	2,348	2,345	2,343	2,341	2,339	2,337	2,334	2,332	2,330	2,328	2,326	‡
Females	2,432	2,535	2,533	2,531	2,529	2,527	2,526	2,524	2,522	2,520	2,518	2,517	‡
Persons	4,728	4,882	4,878	4,874	4,870	4,866	4,862	4,858	4,854	4,850	4,846	4,843	4,880
IRELAND † :													
Males †	2,170	2,209	619	609	608	608	607	605	604	602	602	603	‡
Females †	2,176	2,145	650	650	650	649	647	646	646	644	642	643	‡
Persons †	4,346	4,354	1,269†	1,259†	1,258†	1,257†	1,254†	1,251†	1,250†	1,246†	1,244†	1,246†	1,256†
UNITED KINGDOM†													
Males †	22,153	22,632	21,189	21,294	21,494	21,549	21,642	21,743	21,832	21,901	22,005	22,089	‡
Females †	23,495	24,491	23,116	23,242	23,380	23,464	23,542	23,656	23,754	23,802	23,891	23,988	‡
Persons †	45,648	47,123	44,305†	44,536†	44,874†	45,013†	45,183†	45,399†	45,586†	45,703†	45,896†	46,077†	46,337†

* Provisional figures except in the case of the 1931 figures for Scotland.

† Excluding the Irish Free State from 1922 inclusive.

‡ Not yet available

TABLE XVII.

THE NATIONAL DEBT.

Details of the debt (to nearest £1,000) outstanding on March 31st in the years shown.

	Amount outstanding on March 31st.						
	1914.	1920.	1921.	1922.	1923.	1924.	1925.
INTERNAL DEBT.	£000	£000	£000	£000	£000	£000	£000
Funded Debt - -	586,718	314,952	314,837	580,607	997,840	980,258	1,022,689
Terminable Annuities -	29,552	19,314	17,698	16,191	13,681	13,451	13,053
Unfunded Debt:							
Ways and Means Advances - - -	—	204,887	154,489	147,302	193,898	186,156	166,585
Treasury Bills - -	13,000	1,107,318	1,120,841	877,214	616,010	588,320	575,610
National Savings Certificates* - -	—	273,541	284,995	341,965	353,842	366,139	368,836
Other Unfunded Debt	20,500	4,681,641	4,563,136	4,627,946	4,441,472	4,420,485	4,377,999
EXTERNAL DEBT.† -	—	1,230,091	1,129,414	1,085,070	1,155,653	1,125,814	1,121,599
TOTAL - - -	649,770	7,831,744	7,585,410	7,676,295	7,772,396	7,680,623	7,646,371
Held by National Debt Commissioners - -	—	2,965	11,051	21,994	30,163	39,576	48,524
NET TOTAL - -	649,770	7,828,779	7,574,358	7,654,301	7,742,233	7,641,047	7,597,848

	Amount outstanding on March 31st.						
	1926.	1927.	1928.	1929.	1930.	1931.	1932.
INTERNAL DEBT.	£000	£000	£000	£000	£000	£000	£000
Funded Debt - -	1,073,521	1,219,782	1,349,963	1,478,288	1,456,006	1,425,024	1,467,075
Terminable Annuities -	12,640	12,242	12,551	12,531	12,163	12,000	11,840
Unfunded Debt:							
Ways and Means Advances - - -	139,441	116,601	161,850	37,050	48,530	24,500	7,500
Treasury Bills - -	564,855	599,175	526,940	700,295	588,885	569,825	604,455
National Savings Certificates* - -	375,575	371,823	362,448	361,238	358,041	371,602	371,679
Other Unfunded Debt	4,339,117	4,201,869	4,101,946	3,921,422	4,035,663	4,060,058	3,990,805
EXTERNAL DEBT.† -	1,110,768	1,101,454	1,095,230	1,084,685	1,074,159	1,066,663	1,090,881
TOTAL - - -	7,615,917	7,622,946	7,610,928	7,595,509	7,573,448	7,529,672	7,544,235
Held by National Debt Commissioners - -	57,271	68,328	83,112	95,171	104,409	116,363	123,460
NET TOTAL - -	7,558,644	7,554,618	7,527,817	7,500,338	7,469,039	7,413,309	7,420,775

* National Savings Certificates are shown at issue price, exclusive of accrued interest.

† Debt payable abroad is shown at par of exchange.

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TABLE XVIII.

INDIRECT *v.* DIRECT TAXES.

PROPORTION OF REVENUE CONTRIBUTED BY INDIRECT AND DIRECT TAXES RESPECTIVELY AND THE AMOUNT OF TAXATION PER HEAD OF POPULATION.

