

**SOUND FINANCE: GLADSTONE AND BRITISH GOVERNMENT
FINANCE, 1880–1895**

by

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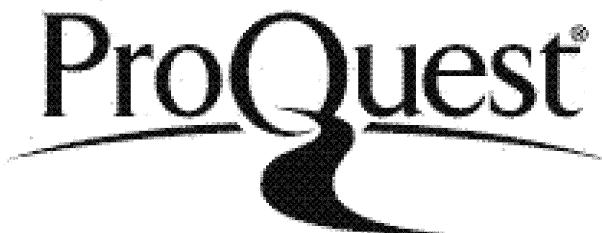


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*In memory of my mother
and for my father*

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I would like to thank my supervisors, Professor Anthony Howe and Professor David Stevenson, and also my family and friends whose support and encouragement has meant so much to me.

ABSTRACT

The fifteen year period 1880–1895 was one of profound change in government finance, not only in the scale of expenditure (which increased by a quarter) but the very expectation of what that expenditure should be as the traditional governing elite began to take notice of the “democratic” society which would soon displace it. Although governed by the Conservatives for six of those years, it was dominated by the fiscal theory of “Sound Finance”, especially as practiced and perfected by Gladstone as Chancellor of the Exchequer. This philosophy demanded balanced budgets, a low tax burden and minimal government expenditure. It is necessary to explain why this philosophy came about and how it adapted to changing circumstances. “Sound Finance” as a fiscal theory was also closely associated with a belief in free trade and a commitment to the gold standard. Together these formed the trinity of fiscal orthodoxy for the late Victorian governing class in Parliament, the Treasury, and at the Bank of England. But as Britain fell into the “Great Depression” and economic growth seemed to stagnate, this consensus was attacked by those who believed that these old doctrines were capable of fulfilling neither the government’s revenue requirements nor the economic imperatives of the nation. Hence their advocacy of bimetallism and “Fair Trade”. In spite of this, at no time were these critics able to implement such doctrines nor even to deviate in any substantial ways from the imperatives of “Sound Finance”. “Sound Finance” dominated the fiscal thinking of politicians, bureaucrats and business leaders, regardless of political stripe, because it was at the heart of contemporary economic theory, and indeed because it seemed to explain for them the place of the state in that economy while allowing crucial flexibility. Yet just as significantly, the strictures of “Sound Finance” allowed both a political and economic control of the state while providing, at least in theory, both Parliamentary and democratic supervision and accountability.

LIST OF ABBREVIATIONS

BL	British Library
BLPES	British Library of Political and Economic Sciences
GD	Gladstone Diaries
GP	Gladstone Papers
H	Hansard
HD	Hamilton Diaries
HP	Hamilton Papers
PP	Parliamentary Papers
PRO	Public Record Office
WP	Welby Papers

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CHAPTER 1

GLADSTONE AND SOUND FINANCE

British Government expenditure was £83,107,925 in 1880 and £97,764,000 in 1895. Revenue had reached a peak of £100,000,000 by then.¹ This 15 year period was one of profound fiscal change, not only in the scale of expenditure but in the very expectation of what that expenditure should be, as the traditional governing elite began to take notice of the “democratic” society which would soon displace it. Although governed by the Conservatives for six of those years, it was dominated by the fiscal theory of “Sound Finance”, especially as practised and perfected by Gladstone as Chancellor of the Exchequer. “Sound Finance” as a fiscal theory was also closely associated with a belief in Free Trade and a commitment to the gold standard. Together these formed the trinity of fiscal orthodoxy for the late Victorian governing class. But as Britain fell into the “Great Depression” and economic growth stagnated, this consensus was attacked by those who believed that these old doctrines were capable of fulfilling neither the government’s revenue requirements nor the economic imperatives of the nation.

This period is significant because it was during this time that the Peelite-Gladstonian minimal state, which had itself developed in reaction to the old and corrupt Hanoverian fiscal-military state² during the previous 50 years, was faced with the first real challenges to its fiscal orthodoxy. The expenditure requirements of Imperialism and what would become the nascent welfare state appeared to some to place the idea of “Sound Finance” under duress, encouraging such heterodox notions as “Fair Trade/Tariff Reform” and a clamour in favour of bimetallism. Yet the outcome was entirely orthodox,

¹ B. Mallet, *British Budgets 1887-88 to 1912-13* (London, 1913), p. 477 and Sydney Buxton, *Finance and Politics: An Historical Study, 1783 - 1885* (2 vol., New York, 1966, reprint of the 1888 edition), v. ii, p. 356.

² P.K. O’Brien, “Imperialism and the Rise and Decline of the British Economy, 1688-1989.” *New Left Review*, 238, 1999 pp. 50-51; P.K. O’Brien, “The Political Economy of British Taxation, 1688-1815”, *Economic History Review*, 41, 1988 pp. 1-32; and J. Brewer, *The SineWS of Power. War, Money and the English State, 1688-1783* (London, 1989).

and the fiscal philosophy of “Sound Finance” emerged even stronger with the return of Liberal government in 1905. “Sound Finance” was able to adapt to both the change in the electorate and their demands, as well as to evolve to accommodate the need for increased expenditure while still upholding the fundamental principles regarding sources of taxation and control of that expenditure. In terms of economic theory “Sound Finance”, although a seemingly conservative fiscal philosophy, was neither behind nor ahead of contemporary thought but in step with the evolution of that thinking. In fact it was quite capable of adapting to and meeting the economic requirements of a society and economy undergoing a rapid and profound change.

“Sound Finance” as a fiscal ideology developed almost insensibly over centuries and can be traced back to the anti-debt ‘country’ ideology of the eighteenth century, but did not take on a coherent shape until the economic doctrines of Adam Smith defined and determined debate on the proper economic role for the state. Pitt in his financial struggles to finance the Napoleonic wars, and it was he who developed the income tax, can claim pride of place as the precursor to Peel and the ancestor of Gladstone in finance. From his demolition of Disraeli’s 1852 Budget until his resignation from the Premiership in 1894 on a matter of fiscal principle, Gladstone set a standard in government finance that overshadowed all contemporary and subsequent Chancellors of the Exchequer. “Sound Finance” as a fiscal system was simple but strict: balanced budgets, imposition of taxation to make up a deficit, reduction of existing debt, accurate and transparent annual budget statements, and responsible Parliamentary control of expenditure.

The economic origins of this ideology were to be found in the writings of Adam Smith, David Ricardo, John McCulloch and especially John Stuart Mill. By the 1880s modern economic theory was itself adapting to come to terms with the great question of the

role of the state in society, but even here there was no radical break with the past, the theory was evolutionary rather than revolutionary.³ There was at this point really no conception of a positive economic role for the state, excepting some unique circumstances to do with monopolies. The difference between Liberals and Conservatives in interpretation and application of “Sound Finance” was subtle: the former stricter in application while the latter were more willing to condone debt finance, more active to protect vested (particularly landed) interests, and more tolerant of the airing (but not necessarily the implementation) of heterodox economic doctrines.

The period 1880–1895 was one of profound change for the electorate, for the scale and scope of government, and it also witnessed a variety of fiscal shocks to the system such as the “Great Depression” and the rise of Imperial militarism. The most significant and wide ranging change was the reform and expansion of the electorate which called into question the very nature and responsibilities of citizenship. The “Representation of the People Bill (1884)” increased the voting register from 3 to 5 million, and meant that ‘something like 60 per cent of adult males were now eligible to vote.’⁴ This raised the great question of how to tax people without losing their votes, and from this point the incidence of direct and indirect taxation came under much greater scrutiny. Taxation had become a great class and political issue. Previously it had been the case that the non-voting working classes had supported Gladstonian “Sound Finance” because they had an interest in keeping all taxation low.⁵ Now that they had the vote, the fear amongst many political economists was that the newly enfranchised masses would use their votes to throw off taxation onto the wealthy, and that representation without taxation would lead to a tyranny of the masses over the classes.

³ Especially C.F. Bastable, *Public Finance* (3rd ed., London, 1903, first edition 1892), and E.R.A. Seligman, *Essays in Taxation* (New York, 1895).

⁴ Richard Shannon, *Gladstone: Heroic Minister: 1865–1898* (London: 1999), p. 342.

⁵ Eugenio F. Biagini, *Liberty, Retrenchment and Reform. Popular Liberalism in the Age of Gladstone, 1860–1880* (Cambridge, 1992), p. 105.

This certainly was reflected in the nature of taxation: almost all significant tax increases were based on direct taxation, particularly the income tax and death duties. It is telling that Lord Randolph Churchill, who seemed the Conservative politician most willing to embrace this change, based his construction of a new “Tory Democracy” upon essentially Gladstonian financial principles which proved too much for his party when his quest for economy challenged the growth of military expenditure.

Inextricably entwined with the growth of the electorate was the growth in government expenditure. This was of a twofold nature: civil and military expenditure grew twenty-five and forty per cent over the period. This inexorable growth in expenditure seemed to put irresolvable pressure on the revenue sources, particularly as politicians felt that the class most demanding of that expenditure was also the most reluctant to tolerate additional taxation. The cost of Civil Services had gone from little more than £15 million in 1880 to almost £20 million in 1895. The increase to military expenditure was of the same magnitude and the two services which in 1880 cost some £27 million had exploded to £38 million by 1895. If the question of what part of the electorate were responsible for this expenditure proved contentious it was nothing as to the question of who ought to pay for it, and how? These questions were difficult enough when dealing with what had now to be recognized as “normal” expenditure, but proved excruciatingly painful for Chancellors of the Exchequer when unexpected fiscal shocks threw their Budgets into disarray.

The “Great Depression” is historically controversial today⁶ but was unambiguously vexatious to Chancellors of the Exchequer during this period, particularly as evidenced by fluctuations in the indirect taxes. The “elasticity” of revenue was much talked about, and what this meant was the effect of the growth or stagnation of the economy on government

⁶ S.B. Saul, *The Myth of the Great Depression* (London, 1985).

revenue. Most vulnerable were the indirect taxes on alcohol and tobacco, which accounted for some 45 to 40 per cent of government revenue over 1880–1895. The income tax was likewise affected by the state of the underlying economy, whereas the variable yield of the death duties seemed more dependent on the weather.⁷ All in all these fluctuating factors influencing the revenue provoked the argument that the Government depended upon too narrow a basis of taxation, and the most commonly advocated remedy was a return to protective tariffs as a response to agricultural distress and increased industrial competition. Of even greater concern was the growing burden of Imperial entanglements.

The British Empire required a growing military expenditure and colonial warfare or the threat of it became almost a constant factor in British budgets for this period. From the point of view of the British, the minor colonial wars in South Africa, Afghanistan, Egypt and the Soudan were in the 1880s met through taxation. It was the increase in “peace time” military expenditure which was more difficult, particularly Naval expenditure through the “scares” and “panics” of 1884, 1889 and 1894.⁸ Significantly increased military establishments required commensurate increases in revenue (the idea of increased expenditure being offset by savings on other areas was now seen to be a chimera). The problem in terms of the principles of “Sound Finance” was to determine the optimum balance between them, and it was on this that the Tory–Liberal consensus gave way. Although often described as the period of Britain’s imperial over-stretch, that argument is untenable.⁹ The Navy was the exemplar of this problem. The difficulty was not inability to pay, but how to pay.

⁷ PRO T168/30, E.W. Hamilton to W.V. Harcourt, 3 Jan. 1894.

⁸ Gladstone resigned as Prime Minister in 1894 rather than be a party to this increase in naval expenditure.

⁹ Aaron L. Friedberg, *The Weary Titan. Britain and the Experience of Relative Decline. 1895 – 1905* (Princeton, 1988), p. 130.

The taxation response to these shocks and developments provides a telling endorsement of “Sound Finance”, for these revenue requirements were accommodated within the framework of the existing revenue system, however politically painful at the time. There was a consistent pattern of recourse to the income tax for most needs followed by the income tax in combination with beer and spirit duties for more pressing crises. The one area in which expenditure was reduced to meet the exigencies of the revenue requirements was in the provision for debt reduction: the New Sinking Fund was permanently reduced by Goschen in 1887 and 1889.¹⁰ It is no surprise that these departures from “Sound Finance” occurred under Tory–Unionist governments.

The income tax was the great engine of Government finance during this period and after. It was applied at a rate of from 5 to 8 pence in the pound, the yield per penny of income tax varying from about £2 to £2.4 million. This was usually sufficient to meet the normal expenditure requirements arising from colonial wars and other revenue shortfalls, and the movement up and down of the rate of income tax provides a rough proxy of underlying economic conditions and military entanglements. Yet this almost unprecedented¹¹ peace-time increase of the income tax burden could hardly be unaccompanied by impositions on indirect taxation and soon the usual suspects were rounded up: spirits, beer, tobacco and tea.

These indirect taxes were a considerable source of revenue, but presented the Chancellor of the Exchequer with a double edged fiscal weapon, for the increases were felt most keenly by the working classes. Spirit and beer duties were raised only in exceptional circumstances: the war scare of 1885 when there was a £10 million deficit to meet and the

¹⁰ This permanent reduction was from £28 to £26 and finally to £25 million in 1889. This had no effect on the payment of interest but did reduce the statutory provision for the reduction of debt each year.

¹¹ It had reached 24 pence during the Napoleonic wars and 16 pence during the Crimean War. Buxton, ii, p. 378.

naval panic of 1894, both times by Liberal governments after the income tax had been raised. In fact their importance was as much political as economic, intended to demonstrate fairness in taxation between classes and to ensure a “sharing of the pain”. Tea and tobacco taxes were reduced rather than raised, and there was even a call for the former to be remitted entirely. This Goschen resisted on the grounds that it represented a minimal poll tax, ‘tea is the one article through which those who neither smoke nor drink contribute to the Revenue’.¹²

Neither did the dead smoke or drink, but they certainly contributed to the revenue, particularly after Harcourt’s famous Death duties budget of 1894. Although much celebrated at the time and afterwards, it was less significant from a revenue point of view than as a philosophy of taxation question. Harcourt’s reform of the Death duties equalized the treatment of real and personal property, much to the cost of the landed interests who had long enjoyed privileged tax treatment at succession, yet the increase in revenue – given the variability in mortality which it depended on – was a significant but not important £3–4 million. What was important was that the principle of graduation had been accepted as a basis of taxation, seemingly opening the door to a similar treatment of the income tax.

Throughout this period the state reacted to finance imperatives in a constant and consistent way conforming to Gladstonian “Sound Finance”. Deficits were made up by additional taxation, generally from direct revenue sources but from across the revenue spectrum when necessary, and the burden was shared by all of the electorate and distributed throughout society on a basis which if not strictly egalitarian at least made claim to some sort of democratic and social consensus. “Sound Finance” had become almost an element of the British constitution, and it would continue to dominate government finance until the unimaginable fiscal consequences of the First World War made it untenable. Even in 2004 it

¹² 3 H 343. 725, 17 April 1890.

could be argued that the spirit of “Sound Finance” and the shade of Gladstone continue to haunt both No.11 Downing Street and British budgets.

The question and nature of “Sound Finance” has been dealt with in the historical literature in two ways. The first and most common has been to discuss it from the point of view of Gladstone and his personality. This is logical, as the theory is so closely associated with the individual. This was the approach taken by H.C.G. Matthew in what is probably the best overall introduction to the subject, ‘Disraeli, Gladstone, and the Politics of Mid-Victorian Budgets.’¹³ Matthew, as the title makes clear, is concerned with the Mid-Victorian period generally as it encompasses the high water mark of Gladstone’s finance and is very good in dealing with the Income Tax and the Peelite origins of Gladstone’s 1853 Budget, but above all his argument that Gladstone had constructed an ‘annually renewed social contract of the Victorian State. ... expressed through the balance between direct and indirect taxation, and through the political and social role of the income tax.’¹⁴ It is also focussed on the personalities and so does not so much explore the process of the finance itself. Being concerned, but not limited to, Gladstone’s motivations and some of the key areas of his finance, such as the Income Tax and the idea of the minimal state, it does not investigate in detail the structure of the Budgets and the nature of the finance. In confining his investigation to the mid-Victorian period there is necessarily a limited attempt to understand the applicability of Gladstone’s finance to later periods and question why it was able to endure and flourish until the First World War. He does much to illuminate Gladstone’s place in “Sound Finance” but the question of “Sound Finance” is distinctly secondary. He makes it abundantly clear why Gladstone chose his financial strategies and deals briefly with

¹³H.C.G. Matthew, ‘Disraeli, Gladstone, and the Politics of Mid-Victorian Budgets.’ *The Historical Journal*, 22 (1979), pp. 615–643. See also his Gladstone biographies, Matthew, *Gladstone, 1809–1874* (Oxford, 1988) and *Gladstone, 1874–1898* (Oxford, 1995). Hereafter, Matthew, ii.

¹⁴ H.C.G. Matthew, ‘Disraeli, Gladstone, and the Politics of Mid-Victorian Budgets.’ *The Historical Journal*, 22 (1979), p. 616.

why the nation acquiesced in this.¹⁵ This broader challenge of explaining the endurance of this Victorian fiscal system has been taken up in Martin Daunton's ambitious study of the politics of taxation in the 'long nineteenth century'.¹⁶ Daunton argues persuasively, following Matthew, that Gladstone's key contribution and the vital component of the fiscal question in the late Victorian public policy debate concerned the nature of this "fiscal constitution".

The second theme in the literature is to effectively acknowledge that Britain's pre-war finance followed a pattern set by Gladstone and to leave it at that. This theme is prevalent in a number of financial histories, Roseveare's account of the Treasury and Hicks' study of finance are examples of this approach.¹⁷ In the former the concern is to study the evolution of an institution and the growth of its philosophy, the 'Treasury point of view', which is charted rather than analysed in itself. Roseveare examines how the notion of "Sound Finance" came to dominate the Treasury but does not attempt to explain its broader development and application. For Hicks the goal is to examine the results of whatever theories motivated British government finance and not to analyse how those theories developed to produce such results. In both cases a structural, institutional approach takes "Sound Finance" for granted. "Sound Finance" is a theory which outlasted its exponents and dominated the institutions and achievements of British Government finance before, and to a considerable extent after, 1914. It is necessary to understand why.

¹⁵Ibid., p. 640. Christine Gunter and John Maloney argue from a statistical cointegration analysis that in fact Gladstone, despite the rhetoric, did not make a difference to taxation or spending in this period 'Did Gladstone make a difference? Rhetoric and reality in mid-Victorian finance.' *Accounting, Business and Financial History*. 9:3 Nov. 1999, pp. 325–47. Their study, however, and despite its value as an exercise, seems to demonstrate more the limitations of simplistic econometric techniques than it does Gladstone's influence on government finance. What is necessary is a close study and understanding of the budgets and the circumstances which made them.

¹⁶M.J. Daunton, *Trusting Leviathan. The Politics of Taxation in Britain, 1799–1914* (Cambridge, 2001).

¹⁷Henry Roseveare, *The Treasury, The Evolution of a British Institution* (London, 1969) and Ursula K. Hicks, *British Public Finances, their Structure and Development, 1880 - 1952* (London, 1963).

The majority of the scholarship is concerned with Gladstone and his contribution to what is here described as “Sound Finance”. Contemporary accounts, and there are a number of very good studies of government finance, have a tendency to note the deviations from sound financial practice which they have unconsciously accepted as the ideal form of finance. They extol the virtues of “Sound Finance” without really examining it. Three contemporary writers whose works may be considered the standards on the subject are, Northcote, Buxton and Mallet. Each have implicitly accepted the doctrines of “Sound Finance”.¹⁸ Mallet’s work provides both the best explication of government finance and the best example of one who has appropriated the doctrine of “Sound Finance” in his own work. Francis W. Hirst’s *Gladstone as Financier and Economist*¹⁹ contributes the most explicit study of Gladstone and “Sound Finance”. This is inevitable for he was a staunch partisan for “Sound Finance” throughout his life, in particular the period 1907–1916 when he was editor of *The Economist*.²⁰ In fact his study of Gladstone was in no small way motivated by a desire to use Gladstone to attack Keynes’ revolution in economics by extolling for his contemporaries the benefits of Gladstone’s “Sound Finance”.²¹ In this it was related to Francis Edwin Hyde’s *Mr. Gladstone at the Board of Trade*,²² for which Hirst wrote the introduction. Hyde’s project is much more narrowly concerned with the formation of Gladstone’s economic and fiscal theories during his tenure as Vice-President at the Board of Trade. Hyde is convinced that this experience formed Gladstone’s financial principles.²³ It is necessarily limited to this period for which its coverage is comprehensive.

¹⁸S.H. Northcote, *Twenty Years of Financial Policy* (London, 1862). Buxton, *Finance and Politics* (New York, 1966, reprint of the 1888 edition) and Bernard Mallet, *British Budgets 1887 - 1913* (London, 1913).

¹⁹(London, 1931).

²⁰Ruth Dudley Edwards, *The Pursuit of Reason: The Economist 1843–1993* (London, 1993), p. 949.

²¹Hirst, *Gladstone as Financier and Economist*, (London, 1931), p. vii.

²²(London, 1934).

²³Ibid., p. 53.

Among economic studies, Schumpeter's brief survey of Gladstone and "Sound Finance"²⁴ is of seminal influence because he was concerned to place it in an economic framework charting the progress of economic liberalism. In his assessment Gladstone 'stands in history as the greatest English financier of economic liberalism.'²⁵ Baysinger and Tollison take this as their starting point in creating their theory of Gladstone's finance and relating it to the so-called 'Virginian School of public finance' of the early 1980's.²⁶ In this Gladstone's 'minimal state' and the fundamentals of "Sound Finance" are utilized as a model for a modern theory of minimal government finance. This is to some extent an anachronistic project which does not treat either Gladstone or "Sound Finance" on their own terms in historical context or with subtlety.²⁷ In this it illustrates one of the problems inherent in modern scholars bringing their own economic conceptions and biases to bear on the subject of pre-war government finance. The past is often utilized as rhetorical ammunition for contemporary debates. It does little for our understanding of government finance in this period to have it subjected to arguments for and against Keynesian economic policies unknown to Gladstone. This does, however, seem to be a temptation difficult to avoid and so is perhaps itself a reason to study "Sound Finance". A corrective to this approach is found in Middleton's study of the growth of government, which concluded that the golden age of minimalist government 'was largely a fiction and had been so for a generation or more.'²⁸ The truth of this will be seen not just in what governments did between 1880–1895, but what they said they would do, however reluctantly. "Sound Finance" and the minimal state were two different things: the first was a theoretical economic institution of the state encompassing fiscal, monetary and trade policy; the latter was simply a manifestation of that institutional theory at a particular convergence of time and circumstances. Gladstone shaped both,

²⁴ Joseph Schumpeter, *History of Economic Analysis* (London, 1994), pp. 402-405.

²⁵Ibid., p. 402.

²⁶Barry Baysinger and Robert Tollison, 'Chaining Leviathan: the case of Gladstonian finance.' *History of Political Economy*. 12 no. 2 (1980), pp. 206 - 213.

²⁷This is pointed out by C.G.Leathers, 'Gladstonian Finance and the Virginian School of Public Finance.' *History of Political Economy*. 18 no. 3 (1986), pp. 515-521.

²⁸ Roger Middleton, *Government versus the Market* (Cheltenham, 1996), p. 210.

indeed, his willingness to contemplate using in full the enormous fiscal resources of the state to deliver Irish Home Rule in 1886 and again in 1893 demonstrates this conclusively.

Anachronism is not a problem in Ghosh's investigation of the Conservative party and fiscal policy which is a very useful complement to Matthew. Ghosh points out the extent to which the theory of "Sound Finance" informed Disraeli's finance, if not his practice of it. 'For Disraeli, the reduction of taxation was a matter of political calculation. ... Economy for its own sake did not interest him.'²⁹ E.H.H. Green continues the analysis of Conservative fiscal theory³⁰ through the period of tariff reform and the bimetallic controversy although his concern is more with the political debate surrounding these challenges to "Sound Finance" than the reasons for which "Sound Finance" was able to defeat them.

The broader historiography concerning "Sound Finance" either touches upon larger issues relating to the Liberal party or to specific aspects of the pillars of that theory: the Treasury, contemporary economic theory, the Gold standard, and especially Free Trade and Tariff Reform. The Treasury and its role has been outlined, as mentioned, by Roseveare whose institutional analysis is very satisfactory as he points out the importance of the Treasury's financial control³¹ in shaping and making possible the implementation of "Sound Finance". It became a religion of financial orthodoxy whose Trinity was Free Trade,

²⁹P.R. Ghosh, 'Disraelian Conservatism: a financial approach.' *The English Historical Review* 99, no. 391 (1984), pp. 268-296.

³⁰E.H.H. Green, *The Crisis of Conservatism. The Politics, economics and ideology of the British Conservative party, 1880 - 1914* (London, 1996). Also his 'Rentiers versus Producers? The Political Economy of the Bimetallic Controversy c. 1880-1898.' *The English Historical Review* 103 no. 408 (1988) pp. 588 - 612 and A.C. Howe's 'Bimetallism, c. 1880-1898; a controversy re-opened?' *English Historical Review* 105 no. 415 (1990), pp. 377 - 391, for some of the reasons that this challenge to "Sound Finance" did not succeed and Green's reply: 'The Bimetallic Controversy: empiricism belied or the case for the issues.' *The English Historical Review* 105 no. 416 (1990), pp. 673-683.

³¹Roseveare, p. 142. Maurice Wright, however, notes the limitations of this control. 'The Treasury's most difficult task was to get departments to acknowledge the discretion and responsibility conferred upon it by Parliament, and to accept its authority and judgements.' *Treasury Control of the Civil Service, 1854-1874* (Oxford, 1969) p. 344.

Balanced Budgets and the Gold Standard, whose Original Sin was the National Debt.³² The evolution of Treasury attitudes has been surveyed by George Peden to 1914, showing the process by which 'Treasury control became less negative and more concerned with ensuring that proposals for expenditure were the most prudent and economical ways to achieve government policies.' In this it becomes quite clear that this outlook was governed by principles of public expenditure derived from Smith, Mill and C.F. Bastable, which had reached their high point of influence by 1880–95. This Treasury outlook is further elaborated, albeit for a subsequent period, by Peden in his studies of the economic controversies relating to Keynes' theories in the inter-war years.³³

The related and important subject of the Gold Standard is well served by Fetter in *Development of British Monetary Orthodoxy, 1797–1875*³⁴ which traces its evolution and implementation. 'The main features of the system were clear. That the gold standard was inviolate was a decision of Government. The task of maintaining [it] was entrusted to the Bank of England, ... What emerged was the 'monetary and banking orthodoxy' that by 1914 had in varying degrees left its impact on almost every country of the world.'³⁵ This has been further elaborated and for a later period, particularly for the evolution of monetary theory in its understanding of the gold standard and bimetallism, by Laidler. He demonstrates why the classical economists preferred gold: 'they believed commodity convertibility essential to a sound monetary system, and they were more concerned with inflation than deflation.'³⁶ The actual mechanics of this international system, although primarily concerned with the inter-war period leading to the Great Depression, are elaborated by Eichengreen whose

³²Roseveare, p. 118.

³³ G.C. Peden 'From cheap government to efficient government: the political economy of public expenditure in the United Kingdom, 1832–1914.' pp. 351–80, pp. 353 and 363. In Donald Winch and Patrick K. O'Brien, eds. *The Political Economy of British Historical Experience, 1688–1914* (Oxford, 2002); Peden, 'The 'Treasury View' on Public Works and Employment in the Interwar Period.' *The Economic History Review*, 2nd Series, 37 no. 2 (1984), pp. 167–181. In this the antecedents of the 'Treasury View' are discussed and further elaborated in the following, Peden, *Keynes, The Treasury and British Economic Policy*. (London, 1988).

³⁴ (Cambridge, Ma., 1965).

³⁵ *Ibid.*, p. 282.

³⁶ David Laidler, *The Golden Age of Quantity Theory, 1870–1914* (London, 1992), p. 34. He also makes explicit the debt that a new generation of economists, such as Marshall, owed to Mill for their understanding of these questions. See especially ch. 6, 'Neoclassical monetary theory and monetary institutions', pp. 153–192.

discussion of the pre-1914 operations are very good.³⁷ Of related interest is Kynaston's work on the 'City' which makes the connection between government finance, the financial community and monetary policy which reinforced the orthodoxy of "Sound Finance."³⁸ A good overview of the economic theory behind the Bimetallic controversy is provided by Friedman,³⁹ and the political (and academic) debate by Green and Howe.⁴⁰ Howe has written a comprehensive study of Free Trade, and in addition to Green work has been done on Tariff Reform by Trentmann.⁴¹

One area of recent historical interest which is implicitly concerned with questions of "Sound Finance" is the debate surrounding the costs and benefits of the British Empire.⁴² Davis and Huttenback, in a work of massive scholarship, have attempted to work out the monetary cost of Britain's Empire. Their work suggests that the costs far outweighed the benefits and that there was a considerable tax burden imposed. 'As the subsidy was funded in Britain, the analysis of the incidence of taxes in the United Kingdom becomes particularly important. Taxes were high, £2.40 per capita as compared with an average of about £1.00 elsewhere in the developed world.'⁴³ Friedberg sees a similar overburdening of Britain due to the military costs of maintaining the Empire. Their analysis is based on absolute rather than relative burdens so it is difficult to conclude whether the costs of Empire really were a

³⁷Barry Eichengreen, *Golden Fetters. The Gold Standard And The Great Depression, 1919–1939* (New York and Oxford, 1992).