Year.	Indirect Taxes. Sumptuary.*		Indirect Taxes. Other.		Indirect Taxes. Total.		Direct Taxes. Ordinary.		Direct Taxes. Excess Profits.		Direct Taxes. Total.		Total of Indirect and Direct Taxes.	Population Estimated to Middle of Calendar Year. †	Amount of Tax Revenue per Head of Population.
	Net Receipt.	Percentage of Total Tax Revenue.	Net Receipt.	Percentage of Total Tax Revenue.	Net Receipt.	Percentage of Total Tax Revenue.	Net Receipt.	Percentage of Total Tax Revenue.	Net Receipt.	Percentage of Total Tax Revenue.	Net Receipt.	Percentage of Total Tax Revenue.			
	£		£		£		£		£		£		£		£ *s.* *d.*
1874-75 -	37,977,000	60·1	4,489,000	7·1	42,466,000	67·2	20,714,000	32·8	—	—	20,714,000	32·8	63,180,000	32,502,000	1 18 11
1884-85 -	37,366,000	50·6	5,732,000	7·8	43,098,000	58·4	30,672,000	41·6	—	—	30,672,000	41·6	73,770,000	35,724,000	2 1 4
1894-95 -	42,461,000	49·5	4,376,000	5·1	46,837,000	54·6	38,871,000	45·4	—	—	38,871,000	45·4	85,708,000	38,859,000	2 4 1
1904-95 -	49,626,000	38·5	15,459,000	12·0	65,085,000‡	50·5	63,790,000	49·5	—	—	63,790,000	49·5	128,875,000‡	42,611,000	3 0 6
1913-14 -	57,066,000	35·00	12,155,000	7·46	69,221,000	42·46	93,814,000	57·54	—	—	93,814,000	57·54	163,035,000	45,713,000	3 11 4
1921-22 -	253,176,000	29·68	64,932,000	7·61	318,108,000	37·29	505,356,000	59·23	29,671,000	3·48	535,027,000	62·71	853,135,000	47,158,000	18 1 10
1922-23 -	214,424,000	27·78	60,164,000	7·80	274,588,000	35·58	496,110,000	64·27	1,122,000	0·15	497,232,000	64·42	771,820,000	44,346,000	17 8 1
1923-24 -	202,865,000	28·21	59,866,000	8·33	262,731,000	36·54	458,212,000	63·72	*−1,867,000*§	*−0·26*	456,345,000	63·46	719,076,000	44,601,000	16 2 5
1924-25 -	195,065,000	28·11	34,390,000	4·96	229,455,000	33·07	461,628,000	66·53	2,758,000	0·40	464,386,000	66·93	693,841,000	44,912,000	15 9 0
1925-26 -	199,569,000	29·19	32,751,000	4·79	232,320,000	33·98	448,920,000	65·67	2,383,000	0·35	451,303,000	66·02	683,623,000	45,172,000	15 2 8
1926-27 -	200,673,000	30·42	33,756,000	5·12	234,429,000	35·54	420,553,000	63·76	4,583,000	0·70	425,136,000	64·46	659,565,000	45,227,000	14 11 8
1927-28 -	211,179,000	30·35	34,225,000	4·92	245,404,000	35·27	450,633,000	64·77	*−295,000*§	*−0·04*	450,338,000	64·73	695,742,000	45,441,000	15 6 3
1928-29 -	202,639,000	29·54	44,495,000	6·49	247,134,000	36·03	437,513,000	63·79	1,196,000	0·18	438,709,000	63·97	685,843,000	45,625,000	15 0 8
1929-30 -	204,354,000	30·20	38,261,000	5·65	242,615,000	35·85	432,472,000	63·90	1,694,000	0·25	434,166,000	64·15	676,781,000	45,754,000	14 15 10
1930-31 -	201,075,000	28·57	39,843,000	5·66	240,918,000	34·23	460,644,000	65·44	2,347,000	0·33	462,991,000	65·77	703,909,000	45,936,000	15 6 6
1931-32 -	‖	—	‖	—	250,073,000	34·12	480,787,000	65·59	2,128,000	0·29	482,915,000	65·88	732,988,000	46,036,000	15 18 5

* Alcohol, Tobacco, Entertainments, Silk, Betting, and McKenna Duties. † Excluding Irish Free State from 1922-23. ‡ Excluding Coal Duty. § Net repayments. ‖ Not yet available.

NOTE.—*Indirect Taxes* represent all Taxes which are levied in respect of consumable articles. They include all Customs Duties (except Coal Duty, 1904-05) and all Excise Duties, excepting Licences and Railway Duty (and in 1874-75 Racehorse Duty).

Direct Taxes represent all other Taxes. They include Excise Licences and Railway Duty (and in 1874-75 Racehorse Duty), Death Duties, Stamps, Land Tax, House Duty, Property and Income Tax, Land Value Duties, and Corporation Profits Tax.

This distinction does not, of course, attempt to denote the real incidence of Taxation.