³⁸David Kynaston, *The City Of London. Volume I: A World of Its Own, 1815–1890* (London, 1994).

³⁹Milton Friedman, 'Bimetallism Revisited.' *Journal of Economic Perspectives*. 4, no. 4 (1990), pp. 85 - 105.

⁴⁰see note 30, above.

⁴¹Anthony Howe, *Free Trade and Liberal England, 1846–1946* (Oxford, 1997). F. Trentmann, 'The Transformation of Fiscal Reform: Reciprocity, Modernization, and the Fiscal Debate Within the Business Community in Early Twentieth Century Britain.' *The Historical Journal*. 39, no. 4 (1996), pp. 1005-1048, and 'Wealth versus welfare: the British Left between Free Trade and national political economy before the first World War.' *Historical Research*. 70, no. 171 (1997), pp. 70–98.

⁴²L.E. Davis and R.A. Huttenback, *Mammon and the Pursuit of Empire: the political economy of British Imperialism, 1860–1912* (Cambridge, 1986); P.J Cain, and A.G. Hopkins, *British Imperialism: Innovation and Expansion 1688–1914*. (London and New York, 1993); Friedberg, *The Weary Titan*; Sidney Pollard, *Britain's Prime and Britain's Decline: The British Economy, 1870–1914* (London, 1989); Niall Ferguson, 'Public Finance And National Security: The Domestic Origins Of The First World War Revisited.' *Past And Present*. 142 (1994), pp. 141-168. All of these authors are concerned with what they characterize as Britain's decline in both economic and military terms.

⁴³Davis and Huttenback, p. 244.

burden. Friedberg is somewhat trapped in a rigid international relations theory which is probably better suited to zero-sum analysis of nuclear weapons deterrence. Their work has been questioned on these grounds by Kennedy, Offer and Hobson.⁴⁴ In all of these, assumptions about the nature and extent of the burden of British Government finance raise questions about “Sound Finance”. Friedberg and Davis and Huttenback do not seem to appreciate the flexibility that “Sound Finance” gave to governments once they had committed to expenditure. The record of the Liberals prior to 1914 is proof of this. Nor is it anachronistic to question whether a maximum burden of eight pence in the pound (3 and 1/3%) on those liable to the income tax was really a burden at all.

Broader studies of the Liberal party invariably touch upon matters of finance as they attempt to explain its successes and failures during this period. Parry suggests that fiscal rectitude was a Whig inheritance while implying that Gladstone was not really a Whig or a Liberal but an unreconstructed Peelite.⁴⁵ ‘Liberals were never the party of doctrinaire political economy, but the party of integration.’⁴⁶ If correct the implication is that it was not necessary for the party to be doctrinaire on this matter as the nation, for the most part, was. “Sound Finance” doctrine went across party boundaries, not unchallenged but certainly dominant. In fact it cut across boundaries of class as well. This point is made very clear by Biagini, ‘From the viewpoint of popular success it was important that the central tenets of Gladstone’s finance were easy to understand. Gladstone’s stress on the need for balanced budgets was in tune with popular views of financial morality...The classical principles of taxation which the ‘People’s Chancellor’ applied were also deeply rooted in popular

⁴⁴ Paul Kennedy, ‘The Costs And Benefits Of British Imperialism, 1846-1914.’ *Past And Present*, 125 (1989), pp. 186-92. Avner Offer, ‘The British Empire, 1870-1914: A Waste Of Money?’ *Economic History Review*, 46, no. 2 (1993), pp. 215-238; and Avner Offer, *The First World War: An Agrarian Interpretation* (Oxford, 1992 edition); J.M. Hobson, ‘The Military-Extraction Gap and the Wary Titan: The Fiscal Sociology of British Defence policy 1870 – 1913.’ *Journal of European Economic History*, 22, no. 3 (1993), pp. 461 - 506.

⁴⁵ Jonathan Parry, *The Rise and Fall of Liberal Government in Victorian Britain* (New Haven, 1993), pp. 14, 18 and 247. What he doesn’t explain is why they were never able implement this when in office, instead, like the Conservatives in 1887, they had to draft in an outsider, Gladstone, to do it for them. See also T.A. Jenkins, *Gladstone, Whiggery And The Liberal Party, 1874–1886* (Oxford, 1988) for Gladstone’s relationship with the Whig faction.

⁴⁶ Parry, p. 245.

expectations through readings and popularizations of Adam Smith.⁴⁷ The extent to which “Sound Finance” found favour with the masses was an indication not just of the success with which the elite were able to instil these values but also of a widespread belief that tangible benefits accrued to the poorest in British society, from this would develop a demand for “Radical” social reform.

Even more of a burden, although seemingly less radical than social reform, was the enormous increase in the cost and extent of armaments and militarism which would culminate in the First World War, but which began in earnest in the mid-1880s.⁴⁸ The struggle to come to terms with this expenditure would plague all British governments to 1914 and Gladstone’s opposition to the cost and the militarism they entailed deserves a more critical evaluation than simply to dismiss it as senility. Nor was it merely naive principle carried to extremes in the face of all evidence, for as Taylor concluded, ‘it is difficult to believe that there was ever a serious danger of war in Europe on a great scale at any time between 1878 and 1913.’⁴⁹

While there is much work with which to build on there remains considerable scope for a study of “Sound Finance”. The radical fiscal philosophy developed by Peel in the 1840’s had become the orthodoxy of the 1860’s and 1870’s and would not be seriously challenged until the 1880’s. Yet from that time onward it was under attack from the Tariff Reformers and Bimetallists amongst the Conservative-Unionists and under pressure from the growth of expenditure and shocks due to mostly to militarism. A thorough investigation of the subject must consider three main areas: the actual practice of government finance as

⁴⁷Biagini, (1992), p.105.

⁴⁸Paul Kennedy, although primarily concerned with the German threat, covers this period in a diplomatic history, *The Rise of the Anglo-German Antagonism, 1860–1914* (London, 1984). All aspects of the change in naval armaments and perceived threats to Britain are covered by Arthur J. Marder in *British Naval Policy 1880–1905* (London, 1940). The result of this increased expenditure and acquisition of armaments during a time of rising European militarism is presented in David Stevenson, *Armaments And The Coming Of War, Europe, 1904–1914* (Oxford, 1996), which does suggest some parallels to Gladstone’s arguments of 1894.

⁴⁹ A.J.P. Taylor, *The Struggle For Mastery In Europe, 1848–1918* (Oxford, 1957), p. 258.

evidenced by the Budgets themselves, the political circumstances surrounding those Budgets and the economic and fiscal theories of the day which shaped them.

The best expression of the doctrine of “Sound Finance” are the Budgets. The level of expenditure and revenue, and the means by which the latter was raised, provide the evidence with which to judge Gladstone and his successors in their performance of office. They can be judged on what they have done, although we will also want to know what they and others had to say on the subject. The Parliamentary debates, through *Hansard*, provide a view of the field on which the battles in defence of “Sound Finance” were fought. Contemporary journals give an understanding of how government finance was understood in that time: *The Times* was conservative but independent in outlook, while *The Spectator* was partisan for the Liberals and keen on “Sound Finance”. *The Economist* and *The Statist* were financial journals and the standard bearers of “Sound Finance”. Taken together they give an indication of the extent to which this orthodoxy prevailed and provide a contemporary judgement of Government adherence to it.

This is necessarily an elitist perspective, for high finance complements high politics as the context from which the field is surveyed. In this we are fortunate not only for the diaries and papers of Gladstone, but for Edward Hamilton’s as well. Not only did Hamilton keep a diary, but his collection of Treasury papers is an invaluable account of the inner mechanism of government finance and the construction of budgets. Taken together they provide a crucial account for the period of study, especially important as Goschen’s papers have disappeared and Reginald Welby was too much a model of the reticent civil servant to leave personal insights in his papers.⁵⁰ Yet in truth there is almost an overabundance of financial material available, and what follows attempts to place this within a context which will illuminate and clarify “Sound Finance” for the reader.

⁵⁰ Hamilton’s Treasury papers are in PRO T168. The Welby papers at the BLPES provide a wealth of detail on the gold standard and Bank of England – Treasury relations but they are far more official than personal.

CHAPTER 2

RETRENCHMENT

Gladstone as Chancellor of the Exchequer, 1880 – 1882

Gladstone's last period as Chancellor of the Exchequer from 1880 to 1882 was notable not only for his serving as Prime Minister concurrently but also for his difficulty in meeting the stringent requirements of "Sound Finance" which he had done so much to define in his budgets of the 1850's, 60's and 70's. Retrenchment was difficult due to foreign entanglements in Afghanistan and Egypt along with calls for further military expenditure, an increased overall expenditure, and reluctance on the part of the nation to endure cutbacks.

Due in a large part to his previous reforms of the Customs and Excise, he had little opportunity to reduce, eliminate or make more productive these imposts so he was ever more reliant on the produce of the Income Tax, for which talk of elimination was now little heard.¹ Gladstone was Chancellor of the Exchequer at a time when "Sound Finance", an orthodoxy he had done more than any other to instil, was under pressure as expenditure increased and Free Trade was challenged. His previous experience had been in comparatively easy times, when expenditure could be reduced and he had hoped to eliminate the income tax. This was no longer the case and adherence to the principles of "Sound Finance" would require unpopular increases in taxation rather than opportunities for remission. But his principles did not waver. He had been trained in the ['old Peelite'] 'Conservative' school to believe in: '1. Economy 2. Peace 3. Sound and strict finance 4. Anti-jobbing 5. Maintenance of the sound traditions of Parliament [of administration].'²

His attempts to adhere to these principles provide a test of theory put into practice and foreshadow later periods of British finance under pressure. It provides proof of Gladstone's

¹ Gladstone felt, and not without regret, that his defeat on the income tax issue in the 1874 election meant that his 'pledges of 1853 completely lost all binding force.' John Brooke and Mary Sorensen, (eds.), *The Prime Ministers' Papers: W.E. Gladstone Volume I: Autobiographica* (London, 1971), p. 101.

² John Brooke and Mary Sorensen, (eds.), *The Prime Ministers' Papers: W.E. Gladstone Volume IV: Autobiographical Memoranda 1868–1894* (London, 1981) p. 104.

commitment to the cause for it was in this trying period that the principles of “Sound Finance” were put into practice by their greatest proponent.

The importance of “Sound Financial” practice was made explicit by Gladstone in his Midlothian speeches which served notice to the Conservative Government that finance would be an important issue in the forthcoming election. Gladstone raised the issue throughout the Midlothian campaign and his ‘Corn Exchange’ speech in Edinburgh of 25 November 1879 was entirely concerned with government finance.³ I do not hold, gentlemen, that good finance is the beginning and the ending of good government, ... [but] without it you cannot have good government - and with it you almost always get good government.⁴ The Conservative administration he found entirely wanting in good finance, not simply through incompetence but by wilful neglect in its,

Destruction or disparagement of the sound and healthy rules which the wisdom of a long series of finance Ministers, of an excellent finance department, and of many Parliaments has gradually and labouriously built up, to prevent abuse, to secure public control, to work by degrees upon the public debt of the country, and to take care that people shall not be unduly burdened.⁵

This flagrant abuse of the nation’s trust in the stewardship of its finances was the more severe because the principles of “Sound Finance” which had been abandoned ought to have been above any partisan considerations. It was, maintained Gladstone, a public duty to adhere to and maintain them. ‘What are the rules of finance observed with almost unvarying uniformity until the accession of the present Government [?]’⁶ For the benefit of that administration he made clear what those rules were:

The first of them is, that the Chancellor of the Exchequer shall boldly uphold economy in detail; ... No Chancellor of the Exchequer is worth his

³ It was ‘one of the most important speeches in the two campaigns.’ The assessment of Trevor O. Lloyd, *The General Election of 1880* (London, 1968) p. 58.

⁴ W.E. Gladstone, *Midlothian Speeches, 1879* (Old Woking, Surrey: 1971, reprint of the 1879 edition), p. 132.

⁵ *Ibid.*, p. 146.

⁶ *Ibid.*, p. 147.

salt who makes his own popularity either his first consideration, or any consideration at all, in administering the public purse. ... resistance in detail to jobbery and minute waste and extravagance is the first of wholly sound financial rules.⁷ ... The second rule ... and this is perhaps the most essential of them all: that once in the year, and only once, the Chancellor of the Exchequer shall make his financial statement. ... The efficiency of the popular and Parliamentary control of the expenditure of the country entirely depends upon the maintenance of the principle of the annual, as opposed to the triennial or tri-monthly budget. It is idle to talk of controlling the expenditure of the Government unless you compel them to adhere to that rule. [The third rule] You are bound to estimate [expenditure] to the best of your ability, and if there is a doubt, you are bound to rule that doubt in favour of the larger side, ... and in no case, so far as human foresight can avoid it, should the public revenue be placed in a deficiency. ... Here is another rule, ... when you have not money enough you must supply the deficit by taxation. ... The Constitution appoints one particular man to teach us sound doctrine, and to nail us to that particular doctrine, and that particular man is the Chancellor of the Exchequer. ... One other rule [is] to aim at annual surplus as a main instrument for the steady reduction of the public debt.⁸

These five severe principles removed considerable freedom from the Chancellor in constructing his Budget and that was their purpose. If implemented, it was thought, bad finance was almost impossible and even the stupidest Chancellor of the Exchequer could do little damage to the country.

“Sound Finance” was a self-reinforcing system: economy of expenditure in order to reduce that expenditure; transparency in the presentation of government finance so that both Parliament and the public were aware of the revenue requirements and the taxation necessary to meet it; a balanced budget so as to avoid debt finance, increased taxation whenever necessary to ensure that balance; and finally the application of any surplus, and the budget was framed so as to produce one, towards the reduction of the vast government debt which was the product of the wars and un-sound finance of the past. “Sound Finance” required discipline and austerity on the part of the Chancellor of the Exchequer as well as

⁷ His private secretary, Edward Hamilton, believed that Gladstone had a deep conviction that ‘waste is wrong and unnecessary’ not just in matters of finance but in food as well. Dudley W.R. Bahlman, (ed.), *The Diary of Sir Edward Walter Hamilton 1880 – 1885. Volume I: 1880–1882* [hereafter HD, i] (Oxford, 1972), p. 191.

⁸ Gladstone, *Midlothian Speeches*, (1879), pp. 147–53.

the courage to stand up to his Cabinet colleagues and insist that if they were unwilling to reduce their expenditure they must be willing to increase taxation to meet it. These qualities Gladstone possessed in abundance. The fact that the Conservative Chancellor of the Exchequer, Sir Stafford Northcote, had broken all of these rules during his tenure of that office meant that he would have to make amends in his pre-election Budget of 1880. He could not credibly face the electorate otherwise.

The budgets of 1880

The financial statements for the year 1880 were exceptional in that there was a second supplemental budget which followed Sir Stafford Northcote's original budget of 11 March 1880. Gladstone was not content with the task of First Lord of the Treasury but felt called to take on the additional burden of Chancellor of the Exchequer as well.⁹ He wasted little time in getting to work, presenting to Parliament a Supplemental Budget on 10 June 1880. Gladstone felt this was necessary in order to pay for the mounting and additional expenses of wars in South Africa and Afghanistan and in particular to ensure that these costs were met out of the current revenue of the government and not paid for by debt finance. He had little confidence in Northcote's revenue estimates.¹⁰ There was also the negotiations for the renewal of the French Commercial Treaty which, had it been successful, would have entailed the loss of some revenue.¹¹ For these reasons at least Gladstone decided to recast the nation's finances so as to ensure that there would be a surplus available at the end of the financial year and he had some innovative measures at hand to do so.¹²

⁹ Hamilton stated this was because 'finance is to be given a foremost place in the programme of the new ministry.' *HD*, i, p. 1. There had been a Treasury dinner of Welby, West and others to review the finance on 20 April. *GD*, ix, p. 509.

¹⁰ *GD*, ix, p. 517.

¹¹ In a letter to Lord Granville of 4 May 1880 Gladstone indicated his own pessimism about the prospects for renewal. Agatha Ramm, ed., *The Political Correspondence of Mr. Gladstone and Lord Granville, 1876–1886. Volume I, 1876–1882* (Oxford, 1962), p. 124.

¹² The Budget was decided at the Cabinet of 5 June 1880. *GD*, ix, p. 533.

Gladstone's Budget speech began with a defence of the negotiations with the French government to renew the Commercial Treaty and the changes to the wine duties which this involved at an estimated cost to the revenue of £230,000.¹³ This was of some concern to ardent Free Traders who felt that such treaties went against the spirit of their trade doctrine but Gladstone defended these efforts, 'This country carries its produce, free from all fiscal restrictions, into all the markets of the world, and by encouraging imports from its creditors gives the greatest possible encouragement to our own exports in return.'¹⁴ The most memorable part of this Budget was not the increase in the income tax but Gladstone's repeal of the Malt tax, which had brought in £8,000,000¹⁵ the previous year, and substitution of a Beer duty in its place. Gladstone had given this change considerable thought and effort¹⁶

It is advantageous to the Revenue because the arrangements will be simplified, because we shall eventually work at a reduced cost, and because, as I think, without any burden to anybody, we shall be able to enlarge our receipts from those resources. There is still a greater advantage which is, that if unhappily in time of war, or in time of great emergency, it becomes necessary for any Financial Minister to ask this House for a great increase in the taxes of the country, ... the beer duty will stand exactly as the spirit duty stands... a consumer's tax.¹⁷

It was a considerable innovation based upon principles of "Sound Finance" but would require a substantial pay out of malt drawbacks during the transition.¹⁸ This required an increase of 1*d.* to the income tax, raising it to 6*d.* in the pound, although technically it was an increase of 2*d.* for half the year.¹⁹ This followed the practice he had always advocated of paying for expenditure out of the current revenue of the state and of utilizing the income

¹³ 10 June 1880, 3 H 252. 1629.

¹⁴ Ibid., p.1628.

¹⁵ Ibid., p.1638.

¹⁶ *HD*, i, p.9.

¹⁷ 10 June 1880, 3 H 252. 1649.

¹⁸ £286,000 according to the estimate of 27 May. *GD*, ix, p. 530.

¹⁹ 3 H 252. 1649.

tax as an emergency tax, for which it was well suited due to its flexibility. It nonetheless caused Edward Hamilton, his private secretary from the Treasury, some misgivings as the burden in relief of an indirect tax would be borne by a direct tax on income.²⁰

The reaction outside Parliament to this supplemental budget was remarkably optimistic, favourable not so much to what Gladstone had done as to the promise of what was to come. Such was his reputation as a financier that there was a remarkable uniformity of this expression in *The Economist*, *The Times*, *The Spectator* and *The Statist*. Despite the limited scope of the supplemental budget there was considerable enthusiasm for what he might do, his reputation as Chancellor of the Exchequer had preceded him. This seems the more so curious as the journals themselves could not be accused of sensationalism or romanticism in finance. The first and last mentioned were grey, sober minded financial journals while *The Times* was, well it was *The Times*. *The Spectator* was the unabashed partisan of the four, 'We have not another financier in this kingdom who could have accomplished all this in a supplementary Budget, and accomplished it with such ease and such universal confidence in the prudence of his decision. ... Mr. Gladstone is never more happy and elastic than when he deals with finance.'²¹ *The Economist* endowed Gladstone with seemingly super-financial powers which he could unleash at the opportune moment while deciding that, at the present,

we cannot regard them as Mr. Gladstone's last word in finance. They probably form in his mind portions of a far larger scheme to be brought forward on future occasions should opportunity permit, which may be expected to be of still greater advantage to the prosperity of the country.²²

²⁰ *HD*, i, p. 19.

²¹ *The Spectator*, 12 June 1880, p. 740.

²² *The Economist*, 12 June 1880, p. 675.

The Times was less laudatory but did have high expectations for the immediate future and speculated on the relationship between Gladstone and the income tax which he had promised to abolish in 1874.

It is, as Mr. Gladstone said, the glory of the income-tax that, however it may be open to objection in itself, it has been made the instrument for achieving the greatest and most beneficent fiscal reforms. If an opportunity now presents itself for advancing further upon the path of scientific and equitable finance, few will contend that the addition of a penny to the income-tax is too high a price to pay for a large, permanent, and, probably, expanding gain. The income tax, it is admitted, cannot at present be removed, and even the keenest advocates of its abolition must confess that, while it continues to be a main part of our financial system, its amount does not affect its principle.²³

The Statist was the most adulatory, attributing to Gladstone a personal capability and responsibility for budget making beyond that of mere mortals. 'Mr. Gladstone has begun early to show that his acceptance of the office of Chancellor of the Exchequer means the performance of something great in finance.'²⁴

It is this innate courage in Gladstone which raises him, in the opinion of these journals, beyond that of other Chancellors of the Exchequer. He has been imbued with qualities which others might aspire to but never attain. This is partly due to his previous budgetary and financial successes, and his reputation had no doubt grown beyond even that. It was also due to the disappointment of seven years of Tory finance. Despite his close familiarity with Gladstonian finance and his own undoubted fiscal competence,²⁵ Northcote's tenure as Chancellor of the Exchequer was considered by many to have been a failure. He lacked such courage. Buxton summarized Northcote's six years from 1874 to 1880 as follows:

The record, as shown by an analysis of the official figures given in our public returns, is distressing enough. The surplus of six millions received in 1874,

²³ *The Times*, 11 June 1880, p. 9.

²⁴ *The Statist*, 12 June 1880, p. 326.

²⁵ For Gladstone's good opinion of Northcote see *HD*, i, p. 35.

had by 1880 been turned into a deficiency of eight. In the three last years heavy deficits were annually incurred. The ordinary expenditure had risen and risen steadily, from 72½ millions in 1873, to an amount as originally estimated of 81½ millions for 1880, an increase of nine millions sterling.²⁶

Whether or not Northcote could have done anything about this is irrelevant. In typical Tory fashion he had presided over the nation's fall from the grace of "Sound Finance" and Gladstone was now looked to as the saviour of the nation's finances.

Gladstone's Financial Statement of 1881

Gladstone presented the Financial Statement for the 1881 Budget, his twelfth as Chancellor of the Exchequer, on 4 April 1881. It had been accepted in the Cabinet on 2 April and was drafted with the considerable assistance of Welby and West.²⁷ His reputation had preceded him, and there was considerable expectation that this should be, if not a great Budget, then at least a remarkable one.²⁸ The Revenue estimates of the previous year's Budget were run through and could satisfactorily be seen as having been modestly surpassed:²⁹ realized revenue for 1880-1 was £84,041,288 and on that basis Gladstone projected an 1881 Budget revenue of £85,990,000,³⁰ an increase of £1,184,496.

At £84,805,504, estimated expenditure for the year ahead was very high by the standards of "Sound Finance", being in fact £1,697,000 higher than 1880-1. Gladstone was regretful but not apologetic about this fact, "... the Committee will perceive that the augmentation is not owing to any carelessness on the part of the Government in checking the increase of Expenditure as far as they can, and in effecting any reductions that appear

²⁶ Buxton, p. 271.

²⁷ *GD*, ix, pp. 41-44.

²⁸ Hamilton did not share this opinion, admitting that the Budget would 'not rank among his great financial feats.' *HD*, i, p. 125.

²⁹ "Financial Statement, 1881-82", pp. 1-5; PP 1881, (169) lvii. 217 for all Budget figures.

³⁰ 4 April 1881, 3 *H* 260. 584.

necessary.³¹ The single largest source of expenditure was payment of debt which amounted to £31,370,000, almost double the cost of the next largest item, the Army at £16,509,500. Civil Services at £16,087,504 was almost as expensive while the Navy made up the other significant source of spending at a cost of £10,845,919. These great spending departments and the debt service made up more than 7/8 of government expenditure.

The estimated revenue was sufficient to provide for the above expenditure comprising as it did Excise duties of £27,620,000; Customs receipts estimated at £19,000,000; Stamps – £12,290,000; Income Tax - £9,540,000; Post Office - £6,800,000; Miscellaneous - £3,900,000; Taxes - £2,760,000; Telegraphs - £1,600,000; Interest on Advances - £1,200,000; and Crown Lands - £390,000. As is clear from the above it was the indirect taxes which raised the most revenue. An important point in the revenue was that the income tax had been cut from 6d. to 5d. to reduce the surplus to £294,496, as Gladstone felt that, 'I think if I were to ask the House to vote this sixth 1d. of the Income Tax, it would be said, and said with perfect justice, that it was not a continuance of taxation, but an addition to taxation.'³²

Gladstone's presentation of the Budget was masterful in his command of the details and notable for his defence of free trade and private enterprise in a speech lasting two hours.³³ The former is evident throughout the statement, particularly in his explanation of Probate reform. While that was a technical change expected to raise £390,000 over ten months it was also the most complicated of the proposals and the one area of the Budget which had given him the most difficulty in formulation and with his Cabinet colleagues and Treasury officials.³⁴ The most important aspect of this Budget, aside from the diminution of the Income Tax, was his attack on the National Debt. As the largest single item of

³¹ 3 H 260. 584.

³² At a loss of £1,110,000 to the Treasury, *Ibid.*, p. 587. Gladstone had wanted to reduce it by 1½ d, but was over-ruled by the Cabinet of 2 April. *GD*, x, p. 44.

³³ *The Times*, 5 April 1881, p. 9.

³⁴ *HD*, i, pp.122 and 124; *BL GP*, Add. MS 44765, f. 88. The technical change is described in *Buxton*, ii, pp. 295–7, Gladstone describes it in a letter to C.J. Herries, (Chmn. IR) of 29 March, *GD*, x, p. 42.

Government expenditure it was a proper subject of Gladstone's attention, particularly as any savings would have a cumulative pay off in reducing subsequent debt charges. For Gladstone,

The reduction of the National Debt is a matter in which I have always felt a great degree of interest, and a great desire to see carried out. ... The House, however, having refused to deal with it in what I think the best way [terminable annuities], I accept the second best way [a sinking fund], and take it as effecting, at all events, a reduction of Debt, and am thankful for it.³⁵

It was expected that this additional expenditure would lead to a savings of £1,550,000.³⁶ He was keen as always to explain how the benefits of reduction and simplification of duty and excise naturally worked to the benefit of British industry and consumers, explaining how in the case of the repeal of the Malt tax in favour of a beer duty brewers had been able to substitute various grades of malt and even to substitute rice and maize in its place. 'These are details, and interesting details, as to the mode in which private enterprize goes to work always with an ultimate benefit which is sure to reach the public when changes that tend in the direction of commercial freedom are made.'³⁷ It was also an important concern of Gladstone's to explain in Parliament the workings of the revenue process so as to allow his colleagues and country to understand the important relationship between revenue, expenditure and retrenchment. It was with this in mind that he set himself the task of explaining to the House the historical yield of the income tax with the idea of relating it to the present day economic conditions and likely effect on revenue.

During the last two years - our Revenue has actually gone back, while our expenditure has increased 2 1/6 per cent per annum; and I am sorry to say

³⁵ 3 H 260. 578.

³⁶ Ibid., p. 579. '... it is proposed to convert £2,000,000 from four-year Annuities into twenty-five year Annuities terminating in 1906. By so converting them, after paying the interest on the stock into which they are converted, we shall have a sum of £1,550,000 at our disposal.'

³⁷ Ibid., p. 574.

that when I come to make provision for 1881-2, I shall be obliged to ask for further augmentation³⁸

This left an unfavourable prospect for the British prosperity in the coming year and no doubt Gladstone meant it to emphasize the need for fiscal retrenchment which would allow for future reductions in taxation and consequent, at least so far as his fiscal theory saw it, increased economic prosperity. He concluded in a sober fashion,

I do not wish to colour too highly the public prospects. I fully admit I have had no brilliant picture to present to the Committee. I have had no dazzling or bewitching proposals to make. ... It is something to say that we can meet the demand of the enormous Expenditure of this country without adding, as I trust and believe we do not in any degree, great or small, to the burdens of the country.³⁹

This was not a striking or innovative budget of the sort Gladstone was famous for but it did conform to the standards of "Sound Finance" and the orthodoxy that was expected of it. This did not mean that it was welcomed in Parliament but at least it was treated with a certain respect.

The reception of the Budget within Parliament was notable for partisan comments both for and against its provisions, particularly the level of expenditure, the cost of foreign affairs and entanglements, the beer tax and effect of the new probate measures. But mostly for the debate which occurred, much to the Chairman's annoyance, over the merits of free trade and protectionism. Messrs. Watney and Whitbread, not surprisingly, were critical as they felt that the Beer tax would impose higher costs on the brewers and so was not as fair as it could be.⁴⁰ Mr. Fowler was critical of the excessive, 'Military and Naval expenditure which he believed had never been reached before - namely £31,000,000' and felt it was 'an

³⁸ Ibid., p. 582.

³⁹ Ibid., p. 601.

⁴⁰ Ibid., p. 610.

opportunity of showing that a Liberal Government really meant economy, as well as peace and reform.⁴¹ Mr. Sydney Buxton, felt more could be done about the National Debt.⁴² There were numerous comments on the revised Probate Duty but most were happy with the reform and wished more could be done. The area of contention was the question of Free Trade, despite the fact that nothing in the Budget itself made any changes to the existing system. Those against tended to complain of foreign tariffs and unfair trading which demanded from the Chancellor reciprocity in response.

[Mr. Ashmead Bartlett] did not wish to directly attack what was called Free Trade; but he could not help feeling that, under present arrangements, it was not Free Trade for England, but for every other country at her expense ... In a short time a demand for the re-consideration of foreign tariffs would come from the very classes and constituencies that he had so successfully represented. It was the manufacturing towns that were demanding, he would not say Protection, but Reciprocity.⁴³

It was inevitable that these statements should draw a defence of Free Trade which in turn caused the Chairman to redirect discussion to the actual Ways and Means of the Budget. The important point was that the advocates of Protection and Reciprocity were again attacking the principles of Free Trade which hitherto had been an orthodoxy of both Liberals and Conservatives. As ever in times of economic depression and rising government expenditure, there were those who felt that both the discipline and yield of Free Trade finance had reached their limits. But this is to anticipate the future rather than to exaggerate the influence and impact of Free Trade's nascent critics.

The Statist scolded Gladstone for adopting Northcote's method of comparing actual expenditure to the supplemental estimates. This seemingly small point emphasizes the seriousness which Gladstone's previous Budgets had encouraged the financial press to take the presentation of spending estimates and the severity of comment should actual practice

⁴¹ Ibid., p. 611.

⁴² Ibid., p. 615.

⁴³ Ibid. p. 617.

deviate from promise. Overall, it was not so bad. What he is entitled to credit for is that, having to face increased expenditure, he has not hesitated to increase taxation accordingly, so that the expenditure of the year is more than balanced by the receipts.⁴⁴ This then an expression of respect for Gladstone's prudence and fiscal ability while deplored the very high level of government expenditure. The key is the satisfaction expressed that given such a level of expenditure it was met out of the current revenue of the state through taxation, and not by any tricks of accounting or through debt finance. A similar attitude can be seen in both *The Times* and *The Economist*. The former concerned with the efficiency of government control over expenditure whereas for the latter the concern is to acknowledge the resilience of the economy if efforts are made to reduce expenditure. The fiscal philosophy is consistent across all four and with Gladstone's budget itself. This is the theory of "Sound Finance". It is important that the only dissension to it, from the Tariff Reform movement, deviates from the orthodoxy of Free Trade and not from the fiscal superstructure of government finance. Were it to be implemented, however, it would radically transform that superstructure.

The Financial Statement for 1882

The Financial Statement presented to Parliament on 24 April 1882, Gladstone's thirteenth Budget, was a milestone because it was the last for which he would be responsible as Chancellor of the Exchequer. No other Chancellor before or since has equalled this number of Budgets, yet it was for this reason only that it would be remembered as there was nothing in the particulars of the Budget to make it memorable. Neither the state of the nation's trade nor the pressures of expenditure would allow for remissions in the burden of taxation or severe retrenchment in outlay.⁴⁵ If it did not present Gladstone with the chance

⁴⁴ *The Statist*, 9 April 1881, p. 386.

⁴⁵ Hamilton thought Gladstone had limited prospects to work with for this Budget and that the 'cry of economy is a thing of the past.' *HD*, i, pp. 245 and 254.

to go out with a flourish, and at this time he was looking to relinquish his Budgetary burdens,⁴⁶ it at least offered him the opportunity of adhering to his lifelong principles of financial probity. It is also significant that he insisted that the tax increase to secure the surplus come from 'property and not from labour'.⁴⁷ This was to be a conventional and conservative budget and in this it can be seen as a triumph of sober fiscal principles over the ambition to do something memorable yet possibly unsound. Or was it simply a case of the man himself being over stretched?⁴⁸ His responsibilities were immense and at his age perhaps too much for him to turn back the clock and repeat his earlier fiscal triumphs. This budget can be read as a eulogy to the rigid Peelite principles of financial orthodoxy which Gladstone had taken to heart and made both his and the nation's own. It was in keeping with its predecessors of 1880 and 1881, but greyer. Sound but lacking innovation, prudent and tired.

Gladstone began, in accordance with precedent, by stating the realized revenue of the 1881 financial year. He was able to report a surplus of £722,000 over the estimate despite a shortfall of £220,000 in the produce of the Beer Duty, 'I was certainly wrong in estimating the Revenue which I anticipated would be derived from the change.'⁴⁹ Gladstone was pleased to discuss the sources of revenue and changes in productivity. He broke down those due to taxes, both direct and indirect and those through other sources. It was pointed out that alcoholic drinks accounted for £28,444,000 of the 1881 revenue which was a decline in its share of the overall amount.

From 1874-5 to 1879-80 we levied 51 percent of our whole taxation, except Income Tax, from alcoholic drinks, and 49 percent from all other sources. ... but during the last three years re-action has begun, and the alcoholic revenue has gone down to 46½ percent, and the non-alcoholic revenue has risen to

⁴⁶ *Ibid.*, p. 257. By 1 June 1882 Hamilton had correctly inferred that his replacement would be 'the inevitable Childers.' Goschen was disqualified in Gladstone's reckoning as a 'City man', p. 280.

⁴⁷ Letter to Welby 6 April 1882, BL *GP*, Add. MS 44545, f. 119.

⁴⁸ This was Hamilton's opinion. *Ibid.*, p. 285. Gladstone had intimated as much imploring Childers reduce the Army Estimates as probably his last 'and I hope to be able to look at them with some kindly feeling.' *GD*, x, p. 185. Childers was not optimistic, BL *GP*, Add. MS 44129, f. 320.

⁴⁹ 24 April 1882, 'Financial Statement, 1882-83,' pp. 1-5; P.P. 1882, (155) xxxvii. 211 for Budget figures.

53½ percent, showing a real and serious diminution in the consumption of alcohol.⁵⁰

This admission provoked a subsequent debate as to whether this shortfall in alcohol consumption was due to the improved morals of the populace or to the decline in the nation's wealth. In any event it was an example of the uncertainty, or elasticity, in revenue that those framing the Budget estimates had to deal with, and which would become the great taxation debate in 1885.

In presenting his estimates to Parliament Gladstone of course had to bemoan the continued high level of expenditure. 'Some part of that represents permanent increase, some part of it represents normal increase; but undoubtedly there are portions of it which I am not able to place under one description or the other.'⁵¹ Expenditure represented a slight decline on the previous year but was too high for Gladstone to take comfort in. He was able to provide a small sum to aid in the maintenance of roads by increasing the carriage duty, estimated to yield an additional £247,000 if not any new friends amongst the carriage set.⁵² There was little else in the way of changes to taxation, just enough to ensure a surplus but it was obvious he didn't feel that this Budget was a great success, hence his valediction.

If I am asked whether the Expenditure is deemed satisfactory, I am afraid my notions are too old-fashioned to allow me to view it with as much complacency as that with which it is viewed by others. ... but I do not see in the country that great desire for the restriction of expenditure which characterized this country and all Parties 40 or 50 years ago. It is an evil, I think, that public vigilance on this subject should be diminished, and that the attitude of the House of Commons should have been so sensibly changed. I confess I have great doubts — I have not arrived at any conclusion on the subject — as to whether the system under which our Estimates are now framed up on the exclusive responsibility of the Government, and without any responsibility on the part of the House, is a good system. It is a very important subject for consideration. For my own part, although I have not arrived at any absolute conclusion, I am very dissatisfied with the working of the system, especially during the last 20 or 30 years. Sir, there are three

⁵⁰ 3 H 268. 1288.

⁵¹ Ibid., p. 1295.

⁵² This tax was later dropped.

principles, greater than all others, on which, in my opinion, all good finance should be based. The first of them is that there should always be a certainty that whatever the charge may be it can be paid. That, I believe, is of vital importance. The second is that, in times of peace and prosperity, the people of the country should reduce their Debt; and the third point is that they should reduce their Expenditure. With regard to the first point, we are at present fulfilling that condition; with regard to the second, we ought to do more in the direction indicated than we have actually done; but at the same time we are doing a good deal more than was usually done in a long series of years... With regards to the diminution of Expenditure, I sorrowfully admit that the contagion and sympathy of foreign countries necessarily affects us.⁵³

Despite his own responsibility for thirteen years of that expenditure he would leave the post disappointed. This is a remarkable statement, it is the ideal state of finance which he could not achieve and understands is unlikely to be realized again. There was some consolation in that, like all ideal states beyond man's reach, there was virtue in the vain attempt to grasp it.

That tone was echoed in *The Economist* and *Statist* while *The Times* was not in the least impressed. *The Economist* remained convinced that Gladstone was uniquely capable in matters of finance despite the Budget providing nothing which would reinforce that conviction. Gladstone's reputation rendered him immune from criticism in that journal. 'An impression exists that he had deliberated over the possibility of a Budget on a far larger scale, but that he considered it advisable to postpone it.'⁵⁴ *The Times* took an opposite tack and did not let past reputation temper present criticism. There was nothing in this critical of Gladstone's overall financial policy, but a willingness to take that policy on its own terms and question the ability of Gladstone to live up to his own principles, in effect challenging his own willingness to concern himself with 'candle ends' and the minute scrutiny of detail which in theory allowed for significant economies of expenditure.

Mr. Gladstone, dealing with narrow and fractional margins and contriving unimportant readjustments, is no more able than the most commonplace of financiers to produce splendid and far reaching effects.... Mr. Gladstone was

⁵³ 3 H 268. 1297.

⁵⁴ *The Economist*, 29 April 1882, p. 498.

unable to produce a statement which will be worthy of remembrance by the side of his renowned historical Budgets.⁵⁵

The Spectator continued to use the Budget to attack the Conservatives, 'We are rapidly paying off the fine imposed upon us by an insane policy, and steadily, though only gradually, reducing the Debt which the last Government had increased.'⁵⁶ The critique of *The Statist* was tinged by unstated disappointment. Disappointment at the larger points culminating in a petty criticism of form and the method of setting out expenditure as it had done the previous year. This seemingly small point is telling in that it makes clear the expectations associated with government finance. Not only must the large question of the Budget and its components be got right, but it was essential for it to be presented fairly and unequivocally. There ought to be no room for gamesmanship or party advantage as the nation's finances should be above that sort of thing. Political anxieties, more particularly regarding the condition of Ireland, has prevented Mr. Gladstone, we may assume, from giving very much attention to the Budget which he introduced on Monday evening.⁵⁷ It was clear that Gladstone had lost the battle against expenditure and his reputation as an economist was suffering. Of course, the problem was that spending Estimates were not written in stone and thus were subject to revision when unexpected spending loomed. And a military crisis in Egypt was looming.

The crisis in Egypt and the subsequent British military expedition were a double blow to Gladstone as both his foreign policy and budget were unbalanced. Reflecting later he acknowledged the setback. 'During the first two years of that Government we had accomplished important purposes in Afghanistan, in South Africa, in the application of the Treaty of Berlin, and in the rectification of finance. The Egyptian entanglement had begun

⁵⁵ *The Times*, 25 April 1882, p. 9.

⁵⁶ *The Spectator* 29 April 1882, p. 553.

⁵⁷ *The Statist*, 29 April 1882, p. 474.

but we did not yet know how serious it would prove.⁵⁸ If he had to retreat from his moral principles regarding military intervention abroad, he could at least take some solace from the fact that he could still uphold his financial principles by ensuring that the military adventure was paid for out of current revenue. He spoke before Parliament on 24 July 1882 to secure a £2,300,000 Vote of Credit for the cost of the Egyptian expedition and to defend the actions of his government in waging a colonial war.⁵⁹

It is our intention to provide for it in the manner which has been adopted on several occasions when the House has found cause to add to the burdens of the country at a time considerably after the commencement of the financial year, that is to say, by making an addition to the Income Tax, which will be charged upon the latter half of the year at double the rate at which it would apply for the whole year.⁶⁰

There is no doubt that for Gladstone the most painful decision was to embark on a Beaconsfieldian military adventure in Egypt and not the decision to raise the taxes necessary to pay for it.⁶¹ This was entirely in keeping with the principles of finance which he had

⁵⁸ Brooke and Sorensen, i, p. 114.

⁵⁹ This turned out to be insufficient and a further supplemental Egyptian Expedition Vote of Credit for £1,595,500 was required although further taxation was not. Buxton, ii, p. 358.

⁶⁰ 24 July 1882, 3 H 272. 1575.

⁶¹ In fact it was magnanimously decided that Britain would not charge these expenses to Egypt. 'According to all the rules of equity and of international precedent, Great Britain might properly claim that this expenditure should form a charge on the revenues of Egypt. Bearing in mind, however, the heavy burdens already imposed upon those revenues, Her Majesty's Government are unwilling, especially at this moment, to make so serious an addition to them.' Draft of Despatch from Earl Granville to Sir F. Mallet, 18 Oct. 1882. PRO CAB 37/9 p.1. There has been some debate concerning British motivations for invading Egypt. R.C. Mowatt, 'From Liberalism to Imperialism: the case of Egypt 1875–1887.' *The Historical Journal*, XVI, I (1973) pp. 109–124, argues that Cromer, and the British official position, moved from Cobdenite to Liberal Imperialist during this period, but that it was at all times a reluctant undertaking. This is completely contradicted by Alexander Schölc, 'Men on the Spot' and the English Occupation of Egypt in 1882.' *The Historical Journal*, 19, 3 (1976), pp. 773–785, argues that the British officials in Egypt engineered the "regime change" on a contrived pretext of "anarchy" and danger to the Suez Canal. '[T]hey misrepresented the new order of 1882 first as a military dictatorship, then as a xenophobic anarchy in order to force a military intervention.' Alexander Schölc, *Egypt for Egyptians!: the socio-political crisis in Egypt 1878 – 1882* (London, 1981), p. 312. This is certainly at variance with the position of Gladstone, Rivers Wilson and Childers as they sought to untangle Egyptian finances. A.G. Hopkins, 'The Victorians and Africa: A Reconsideration of the Occupation of Egypt, 1882.' *Journal of African History*, 27, (1986), pp.363–391, argues that Hartington and Dilke, as proto-Liberal Imperialists, wanted to demonstrate that power and patriotism were not strictly Conservative virtues, and that Gladstone, 'a leader who was led', acquiesced in 'the conscious and sustained defence of Britain's expanding economic interests in Egypt.' Again, this appears at variance with the financial records. Hopkins more plausibly concludes that 'after Egypt there was no turning back: both parties, in their different ways, had become imperialists,' pp. 382, 385 and 387. Robert T. Harrison, *Gladstone's Imperialism In Egypt. Techniques of Domination*. (Westport, CT., 1995),

always enunciated and was why he had castigated the finance and foreign policy of his predecessor and late rival as Prime Minister.

The difficulty which Gladstone felt in committing to an Imperial military adventure in Egypt was not shared by the responsible financial journals which didn't question the cause but had some misgivings over the means of the expenditure. *The Times* had no objection to the means or the end but that was not the case with *The Economist*. It supported the Egyptian war but felt that '...while the correctness of the principle upon which Mr. Gladstone is acting cannot be questioned, we are by no means sure that the same can be said of his application of it.' It did not approve of voting expenditure so far in advance before the actual cost of the war could be known but especially disproved of throwing the whole burden of that expenditure '...upon those few liable to the income tax.' The burden of expenditure ought to be distributed throughout the nation and, in a democratic age, it felt the working classes were entitled to share that burden. The principles of democracy demanded the extension of the tax burden to all. The beer tax was the logical source for this contribution and an increase of $\frac{1}{2}d.$ /quart, it estimated, could raise an additional £8,000,000 in revenue. This Gladstone himself had hinted when, on repealing the malt tax, he pointed out the utility of the beer tax as a source of emergency funds in time of war.

If it be said that Mr. Gladstone has no leisure at present to elaborate any new financial measures, that may be taken as a good cause why the head of the Government, whose duties are so arduous as almost to overwhelm any man, should not burden himself with the Chancellor of the Exchequer, but hardly as justifying bad finance.⁶²

argues that from the outset Britain's policy was 'premeditated, blatantly aggressive, and hypocritical intervention', p. 7. If correct about the last he nonetheless offers scant evidence for the first assertion and the whole thesis seems to fly in the face of the financial realities. Sir C. Rivers Wilson, *Chapters From My Official Life*, edited by Everilda MacAlister, (London, 1916), pp. 81–90, presents a very different perspective on his Egyptian experience of that time.

⁶² *The Economist*, 29 July 1882 p. 935.

This was a considerable about face for a journal which had implied over the past two years that Gladstone alone was capable of managing the financial affairs of the nation. *The Statist* was not so worked up on this subject, taking the line that the crisis showed up a deficiency in the structure of the state's finances.

An empire having interests to defend in every corner of the globe, and liable at all times to become involved in 'little wars', ought to so manage its finances as to have a reasonable margin of, say, five per cent. at all times, so that minor contingencies may be provided for without a harsh and oppressive levy upon a restricted class.⁶³

The further advantage of such an arrangement, it argued, was that if not expended this sum could be applied to the reduction of debt at the end of the financial year. Gladstone would no doubt have disapproved of such an arrangement on the grounds that it would inevitably tempt Governments into military affrays as the money available would be considered a standing fund for war. The consensus seemed to favour the war and the virtuous payment of its cost out of current revenue but in the case of the two financial journals to deplore that the burden of this fiscal virtue fell solely upon the Income Tax paying citizens. The belief that there should be a balance between direct and indirect taxation was a principle of "Sound Finance" but it did not override Gladstone's concern that once a given expenditure had been determined on paying for it took precedence over the claims of the Income Tax payer.

There is some irony in the fact that Gladstone relinquished the office of Chancellor of the Exchequer before his ministry would be brought down on a question of finance in 1885.⁶⁴ The 1885 crisis signified a sea change in British government finance. Before then the Chancellor of the Exchequer could hope to reduce expenditure given promising economic conditions and the avoidance of military expenditure due to wars large or small. After that

⁶³ *The Statist*, 29 July 1882, p. 118.

⁶⁴ Parry, p. 292.

the trend was for expenditure to steadily rise and revenue sources would have to increase with it. For Gladstone “Sound Finance” represented much more than an efficient economic system, it represented a virtuous path to the moral high ground. ‘[There are] six great subjects which have mainly supplied the material of my political action. The first two were the Church and the colonies. Freedom of trade the third. ... finance, the fourth. Then came the emancipation of subject races the fifth. And finally Ireland the sixth. And so pass my sixty years and more.⁶⁵ If adherence to “Sound Finance” had cost him the Premiership it was a price he nonetheless was willing to pay.

In all three of his Budgets between 1880 and 1882 he scrupulously adhered to his own high standards in finance. His record as Chancellor of the Exchequer was not tainted with deficits and he was able to reduce the National Debt by £19,689,000, more in three years than Northcote in seven.⁶⁶ If he was unable to make any headway in reducing expenditure he at least was able to ensure that the revenue was raised to pay for it. On every occasion that required a rise in taxation to pay for increased expenditure he raised the income tax. The indirect taxes were not utilized and the greater part of the British population did not bear the increase. It was a pattern that would be followed by Asquith and Lloyd George more than twenty years later. In this they explicitly confirmed what Gladstone had stated was the first principle of “Sound Finance”: to ensure that “Whatever the charge may be it can be paid.”

⁶⁵ Brooke and Sorenson, i, p. 74. He continued, ‘I am a Free Trader on moral no less than on economic grounds: for I think human greed and selfishness are interwoven with every thread of the Protective system.’ p. 75.

⁶⁶ Buxton, ii, p. 363.

CHAPTER 3

PEACE: WAR, DEBT & TAXES, 1883–1885

Hugh Culling Eardley Childers (1827–1896) succeeded Gladstone as Chancellor of the Exchequer in December of 1882, with just sufficient time to prepare the Budget for 1883. Edward Hamilton, Gladstone's secretary, had his doubts about Childers and had hoped for Hartington to get the post but Gladstone was convinced of Childers' suitability.¹ Childers was known to the Treasury from his experience at the Admiralty and at the War Office from 1880 through 1883. Sir Reginald Welby was his former secretary.² His tenure from 1883 through 1885 would prove to be one of the most eventful of not only that Liberal Government but of the two decades preceding the Boer war. It fell to Childers to secure and defend the Liberal principles of "Sound Finance" in the face of unprecedented strain: the Egyptian adventure, a naval panic and arms race followed by a Russian threat to India, all while the Liberals managed the great reform and expansion of the electorate. This period also highlights the role that Gladstone would continue to play in finance even though he had removed himself from direct responsibility for it. He would prove difficult to follow as Chancellor of the Exchequer.

The 1883–84 Budget

The Budget for the financial year 1883–84 was unsettled by the complications associated with the Egyptian expedition which had still to be sorted out financially. The expectation was that Egypt would finance the costs of maintaining the army in Egypt. For Egypt, finances were a disaster even without these charges. Childers had a hand in this administration and he could

¹ Dudley W.R. Bahlman, ed., *The Diary of Sir Edward Walter Hamilton, 1880–1885, vol. I, 1880–1882* (Oxford, 1972) p.368.

² Spencer Childers, *The Life and Correspondence of the Right Hon. Hugh C.E. Childers 1827–1896* (2 vols., London, 1901) p. 147. He was also Financial Secretary to the Treasury, 1866–7 and 'very well regarded for his work efforts.' Maurice Wright, *Treasury Control of the Civil Service, 1854–1874* (Oxford, Clarendon Press, 1969) p. 37.

hope that the provisions of 1882–83 had been sufficient to account for Britain's liabilities.

After all they had been determined by Childers in consultation with the Treasury.³ By December Childers himself was at the Treasury, so his knowledge of the situation could hardly have been more perfect. Welby wrote to the Financial Secretary to the Treasury, Leonard H. Courtney, suggesting '...we may fairly expect the Egyptian Gov't to pay 4£ per head on 8,000 [troops] for 6 months and if the force is reduced in the mean time the margin may go to meet our expense which the bringing the men home may entail.'⁴ It was decided that £279,668 would be sufficient to cover the period from October to March 1883.⁵ Undoubtedly this removed a painful source of expenditure from Childers' concerns but it was cloaked in the language of just obligations and responsibilities for Egypt.⁶ The British troops were there to maintain law and order in a society they had only just rescued from anarchy. It was only just that Egypt be obliged to pay for this service, like India. Yet given this imperial logic it was only just that Britain began to realize its obligations towards Egypt.

India was also obliged to finance the Egyptian Expedition, for it was ostensibly concern for trade routes to India which entangled Britain in the Suez Canal and Egyptian affairs in the first place. The precise Indian contribution was arrived at after exacting negotiations with Hartington and the India Office who were keen to ensure the Indian taxpayers were not taken advantage of. A compromise was reached when the home government agreed to contribute £500,000 to the Indian expenses associated with the Egyptian Expedition.⁷

³ *GD*, x, p. 368, 21 Nov. 1882 Gladstone to Childers.

⁴ PRO T1/15525 no. 2685 of 7 Feb. 1883.

⁵ PRO T1/15525 no. 4070 of 26 Feb. 1883.

⁶ 'Her Majesty's Government have undertaken to defray all expenditure incurred in the suppression of the rebellion, the date of the conclusion of which they have fixed with liberal intention at the 30th September. From that date accordingly they ask the Egyptian Government to repay all extraordinary expenses with the retention for police purposes of the Queen's troops in Egypt will entail on the Exchequer of the United Kingdom. ...understand that the capitation rate represents an irreducible charge, and is presented for acceptance as such, and not as a basis for negotiation.' PRO T1/15525 no. 1920, 31 Dec. 1882.

⁷ *GD*, x, Letter to Hartington 15 Jan. 1883, p. 395; PRO T1/15525 no. 3776 of 21 Feb. 1883, the India Office conveys its gratitude and satisfaction to the Treasury.

1883–84 Budget

Childers presented his maiden Budget speech in the House on 5 April 1883 taking up almost two hours of the evening.⁸ He was able to report favourably on the 1882–83 financial year as revenue had exceeded the Estimate by £1,807,456. This was particularly due to the Stamps, which exceeded the estimate by £696,000, as well as the Income Tax and Customs. Consistent with the basis of government finance of the time, it was the Customs and Excise taxes which brought in the great bulk of the revenue: £46,587,000 or sixty-four per cent of that from taxation (52% of total revenue). Non-tax revenue provided a significant 18% of total revenue and was £581,456 over estimate.

Expenditure was £88,906,278 and £676,590 less than provided for by the supplemental estimates for the Egyptian Expedition. In fact, aside from the Army which was £44,251 over estimate, every other spending department came in below estimate. As always Debt charges represented the largest item of expenditure, £31,221,096 being 35% of the total. The voted spending departments: Army, Navy and Civil Services accounted for £43,247,256 and very nearly half of expenditure. The greatest variable in the year's expenditure was costs due to the Egyptian Expedition amounting to £1,609,500. Other military expenditure, the contribution to forces in India, grant to India in aid of the Afghan War and the Mediterranean Vote of Credit added another £3,900,000. Exceptional military expenditure therefore accounted for £5,509,500 in aggregate (6% of expenditure). All in all Childers was able to report a small surplus of £98,178, not much but quite respectable given the exceptional nature of military expenditure during the year. In fact, given the tenets of "Sound Finance", this was exactly the outcome that should have been arrived at.

Childers estimated the Revenue for 1883–84 at £88,480,000 based on existing taxation; a decrease of £524,456 on the 1882–3 Revenue which was attributed to ordinary

⁸ Dudley W.R. Bahlman, ed., *The Diary of Sir Edward Walter Hamilton, 1880–1885, vol. ii, 1883–1885* (Oxford, 1972) p. 417. Hereafter, *HD*, ii.

fluctuations. This he justified 'as to the general principle that has been adopted in forecasting our income, that, considering the present state of trade and agriculture, the Estimates we have made it is a safe, though it is not a sanguine one.'⁹ Of this £73,385,000 was expected from taxes of which £46,650,000 indirect tax was from Customs and Excise and £26,735,000 from direct taxes.[†] Non-tax Revenue was estimated to be £15,095,000, a falling off of £781,456 from the previous year. All of these figures had been preceded by an explanation and setting out of the growth of expenditure and why government in general and the Liberals in particular had been unable to contain it.

The Estimated Expenditure for 1883–84 came to £85,789,000, little changed from that of 1882–83 except that the extraordinary charges of the Egyptian Expedition were not recurring, allowing a year to year decline of £3,117,278. This would allow for an estimated Budget surplus of £2,691,000 if no changes were made to taxation. Debt charges were the single largest item of expenditure and Childers' plan for terminable annuities would increase them by £97,904. Army and Navy votes of £15,607,000 and £10,757,000 respectively were a slight increase over the unadjusted charge of 1882–83 (not including the supplementary estimate). The Civil Services charge of £17,253,000 represented a savings of £83,001 while the remunerative departments of Customs, Post Office, Telegraph and Packet services would incur an additional £194,574 mainly due to the anticipated costs of the new parcel post service. So the ordinary expenditure of the year was expected to fall back to the level of 1881–2.¹⁰

This anticipated surplus allowed Childers to reduce the rate of Income Tax from 6½d. to 5d. in the pound at an estimated cost of £2,135,000. The introduction of a lower 6d. minimum charge for telegraphs, a reduction in the Railway duty and some trivial changes to the silver plate and tobacco duties would result in a further £316,000 reduction of taxes, now

⁹ 3 H 277. 1528.

[†] This breakdown is not precise, but for rough calculations Customs and Excise can be deemed indirect taxes and the direct taxation to be comprised of: Stamps, Land Tax, House Duty, Property and Income Tax. For a more detailed review of these classifications see Buxton, ii, Appendix L, pp. 380–83.

¹⁰ Figures are from 'Financial Statement 1883–84', pp. 1–5, P.P. 1883, (122) xxviii. 295.



£2,451,000 and a revised expected surplus of £240,000. So apart from the move to put the Income tax back to its “normal” level, there were no great changes to taxation. The key innovation of Childers’ Budget speech was his ambitious twenty year plan to automate and increase the reduction of outstanding Government debt through a complex system of terminable annuities.¹¹ In fact the concurrent rise of Government Debt and expenditure was a theme for Childers as they allowed him to portray both as being the fault of the late Conservative Government. The Liberals were merely ‘Paying for the Wars of their predecessors’.¹² The contrast between the two regimes was striking in terms of their efforts at debt reduction, for while the Liberals had reduced debt by £17,666,964 in three years¹³ the Conservatives had only been able to reduce £2,429,000¹⁴ in their six. The plan of terminable annuities would remove some of the discretion from government and thus, over time, allow for much greater automatic reduction of the Debt, while immediately increasing the new sinking fund by about £250,000 per year. It was believed that the system was superior to sinking fund arrangements, for a sinking fund could be intercepted whereas the annuities were much more resistant to diversion.¹⁵

It is on that ground that the Government urges a renewal of a system of terminable annuities before the present system expires, confident that it is the surest method of reducing not only the principal but the rate of interest on the Debt, and that they thereby make a double attack upon the dead weight charge which burthens the industry of the nation.¹⁶

It was estimated that this plan of terminable annuities could reduce the debt by £170,000,000 over twenty years, presumably even with a Conservative Government.

Cabinet agreed on Tuesday April 3rd before the Budget to support MP Peter Ryland’s resolution ‘That in the opinion of this House, the present amount of the National Expenditure

¹¹ Buxton, ii, pp. 304–7, provides a clear explanation.

¹² 3 H 277. 1514.

¹³ PRO T1/14717, ‘Reduction of National Debt’.

¹⁴ Buxton, ii, p. 363.

¹⁵ The plan was designed to cancel stock worth £173,019,000 over twenty years. ‘Treasury Minute, July 1883, on Arrangements under National Debt Bill’, P.P. 1883, (270) xxxciii. 359.

¹⁶ PRO, T1/15567, ‘National Debt’, p. 8; ‘Statement of Proposals of Chancellor of Exchequer for Reduction of National Debt’, P.P. 1883, (179) xxxviii. 373.

demands the earnest and immediate attention of Her Majesty's Government, with the view of effecting such reductions as may be consistent with the efficiency of the public service.¹⁷ The intent was to divert pressure from the Budget expenditure and allow the Radicals to let off steam, while again exposing the Conservative record in finance unfavourably.¹⁸ The debate certainly fulfilled these intentions and after exposure and explanation of the level of overall expenditure Childers was able to conclude that 'Economy, ... is something like Free Trade. We used to hear a great deal about everybody being in favour of Free Trade, but always of Free Trade with an exception.'¹⁹ So the result was exactly what the Government intended, and nothing of substance came out of it towards reducing expenditure,²⁰ but certainly they were motivated if not constrained to keep to the current level of expenditure in 1884–85. For Gladstone this was a binding commitment.²¹

Reaction to the Budget outside Parliament was in keeping with its routine nature, most of the measures had been expected so attention was focused on the plan for debt reduction. The tone of Childers' speech was what most exercised *The Times*, 'He fell short of the large, impartial, scientific treatment suited to a subject like the state of the national finances which has been, even in the most excited times, an oasis of peace in the midst of party controversy.'²² The specialist financial journals were more interested in the measures than the man. 'The Budget will give that satisfaction which is always experienced when a specially unpopular tax — as the income tax is the moment it rises beyond a very moderate level — has been reduced.' The plan of debt reduction was welcome but without retrenchment of expenditure the end was uncertain.²³ The *Statist* took an even broader approach, looking not just at one year's

¹⁷ 3 H 277. 1644.

¹⁸ *HD*, ii, p. 417.

¹⁹ 3 H 277. 1705.

²⁰ *HD*, ii, p. 419.

²¹ It ought 'to give encouragement to you & to Courtney in carrying on the standing & incessant work of resistance to augmentations & in looking for occasions of making these small savings of which so much in the aggregate depends.' Gladstone to Childers, 5 Sept. 1883, *GD*, xi, p. 28.

²² *The Times* 6 April 1883 p. 9.

²³ *The Economist* 7 April 1883 v. XLI no. 2067, p. 394.

finances but the larger purpose of the Government's financial policy. Its recommendations were radical and prescient.

The truth is, that the question of the national expenditure cannot be properly debated now from the point of view of the advocates of retrenchment and economy. The country is rich enough to pay for any object of national desire which can be proved to be indispensable, or even highly expedient, for the welfare of the masses. The one thing to see is that the expenditure is efficient, and the attempt merely to keep down the total expenditure without reference to the object to be obtained is altogether misdirected.²⁴

Again it was the *Spectator* which was the Government's most partisan supporter, congratulating Childers 'heartily on having proved ... that he knows exactly the critical parts of our finance, that he is prepared to accept all the best precedents of his predecessor'.²⁵ The most important was felt to be the reduction of the income tax back to the more moderate level of 5d. in the pound. Yet this return to normality would be short-lived, retrenchment was now obsolete.

The 1884–85 Budget

The Government began its preparations for the 1884–85 Budget under pressure of expenditure threatening to overturn the commitment to reduction agreed to in Rylands' motion of April 6, 1883. Questions relating to the cost of the Egyptian expedition were to become much more important later, as now the financial concerns overshadowed the military fears and left retrenchment unlikely. Hamilton noted in his diary of 4 June that 'Mr. G. launched out this morning on the alarm which he felt at the prospect of Liberal finance in the future. He was evidently startled at the financial heresies which were broached by his colleagues, including Childers, who is disappointing him and in whom he is losing faith.'²⁶ Gladstone, through thirteen Budgets and nearly forty years experience of public finance since Peel, presented an awesome reputation for any Chancellor of the Exchequer to follow. His name was a synonym for finance. As early as 5 July 1883 Gladstone was writing to Childers

²⁴ *The Statist* 7 April 1883 v. XI no. 267, p. 378.

²⁵ *The Spectator* 7 April 1883 no. 2,858, p. 443.

²⁶ The Cabinet had countenanced borrowing for the Post Office, and Gladstone noted that even in 1860 he had only done so as a last resort to build fortifications. *HD*, ii, p. 444.

urging the need to press for economy in the upcoming estimates, especially the Navy, for 1884–85, and this is indicative of the close role he played in supervising the finance.²⁷

Gladstone was particularly concerned about conforming to Ryland's resolution of 6 April 1883, asking Childers on 15 September 'what are we to do in redemption of the pledge which we have substantially given to the House by accepting during the last session a general motion on behalf of a reduction in the public expenditure.'²⁸ Instead of a reduction the estimates looked rather to be increasing and the urgency was such that by 7 November he was actually leading Childers down the path of most effective opposition to expenditure. I think you should mention ... the subject of Expenditure, on Saturday [Cabinet meeting]: please also to consider whether it would not strengthen your hands if we arrange that the Departmental results shall go before one or more Committees.²⁹ This was agreed to in the Cabinet of 10 November but the hard work of restraining expenditure was still ahead of them. He wrote to Childers on 14 January 1884 concerning the Army increase and again on the 19th as by then Hartington at the War Office was set on an increase of £1,400,000, referring in his diary of the 22nd to 'our grave position as to Estimates'.³⁰ The Cabinet of 24 January was particularly concerned with the estimates and he had requested of Lord Northbrook, the first lord of the Admiralty, to meet him before then to discuss the Navy's place in 'a situation of extreme gravity which I had not at all anticipated when at our former meetings I undertook serious personal engagements'.³¹ Gladstone's conversation must have been formidable because the next day he wrote to inform Childers that the Admiralty demand had 'disappeared *en bloc*' and at the Saturday Cabinet on the 26th expenditure of £86,900,000 had been pretty much arrived

²⁷ *GD*, xi, p. 2.

²⁸ *Ibid.*, p. 28.

²⁹ *Ibid.*, p. 54.

³⁰ *Ibid.*, p. 99, 102 and 103.

³¹ *Ibid.*, p. 104.

at.³² No increase in taxation would be necessary, but the naval trouble was merely stored up for the future as agitation for increases would continue through 1885.

It only remained for the Budget proposals to be finalized in Cabinet on 22 April for presentation on the 24th.³³ Childers presented the Financial Statement with his usual confidence,³⁴ and was pleased to report to Parliament that Revenue for the year 1883–84 had been £87,205,184, an increase of £656,184 on the Estimate but a decline of £1,799,272 on the previous year due to the loss of the extra 1½ d. of income tax. Expenditure was £819,794 less than the Estimate at £86,999,564; and less than in 1882–83 by £1,906,704. This mainly due to the non-recurring costs of the Egyptian Expedition (so it was thought) but also to savings on Civil Services and the Navy.³⁵ ‘The Committee will not fail to notice the successful struggle for economy which these figures exhibit.’³⁶ This was said with some understatement.

He could be even more pleased with the Estimates for 1884–85 as they came in at over a million less than agreed to in the January 26 Cabinet. Revenue was expected to be £85,555,000, a fall of £605,184 on the previous year mostly a result of a cautious estimate based on the unusually large return from the income tax of 1883–84. Estimated Expenditure was £85,291,825 a decrease of £662,739 in 1883–84 and due more than anything else to holding expenditure constant, and to the falling off of £750,000 in the Afghan War Grant in Aid to India which was now only £250,000. Taken together these left a most modest anticipated surplus of £263,000, far too small for anything radical and so Childers allowed himself only a trivial remission of carriage licenses which reduced the surplus to £241,000 for

³² *Ibid.*, p. 105.

³³ *GD*, xi, p. 137.

³⁴ *HD*, ii, p. 601, ‘Mr.G. thought Childers acquitted himself extremely well. He is certainly very handy with figures.’

³⁵ ‘Financial Statement 1884–85’ pp. 1–5, P.P. 1884, (139) xlvi. 223.

³⁶ Childers in 3 *H* 287. 505, 24 April 1884.

the 1884–85 financial year.³⁷ I am bound to say that considering the possibility of other claims arising, this is not too large a surplus.³⁸

Childers' proposal to reduce the interest on the National Debt was closely related to the assault on the Debt Gladstone had initiated in 1880 and which culminated in the terminable annuities scheme of 1883. 'We not only had in view the mere reduction of the Capital of the Debt upon a self-acting system, but we contemplated also that it would render more easy, at an early date, the reduction of interest on the three categories of Three per Cents.'³⁹ That plan had already reduced the Debt by £8,048,000 in 1883–84 and by £25,198,000 since April 1880.⁴⁰ To be a success Childers' scheme required the holders of 3 per cent Debt to convert into new issues of 2 $\frac{3}{4}$ or 2 $\frac{1}{2}$ per cent stock at £102 or £108 per £100 of 3 per cent stock tendered. Although the Debt could be paid off through a compulsory process of redemption, Childers was 'desirous to make our first step in this matter one of agreement rather than of compulsion'.⁴¹ Had the conversion plan succeeded there would have been a great savings on the interest charge on Debt of from £1,170,000 to £1,800,000 per year, albeit with an increase in the nominal capital outstanding, which Childers proposed to pass on to the taxpayers. The plan was not a success.

"The City" did not receive the scheme kindly — a Liberal Chancellor of the Exchequer is not *persona grata* in the City — foreign politics, and affairs in the Soudan, gave rise to anxiety, and the conversion failed. Only £4,650,000 of 2 $\frac{3}{4}$ stock was taken up, and but £19,230,000 of 2 $\frac{1}{2}$ stock was issued, of which £12,000,000 was taken up by Government Departments. The whole net annual savings on the operation amounted to no more than £46,700 a year.⁴²

³⁷ 'Financial Statement 1884–85', pp. 2 and 4, P.P. 1884, (139) xlvi. 223.

³⁸ 3 H 287. 515.

³⁹ 3 H 287. 521.

⁴⁰ *Ibid.*, p. 506.

⁴¹ *Ibid.*, p. 522.

⁴² Buxton, ii, p. 307; 'Account, to Nov. 1884, for United Kingdom of Amounts of Three per cent Annuities converted into two and three-quarters and two and one-half per cent Annuities; Amount Added to Capital of Public Debt by Conversion; Amount of Terminable Annuity created as Sinking Fund for Redemption of Additional Capital.' P.P. 1884–85, [C. 4311] xlvi. 315.

It would be for Goschen to make a success of the conversion in 1888, and besides the favourable conditions prevailing, he would offer a commission to brokers which Childers had pointedly refused to do.⁴³

Reaction in and out of Parliament, except to the proposals for re-coinage and conversion of debt, were as understated as the Budget itself. Northcote was polite in pointing out that he would need further time to consider the proposals for conversion and re-coinage, while most others with an opinion on the subject should perhaps have followed his example before confirming the opinion of the *Statist* that 'there is no more dangerous subject for popular discussion than the currency'.⁴⁴ Outside the House opinion tended towards faint praise. *The Statist* found the plan for conversion 'a little doubtful whether at present prices the option to exchange would be taken advantage of to any great extent. ... successful or not, it is an experiment worth trying'.⁴⁵ *The Times* was most sceptical, not just about the Budget proposals but also of the Government. 'The danger to good finance lies in bad policy. Mr. Gladstone's most ingenious financial plans were brought to nothing in 1854 because the Government of Lord Aberdeen would not recognize its duties and assert its rights, and, through its passion for peace, "drifted into 'war'".'⁴⁶ A truism, no doubt, but for the Government it would prove too prophetic.

1885–86 Budget

The whole of the Government's commitment to its financial philosophy would be subject to question during the preparations for the Budget of 1885–86. Foreign policy disasters would lead on to financial ones as further crises in Egypt due to Gordon's mission in the Sudan would serve as a catalyst for opportunistic Russian aggression on the Afghan

⁴³ For Goschen's conversion see C.K Harley, 'Goschen's Conversion of the National Debt and the Yield on Consols.' *The Economic History Review*. 29 (1976): 101–6, and Jan Torre Klovland, 'Pitfalls in the Estimation of the Yield on Consols, 1850–1914'. *The Journal of Economic History*. 54, no. 1 (1994): 169–187; Childers, ii, n. 2, p. 162.

⁴⁴ 3 May 1884 no. 323 p. 401.

⁴⁵ 26 April 1884 no. 322 p. 463.

⁴⁶ 25 April 1884 no. 31,117 p. 9.

frontier which the Gladstone government simply could not ignore. The unavoidable necessity of strengthening and making a public and explicit commitment to the military required an unprecedented financial resolve. This in turn would cause it to examine its own principles of "Sound Finance", especially with respect to war taxation, deficit finance and the balance between direct and indirect taxation. The root of all these problems was Egypt, and soon everyone would know where Khartoum was on the map.

At the end of May Gladstone was writing to Childers concerned that Gordon's expedition would cause 'the finance of the year to be overset'.⁴⁷ He repeated his concerns in June and they resolved that £300,000 could be had without the need for new taxation, and this was the basis for the Vote of Credit in August.⁴⁸ This was agreed to in Cabinet on 2 August 1884 and formalized on the 5th.⁴⁹ The disturbance to finance was still within bounds when Childers reported to Gladstone the poor state and prospects of the year's finance.

There are two disturbing elements in the year's account of a very serious character.

1. Egypt ought to pay us £600,000 on account of her military contribution, and the interest on the Suez Canal loan. So far we have not exacted, and she could not pay, anything. ...

2. The vote of credit for £300,000, which exceeded my original estimate of surplus, will certainly have to be largely supplemented; and I think we shall be very fortunate if the Naval and Military expenditure of the year is less than £1,200,000 beyond the first estimates. ... we must look forward to a probable deficit on the year's account of a million and a half, ... But in addition to this we must be prepared for the heavy onslaught on the Treasury that is now being organized in connection with the Navy. ... I presume that you would wish, if possible, to provide, during the year, all the revenue required to meet the expenditure.⁵⁰

Gladstone suggested in reply a plan dealing with the year's deficit by 'Consol. Fund Bills to throw it over into April and then providing fresh resources by an early Budget in February? These are loose & little digested ideas.'⁵¹ He was prepared to accept a deficit on the year and redeem it in the next with additional taxation. To do this the spending would have to be well under control.

⁴⁷ *GD*, xi, p. 152.

⁴⁸ *Ibid.*, p. 156 and *BL GP*, Add. MS 44131 f. 84.

⁴⁹ *Ibid.*, pp. 183–84.

⁵⁰ 1 Oct. 1884, Childers, ii, p. 166.

⁵¹ *GD*, xi, p. 218.

In addition to the uncertain costs in the Sudan the Government would have to contend with a Naval "scare" worked up by W.T. Stead at the *Pall Mall Gazette* in September. Stead claimed that the Navy was losing its superiority in numbers and construction as compared to the French, in particular, and that excessive economies had diminished its efficiency.⁵² Stead was right on the last point, as to the first, it was pure nonsense⁵³. In both the Navy and Army spending had been ruthlessly squeezed in order to reduce estimates, "...approved proportions of reserves of both gun and ammunition had been deliberately postponed by the Admiralty, in order to reduce the Votes for 1882–83;" and in consequence that which was spent was not necessarily spent well as 'for want of funds, the provision of armaments for works long completed was hopelessly deferred.'⁵⁴ A report prepared by Campbell-Bannerman, the Secretary to the Admiralty, showed a deficiency of £500,000 — £1,000,000 in naval expenditure for which his government was responsible.⁵⁵ Childers accepted, with minor reservations, the recommendations of the report and duly communicated this to Gladstone on 7 November, effectively sanctioning the increase. It is an indication of the ferocity of the battle with the Admiralty that the First Sea Lord, Lord Alcester, threatened to resign.⁵⁶ This same tactic was used by Gladstone with some success in resisting the full naval demands in the Cabinet of 2 December — he had postponed the discussion a number of times in order to resist them⁵⁷ — where he was in the minority pressing for restraint. His

⁵² Matthew, ii, p. 159. Stead was merely a front for H.O. Arnold Forster, Alfred Milner, and Captain John Fisher, the last so conspicuous during the 1893 'scare'. W. Mark Hamilton, *The Nation and the Navy. Methods and Organization of British Naval Propaganda, 1889–1914*. Ph.D. thesis, University of London, (1976) p. 47. 'It was [W.H.] Smith who turned the Stead crusade into a party political issue, and, as later events showed, party was his main concern.' Steven P.B. Smith, 'Public Opinion, the Navy and the City of London: The Drive for British Naval Expansion in the Late Nineteenth Century.' *War and Society*, v. 9, no. 1, May 1991. pp. 29–51.

⁵³ 'British shipbuilding resources were so vastly superior to those of any would-be rival that any attempt to engage in a building race would have been futile to the point of foolishness.' John F. Beeler, *British Naval Policy in the Gladstone–Disraeli Era, 1866–1880* (Stanford, 1997), p. 253.

⁵⁴ PRO WO 112/13 pp. 3–4 in *Explanatory Statement, Army Estimates 1883–84; Vote 12*.

⁵⁵ HD, ii, p. 699. The total combined Army and Naval increase over five years of £10,725,000 was set out in PRO CAB 37/13 1884 no. 47, 'Additional Naval and Military Expenditure'.

⁵⁶ Childers, ii, pp. 168–9.

⁵⁷ Matthew, ii, p. 160.

allusion to retirement seems to have moderated the demands of his colleagues, and the expenditure agreed to was £5,525,000 instead of £10,725,000.⁵⁸

Childers' failure to support Gladstone in this 'disappointed Mr. G.' and led to friction between them over the next few weeks, no doubt increasing the strain on Childers.⁵⁹ A flurry of correspondence followed from 14 December⁶⁰ through the 18th, when Childers' upset seems to have been assuaged as he pointed out 'that for years I had been at work to reduce the enormous demands made and threatened by the ... Naval and Military authorities, and that I had succeeded in boiling them down to the comparatively small amount now insisted upon.'⁶¹ The Prime Minister treated him quite gently when next giving instruction on the estimates while at the same time seeking to stiffen his resolve.

I fail to see why the apprehension of opposition from others should be a reason against your making arguments in the Cabinet which you believe to be sound, & to be material. A voice is a force, even if overruled or out-voted. Without doubt you hold the most invidious office in the Cabinet and one of the most difficult. I have reason to know it from experience, for in 1859–65 the Estimates were ordinarily decided at the sword's point; and the anti-economic host was led on by the Prime Minister.⁶²

Such tact and diplomacy, suggesting the iron fist in a velvet glove, indicates just why Gladstone was personally so important in holding this Ministry together. Yet they had not even reached 1885 and finance would get even more calamitous.

The Army and Navy estimates were coming home to roost in February and it was now time for the junior service to shine, its estimate increased by £3,425,000 to £19,355,000.⁶³ By the 2nd of February 1885 Gladstone found the amounts 'appalling' and suggested they might require 'indirect as well as direct taxation to be touched.' Childers' response could not have been what he wished to hear, prescient though it was. 'You ask me whether we shall not have

⁵⁸ Resolution in House and Lords 2 Dec. 1884. *GD*, xi, p. 255; *HD*, ii, p. 746, goes on to record Gladstone's assertion after the Cabinet, 'Had he been 25 years younger, nothing would have induced him to assent to the increase'.

⁵⁹ *HD*, ii, p. 747.

⁶⁰ BL *GP*, Add. MS 44131, f. 233 'These are small increases compared with what Ld. Palmerston's Gov't adopted in 1859–60; and, I cannot say that they are extravagant!' Childers to Gladstone 14 Dec. Not the last time Gladstone would have to revisit that precedent.

⁶¹ Childers, ii, p. 170.

⁶² *GD*, xi, p. 262, 21 Dec. 1884.

⁶³ *Ibid.*, p. 285.

to touch indirect as well as direct taxation in the Budget of 85–6. I have no doubt that we must. My suspicion is that we ought to increase the Beer duty, and to deal with finally the Death duties, making good what will be short with the Income Tax. ... But I should not be surprised of an assault on the Sinking Fund.⁶⁴ A more than bold step in a Gladstone ministry. For this reason and to relax the strain on Childers he suggested his tactic of postponing the estimates.⁶⁵ And the pressure was getting to Childers, he wrote to Hamilton later that he was 'much better, having had 10 hours continuous deep sleep last night. My heart is not quite right, but much easier. The mischief is purely muscular, I believe.'⁶⁶ It is no wonder he was unwell, the Cabinet of 9 February decided on increased estimates of £1.5 and £1.25 million for the Navy and Army respectively, which would be presented to Parliament without delay and so necessitate the Vote of Credit. This Gladstone sought to delay, as the 'disadvantage to us of producing at once the Vote of Credit is enormous,' bringing with it questions of Parliamentary supervision of expenditure.⁶⁷ The next day's Cabinet resolved the matter. 'Decided to lump the whole of 85–86 charge in one Vote of Credit.'⁶⁸

The strain was not limited to the Chancellor of the Exchequer, the Ministry itself was unwell. Incredibly, the first item on the Cabinet agenda was whether to continue in office. 'The same day as deciding to carry on — 28 February — the Cabinet considered developments on the Afghan frontier.'⁶⁹ The next week Childers was predicting a cumulative deficit on the two years of £8,800,000.⁷⁰ On 20 March the Budget date was set for 16 April and the Vote of Credit for the 9th preceding it.⁷¹ The additional charge was estimated at £9,300,000 and it had

⁶⁴ BL *GP*, Add. MS 44132, f.55–6. Sir Charles Dilke would write to Gladstone on 2 March opposed to any increase in the Beer duty, arguing that the taxation of the working classes was already proportionately higher than on the upper and middle classes and that it would be foolish to raise the price of beer immediately before an election when many agricultural workers would be voting for the first time. Stephen Gwynn and Gertrude M. Tuckwell, eds., *The Life of the Rt. Hon. Sir Charles W. Dilke, Bart., M.P.* (2 vols, London, 1917), v. i, p. 113.

⁶⁵ *GD*, xi, p. 288.

⁶⁶ BL *HP*, Add. MS 48624b, f. 10, Feb. 1885.

⁶⁷ Letter to Childers 16 Feb., *GD*, xi, p. 297

⁶⁸ Cabinet minutes 17 Feb. 1885, *Ibid.*, p. 298.

⁶⁹ Matthew, ii, p. 149.

⁷⁰ £500,000 of which was from 1884. BL *GP*, Add. MS 44132, f.86 dated 6 March 1885.

⁷¹ *GD*, xi, p.309.

become necessary to abandon the principle of paying for expenditure with taxation in the same year.

Mr. G. talked a little this morning on the financial difficulty ahead. He admitted that to raise the whole additional charge by taxation would be impossible. There will have to be a partial suspension of the Sinking Fund (say) to the amount of £4,000,000; and the other £5,000,000 will have to be raised partly by income tax and rearrangement of death duties, and partly by raising the duty on beer with some remissions in respect of other necessities of life as a set off.⁷²

This in effect was the Budget. The Vote of Credit had determined it, change would only be for the worse and there would be worse to come. The internal divisions would not be over suspension of the Sinking Fund and the abandonment of strict "Sound Finance", but the decision to resort to indirect taxation to balance the great increase to the income tax.

Gladstone wrote on 5 April to Childers who was on his way home from a convalescence in Paris to review the Cabinet business for him and to explain that the Budget was likely to be postponed a week. The postponement was confirmed at the next Cabinet on the 9th where the Budget was set for 23 April.⁷³ The following Saturday's Cabinet determined that the Vote of Credit would be in two parts for 'a) Soudan b) military *preparations*. Will be occasion of unfolding policy.'⁷⁴ However, the closer they got to the proposed Budget debate, the further away they got from consensus on the Budget provisions and dissension grew alarmingly in the Cabinet. The Cabinet on Monday 20 April was reserved for the Budget, and while it was just about realized in final form, agreement to that form was not. The £11,000,000 for the Vote of Credit was approved but the exact nature of tax increases to pay for it and the other record expenditure was not. Additional taxation including increases to the Income Tax of 1*d*. and to the Beer and Spirit duties of 1 and 2 shillings respectively would, it was hoped, raise £4 million.

Dilke would not agree to the increase of indirect taxation on Beer so that no agreement could be arrived at and the decision was put over to Tuesday. Hamilton believed

⁷² *HD*, ii, p. 818-9.

⁷³ *GD*, xi, pp. 318-320. Childers agreed, writing from Paris 7 April 1885, Childers MS 5/166.

⁷⁴ *GD*, xi, p.320.

that Dilke spoke for Chamberlain as well (though he doubted their sincerity and suspected they only sought a way of safely abandoning the Ministry), and felt the matter serious enough to 'have made an appeal to Dilke mainly on personal grounds: I mean for Mr. G.'s sake.'⁷⁵

Gladstone wrote to Dilke that Tuesday as well, and met Chamberlain on Thursday the 23rd.⁷⁶ Gladstone confided to his diary 'I have never known (I think) political anxieties or more crowded, or more complicated. I feel as if I could never have strength for the day.'⁷⁷ That Cabinet could resolve only to postpone a decision, employing Gladstone's tried and true tactic of delay. This meant the postponement of the Budget for a week to the 30th, to which Childers agreed. 'I have been Mr. Gladstone's faithful servant for 20 years, and I would do anything in my power to help him. ... But as to the Budget, if the principle is debated today, I see comparatively no objection to the statements being deferred later the 30th.'⁷⁸

Gladstone exercised his usual mastery to reel in his straying colleagues, 'Mr. G. had an interview last night with Chamberlain. It was not unsatisfactory. He worked upon Chamberlain by making a great deal of Childers' proposal to increase the Death Duties on real property. Today Dilke consents to swallow the Beer pill with a wry face, which means that he and Chamberlain will remain.'⁷⁹ The wry face may very well have been due to the letter he received from Gladstone that very day to persuade him to turn his battle against class inequalities from the Beer to the Death duty. It was, Gladstone argued, a moral question, and would, for a Gladstone at least, remain vitally important through 1894.

The very great importance of the proposal to establish equality in principle between realty and personality as to the death duty. This must in all likelihood lead to a very serious struggle with the Tories for it strikes at the very heart of class-preference, which is the central point of what I call the lower & what is the now prevalent,

⁷⁵ *HD*, ii, p. 842–3. This suspicion is confirmed in David Nichols, *The Lost Prime Minister. A Life of Sir Charles Dilke* (London, 1995). He suggests Dilke did wish to abandon the government in anticipation of a new Radical ministry following the election, p. 166.

⁷⁶ *GD*, xi, p. 327, 21 April 1885.

⁷⁷ *GD*, xi, p. 326 for Cabinet minutes of 20 and 21 April 1885 and diary entry 20 April. Dilke again told Gladstone on 21 April that he 'could not agree to the increase of taxation on beer.' Gwynn and Tuckwell, p. 118. His ally, Chamberlain, also argued against increases on indirect taxation. 'He thought the Budget feeble though unpopular.' J.L. Garvin, *The Life of Joseph Chamberlain* (4 vols, London, 1932) p. 608.

⁷⁸ BL *HP*, Add. MS 48624b, f. 50 note to Hamilton, 21 April 1885.

⁷⁹ *HD*, ii, p. 847.

Toryism. I have a lively hope that you & [Chamberlain] will feel a strong obligation as well as desire to join in the struggle which will require all our strength.⁸⁰

The matter and the Budget were resolved Saturday afternoon in Cabinet.

The lines of the Budget were settled, Chamberlain and Dilke have given way about the Beer duty. The large additional sum which has to be provided for is to be found by means of an 8d. income tax, an increase of the Spirits and Beer duties, the addition of 30% on 'Death duties' affecting realty (which will practically equalise the duties on real and personal property) and a partial suspension of the terminable duties [annuities].⁸¹

So settled in fact that the Budget was not even discussed at the Cabinet on the 28th only two days before presentation.

Expectations for the Budget were running rampant in the months before it would be tabled, as the prospect of war was well understood and the revenue requirements anticipated. The question in the public mind, as for the government, was how to pay for it all. *The Economist* dismissed the notion of a suspension of the sinking fund and expected the usual resort to the income tax and Death duties, at least as a start.

Whatever the deficit may be, it will, we think, be sought to be covered by fresh taxation, ... But over and above all these, there must be some addition to the taxes which fall upon the working classes, who have now the predominating voice in the direction of the national policy, and who must be prepared to pay their fair share of the expense which carrying out that policy involves. ... it comes to be a question of taxing beer, tea, or sugar, the first it appears to us, is certainly to be preferred.⁸²

As the Budget approached speculation mounted and intensified '...the forthcoming Budget promises to be much more exciting than any that has been introduced of recent years, and will be awaited with much more than the usual interest.'⁸³ That interest was certainly not undivided, for the opinion of *The Statist* was diametrically opposed to that of *The Economist* for dealing with the huge increase in expenditure.

Although it may be quite proper that the charge of such a war as is in prospect should be paid by the generation which wages it, it does not follow that the whole expense with any propriety should be paid in the one or two years while the war may actually

⁸⁰ *GD*, xi, p. 328, 24 April 1885.

⁸¹ *HD*, ii, p. 849; 25 April 1885; Cabinet minutes note Dilke and Chamberlain's objections. *GD*, xi, p. 328. From the other side this precedent unnerved J.M. Carmichael, 'The disciples of the principle of throwing the whole burden of taxation on property or debt would be able hereafter to quote the new departure as having been initiated & proclaimed by the great master.' To Hamilton, 24 April 1885, BL *HP*, Add. MS 48624b, f.52.

⁸² *The Economist*, 7 March 1885, v. xlivi, no. 2,167 p. 280.

⁸³ *Ibid.*, 4 April 1885 v. xlivi, no. 2,171 p. 408.

last. ... it is quite reasonable, therefore, that the expense should be spread over at least ten, or perhaps twenty years. ... The practical course we should recommend, even if there is to be no war with Russia, would be to increase the Income-tax at once to eightpence or ninepence, ... and for the rest, to provide for any expenditure that may be necessary by suspension of the Sinking Fund and by borrowing, leaving the whole question of new taxes to be determined later on.⁸⁴

Nothing could have been worse so far as *The Economist* was concerned, and it made a last effort to champion the orthodox course in finance just before the Budget came down. 'Any attempt to interfere with these annuities would, therefore, it seems to us, be a grave mistake, and we trust that the Government will resolutely set their faces against it.'⁸⁵ There was to be a very rude awakening.

The first formality of the finance of 1885 to be played was the Vote of Credit, which Gladstone introduced as a resolution in the Commons on the 21st and presented in full on 27 April.

We have before us a case, Sir, for which in a material point there is no precedent known to me. We propose a Vote of Credit amounting to £11,000,000; £6,500,000 being likely to be spent in what we term "special preparations," and being secured from being spent for any other purposes; £4,500,000 being likely to be spent in and in connection with the Soudan, but being in a degree that I cannot at present define capable of being spent for another purpose — that is to say, the same purpose as our special preparations.⁸⁶

His statement was met with uncharacteristic support from all sides of the House and took aback Hamilton who recorded, 'he took the whole House with him. The effect was electrical. ... The result, much to the astonishment of Mr. G. himself, was that the Vote was immediately carried *nem. con.* It was certainly one of his grandest triumphs.'⁸⁷ The special purpose was to deter Russian aggression and to demonstrate to all of Europe that Britain would not shrink from war to secure the Afghan frontier, so if the Vote of Credit achieved its purpose the expenditure it secured need not be spent in full. Gladstone's speech and Parliament's reaction were a set piece of diplomatic theatre. 'This may be an infraction of the strict principles of

⁸⁴ *The Statist* v. xv, no. 373, 18 April 1885 p. 427.

⁸⁵ *The Economist* 25 April 1885 v. xliii no. 2,174 p. 500.

⁸⁶ 3 H 297.848.

⁸⁷ *HD*, ii, pp. 850–1.

Parliamentary finance ... but practically it was welcomed as augmenting the weight of the Vote of Credit in the scales of European opinion.⁸⁸ In this the strategy was successful, but the deterrence of Russia served only to encourage the opposition.

The Financial Statement which Childers presented on 30 April 1885 was extraordinary: extraordinary expenditure requiring extraordinary measures to meet it. The review of the 1884–85 financial year was unique in itself as it was the first in which Gladstone's Government had presided over a deficit. Revenue of £88,043,110 was exceeded by expenditure of £89,092,883 leaving a deficit of £1,049,000.⁸⁹ The increase in revenue over the original Budget estimate was due to an $\frac{1}{2}d.$ increase in the income tax to $6d.$ in the pound in November, along with greater efficiency in collection of the £12,000,000.⁹⁰ Otherwise revenue was nearly as estimated with the notable exception of an £199,000 shortfall of Interest on Advances due to the 'non-payment by the Egyptian Government of the interest on the Suez Canal loan.'⁹¹ Taxes continued to provide the bulk of revenue; £73,796,000 of which £46,621,000 was the produce of Customs and Excise. Thus, revenue in 1884–85 exceeded the estimate by £1,310,110.⁹²

Expenditure included Debt charges of £31,027,652 which contributed to a diminution in total outstanding Debt of £4,947,000.⁹³ This was the only item not in excess of its estimate, all of the Voted services were over estimate. In most instances this was marginal but military expenditure was well in excess: the £ 18,655,000 for the Army by £2,724,000, and the £11,427,064 of the Navy by £615,000. Additionally, a £300,000 credit for the relief of General Gordon in Khartoum and the £250,000 Afghan war grant in aid completed the military expenditure. All told, military expenditure was £3,138,319 more than in 1883–84. Childers insisted on pointing out that he had 'now paid off the whole of the War Charges

⁸⁸ *The Times*, April 28, 1885 p. 9, no. 31,432.

⁸⁹ Financial Statement 1885–86, pp. 1–5, P.P. 1885, (174) xlvi. 245.

⁹⁰ 3 H 297. 1134–5.

⁹¹ *Ibid.*, p. 1136.

⁹² Financial Statement 1885–86, p. 1, P.P. 1885, (174) xlvi. 245.

⁹³ 3 H 297. 1137.

bequeathed to us by the late Government — namely, £7,850,000, and all but £250,000 of the £5,000,000' of the Afghan war grant in aid.⁹⁴ But this was rather whistling in the dark in the face of the estimated expenditure for 1885–86.

Childers based his estimated revenue for the year on an income tax rate of 5*d.* in the pound. This had the effect of exaggerating the deficit but he justified it as being, since 1880, 'the uniform rate, except when it has been disturbed for a special purpose, as it was twice for War Credits and once to enable the Malt Tax to be converted into a Beer Duty.'⁹⁵ As compared to the last year's estimate he would 'not take quite so hopeful a view'.⁹⁶ £85,140,000 was the estimate, £2,903,110 less than 1884–85 or about £2 million less when the difference in income tax rates was removed. This diminution he distributed in proportion across all the revenue heads. Estimated expenditure was truly extraordinary, amounting to £99,872,000 and including the Vote of Credit for £11,000,000. Otherwise the only really excessive items were Army and Navy charges of £17,750,700 and £12,386,500 respectively. The former included £500,000 for the Bechuanaland expedition and so with the Vote of Credit a staggering £41,387,000 was marked for military expenditure. The result was 'the largest deficit which has been placed before the House of Commons since the Crimean War,' £14,932,000.⁹⁷ That left the question of paying for it.

In coming to the new measures to meet the deficit Childers was governed by two considerations: 'In the first place, it appeared to me that it would be overstrained adherence to a sound general rule that we should raise, in a year like the present, taxes for the whole of the deficit, ... The second proposition ... is that the whole of the additional taxation which we have to raise on such occasions ought not to fall upon property.'⁹⁸ This in spite of his statement two years previous. To this end he had worked out the burden on direct and indirect

⁹⁴ Ibid. Buxton provides a breakdown of these military charges in, ii, p. 311.

⁹⁵ 3 H 297. 1142.

⁹⁶ Ibid.

⁹⁷ 3 H 297. 1144. This amount includes £200,000 for anticipated supplemental estimates.

⁹⁸ 3 H 297. 1145.

taxation since 1858 and found that former had grown 57 per cent while the latter had only increased by 11 per cent in yield, justifying further indirect taxation.⁹⁹ The next question then, just what (or who) to tax? Again, principles limited the options and politics encouraged him – he could attack Fair Trade.

I will have nothing to do, except in the last emergencies of war, and, indeed, hardly then, with the imposition of taxes upon raw materials, or on the necessities of life or on the means of providing warmth and light, or with any duties of a protective character; and, therefore, I am limited to a much smaller number of alternatives.¹⁰⁰

The first and most anticipated alternative was to increase the income tax to 8*d.* from its hypothetical norm of 5*d.* (6*d.* since November), to yield an additional £5,400,000. The next items of direct taxation Childers availed himself of were the Death duties, which he changed and adjusted so that 'an equal tax will have been imposed, as far as possible, on all successions to property by death, whether the property be real or personal,' this to produce £200,000.‡ There would be a duty of 5 per cent per annum imposed on the Income of Corporations which was expected to yield £150,000 and also an increased Stamp duty of 10*s.* per cent on transfers of bearer securities for a further £100,000. All told, the increases in direct taxes were £5,850,000.¹⁰¹

Indirect taxation could not be expected to produce such a sum but the point for Childers was both practical, in getting some increase, and symbolic, in distributing the burden throughout the electorate following the June 1884 Reform Act. His first move was to increase the spirit duties by 2*s.* per gallon, good for £900,000 it was estimated. Next, and most controversially, to raise the Beer duty 1*s.* on each 36 gallon barrel and so raise £750,000 and fulfil Gladstone's prophecy of 1880 when introducing it — that it could be a source of emergency war taxation. The last change was to the wine duties, but not so as to increase their

⁹⁹ *Ibid.*, p. 1147. Of course the increases to direct taxation had been from a much lower base as a proportion of total taxation compared to indirect taxation.

¹⁰⁰ *Ibid.*, p. 1148.

[‡] For the first year, as duty was payable in four equal instalments annually it would yield about £850,000 after the fourth year.

¹⁰¹ 3 *H* 297. 1145–55.

yield. In connection with the Commercial Treaty with Spain, due to take effect in the fall, the limit for the 1s. duty on wine would be raised from 26 to 30 degrees and was not expected to have an effect on the revenue.¹⁰² The increase of indirect consumption taxes to yield £1,650,000; with the direct taxes some £7,500,000 in additional taxation, or a little less than half of the deficit to be made up.

For the balance Childers proposed, in the popular parlance, to raid the Sinking Fund which would otherwise be devoted to a reduction of the capital of the Debt. In this he limited his raid to 'intercept this year the principal of the terminable annuities created in 1883, extending for a year the operation of the Act; and the difference between this sum of something over £4,600,000 and the [£7,432,000] will be borrowed temporarily ... in Unfunded Debt.' The last would be repaid in the same way during 1886–87.¹⁰³ In this manner the deficit would be dealt with, half through additional direct and indirect taxation and the other half through the diversion of his terminable annuities over two years.¹⁰⁴ Childers and the Government had no doubts about the sound nature of their proposals but there was no question that the Conservative opposition would look upon the financial crisis as a gift.

Much of the most obvious criticism in Parliament came from Irish and Scottish members alleging an injustice in the 2s. imposed on spirits compared to only 1s. on the English beverage through the Beer duty. This, it was lamented, did little to ameliorate the injustice of increased taxes on beer and spirits when the wine of the rich man went untouched. The most effective criticism and the strongest polemics came from Lord Randolph Churchill who clearly relished feeding the Government its own words on finance.

¹⁰² 3 H 297. 1155–57. See Howe, *Free Trade and Liberal England*, pp. 182–3, noting the problems that the revenue shortfall presented to free trade diplomacy. An Anglo-Spanish Treaty was negotiated in 1886.

¹⁰³ 3 H 297. 1159.

¹⁰⁴ 'Copy of a Minute of the Treasury dated the 11th Day of May on the Suspension of Part of the Sinking Fund', P.P. 1884–5, (192) xlvi. 335. The suspension of £4,672,978 of annuities payment would leave a deficit of £2,750,000 for 1885 and £1,050,000 deficit on 1884 as the uncovered sum of £3,800,000 to be met in 1886. Accordingly, provision had been made to suspend it in that year 'to the extent' necessary. p. 3. See Buxton, ii, pp. 314–5.

They had had a Liberal Government in Office for five years; necessarily on that account they had had applied to the finances of the country all the cardinal principles of exact finance, with the clear result that there was now a deficit of £15,000,000 and an Expenditure of £100,000,000, leaving £3,000,000 to be provided for it was impossible to say how.¹⁰⁵

He wondered if Childers had submitted the Budget to the 'Prime Minister before he submitted it to the Committee? ... how it was that the Prime Minister had sanctioned a Budget which neglected entirely that cardinal principle which [he] had lain down,' that current expenditure should be paid out of current revenue.¹⁰⁶ Churchill continued in turning the fiscal tables on the Government in pointing out that Conservative expenditure was only £83,000,000 in 1880 and the deficit £7,000,000 compared to £15,000,000. He ended by congratulating Childers 'from the bottom of his heart on the extraordinary success with which he had supplied his opponents with arguments for conducting the political campaign ... and for having enabled them to prove to the country beyond all possibility of doubt the absolute superiority of Tory finance.'¹⁰⁷ If this last statement was open to challenge it was also true that Liberal finance was a subject of debate, and that debate was not confined to Parliament.

Reaction to the Budget was to a remarkable degree concerned with financial principles, or the failure to apply them. While not condemning the Budget itself, *The Times* reflected that 'It will hardly be reckoned ... among the courageous and logical achievements in finance, ... it did not escape observation that it illustrated with a curious irony, the instability of doctrines proclaimed a few years ago as sacred and immutable.'¹⁰⁸ Elsewhere it was not enough to point out the contradiction between principle and practice, because *The Economist* was the standard bearer of "Sound Finance" it felt sharply the sting of betrayal, and did not shrink from sharpness in denouncing it.

For a Government which has always piqued [sic] itself upon being able to pay its way, this Budget is a sad downfall, and it is worse than useless for the too pliant friends of the Ministry to attempt to excuse it on the grounds that it is a War Budget. ... it is too

¹⁰⁵ 3 H 297. 1220–21.

¹⁰⁶ Ibid., p. 1222.

¹⁰⁷ Ibid., p. 1226.

¹⁰⁸ *The Times*, 1 May 1885, no. 31,435 p. 9.

chickenhearted to ask the taxpayers, especially on the eve of a general election, to provide the money. For this timidity we hold there is no excuse, for the country is well able to pay its way, and ready to pay if called upon.¹⁰⁹

At the same time the Budget was being assailed from exactly the opposite side, because it had gone too far in imposing taxes and attempting to pay the expenditure in the current year.

The true financial policy of the Government is to spare the taxpayer as much as possible, and to so arrange that the cost of the war may be spread over a period of years. ... Ministers and their predecessors have failed in their duty to the country. They have not kept the Army and Navy in that state of efficiency which the interests of the Empire required, ... However we look at the question, then, it seems to us that the proposals of the Government are ill-advised. Pedantic adherence to doctrinaire principle is at all times unstatesmanlike, and in finance it is especially so.¹¹⁰

This was very close to Northcote's position.

The fact of the matter was that the theories underpinning "Sound Finance" had been undermined by an unprecedented fiscal situation which the reflexive application of straight - forward financial rules could not contain. They were not designed to do so in any event, as adherence to the principles was designed to avoid just such military entanglements in the first place. The question in a nut was just how much expenditure was extraordinary requiring war measures of taxation and how much was normal and could be accounted for in the year. By any analysis the year 1885–86 was somewhere between the two, for in spite of the suspension of the sinking fund by way of terminable annuities, that did not impose fresh taxation but rather diverted taxation from the redemption of past debt to the prevention of new indebtedness. The estimated deficit was in any event highly contingent, for if the Vote of Credit succeeded in its purpose much of that expenditure would not be required at all and there might not, after all, be any deficit. Of course, the key to this was Russia's behaviour towards Afghanistan and until it could be settled peacefully the Budget must serve two ends: to secure the funds for the military preparations a Russian war might involve and at the same

¹⁰⁹ *The Economist*, v. xliii, no. 2,175, 2 May 1885 pp. 529–30.

¹¹⁰ *The Statist*, v. xv, no. 375, 2 May 1885, p. 482.

time to act as a diplomatic message to deter Russia.¹¹¹ Childers and his Budget were both hostages to fortune.

The three weeks following the Budget statement were very trying for Childers. His health was poor and he was under pressure to revise the Budget.¹¹² The perceived inequity of raising spirit and beer duties while leaving wine untouched was threatening to embarrass the Government. Gladstone was hinting at abandoning the Spanish treaty or retreating on beer and spirits.¹¹³ Childers' response was reluctant, 'I would really regret altering the Spirit or Beer duties.'¹¹⁴ Yet the Cabinet on the 9th following discussed exactly that, and in an exchange of letters with Gladstone the following week he was becoming exasperated at the uncertain and unsettled state of the Budget measures which he felt were encouraging disaffection and opposition to the beer and spirit duties. 'As I have said I will gladly make any reasonable compromise [to meet] Dilke & Chamberlain; but I cannot be responsible for the Budget if this delay is to be insisted upon.'¹¹⁵ The delay was insisted on, for the Russian dispute had not yet been resolved and it was considered premature to show any lessening of their will to impose war taxation. Childers was going through the motions of resigning, after his new proposal to replace after one year the beer duty increase with an increased rate of wine duties from 2s. 3d. to 3s., but Gladstone (or at least Hamilton) seems to have known he wouldn't follow through with it.¹¹⁶ On the 16th, concerned almost entirely with the Budget, Gladstone noted wryly, 'very fair Cabinet today – only three resignations.' It was here that the eventual Budget revisions

¹¹¹ The Russians came to a tentative agreement on 2 May, Shannon, ii, p. 355. They agreed to arbitration on 4 May so that the Russo-Afghan line was settled on 10 Sept. 1885, Taylor, p. 301.

¹¹² BL *GP*, Add. MS 44132, f. 122, 7 May 1885: His doctor permitted him to attend Cabinet even though he was 'not quite well.'

¹¹³ *GD*, xi, p. 336 Letter to Childers 7 May 1885.

¹¹⁴ BL *GP*, Add. MS 44132, f. 130, 8 May 1885.

¹¹⁵ BL *GP*, Add. MS 44132, f. 145, Letter to Gladstone 15 May 1885. Gladstone had written on the 14th 'I have entered further into the question of the Budget with several members of the Cabinet, & find it to be quite clear that any attempt to settle the final form of the financial proposals now would result in disaster.' *GD*, xi, pp. 339–40.

¹¹⁶ Childers, ii, pp. 222–3; and *HD*, ii, p. 865. Dilke records that the Cabinet were unanimously against the Chancellor of the Exchequer, who left the room in resignation and despair only to be talked back in by Gladstone, Granville and Hartington. Gwynn and Tuckwell, p. 143.

were approved: to reduce the spirit duty by 1s. and to make the beer duty for one year only.¹¹⁷

The strain was getting to Childers, 'I regard this decision as a terrible blow to the Budget & consequently (if that is worth a thought) to myself.' But he withdrew his resignation.¹¹⁸ The same day Hamilton thought Childers was 'unwell and looks rather like breaking up.'¹¹⁹ The same could have been said of the Government.

Childers announced his revisions to the Spirit and Beer duties in Parliament 5 June 1885. The former was to be reduced from a 2s. to a 1s. increase and the 1s. per barrel increase on the latter was to expire at the end of May 1886, now a temporary war tax only.¹²⁰ Three days later on the 8th the Customs and Inland Revenue Bill incorporating these changes had its second reading. The Opposition moved an amendment that 'this House regards the increase proposed by this Bill in the Duties levied on Beer and Spirits as inequitable in the absence of a corresponding addition to the Duties on Wine, and declines to impose fresh Taxation on Real Property.'¹²¹ There was no doubt what was at stake, 'It is quite on the cards that the Government will be defeated tonight over Hicks Beach's amendment to the Budget.'¹²² That amendment was accompanied by a repetition of Churchill's criticisms from the mouth of Hicks Beach. He pointed out that the outcome of forty years' pursuit of free trade had created a dilemma for the Chancellor of the Exchequer. 'Either he has to propose new indirect taxation, which is always odious, or else he has to make an almost impossible choice from the few articles on which taxation can be increased.' He challenged the fairness of placing the burden of indirect taxation on spirits and beer without recourse to wine or tea, culminating with the rhetorical charge that 'the Radical teetotaler may fairly be said to be the principal controller of ... the military policy of the Government.' Wine's exemption from additional tax and the equalization of the Death Duties were really an attack on property and the agricultural

¹¹⁷ *GD*, xi, p. 341. This met part of the Celtic grievance.

¹¹⁸ BL *GP*, Add. MS 44132, f. 147, 18 May 1885 letter to Gladstone.

¹¹⁹ *HD*, ii, p. 866.

¹²⁰ 3 *H* 297. 1338.

¹²¹ *Ibid.*, p. 1421.

¹²² *HD*, ii, p. 878. According to Rosebery, Gladstone warned that day's Cabinet of the possibility. *GD*, xi, p. 353.

interest.¹²³ Northcote joined in the attack, directing his fire at ‘the whole financial career of the Government, … [which had] never proceeded on broad principles; they have all along been fidgetting, and their fidgetting has generally resulted in failure.’¹²⁴ He recapitulated his defence of Conservative finance: ‘you ought to raise the money which you have to raise in a form that is most for the advantage and least for the disadvantage of the country; and that you ought, as far as possible, to keep your taxation steady. … there is nothing so important as steadiness in taxation.’¹²⁵ This had not much to do with the amendment but it did, with the full realization of what was at stake, provide a fitting alibi for bringing down the Government on its Budget.

Gladstone dismissed Northcote’s system of finance as truisms and platitudes and pointed out his ‘habitual finance when he got rid of the surplus with which he was originally provided was a finance of annual deficits.’¹²⁶ After making it perfectly clear that the amendment would be treated as vote of confidence, Gladstone launched into a vigorous defence of his Government’s financial policy of suspending the Terminable Annuities and raising both direct and indirect taxes. His most impassioned effort was to maintain the consistency and soundness of the 1885–86 Budget with his financial philosophy.

It has been said that I have laid down the doctrine that we should always pay our way, and that consequently it is most inconsistent on my part not to ask for the whole of this sum from taxation. … it is not so very important whether £1,000,000 or £2,000,000, more or less, are spent by the nation in its own free will and judgment, even if in error — that is much less important than that the principle “Pay your way” should be adhered to. But when we come to a year of extraordinary demands — to a year when £15,000,000 or £13,000,000 are wanted for some special Imperial service — it would be a pedantic strain of a sound financial principle to hold that the whole of that sum ought to be paid by taxation.¹²⁷

He then charged that the real target of the amendment was the Death Duties which had ‘invaded the sanctuary of landed property.’¹²⁸ The wine duties, it was pointed out, only brought in £1,213,000. To bring in an extra £200,000 they would have to be raised well in excess of the

¹²³ 3 H 297. 1422–1436.

¹²⁴ Ibid., p. 1493.

¹²⁵ Ibid., p. 1495.

¹²⁶ Ibid., pp. 1496–7.

¹²⁷ Ibid., pp. 1499–1501.

¹²⁸ Ibid., p. 1502.

addition to beer, while ‘at the same time raising serious risks with regard to our foreign trade.’¹²⁹ The amendment called into contrast Liberal and Conservative finance, and involved a choice between taxing beer and spirits or tea and sugar. ‘That is the issue before us. That is the issue before the country. … It is a question of life and death. As such we accept it, and as such we do not envy those who if they gain the victory will have to bear the consequences.’¹³⁰ In the subsequent division the Government lost by twelve. As Gladstone recorded in his diary, ‘This is a considerable event.’¹³¹

The fall of Gladstone’s Government was a considerable event, and it was fitting that it should be defeated on finance. Five years of Liberal Government had seen a thorough test of its commitment to “Sound Finance” and of its ability to conform practice to theory. The year 1885–86 was as severe a shock to finance as appeared likely, short of a European war, and Gladstone’s Liberal Government had weathered it without having to abandon its fiscal philosophy. There had been adjustments, but what remained was “Sound Finance”, even at the cost of the Government. It was the principle for which Gladstone and his Liberal Ministry sacrificed their Government, confident of electoral approval.

The Reform Act of 1884 was the political time bomb that didn’t explode. Due in part to the Redistribution Act of 1885, it was nonetheless a striking confirmation of Gladstone’s own conservative-liberal embrace of the new “democracy”.¹³² Roland Quinault argues convincingly that he was content to let Salisbury have his way in the redistribution because in the first place, he didn’t believe Reform should be a mere quest for party advantage, and,

¹²⁹ Because of the proposed Commercial Treaty with Spain. *Ibid.*, p. 1506.

¹³⁰ *Ibid.*, p. 1511.

¹³¹ *GD*, xi, 8 June 1885, p. 353. Shannon noted that many Liberals were mysteriously absent from the vote, *Gladstone*, ii, p. 362. It is claimed that 6 Liberals voted with the Tories and 76 were absent. Gwynn and Tuckwell, *Life of Dilke*, i, p. 144. This is confirmed and explained by Garvin as a willingness by Dilke and Chamberlain to let the government fall, confident of Radical gains in any subsequent election on the new franchise. ‘Thus the real cause of the downfall was the complete moral disarray created by the deadlock between the Whig and Radical Ministers on Irish Reform.’ *Life of Joseph Chamberlain*, i, p. 619. Peter T. Marsh suggests likewise, *Joseph Chamberlain, Entrepreneur in Politics* (New Haven and London, 1994) p. 197.

¹³² The “fear of numbers” was “ungenerous and unmanly”, he claimed, for “the class which possesses the preponderance does not act for itself but for the country.” Cited in F.D. Parsons, *Ignis Fatuus v. Pons Asinorum. William Gladstone and Proportional Representation, 1867–1885.* *Parliamentary History*. v. 21, pt. 3 (2002), pp. 374–85; p. 383.

second, that he was himself desirous of ensuring that local influence was maintained, despite his hostility to special electoral arrangements.¹³³ Despite this the fear or courting of “democracy” – and however much it fell short of full suffrage for men (40% without the vote) and women (completely unenfranchised) contemporaries understood it as such – drove political calculation and especially political economy to an even greater degree than hitherto. The great concern was how to tax the people without losing their votes. Fear of electoral bribery versus faith in the fiscal virtue of the masses dominated the political economy debates in the financial journals, and taxation was at the very heart of the issue, especially the balance between direct and indirect taxation. Gladstone’s confidence in the masses would be vindicated but with a qualification. The masses proved to be no worse than the classes and spoliation was a bogey – but neither were they possessed of greater fiscal virtue or resistance to jingoism than their (more affluent) betters. Reform, yes, Peace, maybe and Retrenchment no more. This would prove the test of courage for Liberal and Conservative finance for the next ten years.

¹³³ Roland Quinault, ‘Gladstone and Parliamentary Reform.’ pp. 88-9. In David Bebbington and Roger Swift, eds., *Gladstone Centenary Essays* (Liverpool, 2000), pp. 75–93.

CHAPTER 4 REFORM

1885–86: Unsound Finance?

1885 was a bleak year for Government finance, and 1886 was little more promising. Despite the fact that the Conservatives were back in office, from 23 June, and responsible for the finance of 1885 there was remarkable continuity between the two budgets as Hicks Beach's Conservative effort was really Childers' with minor changes to form. In fact it could be said that Childers was the spectre haunting both, for he would be intimately involved in Harcourt's budget as well. Of course the key point in common with both budgets was an excess of expenditure and shortage of revenue which would call into question the very assumptions which Gladstonian Sound Finance had made regarding Indirect Taxation. And it was this point which most sharply divided the two year's finance, but only because the Conservatives welcomed these questions whereas for the Liberals such a challenge to fiscal dogma was most unwelcome.

Sir Michael Hicks Beach's Financial Statement of 9 July 1885 represented, in an emasculated form, the Conservative critique of Gladstonian Sound Finance. In defeating the Childers Budget and bringing down the Gladstone Ministry they had made their negative stand on finance. The Conservative rejection of increased Indirect taxation on beer & spirit duties [£1,650,000] and the proposal to increase the Succession Duty [£200,000] were both opportunistic and idealistic.¹ In the case of the former it helped to ensure Irish support and, indeed, support from renegade Liberals to defeat a government and budget. In the case of the succession duties they were keeping true to form in defeating what they saw as a Radical Liberal attack upon property. It was the contention of Hicks-Beach and the Conservatives that the Liberals had reached the limits of Indirect Taxation, with one exception, and that what was required was an unspecified overhaul of taxation to make up for it. The one

¹ 3 H 299. 128.

exception, the tea duty, was ruled out by a 'belief that such an additional duty would be so unpopular that Her Majesty's late Government could not propose it.'² The logical alternative, direct taxation, was impossible for the party of property to advocate. In fact, he could not even justify the present Income tax of 8*d.* except by 'the simple but very cogent argument that we cannot do without the money.'³

Having turned his back on what Childers had estimated as £1,850,000 of revenue Hicks-Beach could count on the Navy to make matters worse, for the Admiralty had exceeded their Estimate of £2,800,000 for the Vote of Credit by £850,000: 'incurred with an absence of method and supervision, to say the least, which is far from creditable to such a Department as the Admiralty.'⁴ In the tried and true manner of Conservative governments a deficit would have to be met through debt finance, as it would have been had Childers' Budget passed and the Liberals remained in office. By raiding the New Sinking Fund for £622,000,

the deficit will then amount to £2,827,000, to which must be added the deficit of last year of £1,050,000, leaving an accumulated deficit in prospect of £3,877,000, supposing the Vote of Credit to be taken at £9,850,000, and supposing also that Parliament agrees to suspend the New Sinking Fund for the current year as I have suggested.

The remaining deficit was to be covered by the issue of 'Exchequer or Treasury Bills to the amount of not more than £4,000,000.'⁵ By such means the year's finance was at least muddled through, although not in a manner putting principles before expediency. Political circumstances would not allow of any other course and the Conservatives had not the support to attempt anything bolder depending as they did on the Irish nationalists for their Parliamentary life. It was in fact stated that there was an understanding between Gladstone

² *Ibid.*, p. 131.

³ *Ibid.*, p. 134.

⁴ *Ibid.*, p. 136.

⁵ *Ibid.*, p. 138.

and Salisbury that 'as much as possible of Mr. Childers' Budget should be adopted by the new Ministry.'⁶

As such, Childers restricted his criticism to defending his reputation with respect to the Admiralty over-run, much to Gladstone's subsequent annoyance.⁷ It was left to H.H. Fowler, subsequently Financial Secretary to the Treasury, to make the telling point: 'That [the Tory] principle was the practical exemption of real property from its fair share of Imperial taxation', which '...from[Pitt's] time to this ... had not paid its fair share of the taxation of the country.'⁸

The reaction in *The Times* to the first Conservative Budget in over five years was positive, approving the manner in which Hicks-Beach had dealt with the deficit by floating debt. 'When we cannot pay our way it is only right that we should recognize the fact fairly, and throw no dust in our own eyes.' The most significant and sobering outcome from the Budget was what it indicated about the future of government finance if the limits of indirect taxation had been reached.

If these are the opinions accepted in practice by politicians on both sides a grave question will confront the reformed Parliament. The protest against taxation without representation has become an anachronism; what we have to consider is the manifest danger of representation without taxation.⁹

Concluding, it suggested that some sort of a poll tax might be required for the right to exercise the franchise. *The Economist* had little to praise or criticise because of what it regarded as the contingent nature of the budget, due to a transitory government, which would otherwise have had 'no chance of acceptance.' It was similarly concerned about the distribution of the tax burden and the recourse to debt finance.

⁶ *The Statist* 11 July 1885 p. 34, v. XVI no. 385. An understanding extorted from a reluctant Gladstone by Salisbury via the Queen. Roberts, p. 324.

⁷ *GD*, xi, Letters to Childers of 16, 21 and 25 July 1885 pp. 371, 375 and 376.

⁸ 3 H 299, 143, 144.

⁹ *The Times* 10 July 1885, no. 31,495 p. 9.

It is most unjust that of all classes of the community the income tax payers alone should be compelled to contribute to the heavy war expenditure, and it is not to our credit that we should exhibit ourselves to the world as a nation either unable or unwilling to pay its way.¹⁰

This was a significant criticism of “Sound Finance” whether in a Liberal or a Conservative guise because it raised the question of balance and fairness in taxation. Noteworthy is the fact that the Conservatives had rescinded the increase to the spirit duties while even earlier Childers had abandoned plans to utilize an increased Beer duty. Regardless of blame for expenditure, there was now a very real problem that any increased expenditure would, it seemed, have to be paid for out of direct taxes. The obvious alternative, of course, was simply to reduce expenditure but no government now seemed capable of doing so. It was a policy which seemed no longer to have any constituency.

The fall of the Conservative government on 26 January 1886 was not unexpected given the results of the November election¹¹, but it did put Gladstone through what was for him the wrenching process of forming a Cabinet. In the difficult and delicate juggling of factions and personalities the suitability of people for post had often to be compromised. There was this problem in the search for a suitable candidate for Chancellor of the Exchequer in the new Liberal ministry.¹² Speculation was the easy game, and Hamilton had played it two months before the election ruling out Childers and harnessing Hartington into the post.¹³ Later, when the game was being played for real, both Hamilton and his fellow Treasury man, Sir Algernon West, had put forward Chamberlain. The former in his diary and the

¹⁰ *The Economist* 11 July 1885 p. 839.

¹¹ The Liberals narrowly beat the Conservatives but were dependent on Irish Nationalist support following a record turnout of 4,638,235 under the new Act. Colin Rawlings and Michael Thrasher, eds., *British Electoral Facts 1832–1999* (Aldershot, 2000), pp. 12–21. It is sometimes assumed that in 1885 the electoral system was simplified into an instrument of universal male suffrage, ... This is far from being the truth; in fact, after 1885, as before, the franchises were highly complex, and plural voting was still permitted on a considerable scale, although about two out of every five adult males were still denied access to the polling booth.' Henry Pelling, *Social Geography of British Elections 1885–1910* (London, 1967), p. 6.

¹² Lord Wolverton had even suggested that Gladstone resume the office. Matthew, ii, p. 241.

¹³ 4 September 1885. Dudley W.R. Bahlman, *The Diary of Sir Edward Hamilton, 1885–1906* (The University of Hull Press, Hull, 1993), pp. 3–4, hereafter *HD*, iii.

latter in response to a query from Gladstone, both men felt that, while he was unquestionably an unorthodox choice, there were few suitable candidates available. As Hamilton noted,

Childers cannot go back. Chamberlain would be a strong man and a short experience at the Exchequer would probably knock out of his head all the 'ransom' nonsense and all his heterodox financial doctrines; but would not his appointment produce a perfect scare among the propertied classes.¹⁴

This was the fear shared by Gladstone as well. Although he didn't share Hamilton's antipathy towards Childers, he didn't support a return to the Exchequer for him either, preferring instead that Childers go back to the War Office. In fact this and a return of Granville to the Foreign Office were made all but impossible by the Monarch's objections, necessitating much cabinet shuffling and making the always difficult allocation of posts even more awkward. Chamberlain did in fact want to be Chancellor of the Exchequer, and was yet more awkward after being passed over. Harcourt wished for the Woolsack but had to take consolation in his Radical colleague's disappointment as he was the surprise choice as Chancellor of the Exchequer which he accepted 2 February the same day it was put to him.¹⁵

Harcourt as Chancellor of the Exchequer was a surprise, one which afforded Hamilton the chance for some good natured raillery which Harcourt accepted and returned in kind.

He has always denounced the Treasury as the incarnation of obstruction. It a little shocks the Treasury mind; but personally I am glad. I have always got on with him; and he has always been very kind to me. I have told him we shall all do our best to prove to him that the Treasury is not quite the useless institution which he has made it out to be.¹⁶

It was not that the leopard intended to change his spots, but that the peculiar disciplines of the new office would allow him to serve and further his adopted Radical cause. 'Sir W.

¹⁴ Ibid., p. 18 and see Sir Algernon West, *Recollections 1832-1886* (2 vols., London, 1899), v. 2, p. 261 for West's conversation with Gladstone of 2 Feb.

¹⁵ A.G. Gardiner, *The Life of Sir William Harcourt* (2 vols., London, 1923), v.1, p. 565.

¹⁶ *HD*, iii, p.23.

Harcourt is pleased at the prospect of assuming the Chancellorship of the Exchequer. ... He already regards Lingen as a profligate spendthrift.¹⁷ Harcourt would very soon have the tiger of military expenditure by the tail.

On the surface, the Irish Land Purchase Plan was only exceeded in financial recklessness by its political recklessness. It was the key to Gladstone's plan for Irish home rule and he considered it to be far too important to involve his Chancellor of the Exchequer. While Harcourt worked on his Budget Gladstone worked on this. Perhaps only the scheme's unlikelihood of being adopted allowed him to contemplate such an addition to the Debt¹⁸, or perhaps it was his conviction that only the Irish would have to pay for it.¹⁹ The experience of governing Ireland from 1880–5 had provided convincing evidence of the failure of coercive measures to bring either stability or respect for the law. 'In fact in March 1885 Gladstone accepted the moral case for Home Rule: that self-government should be conferred on Ireland as an act of atonement for decades of misrule under the Union.'²⁰

The election results on the new franchise confirmed the Nationalists' legitimacy as the representative voice of the Irish people.²¹ The problem was such as to be above mere party politics, at least in Gladstone's initial conception of it, and he sought to co-operate with the Conservative government to effect a solution. When this proved impossible it cleared the way for Gladstone to frame his own solution, and he lost no time in pursuing it, convinced 'that Ireland was on the verge of massive social disorder [this] had a determining

¹⁷ Ibid., p. 25.

¹⁸ £113 ½ million at an annual charge of £3,400,000. 'It involves a vast financial operation, in all likelihood the largest ever known in this country.' 11 and 14 Feb. 1886, BL *GP*, Add. MS 44771 ff. 72-4.

¹⁹ Welby and Hamilton had argued that on the basis of population an Irish contribution of 1/20 was not unreasonable, and that 1/16 or 1/15 'a fair adjustment between the two countries' compared to Gladstone's 1/12th. They concluded: 'We venture to point out the risk; but consideration of the policy may render it advisable to incur that risk without adequate guarantee for a remedy, in case the Irish authority plays us false or endangers our claim by financial ineptitude.' 17 Feb. 1886, BL *GP*, Add. MS 44771 ff. 77-102.

²⁰ James Loughlin, *Gladstone, Home Rule and the Ulster Question 1882–93* (Dublin, 1986), p. 36. This was also Mill's argument: 'The English nation owes a tremendous debt to the Irish people for centuries of misgovernment.' Bruce Kinzer, *England's Disgrace? J.S. Mill and the Irish Question* (Toronto, 2001), p. 65.

²¹ 'The Irish electorate was increased from approximately 222,018 to 737,965. The effect was to create a vastly enlarged Catholic electorate comprising not just the better-off classes but also a substratum of cottiers and agricultural labourers.' Alan O'Day, *Irish Home Rule 1867–1921* (Manchester, 1998), p. 93.

influence in setting the pace with which he would deal with the question once having decided that it was 'ripe' for settlement.²² Gladstone was convinced not only that the time was ripe but that his government must be the agent of settlement, whether the Liberal party agreed with him or not. He made Home Rule the *raison d'être* for that government and, insofar as it was possible, attempted to impose it on his Ministers as a condition of office. 'His procedure for the formation of this government was unusual and perhaps unprecedented: each of those being invited to join the Cabinet was read the memorandum [on home rule] ... so that he accepted office having accepted the specific policy of enquiry into the practicability of Home Rule.'²³ That enquiry would be conducted not by the Cabinet or a committee but by the Prime Minister alone.

Repressive measures having failed, Gladstone constructed his plan to bring stability and impose responsibility on Ireland according to a two-fold plan combining Home Rule and Land Purchase. The land purchase bill he hoped would solve 'the problem of agrarian violence in Ireland.' The land bill was not simply '... an ancillary measure to the Home Rule bill but ... a vitally important and integral element of the scheme for Ireland as a whole.'²⁴ It was believed that the key to social order and stability in Ireland was to be arrived at through removing the inherent conflict and antagonism between the native Irish peasantry and the Anglo-Irish landlord class by buying out the latter in order to transform the peasantry from rebellious nationalists into a conservative proprietor class with a stake in maintaining stability. In the same way, it was believed, Home Rule would necessarily impose a collective responsibility upon the whole Irish nation, transforming the peasant proprietors into responsible citizens.²⁵ The problem of course was how to finance these measures, and so Gladstone began his plan with 'a consideration of those aspects of the Irish question in

²² Ibid., p. 45

²³ Matthew, ii, p. 240.

²⁴ Loughlin, p. 80.

²⁵ Again, Mill shared this thinking, convinced 'that only a definitive settlement of the land question could avert irreparable damage to the moral and body politic.' Kinzer, p. 175.

which he felt most competent, ‘namely, land and finance’.’ He did not move onto the Irish form of government until mid-March and then the ‘main provisions were established by 1 April.’²⁶ Gladstone was ‘working daily on Ireland through February and early March 1886, assisted by Welby and Hamilton of the Treasury and Sir Robert Hamilton, the Permanent Under-Secretary at Dublin Castle, who had urged on Carnarvon the need for Home Rule.’²⁷

There were considerable financial obstacles to be overcome for both the Land Purchase and a workable form of Home Rule. In the former case the problem was inherent in the nature of the finance, for it was proposed to extend the Imperial credit to buy out, on a voluntary basis, the Irish landlords based on a twenty years’ purchase. This could require up to £160,000,000 and such an enormous sum would be sure to provoke an extreme reaction in Britain. In a memorandum of 20 March 1886 ‘Gladstone put the view that £60,000,000, rather than the previously discussed £120,000,000, would be a better amount to begin the process of land purchase.’ The reason being that it could always be increased and the lower sum would be far less incendiary to public opinion. The bill of 22 March cut that down to £50,000,000 for tactical parliamentary considerations. To no avail, ‘The Purchase bill proved from the first to be an almost intolerable dose. Vivid pictures were drawn of a train of railway trucks two miles long, loaded with millions of bright sovereigns, all travelling from the pocket of the British son of toil to the pocket of the idle Irish landlord.’²⁸

The problems of financing Home Rule, while less colourful, were equally difficult. Gladstone envisaged that the rental of Irish property would not only pay the bonds of the Irish landlords who opted to be bought out but also would effectively finance the Irish Home Rule government. This was to be the guarantor of the British taxpayer, for the customs and excise taxes would be collected Imperially and not remitted to the Irish

²⁶ *Ibid.*, p. 59.

²⁷ Matthew, ii, p. 242. Harcourt did not see a draft of the Land Bill until 25 February (he was sworn to secrecy), and only saw the Home Rule proposal for the first time on 7 March. O’Day, p. 108.

²⁸ Loughlin p. 89 and Morley, *The Life of William Ewart Gladstone* (2 vols, London, 1908 edn.), v. 2, p. 424.

government until the obligations on those bonds had been paid. It first had to be agreed upon as to what the Irish contribution to Imperial affairs should be, and then to determine a ratio for that contribution.²⁹ This was a difficult task partly because there was such a paucity of reliable data but also because the stakes, as Parnell realized, were so important.

All questions of this [constitutional] kind, however, interested him much less than finance. Into financial issues he threw himself with extraordinary energy, and he fought for better terms with a keenness and tenacity that almost baffled the mighty expert [Gladstone] with whom he was matched. ... To the last he held out that the just proportion of Irish contribution to the Imperial fund was not one-fourteenth or one-fifteenth but a twentieth or twenty-first part. He insisted all the more strongly on his own more liberal fraction, as a partial compensation for their surrender of fiscal liberty and the right to impose customs duties.³⁰

This Gladstone realized as well, and he believed that the financial terms he was offering to the Irish were generous for he calculated that the 'contribution by Ireland to imperial expenses [was] in the proportion of 1:11.5 ... He measured the taxable capacity of the two countries by a comparison of income tax returns, the amount of property falling under death duties, and the valuation of land.'³¹ There was also the problem of Irish representation in the Imperial parliament and powers of taxation that the Irish assembly would have if customs and excise were left in the Imperial sphere. None of this was enough to deflect Gladstone's determination to force Home Rule on Parliament and his party and the disastrous outcome was, in hindsight, unavoidable if understandable.³² In the meantime it was to take precedence over all other government business, including the Budget which was giving Harcourt such a hard time while Gladstone was preoccupied with strictly Irish

²⁹ The Cabinet of 31 March decided the Irish charge should be 1/14, but this was reduced to 1/15 on 6 April. *GD*, xi, p. 521. See also 'Irish Finance [Draft Bill]', PRO CAB 37/18/33 of 31 March 1886, pp.1-3.

³⁰ Morley, ii, pp. 408-9. Parnell had been determined to obtain the Customs tariff, and for his part found in negotiations that 'the old gentleman, when it comes to a question of cash, is as hard as a money lender.' Frank Callanan, *The Parnell Split 1890-91* (Cork, 1992), p. 293.

³¹ Loughlin, p. 71. 'It is unfortunate that Gladstone's taste for finance led him to prepare this part of the Bill himself, without any formal Irish assent, for there was no part of the Bill on which it was more important to reach conclusions that would stand; conclusions, that would seem just to the Irish not only at the time but afterwards.' J.L. Hammond, *Gladstone and the Irish Nation* (London, 1938), p. 505.

³² 'The chief irony is that of all those involved in the crisis of 1884-6, Gladstone most dreaded the onset of the politics of welfare, ... Yet it was his failure, not his success, that delayed the advent of such politics. The settlement of Ireland in 1886, if achieved, would have both shown that the Lords 'did not dare', and would have cleared the way for the development of the Liberal party as the party of positive social welfare.' Matthew, ii, p. 257.

financial measures. It was soon made clear that the Budget and, therefore, the expenditure incorporated within it were to be subsidiary to these Irish measures.

The fiscal outlook which the Liberals inherited was much the same as they had bequeathed to the Tories in July 1885. Harcourt, however, was determined to reduce the Army and Navy estimates. It was a matter of economic principles and personal philosophy.

It was a task which appealed to him in many ways. He had imbibed from Cornewall Lewis a passion for public economy, his experience of office had convinced him of the enormity of departmental waste; above all, he had long groaned under the ever-increasing exactions of the war services, and the opportunity of coming to grips with those devouring monsters had a special attraction for the most pugnacious pacifist that ever drew his sword in the cause of brotherly love.³³

The military demands were indeed exacting, almost £30 million in 1885–6, and the services were demanding yet more for 1886–7. The battle over the estimates was initiated on 10 February 1886 with the following exchange between Harcourt and Lord Ripon at the Admiralty. 'I have made up my mind there is nothing in the state of affairs which calls for increased expenditure on armaments, and the conditions of the country will not justify exceptional taxation.' Ripon replied, in a manner befitting the First Lord of the Admiralty. 'It is a mistake to begin firing your big guns at the commencement of an action. I shall reserve mine for closer quarters.'³⁴ The bluster was typical of Harcourt, but the motivations were sincere. For there were real pressures on him to reduce the Estimates, and they were far more compelling than Cornewall Lewis as motivating factors.

Gladstone's plan for Irish Home Rule depended upon a successful plan for Irish Land Purchase. This was his prime Ministerial ambition and he took complete responsibility for its conception, planning and drafting. Intimating his fears to his son Herbert in a letter on the 12th that his Government would be a shorter one than Salisbury's he boldly

³³ Gardiner, i, p. 569.

³⁴ Ibid.

proclaimed 'but the important thing is to be right'.³⁵ Gladstone was certain that on Irish issues he was right. Resolution of the Irish problem through Home Rule and an Irish Land Purchase Plan were the whole focus of Gladstone and his Government.³⁶ All other matters of Government were to be subservient to it, a point made crystal clear in a memorandum he prepared for Harcourt to pass on to the Admiralty and War Office.

'...if we are to cherish a rational hope of dealing effectively with the huge mass of the Irish question, we must found ourselves on an operation as to land, calculated on a scale which will exceed that of *any* former transaction of this country, even those before the close of the great war.

I am the last to desire any unnecessary extension of demands on our financial strength. But I am morally certain that it is only by exerting *to the uttermost* our financial strength (not mainly by expenditure but as credit) on behalf of Ireland, that we can hope to sustain the burden of an adequate Land measure; while, without an adequate Land measure, we cannot either establish social order, or face the question of Irish Government. ...

To sum up. Irish emergency at the present moment dominates and overshadows every other emergency. ...

I therefore hope that these augmentations will be either wholly waived or at the least very greatly modified, at least for the season of the Irish crisis.

...

The case appears to be one altogether exceptional, in which purely professional reluctance ought not to be allowed to weigh.³⁷

This Harcourt duly communicated to Ripon and Campbell-Bannerman, along with a memo of his own in which he sought to demolish the arguments for increased estimates on their own merits.

There can be no increased expenditure without increased taxation. In my judgment the country is not in a condition to bear and ought not to be asked to bear increased taxation. The Navy and Military Estimates of 1884-5 and 1885-6 have reached the sum of £30,000,000 a high level mark never attained before even in the time of Lord Palmerston's panics. This has been due partly to the Egyptian muddle, partly to the *Pall Mall* scare got up by the Services. ... I do not believe in *Pall Mall* scares and I am hostile to a prolonged occupation of Egypt. I can therefore be no party to an increase of war expenditure founded on either of these elements.

...It would be in my opinion unjustifiable in a time when the resources of the country were flourishing. In the present condition of its finances it would be not only *unjustifiable* but I am glad to think also *impossible*.

The various sources of revenue are failing. All classes of the country are distressed. In such a situation there is only one resource for sound finance – *magnum*

³⁵ *GD*, xi, p. 493.

³⁶ The defeat of the proposal, and government, on 7 June made this clear, but by no means did it resolve the question of Irish finance, which would have to be painfully re-examined in 1893.

³⁷ MS Harcourt dep. 10, ff. 22-3, dated 12 Feb. 1886.

*est vectigal – parsimonio. It is the only finance for which I can make myself personally responsible.*³⁸

The plan of attack had been laid out: on the one hand the Irish question took precedence over military considerations and on the other the arguments in favour of increased Army and Navy Estimates were rejected as unfounded and because the country could not, in its present state, afford to pay them.

Harcourt estimated that the increased cost of these Estimates, now £34,000,000, would require an additional 2d. on the income tax, which at 8d. was already considered extortionate – and such an increase Harcourt would not be a party to.³⁹ The next day Hamilton noted that Harcourt ‘is proving as good as his word in “out-Treasury” – in the Treasury. He is prepared to arm himself with the weapon with which Mr. G. holds that every Chancellor of the Exchequer ought to be ready – the weapon of resignation.⁴⁰ At this point Hamilton was in full agreement with his Minister’s belligerence as Harcourt was writing to Gladstone that,

It is not therefore at all with me a question of details or to how much or how little they are to be increased, but my position is absolute that they shall not be increased at all. That is the only sound and intelligible ground to take – and I at least must stand or fall by it.⁴¹

Over the next two days Gladstone, although fully supporting Harcourt’s efforts at economy, was urging consultation with the military Ministers and that Harcourt make his case before the Cabinet. Harcourt had difficulty co-operating with his collegial adversaries at the War Office and Admiralty. He was given rather to ultimatums than to argument and although the Cabinet of the 15th agreed with him that the £30 million estimates of 1885–6 should be the limit for 1886–7 it was in a general sense only.⁴² The tough battles with Ripon and

³⁸ BL *GP*, Add. MS 44200 f. 48, dated 12 Feb. 1886.

³⁹ Letter to Gladstone of 12 Feb. *Gardiner*, i, p. 571.

⁴⁰ *HD*, iii, p. 27.

⁴¹ *Gardiner*, i, p. 571, 13 Feb.

Campbell-Bannerman had still to be fought, vote by vote, and this hard slogging Harcourt was reluctant to undertake.

Bad news from the Treasury was providing him with further ammunition if less actual money because revised forecasts showed a 'deficit on the closing year of nearly £3,400,000 instead of an estimated deficit of £2,800,000.' Harcourt proposed in rough draft of the budget sent to Gladstone on February 14 to suspend the debt payment of £5,200,000 to meet this deficit.⁴³ It was his contention that because he had informed the Admiralty and Army that their estimates were too high and his treasury too bare he had no more to do than offer his resignation should they not comply. By the 16th Gladstone was again urging Harcourt to argue by persuasion rather than ultimatum, requesting that he show his estimates papers not only to Ripon and Campbell-Bannerman but also to Granville and Childers. These formed a sort of Cabinet sub-committee on the estimates and the significance of Childers' inclusion would not have been lost on the new Chancellor of the Exchequer. Gladstone, again displaying the diplomacy and tact Harcourt seemed to lack, sought to reassure him of his confidence. 'I agree with you that under the circs. of today 1. There can be no new taxes. 2. We cannot both arrest the Sinking Fund and have the deficits unprovided for. 3. I hope Ripon will be able to meet his building contracts by retrenchment in other directions.'⁴⁴ This still left to Harcourt the responsibility to negotiate the estimates down to an acceptable level.

By 19 February Gladstone was again reassuring Harcourt as to his support,

'Beyond all doubt the Cabinet have decided that the Naval & Military estimates taken together are not to exceed sensibly the charge of last year as it was reported to us in Cabinet. ... Moreover it was referred to the heads of the two Departments together with you & Childers to consider and decide, not whether this should be done, but *how* it could best be done.

⁴² *GD*, xi, p. 496-7. BL *GP*, Add. MS 44200 f. 50-4, 13 Feb.

⁴³ BL *GP*, Add. MS 44200 f. 55.

⁴⁴ MS Harcourt dep. 10, f. 47.

I have used the phrase 'sensibly' and of this term I am not sure but of the meaning quite sure. It is elastic to a moderate extent – it might be construed to admit only *tens* of thousands, it might be more largely taken to admit hundreds of thousands but if the latter then undoubtedly *very few* of them.⁴⁵

For Harcourt, this was not good enough, he demanded Gladstone's personal intervention in the estimates dispute and, when that was not forthcoming, tendered his letter of resignation.⁴⁶ It is impossible for the historian to take this resignation any more seriously than did Gladstone and probably had more to do with Gladstone's delegation of Childers to oversee the estimates than it did the Prime Minister's reluctance to intervene himself. Gladstone, apart from any questions of Ministerial responsibility and Cabinet equality, was simply too caught up in questions of finance on the Irish Land Purchase plan to spare time for the Budget. He was in meetings with Welby and Hamilton on this subject both the 18th and 19th of the week attempting to hammer out the details.⁴⁷

What Childers and Harcourt had in common, besides the Treasury, was a mutual contempt. Even before the Government was formed and he had a place in it Harcourt proclaimed to Hamilton that if he joined the Cabinet he might have one satisfaction: 'hearing Childers make up his mind in the Cabinet which he (Childers) was always going to do, but never could do.'⁴⁸ For his part, after five days of working with his successor at the Exchequer Childers was writing to Gladstone of his doubts as to Harcourt's competence for that office.

Estimates are not to be reduced by strong language but by patient and searching enquiries; not of course into details, but into such large questions as liabilities for many hundred thousand pounds under contract. It was by such patient enquiries... that as Cof E in 1884, I brought down Hartington's & Northbrook's Estimates to their final figures, and also cut several millions off their demands in the autumn of that year.⁴⁹

⁴⁵ 19 Feb. 1886. *GD*, xi, p. 500.

⁴⁶ 19 Feb. 1886. *Ibid.*, n. 4, *Gardiner*, i, p. 572.

⁴⁷ *GD*, xi, pp. 499 and 500.

⁴⁸ *HD*, iii., p. 19, 30 Jan. 1886.

⁴⁹ BL *GP*, Add. MS 44132, ff. 212–214. Childers also utilized this letter to blame Harcourt and Chamberlain for the defeat of his 1885 Budget.

In a second letter to his Chancellor of the Exchequer on the 20th Gladstone tactfully gave explicit instructions as to what was expected of him. "The mode of operation I think is that Childers, with his knowledge of particulars should cut down the Estimates & then you two jointly propose this as the fulfilment of the commission intrusted to the four."⁵⁰ He had already written to Childers the same day exhorting him to help sort out the mess. 'I rely on you with your great knowledge of the Departments to suggest the means of retrenching particular votes better than any other man.'⁵¹ But none of this would satisfy Harcourt and he was again demanding Gladstone's personal intervention with Ripon and Campbell-Bannerman.⁵²

There was a Cabinet on the following Monday 22 February which did not discuss the estimates but that did not spare a confrontation with Harcourt where Gladstone was again implored to intervene with Ripon and Campbell-Bannerman. 'The experience of the past shows that these attempts to [examine?] the Estimates in detail have utterly failed and the Defendants have invariably broken the Exchequer ...I feel I stand alone and I will fall alone.'⁵³ This seems to have been enough for Gladstone, and in an "*Immediate*" letter of the same day he instructed his Chancellor of the Exchequer as to his duties.

I am most willing to see C. Bannerman and Ripon: but pray remember I have no authority above or beyond that of the Cabinet. In one point I think you are hardly aware of the duties of your own position of Chancr. of the Exchequer. It is beyond all doubt one of the duties of his great office to enter upon *particulars* with his colleagues of War and Admiralty. Again & again I have done this as C. of E., with Somerset and Cardwell for example. The difference in your case is that you have the advantage of an *expert* at your back [Childers] who agrees with you & will work for your end. ... When once I know you will use all your efforts in this sense, I will put all the pressure I can upon the two colleagues.⁵⁴

This emphatic declaration seems to have worked, for over the next three days the estimates were indeed sorted out and without recourse to Gladstone's pressure on the two colleagues.

⁵⁰ *GD*, xi, p. 501.

⁵¹ *Ibid.*

⁵² *Ibid.*, n. 5; BL *GP*, Add. MS 44200 f. 65, and MS Harcourt dep. 10, f. 67.

⁵³ BL *GP*, Add. MS. 44200 ff. 69–72.

⁵⁴ *GD*, xi, p. 503.

Although as late as the 24th Hamilton records that Harcourt was still threatening resignation⁵⁵ most of the efforts to bring the opposing sides together had succeeded and so he felt that [Harcourt] ‘is a little unreasonable, as Lord Ripon and C. Bannerman have made great concessions; and I am able to show him according to my latest estimate a very decent balance sheet for next year after allowing for *some* increase under the head of military expenditure ...’⁵⁶ In fact it was at this point that Hamilton took it upon himself to bring the dispute to a resolution. He communicated to Harcourt himself and by combination of flattery and thorough review of the numbers was able to bring him round to a belief that he had won the battle.

In the forecast which I was able to give him he sees a fair amount of elbow-room. The increase on Army and Navy estimates has been reduced from 4 millions to 1 million; and he appears to be willing to swallow an one-million pill. ...[cf. Gladstone in 1862] Without such leverage the present Chancellor of the Exchequer has achieved a still greater feat and he may well be content to rest on his oars. It is highly gratifying to find this former financial heretic converted so suddenly into an apostle of economy.⁵⁷

That same day, February 25, 1886, Gladstone was able to record in his Cabinet minutes: ‘4. Estimates – fixed. Harcourt announced result increase 1 [million] more or less. Accepted.’⁵⁸ An increase of £1,000,000 on Army and Navy estimates of £30,000,000 in time of peace leading to a third deficit in as many years had not the Sinking fund been raided was seen as an acceptable victory for the standard bearers of “Sound Finance” at the Treasury. Given the distraction and subsequent disruption caused by the financial plans for Irish Land Purchase it is perhaps understandable that the traditional vigilance had wavered. For the heresy of a £1 million increase in expenditure was nothing to that contemplated in extending over £100,000,000 in Imperial credit on behalf of the landlord class of Ireland.

⁵⁵ ‘He has his resignation pistol at full cock, and swears he will discharge it if the War Office and Admiralty cannot meet to the full his requirements ...’ *HD*, iii, p. 29. Also, Harcourt to Gladstone 24 Feb., BL *GP*, Add. MS 44200 f. 79.

⁵⁶ *HD*, iii, p. 29.

⁵⁷ 25 Feb. 1886, *Ibid.* Hamilton’s memo to Harcourt is in MS Harcourt dep. 118, f. 22 dated 24 Feb.

⁵⁸ *GD*, xi, p. 504.

Harcourt presented his maiden Budget speech in the House on 15 April 1886 and was able to report that the 1885–86 financial year's Revenue was less than the Estimate by £1,208,699. This was particularly due to the £74,927,000 from the tax revenue of which only Stamps exceeded their estimate, by £140,000. Consistent with the basis of government finance of the time, it was the Indirect taxes which brought in the great bulk of the revenue: £45,287,000 or sixty per cent of that from taxation (and 51% of total revenue). Non-tax revenue amounted to £14,654,301, being 16% of total revenue and only £5,699 under estimate.⁵⁹

Expenditure was £92,223,844 and £1,393,327 less than provided for in the estimates for 1885–86 with every spending department below estimate except for the Navy, £207,009 in excess. Debt charges represented the largest item of expenditure, £25,088,065 and 27% of the total. The voted spending departments: Army, Navy and Civil Services accounted for £47,413,357 more than half of expenditure although an additional £9,701,000 was due to the Vote of Credit and the Afghan War Grant in Aid. Exceptional military expenditure accounted for 11% of expenditure. Harcourt was, therefore, obliged to report a deficit of £2,642,543.

Harcourt estimated the Revenue for 1886–87 at £89,885,000 based on existing taxation; an increase of £303,699 on that of the previous year. Of this, £75,450,000 was expected from taxes of which £45,410,000 was indirect tax from Customs and Excise and £30,040,000 from direct taxes. Non-tax Revenue was estimated to be £14,435,000, a falling off of almost £220,000 from the previous year.

The Estimated Expenditure for 1886–87 came to £90,428,599 This would allow for an estimated Budget deficit of £543,599 if no changes were made to taxation. As always Debt charges were the single largest item of expenditure. Army and Navy votes of

⁵⁹ 3 H 304. 1637–60.

£18,233,200 and £12,993,100, respectively, were a slight increase over 1885–86. The Civil Services charge of £18,008,691 represented an increase while the remunerative departments of Customs, Post Office, Telegraph and Packet services would incur an additional £532,269. So the ordinary expenditure of the year was expected to fall back to the level of 1884–85.⁶⁰

This anticipated deficit, 'not a very satisfactory result in a time of peace', and when the Income Tax is 8d. in the pound,⁶¹ required Harcourt to reduce by £800,000 the provision for Debt reduction. This was done by raiding the 'new Sinking Fund, £613,000, and the Sinking Fund of 1881, £205,000'⁶² and putting the year into surplus. This small surplus allowed the one remission from which the Budget got its name, the elimination of the £8 cottage brewers licence at a cost of £16,000 so as to leave a net surplus of £258,771. Harcourt had no great claims to make for his Budget other than to emphasize its prudence.

We are paying our way, and doing something more. We are discharging Debt to a moderate degree. We are still able, like a prudent parent, to lay up something for the future for his children who come after him. ... We cannot lay fresh burdens upon the people. What we have to do ... is to have patience, to exercise prudence, and to husband our resources for better times. If these are sound principles of finance, and if the proposals of the Government conform to them, I trust they may receive the favourable acceptance of the Committee.⁶³

This trust was not misplaced, and his lack of originality earned approbation by the indifference with which it was received.

Sir Michael Hicks-Beach concentrated on two familiar themes in his reply to the budget: taxation and expenditure. He re-iterated that Childers' proposals to increase the duties on beer and spirits had been 'financially unsound' and that it proved the 'condition of our system of indirect taxation is hardly satisfactory when, even in a normal year, we are unable to do without an 8d. Income Tax.' As he saw it the expenditure problem was one of

⁶⁰ Figures are from the 'Financial Statement 1886–87' pp. 1–5, P.P. 1886, (123) xxxviii. 223.

⁶¹ 3 H 304. 1653.

⁶² 3 H 304. 1656

⁶³ 3 H 304. 1659–1660.

prioritization and legitimacy, 'I should be very sorry indeed if, on the plea of mistaken economy and foolish parsimony, ...[we] should ever refuse the Government ... any Expenditure upon the Army or the Navy which is really necessary...' Whereas the root problem in the growth of expenditure was to be found in the Liberal party itself '... they might do their best to teach their followers ... that it is extravagant to the last degree for the State to attempt to make everybody happy and comfortable at the public expense.' The expansion of the role and activities of the state into "illegitimate" areas were robbing the military of its traditional prerogative over government expenditure.⁶⁴

The "Cottage" Budget of 1886–7 thus conformed exactly to its two predecessors of 1885–6 despite the Conservative responsibility for the one actually adopted that year. This was because all three were shaped by the circumstances of their time and in the case of the Conservative Budget the excuse of a sudden and transitory Government had little bearing on its construction. In spite of their arguments to the contrary, once they had modified the spirit duties and rescinded the change to the Succession Duty, Hicks-Beach had no ideas of his own for finance except perhaps for a more straightforward honesty in recourse to Debt finance. He could afford such honesty, given the Liberal responsibility for the expenditure, whereas Harcourt as a Minister in a Gladstone government felt compelled to justify the indebtedness by the complicated operation of the sinking fund. Left unstated was the fact that for two years now the deficit was resolved by operations on the debt side through interception of the sinking fund rather than by augmenting revenue because it was believed taxation had reached its limits. The 8d. income tax was at a psychological limit for peace time and the indirect taxes seemed to have been stretched to a point of inelasticity. It appeared as if the possibilities of Sound Finance had reached their limits.

It is a great paradox that Gladstone seemed willing to over-turn "Sound Finance" for Irish Home Rule, as if perhaps in compensation for the abandonment of retrenchment

⁶⁴ 3 H 304. 1664–7.

as a feasible policy after the experience of the 1880-5 ministry and the implications of the Reform Act of 1884. Home Rule at least represented Reform, and if Peace was not forthcoming in a new Imperial age, Ireland might yet be pacified. Even in this, however, Gladstone did not abandon “Sound Finance”, his hard bargaining with Parnell and his determination to make the scheme pay for itself demonstrates this, he merely extended its parameters to encompass a great moral issue, a great question of state. If this sacrificed the minimal state it was for a great cause, and one for which the new electorate might demonstrate their virtue as citizens, eschewing selfish pecuniary calculations and shouldering the financial burden of doing what was right. Gladstone still believed he was capable of leading the masses, in a righteous cause, against the classes.

The further paradox is that his mantle of “Sound Finance” would be taken up by Lord Randolph Churchill, who would sacrifice himself in a bid to return to that abandoned Gladstonian fiscal virtue of retrenchment by way of a peaceful foreign policy to capture the reformed mass electorate against, it would turn out, his own Conservative party.

CHAPTER 5

THE CRISIS OF CONSERVATIVE FINANCE

Apostate: Randolph Churchill as Chancellor of the Exchequer

Lord Randolph Churchill became Chancellor of the Exchequer in Lord Salisbury's Conservative Ministry on 27 July 1886. He had been made leader in the Commons and the Exchequer followed naturally, but only because Hicks-Beach had declined both posts to become Irish chief secretary. Churchill was thirty-six years old, the youngest man since Pitt to hold both these offices, 'brilliant places which [he] could not refuse as unworthy and which seemed to endorse his claims to a status of effective parity with Salisbury'.¹ Lord Randolph was the coming man in British politics and seemed to exercise a political power well beyond his years. But this was illusory. 'How was Churchill to pressure Salisbury into making a Cabinet in 1886 which would reflect faithfully Churchill's Tory Democratic ascendancy in the Conservative party? The short answer is that Churchill failed.'² He failed at the outset, he failed in his office and he failed, ultimately, in forcing his vision of "Tory Democracy" upon the Conservative party. But he came close.

July of 1886 was the zenith of Churchill's influence and power within the Conservative party and in the country. His relationship with Salisbury, although outwardly placid and cordial was really an unresolved and ongoing trial, for they each had different conceptions of not just the Conservative government but of the party, and these frictions were in a state of unresolved abeyance. 'Salisbury did not respond to Churchill's challenge in 1884 either with the tactical skill he was deploying against Gladstone over the Reform Bill or with the determination which the incompatibility between their brands of Conservatism, so

¹ 'Churchill was taken aback to find Beach already settled as Irish chief secretary.' Richard Shannon, *The Age of Salisbury, 1881–1902: Unionism and Empire* (London, 1996), p. 214.

² *Ibid.*

apparent in retrospect, would lead one to expect.³ Salisbury was now forced into a situation with respect to Churchill not of his own choosing,

He did not relish the prospect of placing Lord Randolph in high office, ... [his] doubts about Lord Randolph's temperament as a Cabinet colleague were not eased by the new tone which had entered Churchill's letters. Hitherto he had written as lieutenant to master; now the tone was definitely that of master to master. Lord Randolph's suggestions for appointments in the new Ministry arrived at Arlington Street by every post.⁴

Nor was Salisbury the only one made uneasy by Churchill's presumption and responsibility in the new Ministry. The Queen recounted a conversation with Salisbury on 25 July, 'he feared Lord Randolph Churchill must be made Chancellor of the Exchequer and Leader, which I did not like. He is so mad and odd and has also bad health.'⁵ The simple truth was that Churchill owed his political power and respect not to love but to fear. '[His] supreme asset was the extreme difficulty people had envisaging the possibility of a Conservative government without him.'⁶ Within five months Salisbury would not be able to envisage the possibility of a Conservative government with him.

To say that the Treasury was apprehensive about the new Chancellor of the Exchequer is an understatement. 'They regarded him, we are told, as "an impossible man," as "one whose breath was agitation, and whose life a storm upon which he rode."⁷ Hamilton had very mixed feelings, regretting Hicks Beach's reassignment but contemplating his new Master as a test of his own professionalism.

I am afraid he would regard one with some suspicion; but I daresay one would be able to get on with him. Arthur Godley found him pleasant enough to work with at the India Office; and to have to work for a man with whom one is not in political accord, and whom one has never been able to esteem, is calculated to put one on one's mettle. Loyalty towards one's political masters should be the first object of a public servant; ... Moreover, it is always interesting to be brought in contact with a man possessed of some genius; and certainly R.C[hurchill] has his sparks of that powerful but dangerous possession.⁸

³ Peter Marsh, *The Discipline of Popular Government: Lord Salisbury's Domestic Statecraft, 1881–1902* (Sussex, 1978), p. 49.

⁴ Robert Rhodes James, *Lord Randolph Churchill* (London, 1959), p. 249.

⁵ *Ibid.*

⁶ Marsh, p. 226.

⁷ Winston Churchill, *Lord Randolph Churchill* (2 vols., London, 1906), ii, p. 180, quoting Sir Algernon West.

⁸ *HD*, iii, p. 44.

Even some of Lord Randolph's friends were unconvinced of the wisdom of his double burden. Lord Justice Fitzgibbon wrote with uncanny prescience to him almost immediately on 27 July:

Can Goschen by any means whatever be induced to take the Exchequer?... if I were you I would rather not be obliged to carry as Leader the financial reputation of the State in addition to the rest of the load. The English are your sheet-anchor, and finance is their pole-star; and a middle aged commercial Chancellor of the Exchequer would make them easy in their minds, when you could not.⁹

In spite of these misgivings it was vital to Churchill's political strategy and personal ambition that he take on and succeed in both offices, the one giving him control over the House of Commons and the other (so he thought) giving him control over the government itself. What nobody seemed to realise was that Randolph Churchill had formulated for himself a political philosophy and programme in which government finance was absolutely paramount.

The first and most vital interest of the nation is finance. Upon finance everything connected with government hinges. Good finance ensures good government and national prosperity; bad finance is the cause of inefficient government and national depression.¹⁰

Why now this adherence to "Sound Finance", what had changed his outlook? In a word, office. He had more than a simple ambition to power, he wanted to succeed in power. It was for this that he 'wished dramatically to appropriate Gladstonian principles of severely pared governmental expenditure. It had served the Liberals well for half a century. He wanted to nail it to the Tory mast.'¹¹ This was an ingenious and rather revolutionary proposition, splendidly conceived in an era of democratic reform to appeal to the newly enfranchised electorate and overturn their association of "Sound Finance" with Gladstone and the Liberal party. There was genius in this conception, it was an insight which had everything going for it, everything except the support of the Conservative party and its

⁹ Churchill, ii, p. 132.

¹⁰ Ibid., p. 132.

¹¹ Marsh, p. 100.

Prime Minister. It was typical of Churchill that he knew this and did not care. Genius is wasted on details.

Churchill was not an entire newcomer to “Sound Finance”, although he came at it in his own inimitable and roundabout way. He had been one of the champions of Fair Trade back in 1882 when it ‘was still a nebulous doctrine, and reached its culmination in his Blackpool speech in January [24], 1884, thereafter to gradually disappear as [he] moved closer to the fiscal conventions of his day.’¹² It was perhaps the fear of the Treasury and the presumption of the Conservative party that he viewed this situation with complacency, whereas the truth was that he meant to do something to change it. And Lord Randolph Churchill was not a man to content himself with half-measures when he could go to extremes. Nor was he short of encouragement in this direction. In the *Times* ‘he was adjured to remember how utterly fatal to the Unionist alliance any departure from “sound principles of finance, understood and acted upon by successive Administrations, Conservative as well as Liberal,” would inevitably prove.’¹³ The Treasury itself was a great influence, more particularly in the case of a man like Churchill whose self-confidence was perhaps not so great as was suggested by his public image.

No school of thought is so strong or so enduring as that founded on the great traditions of Gladstonian and Peelite finance. Reckless ministers are protected against themselves, violent Ministers are tamed, timid Ministers are supported and nursed. Few, if any, are insensible to the influences by which they are surrounded. Streams of detailed knowledge, logic and experience wash away fiscal and financial heresies; and a baptism of economic truth inspires the convert not merely with the principles of a saint but – too often – with the courage of a martyr.¹⁴

Churchill, however, was nobody’s cipher. ‘He was not a man who formulated long-term projects or settled himself down to pursuing a particular course. His politics were mainly

¹² James, *Churchill*, p. 118. James asserts that ‘It was by reading Randolph’s speeches that the seed of Tariff Reform was sown in Chamberlain’s mind,’ p. 117.

¹³ Churchill, ii, p. 131.

¹⁴ Ibid., p. 180. ‘The Treasury at that time was staffed with officials of the old Cobdenite type, and they stuffed him with their theories, which he swallowed with gusto; he became at once a most violent economist and Free-trader.’ Lord George Hamilton, *Parliamentary Reminiscences and Reflections, 1886–1906* (2 vols., London, 1922), ii, p. 41.

intuitive.¹⁵ Nonetheless he latched onto and continued to pursue the concept, pregnant with political possibility, of Tory Democracy. ‘He perceived two political realities with great clarity; the weakness of the Liberal party in the Whig-Radical rift, and the vital importance of the new electorate created by the Reform Act of 1867. ... Tory Democracy reached its culmination in the ‘Dartford Programme’ in 1886, but it was constantly being developed from 1882.¹⁶ The Reform Bill of 1884 and companion Redistribution Act of 1885 reinforced the wisdom of this policy which was amply confirmed by the elections of 1885 and 1886. The question for the Conservative party was whether the Tory Democracy was a matter of substance or mere cynical manipulation of a naive and inexperienced electorate. ‘The great thing to be said for Lord Randolph is that the stand-off he negotiated in July 1884 was pretty much on the borderline between those two standpoints. The great thing to be said against him is that he was thereafter very incompetent at consolidating and advancing his position.¹⁷ But the circumstances of his tenure at the Exchequer leading up to his resignation would prove that it was because he approached this programme with sincerity and firm conviction rather than mere electoral cynicism that led him to try to realize his goals rather than simply consolidate and advance his own position.¹⁸ Of course, had he achieved his goals his own position would have been immeasurably advanced and consolidated beyond any doubt. ‘The indications are that Churchill was preparing himself for a decisive offensive to make a reality of his apparent party ascendancy.¹⁹ This involved what Salisbury and his Cabinet colleagues would soon perceive to be an intolerable meddling by Lord Randolph and his Treasury into all aspects of government, including even the hitherto sacrosanct precincts of the Prime Minister’s foreign policy. It was at this point

¹⁵ James, *Churchill*, p. 121.

¹⁶ Ibid.

¹⁷ Shannon, *Salisbury*, p. 58, is sceptical about the achievements of Tory Democracy although he concedes it ultimately changed the party’s view of what use could be made of the masses.

¹⁸ ‘Contrary to past and present orthodoxies, [Churchill] did not favour tory democracy either as part of a crusade against aristocratic reaction or as a convenient cloak for his own ambition. ... He did so largely in response to popular demand and in order to further the fortunes of the conservative party.’ R.E. Quinault, ‘Lord Randolph Churchill and Tory Democracy, 1880–1885.’ *The Historical Journal*, 22, I (1979), p. 163.

¹⁹ Shannon, *Salisbury*, p. 222.

that the Chancellor of the Exchequer and Leader of the House's political star began to move from its zenith towards its nadir.

From the very outset Churchill was determined to make his colleagues realize the importance of economy, and he succeeded in getting his message across. Cranbrook noted in his diary on 13 August after a Cabinet meeting: 'R.C. alarming on economy.'²⁰ He complained to Salisbury the next day about Iddesleigh's handling of foreign policy, 'It will place us in great peril in the House of Commons, politically and financially.'²¹ The pattern of his complaints were to be repeated so long as Iddesleigh remained alive, and continued even after Salisbury had resumed the Foreign Office. 'The problem of creating that favourable balance of power within the Cabinet, one which would hedge in the Chancellor of the Exchequer and restrict the Treasury's capacity to upset a rational foreign policy, faced Salisbury most acutely during 1886–7.'²² This upset continued through September, with complaint after complaint from Churchill to Salisbury about Iddesleigh, 'Really if it was from not wishing to cause you any annoyance I would put such a spoke in old Iddesleigh's wheel when I speak on Saturday as would jolt him out of the F.O.'²³ Salisbury's reply on 1 October should have given the Chancellor of the Exchequer pause for thought, for it clearly indicated that Salisbury did not displace Gladstone with any intention of substituting a "Cobdenite" foreign policy. 'A pacific and economic policy is up to a certain extent very wise: but it is evident that there is a point beyond which it is not wise either in a patriotic or in a party sense – and the question is where we shall draw the line.'²⁴ The net result was that Salisbury's 'careful calculations were continually upset by Churchill's maverick private

²⁰ James, *Churchill*, p. 266.

²¹ 4 September, James p. 272.

²² A.N. Porter, 'Lord Salisbury, Foreign Policy and Domestic Finance, 1860–1900', in Lord Blake and Hugh Cecil, eds., *Salisbury. The Man and his Policies* (London, 1987), p. 161.

²³ James, *Churchill*, p. 272.

²⁴ Andrew Roberts, *Salisbury. Victorian Titan* (London, 1999), p. 400.

diplomacy.²⁵ This interference into Salisbury's own sphere was made the more galling because it was interference for its own sake, because Churchill had his own ideas of what Britain's foreign policy ought to be. When Churchill insisted on interference because foreign policy had to be made subordinate to Treasury requirements it was more than galling, it was intolerable. 'After two months' experience of his ways in this government, he thought him "capable of all kinds of monkey tricks."²⁶

From the outset Churchill was determined to meet the spending departments head on in order to impose his demands for economy. On 10 September Hamilton set out for Churchill 'our present financial position, which, what with the largest Peace Estimates on record, the large demands for advances under the Irish Land Purchase Act, and our dependence so much on the income tax, the bulk of which only comes in during the March Quarter, is not a pleasant one.'²⁷ There was no way in which it could have been, for the very same problems which stymied Childers, Hicks Beach and Harcourt had still to be resolved. Military expenditure was at record levels for peacetime, the civil service expenditure was steadily increasing while the mainspring of indirect revenue, the alcohol duties, were stagnant or falling at a time when the income tax continued at a war-time level of 8d. in the pound. Two years of political instability had done nothing to encourage decisive action or effective remedies. Lord Randolph Churchill was determined to change this. 14 September saw a request for a 'Royal Commission to inquire into the establishment and organization of the great spending departments.'²⁸ The culmination of this fiscal and economic aspect of Tory Democracy was reached October 2nd in Churchill's Dartford speech, 'probably the most important of his life.' In this he outlined a number of measures designed to appeal to the "masses" and not necessarily to the "classes". It reached the following crescendo.

²⁵ Ibid., p. 402.

²⁶ David Steele, *Lord Salisbury. A Political Biography* (London, 1999), p. 206.

²⁷ HD, iii, p. 46.

²⁸ Churchill, ii, p. 185.

I will not conceal from you that my own special object, to which I hope to devote whatever energy and strength or influence I may possess, is to endeavour to attain some genuine and considerable reduction of public expenditure and consequent reduction of taxation. I shall be bitterly disappointed if it is not in my power after one year, or at any rate after two years, to show to the public that a very honest and a very earnest effort has been made in that direction.²⁹

The implication to be drawn from this, by both the government and the opposition, was for the hegemony of Lord Randolph Churchill and the Treasury over all aspects of government expenditure, that is, practically all aspects of government. 'From Salisbury's point of view Churchill's programme meant the worst of all possible worlds.'³⁰ But for Harcourt, the former Liberal Chancellor of the Exchequer, he thought his party

ought to rejoice at this whole conversion of the Tories to their own creed. What can be a more complete vindication of Liberal policy than this clear proof that the Tories cannot dispense with it? [He] is ready to assure R. Churchill of his support in carrying the closure and in effecting a reduction of naval & military expenditure.³¹

Churchill might need that help, because it was looking as if his supporters were all on the wrong side of the House, for his efforts at economy had made no new friends at the Admiralty or the War Office, particularly the latter.³² W.H. Smith had grown increasingly irritated by the flow of memoranda from the Treasury on War Office economies, and as early as 24 October he had protested that he saw little chance of a reduction in the estimates.³³ Smith was being realistic, for in spite of the inexorable rise in military expenditure in the preceding five years, that expenditure had been compressed and cut back as much as possible for the sake of reducing the estimates, much of the rise being due to exceptional expenditure to meet increased demands and fulfil heightened responsibilities

²⁹ Churchill, ii, pp. 163–165. He wrote his mother on the 4th, 'I hope my speech was not too advanced and that members of the government will not all resign.' CP 9248/16/1890.

³⁰ Porter, p. 162.

³¹ 25 October 1886 conversation with Hamilton. BL *HD*, Add. MS 48645 f. 16.

³² A rather scathing account of the Navy's ships in commission of 23 Oct., CP 9248/16/1951, and the 'War Office Deficit', CP 9248/16/1954.

³³ James, *Churchill*, p. 281, the letter from Smith is printed in Churchill, ii, p. 226.

imposed on the army and navy in an age of growing militarism and war anxiety.³⁴ The Conservative party was at the forefront of these demands. Salisbury was no militarist but his diplomacy demanded a greater military profile for Britain than Gladstone had provided. 'He saw the necessity these tendencies created for a particular kind of diplomacy, one which would not only avoid crises and the expenditure attendant upon them, but also keep the general level of expenditure to a minimum.'³⁵ Unfortunately for his government this minimum of expenditure was well in excess of what his Chancellor of the Exchequer considered acceptable, and this disagreement led inevitably to a fundamental dispute about the very presumptions and goals of their foreign policy. The stage was set for confrontation as the Estimates, military and civil service, had to be in place before the Budget for 1887 could be constructed. Such a confrontation could not but make clear three things: whether the Treasury would dictate foreign policy, who would really lead the government, and the nature of that cabinet government – consensus or capitulation.

The first phase of the Estimates battle began with a Treasury offensive, a Minute of 3 November requesting 'that the Army and Navy Estimates should be considered by the Cabinet before Christmas. Will you therefore kindly direct that the estimates decided upon by the War Office should be ready by the first days of December?'³⁶ Thus began the annual give and take between Treasury and Spending departments, the same toing and froing as would occur every year. What was exceptional in the autumn of 1886 was that the Chancellor of the Exchequer was perhaps unusually isolated from and antagonistic towards his colleagues.

Only the closest sympathy and support from the Prime Minister can sustain him. He is one against many, and must otherwise submit or resign. But on this occasion,

³⁴ Speculation about the likelihood of a greater or lesser European war is a constant factor in Hamilton's diaries 1886 through 1890. BL *HD*, Add. MS 48645–48652.

³⁵ Porter, p. 158. 'To diplomats he continually emphasized the interaction between Conservative hegemony at home and a peaceful foreign policy abroad (the connection he was to gamble upon in his budget at the end of the year).' R.F. Foster, *Lord Randolph Churchill: A Political Life* (London, 1988), p. 285.

³⁶ Churchill, ii, p. 227. Lord George Hamilton's cautious reply of the same: CP 9248/16/1968.

when there should have been the most intimate alliance, there opened vast and comprehensive differences; and the Chancellor of the Exchequer became continually more isolated and from that very cause more combative.³⁷

This combative nature was not really calculated to push his colleagues towards compromise, it resembled too much the *dictat* approach that Harcourt had utilized the previous year.

Worst of all, if possible, he employed even less good humour than Harcourt had when arguing his brief. Charm was not a weapon he included in his arsenal. So it was that 'from this time onwards the Cabinet was hopelessly divided on almost every major issue' and that 'by November 8th the Chancellor of the Exchequer was in despair.'³⁸ This despair was manifested in a letter to Salisbury of 6 November, in which he spared neither hyperbole nor importunity whilst overtopping both with his presumption that the Prime Minister shared his goals.

I see the Dartford programme crumbling into pieces every day. The Land Bill is rotten. I am afraid it is an idle schoolboy's dream to suppose that Tories can legislate – as I did, stupidly. They can govern and make war and increase taxation *a merveille*, but legislation is not their province in a democratic constitution. ... I have certainly not the courage and energy to go on struggling against cliques, as poor Dizzy did all his life.³⁹

Salisbury replied at great length the following day, expressing perfectly his own philosophy of Conservative government and hinting at his own impatience with Churchill's methods.

I think the "classes and the dependents of class" are the strongest ingredients in our composition, but we have to so conduct our legislation that we shall give some satisfaction to both classes and masses. ... Our Bills must be tentative and cautious, not sweeping and dramatic. ... Your *rôle* should be rather that of a diplomatist trying to bring the opposed sections of the party together, and not that of a whip trying to keep the slugs up to the collar.⁴⁰

³⁷ Churchill, ii, p. 228.

³⁸ James, *Churchill*, p. 275.

³⁹ Churchill, ii, p. 223.

⁴⁰ Churchill, ii, p. 224-5.

It was his last ‘soothing and sympathetic’ reply on these subjects.⁴¹ Churchill did not take the hint and ‘proceeded to dig himself just such a grave as Salisbury had described.’⁴²

In framing his Budget Churchill did not defer to any of his Prime Minister’s suggestions, instead he recklessly pursued the ideal set out in his Dartford programme on behalf of “Tory Democracy”. By 11 November he already had in mind a considerable part of his eventual Budget, and it was carefully balanced so as to appeal to both masses and the classes, but its appeal to the latter would depend on his over-turning the spending plans of his military colleagues.

He has got his eye on the Sinking Fund; and has evidently slap-dash ideas. He holds that it is absurd to be paying off debt at the present rate when we are subject to an 8d. income tax. The income tax ought to come down to 4d. in times of peace – at least the Imperial income tax. (He evidently has in contemplation a local income tax to relieve the rates.) The income tax over 4d. should be reserved as an engine of war... He hopes to get a good deal more out of the Succession Duty; and I believe the reduction of the tea duty enters into his calculations.⁴³

Hamilton’s diary sounded a prematurely triumphant note on 28 November, for as he gained confidence in his master’s financial soundness he failed to grasp that Churchill had not to answer to the Treasury for his policies but to his own party.

The Chanc. of the Exchequer has given fresh proof of his intention to be financially orthodox. The doctrines he expounded so soundly on constitutional, economical & financial grounds to the old Vestrymen [declining to renew the coal octroi duty] have exploded like a bombshell in the Conservative camp. “Lord Salisbury must at once disown such heterodox opinions”; but it is a matter of fact they had been first submitted to the Cabinet; and the sooner the old “high & dry” Tory recognizes that his creed is dead & buried, the better for his peace of mind.⁴⁴

⁴¹ James, *Churchill*, p. 276.

⁴² Marsh, p. 99.

⁴³ *HD*, iii, p. 49.

⁴⁴ BL *HD*, Add. MS 48645, f. 35. I like its audacity, but the succession duties are a ticklish thing for any Tory Chancellor of the Exchequer to touch, especially if he cannot give some relief to real property from local rating.’ 21 Nov., Lord George Hamilton, CP 9248/17/2045. Salisbury wrote to Cranbrook on 23 Nov. that Churchill ‘is wholly out of sympathy with the rest of the Cabinet, and, being besides of a wayward and headstrong disposition, he is far from mitigating his resistance by the method of it.’ James, *Churchill*, p. 277.

Perhaps it was because he was so intent on burying 'high and dry Toryism' that he redoubled his efforts against expenditure and especially that of Smith and the War Office.

I was flabbergasted this morning at learning that an intimation had been received at the Treasury from the W.O. that the latter would present a supplementary estimate of £560,000!!!!... I can't go on at this rate. Whether on foreign policy or home policy or expenditure I have no influence at all. The Govt are proceeding headlong to a smash and I could be connected with it; the worst feature of all is this frantic departmental extravagance.⁴⁵

Smith's reply was hard headed, sensible and to the point: 'the cake was eaten before I got here.'⁴⁶ This was the expenditure that the Conservative party had demanded when in opposition and insisting that Gladstone's efforts were insufficient. Army (and Navy) Estimates for existing establishments could not be got down by shouting at them, and Smith knew this from his time at the War Office in 1885, and nothing had changed in the interim. The only means of substantial reduction would be to cut back on the number of troops, and this would of course require a concurrent roll-back of commitment in the face of what both government and party perceived as an escalating climate of European military tension. The most tempting source of funds available to Churchill was Northcote's New Sinking Fund which represented the difference between the interest and management charges for the debt and the annual appropriation of £28 million. This was the temporary recourse resorted to by Childers and Hicks Beach in 1885 and by Harcourt in 1886, and which was now to be made permanent.

[Churchill] has many schemes in his head of a drastic nature. He is bent on great changes as to the Debt charges. He can make out a good case for reducing the charge & reducing it very appreciably; but he must not go too far; however much he may declare he would be as soon hung for a man as a sheep, otherwise he will find himself in great difficulty.⁴⁷

The main difficulty which Churchill believed himself to be in was that creeping growth in expenditure would not permit him to deliver the blockbuster budget he was intent upon. It

⁴⁵ James, *Churchill*, pp. 281–2.

⁴⁶ Churchill, ii, p. 227.

⁴⁷ BL *HD*, Add. MS 58645 f. 38, 28 Nov. 1886.

was not just personal ambition that dictated this course. If he were to raid the Sinking Fund he had better have a great purpose in doing so, or his challenge to financial orthodoxy would never be forgiven. To raid it as part of a great and comprehensive programme was one thing, to raid it in order to cover spending increases and to remit taxation would be seen as craven expediency in the service of profligate Toryism. He would do better to borrow the money in such circumstances. But if he could reduce the expenditure so as to be able to remit taxation and present a “Tory Democracy” Budget he would have achieved something to compare with Gladstone’s effort in 1853. It would be especially impressive when compared to the last two Liberal Budgets of Childers and Harcourt. If he did this his reputation within the government and the Conservative party would be unassailable, and so would the reputation of the Conservative party for democratic, popular and sound finance.

He had settled most points of his Budget by the beginning of December, although he would still need the co-operation of the spending departments if it were to succeed. Hamilton’s diary records both the settled nature of Churchill’s plan and his own foreboding as to the probable consequences of the Chancellor’s great ambition.

He insists on reducing the Debt charge by 4 ½ millions; and but for my ‘obstinacy’ (as he calls it) he would like to help himself to more. He indeed questions the expediency of paying off debt. He attaches great importance to simplifying the debt account. This can be done; but the complication has been in great measure the safety of the provision for redeeming debt. He has great ideas in his head. He evidently wants to make a coup by a popular Budget – a general remission all round: a great reduction of the income tax, also a reduction of the tea and tobacco duties (with an increased duty on manufactured tobacco as a small sop to his ‘fair trade’ friends); an uniform death duty on all property, real as well as personal; a graduated House Tax; and a reform of local taxation towards which certain Imperial taxes are to be appropriated. I expect he will ‘fly too high’.⁴⁸

It was a great scheme for an ambitious budget, and it had been worked through in thorough detail. There were two thrusts to the plan: an £8,400,000 reduction of expenditure and an

⁴⁸ *HD*, iii, p. 50.

£4,500,000 addition to taxation. The reduction was to consist of the £4,500,000 raid on the Sinking Fund, abolition of the £2,600,000 local grants in aid and an unspecified £1,300,000 diminution in expenditure which would together bring total expenditure down to £82,000,000. The additional taxation was to be comprised of: £1,400,000 death duties, £1,500,000 House duties⁴⁹, £204,000 extra stamps, £315,000 Corporation duty, £500,000 horse tax, £300,000 of sundries, and £250,000 from wine for a total revenue of £94,500,000. The great end sought from these savings and additions was to be able to reduce the income tax from 8d. to 5d. at a cost of £4,870,000; take 2d. off the tea duty, £1,400,000; a 4d. remission of the tobacco duty and to remit £5,000,000 to local bodies in relief of rates. The net result was calculated to yield a surplus of £780,000. Of course, without the unspecified savings of £1,300,000 on expenditure that surplus would be turned into a deficit of £520,000.⁵⁰ It was a “democratic Budget,” bold in a number of areas such as the departure from strict principles of “Sound Finance” in order to diminish debt repayment; radical in others like the graduation and equalization of the death duties; while thoroughly orthodox in its proscription of extravagant expenditure. There is no doubt, as Churchill intended, that it was a sensational Budget.⁵¹

Nor was there a shortage of detail and smaller measures, chief amongst which were the alterations and additions to the Stamp duties. He planned a major overhaul: revising the patent medicine duty to extract an additional £100,000 (£50–70,000 in the financial year 1887); 2s. per cent stamp duty on the share capital of joint-stock companies: £100,000 (£58,000); repeal of the exemption of Municipal corporations from the 5% corporate

⁴⁹ This was justified by the Treasury as a most legitimate application of graduation, in contrast to graduation of the income tax. ‘A great house, like a carriage, or armorial bearings, involves an expenditure on luxury, and is a good object for augmented taxation, above the rate of a small one.’ 24 Nov., CP 9248/17/2055. The Cabinet thought otherwise, ‘it was unanimously disapproved’, but nobody would stand up to Churchill. Ld. G. Hamilton, ii, p. 43.

⁵⁰ From the facsimile reproduction of Lord Randolph Churchill’s Budget in Churchill, ii, following page 192.

⁵¹ Although by no means as sensational as it might have been: ‘I have considered in the night your idea of putting a duty on all imported goods and I believe it would destroy your budget for you would, I think, make opponents of all the Commercial classes and would unite every free trader against you. May I add that he would be a very dull free trader who did not see that such a tax was only the thin end of the wedge of protection.’ A.E. West, 7 Dec., CP 9248/17/2122.

income tax: £315,000; a 1d. revenue stamp on shotgun shells: £280,000; taxes on pistols and pistol dealers along with a 5/- annual licence on brokers: £100,000. To which must be added,

A group of proposals comprising an extension of receipt duty to sums between 10s. and 2/; the repeal of certain exemptions ... acknowledging receipt of consideration of money therein expressed; a duty on tickets of admission to places of amusement ... and vouchers, a duty on certificates of proprietorship of shares, and upon letters of application for stock; and an assimilation of the duty on transfers of debenture and ordinary stock. ... estimated to produce an additional 150,000*l.* a year.⁵²

These were, to a not inconsiderable extent, to be not just a source of revenue but to discourage reckless speculation and gun-play. In the case of the Death duties Churchill had 'the double object of obtaining a larger revenue by a simpler method. He wanted more money and less machinery, fewer taxes and an increased return.'⁵³ The Chan. of the Exchequer's proposals are of a startling character. ... He must beware of not following too closely the footsteps of Dizzie [Disraeli] this first Budget.⁵⁴ Such was Churchill's Budget to champion and consolidate "Tory Democracy", and to secure the future for the Conservative party. But it was not a Conservative Budget. When he presented it to the Cabinet on 17 December the reaction was not what he had expected. "They said nothing," he told Lord Welby, 'nothing at all; but you should have seen their faces!'⁵⁵

That his Cabinet colleagues were taken aback by proposals which had startled Hamilton should not surprise, in fact the complexity of the proposals would quite naturally take some time to digest, particularly as Churchill had made his presentation verbally. It 'called into question some of the central purposes of a Conservative government as conceived by Salisbury, and thereby raised issues which went far beyond minor

⁵² Churchill, ii, pp. 199–202. These were discussed in detail with the Chairman of the Board of Inland Revenue, A.E. West 15, 21 and 23 Nov., CP 9248/17/2016, 2039 and 2040.

⁵³ Churchill, ii, p. 192.

⁵⁴ Referring to Disraeli's abortive Budget of 1853. BL *HD*, Add. MS 48645 f. 56, 16 Dec. 1886.

⁵⁵ Churchill, ii, p. 212.

compromises over figures.⁵⁶ The trouble began soon enough. In fact, it had never abated, for the spending estimates were still in the air and the £1,300,000 of savings were as yet theoretical rather than actual. The three days leading up to the Budget had seen an exchange of letters between Smith and Churchill. The War Office Estimates were met by a Treasury request to further review the expenditure, and Smith replied on the 14th demurring.⁵⁷ Churchill appealed to Salisbury for savings on the Army Estimates. 'The Cabinet, happily, not I will have to decide the controversy between you and Smith,' but he then proceeded to throw his own support behind Smith by weight of Foreign Office argument to show the need for a strong military. 'It was the clearest possible warning to Churchill not to press that particular matter at that time. ... Now, Salisbury was making patently clear ... was no time to stint on defence.'⁵⁸ Lord George Hamilton, First Lord of the Admiralty, had warned Churchill on 25 November that 'Salisbury is getting to the position where he will be pressed no more.'⁵⁹ Churchill too had reached the end of a rope, for the pressure had exhausted him physically and mentally to the point where 'fatigue and exasperation distorted his tactical sense.'⁶⁰ He lost all sense of balance at the worst possible time, for his battle with Smith over the Army estimates had reached the decisive moment. His Cabinet colleagues had made requests for clarification and further information about the Budget proposals, Smith had gone so far as to ask for a printed statement which set off the following explosion.

How can you be so unreasonable as to require me to write a 'short' memorandum on the Budget proposals? Changes so large cannot be set out in 'short' documents; ... I have neither the time nor energy to do that... Really, considering your frightful extravagance at the War Office you might at least give me a free hand for 'ways and means'. If the Cabinet want further information on the proposed budget I am ready to be cross examined, but I could not possibly produce the document you demand. I

⁵⁶ Porter, p. 163. Foster notes that by the end of November 'a powerful element in the government had coalesced against Churchill', meaning Salisbury, p. 299.

⁵⁷ Churchill, ii, p. 231. On the 16th they exchanged offers of resignation, Smith to Churchill: 'I will go into figures with you if you like – but it is out of the question for you to talk of retiring. If one of us goes I shall claim the privilege.' *Ibid.*, p. 232.

⁵⁸ Salisbury told the Queen on 16 Dec. that the Cabinet 'was not a happy family.' Roberts, p. 405.

⁵⁹ James, *Churchill*, p. 280.

⁶⁰ Marsh, p. 99.

assume for all practical purposes that the Cabinet have consented to the outline of the budget.⁶¹

Smith and Churchill had arranged a meeting for the morning of the 20th at which, after two hours, nothing was resolved, except further mutual offers of resignation and the end of Smith's patience.

He gave me to understand that it was not simply on Estimates or expenditure that he should go but on general policy – a bad programme and an undecided Foreign Policy. It comes to this – is he to be the Government. If you are willing that he should be, I shall be delighted, but I could not go on, on such conditions.⁶²

Salisbury was not happy at what he had calculated as 'an extra burden of ninepence in the pound' on land and was especially concerned by the plan to equalize the death duties as to realty and personalty, 'a graduated death tax'.⁶³ The Chancellor took the time to reply to Salisbury that 'the country gentlemen, like the farmers, always think they are being plundered and ruined' but under his scheme would be getting a £5 million rather than a £3 million present from the Exchequer.⁶⁴ Later that night when he wrote again to Salisbury from Windsor castle, it was his resignation.

There can be nothing so straightforward as the letter of resignation, except that letters of resignation from Chancellors of the Exchequer to Prime Minister were so well established a part of the annual game of Budgeting the next year's expenditure that they represented a sort of transparent ambiguity. A matter of form rather than substance. However in this instance they were no longer playing on the same team, in which case Churchill's resignation may be considered a reckless challenge for which a sending-off was the inevitable and appropriate result. The letter itself sets out clearly and precisely the exact

⁶¹ 18 Dec., James, *Churchill*, p. 284.

⁶² 20 Dec., Smith to Salisbury, Roberts, p. 407.

⁶³ 18 Dec., Salisbury to Balfour. Salisbury included with this a memorandum arguing the net effect on land would be 'an extra succession duty of five percent', less the proffered 3d. relief a net 9d. Robin Harcourt Williams, ed., *The Salisbury – Balfour Correspondence. Letters exchanged between the Third Marquess of Salisbury and his nephew Arthur Balfour, 1869–1892* (Hertfordshire Record Society Publications, volume 4, 1988), pp. 166–7.

⁶⁴ 19 Dec., Churchill, ii, p. 233.

nature of the conflict between the Chancellor of the Exchequer and his party and Government.

... The Army Estimates thus swollen show an increase of about 300,000! The total 31 millions for the two Services, which will in all probability be exceeded, is very greatly in excess of what I can consent to. I know that on this subject I cannot look for any sympathy or effective support from you, and I am certain that I shall find no supporters in the Cabinet. ... I am pledged up to the eyes to large reductions of expenditure, and I cannot change my mind on this matter. If the foreign policy of this country is conducted with skill and judgement, our present huge and increasing armaments are quite unnecessary, and the taxation which they involve perfectly unjustifiable. The War estimates might be very considerably reduced if the policy of expenditure on the fortifications and guns and garrisons of military ports, mercantile ports and coaling stations was abandoned or modified. But of this I see no chance, and under the circumstances I cannot continue to be responsible for the finances.⁶⁵

Salisbury's letter accepting this resignation was written and delivered on the 22nd, and gave no ground whatsoever. 'I have no choice but to express my full concurrence with the view of Hamilton and Smith, and my dissent from yours.' Both he and Balfour accepted the risk of losing the government if they lost Churchill and his Budget, especially the death duties.

'He has not resigned as leader of the "Tory Democrats." He has resigned as a thwarted Ch. of the Exchequer: – and not only that, but as a Ch. of the Ex. thwarted on a point which he will, I believe, carry with him none of the party.'⁶⁶

His bluff having been called Churchill could only reiterate and amplify his criticisms exactly as Smith had summarized on the 20th.

...it is not niggardly cheeseparing or Treasury crabbedness, but only considerations of high state policy which compel me to sever ties... A careful and continuous examination and study of national finance, of the startling growth of expenditure, of national taxation resources and endurance, has brought me to the conclusion from which nothing can turn me, that it is only by the sacrifice of a Chancellor of the Exchequer upon the altar of thrift and economy which can rouse the people to take stock of their leaders, their position and their future. ... The foreign policy which is being adopted appears to me at once dangerous and methodless; but I take my stand on expenditure and finance, which involve and determine all other matters.⁶⁷

⁶⁵ 20 Dec., Churchill, ii, pp. 234–5.

⁶⁶ Salisbury to Balfour 22 Dec. 'If we are to break up it should be before we are committed to any radical principles which will hopelessly embarrass us in the future, we cannot turn Radical even to preserve the Tory party!' Balfour to Salisbury, Harcourt Williams, pp. 168–9.

⁶⁷ 22 Dec., Churchill, ii, pp. 238–40.

Having nailed his personal political standard to the mast of expenditure and finance Churchill would run out his political career on it, but all questions of personal ambition and character are overshadowed by the absolute sincerity of his conviction on this issue. “Sound Finance”, a “Tory Democrat” variant but still at heart the same Gladstonian doctrine which overshadowed his whole career in politics, was the altar at which he deliberately and willingly sacrificed his career and ambition. The fact that he miscalculated in matters of gamesmanship with Salisbury does not detract from the fact that he was convinced he could force the government, in the end, to come round to his way of thinking. His failure mirrored almost exactly the political circumstances of the time, for he was not a Conservative of the Salisbury mould⁶⁸, and his fall made explicit that in matters of finance the Conservative party would have to draft in another outsider if their claims to financial competence and adherence to “Sound Finance” were to be made credible. To do this almost brought down the government and when they finally obtained in Goschen this outsider, it was a Unionist Government with a Liberal Unionist Chancellor of the Exchequer.

⁶⁸ Why should it ever have been supposed that he would have abandoned forthwith all his liberal views, would have repudiated or ignored all his pledges of economy and would have settled down to the adroit manipulation of a Parliamentary majority for strictly Conservative ends ... But they were Tory Ministers; and they did not intend, whatever happened, to be dragged out of their own proper sphere and committed to large reforms and democratic Budgets.’ Churchill, ii, p. 217–8.

Renegade: Goschen and Liberal-Unionist Finance

George Joachim Goschen, arch-Whig Liberal-Unionist, former Cabinet minister, and City financier, seemed to have struck everyone as an inevitable component of the Salisbury Ministry. This despite the fact that he was still nominally a Liberal and didn't have a seat in Parliament, having lost his Edinburgh constituency in the election.⁶⁹ Gladstone told Hamilton on 24 July 1886 that 'from every point of view Goschen would do well to join the Tories: he would make a good Foreign Secretary for them: he would keep them straight on financial questions.'⁷⁰ Goschen, remarkably, had anticipated such a role for himself a year earlier than this. Except then his anticipation had been to step in and save a Gladstone Ministry from the Radicals.

I should be able to act and come forward in defence of Moderate Liberalism; as one of the joint heirs of Gladstone and his "sound economic school" instead of a malcontent and outsider. Gross Conservative profligacy almost drives me to this course, and Gladstone's comparative moderation makes it possible.⁷¹

At the same time as Churchill was writing to acknowledge Salisbury's acceptance of his resignation, Goschen was being urged by Milner that he had to accept the vacant Chancellorship of the Exchequer.⁷²

The next day, 24 December, 'Queen Victoria begged Goschen... to join Salisbury if Hartington were to refuse [the Premiership and a coalition].'⁷³ Hartington was indeed offered, for the third time, the Premiership and re-called for this purpose and to his considerable chagrin, from his holiday in Rome.⁷⁴ There was a Cabinet meeting on 28 December at which the Estimates were approved and the resignation crisis discussed. It was

⁶⁹ Churchill and Salisbury corresponded 7–23 Nov. about finding Goschen a safe seat if he would consent to run as a Unionist. Salisbury found 'Goschen is rather hard to please'. CP 9248/17/1977, 1979, 2006 and 2043.

⁷⁰ *HD*, iii, p. 43.

⁷¹ This, of course, was before Home Rule. Goschen to Grey 20 Sept. 1885, Cooke and Vincent, pp. 100–1.

⁷² Thomas J. Spinner, *George Joachim Goschen. The Transformation of a Victorian Liberal* (Cambridge, 1973), p. 131.

⁷³ Spinner, p. 133. Roberts, p. 417, claims that the Queen's letter was sent at Salisbury's request.

⁷⁴ According to Hamilton once Hartington realized the actual political situation he felt 'that indeed his journey expenses ought to be paid (whether by Lord Salisbury or Randolph Churchill was not so clear).' 30 Dec. 1886, BL *HD*, Add. MS 48645 f. 70.

at this point, apparently for the first time, that Salisbury put Goschen forward as a possible replacement for Churchill.⁷⁵ By the 30th the rumour had reached Hamilton.

He has so long been at loggerheads with the bulk of the Liberal party that it would be much less difficult for him than for Hartington to join the Gov't. Indeed it would be a good thing from a public point of view if Goschen were to join the Conservatives body & soul, but in any case Liberals have no right to be "dogs in the manger" about him.⁷⁶

The day before the New Year was when the fate of the Government and its Premier was decided. Hartington again declined to take the lead, but agreed 'that Goschen might be asked again, with Salisbury offering him a Conservative seat in the Commons.'⁷⁷ This was the formal offer of the Exchequer to Goschen and was, according to Marsh, the real beginning of the Unionist alliance as it put in place 'a narrow, naturally conservative alliance of Salisbury and Hartington, in place of the broad, ideologically amorphous alliance of Salisbury and Churchill with Hartington and Chamberlain.'⁷⁸ Goschen was the key to this understanding and was himself the 'Liberal Unionist most akin to Salisbury in political philosophy.'⁷⁹ As of 1 January 1887 Goschen was effectively in the Salisbury Government, it only remained to negotiate the finer details, and the Queen was again urging him to accept office.⁸⁰ After a suitable hesitation and the polite request of necessary but minor conditions Goschen formally accepted Salisbury's offer 3 January, and again Hamilton's intelligence was impeccable. 'He will however enter the Gov. still nominally as a Liberal and as such cannot well be entrusted with the leadership of the House of Commons which will most probably fall to the lot of W. H. Smith.'⁸¹ 5 January he received another letter from his most pushing supporter, "The Queen rejoices to see Mr. Goschen her Chancellor of the

⁷⁵ Roberts, p. 417.

⁷⁶ BL *HD*, Add. MS 48645 f. 72.

⁷⁷ Roberts p. 420. Goschen, unfortunately, did not take up the offer of the safe seat.

⁷⁸ Marsh, p. 117.

⁷⁹ *Ibid.*

⁸⁰ Spinner p.134. She sent an unciphered telegram, which Roberts again insists was at Salisbury's request, p. 420.

⁸¹ 2 January 1887, BL *HD*, Add. MS 48645 f. 73.

Exchequer.⁸² By 16 January, Goschen had kissed hands and was invested as Chancellor of the Exchequer, ‘the “Cavendish footman dressed up in Cecil livery.”’⁸³

Goschen took great pains to emphasize that he joined the Salisbury Ministry as a Liberal Unionist. He delayed joining and imposed conditions for the sake of form rather than conviction, in the way that a widow must serve an appropriate period of mourning before her next betrothal. He insisted that Hartington made him do it. ‘I joined as a Liberal Unionist, not as a Conservative. There is no abandonment of Associations or of principles; and I act on Hartington’s advice.’ ‘I have never had a more difficult choice to make; but I am glad now that I have acted as I have done; and I may say that Hartington urged it on me.’⁸⁴ His most decisive act towards this end was to refuse the Conservative offer of a safe seat and instead to contest the Exchange Division of Liverpool, vacant on the death of the Gladstonian incumbent who had won by less than 200, in December.

He apparently disliked the idea of taking a safe Conservative seat. That would tarnish the halo of Liberal Unionism which he hoped would brighten the Conservative cabinet and save him from the charge of political apostasy.⁸⁵

‘His defeat [26 January] was rather an annoyance and a mortification than a disaster, ... for a fortnight afterwards he was returned for the safe Conservative seat of St. George’s Hanover Square, ... the last electoral contest in which Goschen was ever engaged.’⁸⁶ Mortification it was, he had lost by just seven votes, but he was in the service of a higher cause: the preservation of the Union, keeping Gladstone and the Radicals out of office, and keeping the Tories true to “Sound Finance”. This last was not least of his motivations. Goschen seemed to be the personification of “Sound Finance” and a champion of Gladstonian fiscal rectitude, and these were crucial to the Liberal Unionist claim to relevance and the key to

⁸² Arthur D. Elliot, *The Life of George Joachim Goschen, First Viscount Goschen, 1831–1907* (London, 1911), p. 108. There is no indication that Salisbury requested this.

⁸³ 6 Jan. 1887, BL *HD*, Add. MS 48645 f. 83.

⁸⁴ Elliot, Jan. 3 to A.L. Bruce (his Scottish manager for Edinburgh East) and to Elliot, 5 Jan., both p. 107.

⁸⁵ Pinner, p. 136.

⁸⁶ Elliot, pp. 112-3.

the otherwise inexplicable leverage of their numbers in Parliament to political power and influence. If “Sound Finance” had not such a stranglehold on elite opinion, both in and out of doors, would they have mattered nearly so much?

It was not until the end of February that Goschen tackled the Budget in earnest, ‘having made up his mind not to attempt a showy budget ... The only things he can touch are the debt charge and the income tax and perhaps the tobacco duties.⁸⁷ His options were limited: to do nothing, do little or take up Lord Randolph Churchill’s bold schemes for retrenchment and wholesale restructuring of the finances. The first was ruled out once the Estimates were constructed along the lines insisted upon by the Admiralty and War Office. The War Office was particularly keen to take advantage of a Conservative government and the new attitude towards military expenditure which looked at it as necessary rather than a necessary evil. Smith’s successor, Sir Edward Stanhope, emphatically restated this new attitude in a War Office memorandum of 28 February in which he justified the need for a supplementary estimate in 1886 due to the cost of the Egyptian occupation, a cost which necessarily would run into 1887. In fact £292,000 of the estimated increase was due to the pressing need for Naval armaments (which were accounted for in Vote 12 of the Army Estimates) which the previous Liberal ministry had decided to postpone, much to its subsequent embarrassment.⁸⁸ This dispute over retrenchment he made the most of.

It is sufficiently notorious that reductions of Army expenditure, while maintaining our existing establishment, have largely been effected in past years by drawing upon our reserve of stores. There have been occasions when considerations of economy have reduced this to a dangerously small amount. But indiscriminate reductions, effected for such an object, are neither safe nor altogether honest. ... Manufacturing and engineering departments necessarily enter into contract engagements extending over several years, and that a sudden curtailment of Estimates may often mean not only the stoppage of a particular work, but the loss of a large part of the money already expended, or it may involve a breach of faith. ... To suspend it for a single

⁸⁷ *HD*, iii, 27 Feb. p. 56.

⁸⁸ ‘[Ripon] got the necessary money for the new quick-firing breechloaders, but at the last moment Harcourt crossed his pen through the provision of ammunition for these guns.’ *Ld. G. Hamilton*, ii, p. 18.

year is to cause great waste of public money, or to inflict losses upon the trade only to be satisfied from pecuniary compensation.⁸⁹

This point having been carried by the War Office, the Treasury approvals were forthcoming, albeit grudgingly, from 10 February through 4 March.⁹⁰

Goschen thoroughly investigated the revenue prospects on 4 March, cross examining West and Hamilton, but was informed 'there is an utter want of elasticity' and so no hope of a surplus could be entertained. The following day he had determined his eventual course.

He has made up his mind not to go beyond a reduction of one penny in the income tax. He holds, and rightly so, that there cannot be any material remission of taxation when there is no natural surplus and when relief can only be obtained by reducing the debt charge. With his financial reputation to maintain, he cannot afford to go in for a popularity seeking Budget.

This decision had not been arrived at easily, for Hamilton was complaining within a fortnight about Goschen's indecisiveness. 'I am all for his doing nothing or doing a good deal.'⁹¹ This just underlines the drastic nature of what was contemplated, for a raid on the Sinking Fund was to follow in the footsteps of Churchill away from strict Gladstonian orthodoxy. Reduction of the Debt had been the over-arching object of Gladstone's last term as Chancellor of the Exchequer and Goschen would have to choose between Gladstonian orthodoxy or Northcote's Conservative response. The closing of accounts at the end of the financial year helped to steel his determination to follow the less rigid Conservative school. Revenue in 1886–87 had exceeded its estimate by £750,000 and would result in a surplus of almost the same, and this promised some cushion in 1887.

⁸⁹ PRO WO 112/20 pp. 4 and 6.

⁹⁰ PRO WO 112/19 p. vii and in T 5/15 pp. 587–672, *passim*. For example, Navy Vote 11 for Works. 'It seems to be occasioned by works of various kinds at Haulbowline which my Lords would have thought might have been postponed until a period of less pressure, or have been covered by reductions elsewhere.' It was nonetheless approved, p. 647, 28 Feb.

⁹¹ *HD*, iii, p. 56.

Goschen is beginning to make up his mind, and in the right direction. We shall have a surplus of revenue over expenditure next year, on the present basis, amounting to £600,000. A reduction of the Debt charge by about 2 millions (which I believe under the circumstances to be amply justified) will with that surplus enable [him] to take 1d off the income tax, to reduce the tobacco duties from 3/6 to 3/2 and to give the agriculturists some small boon.⁹²

This was, effectively, the Budget. A significant but not extravagant reduction of the income tax for the classes was balanced, in class consciousness if not in strict balance sheet numbers, by a reduction of tobacco duty for the masses. Hamilton's diary for 13 April confirms the somewhat reluctant acquiescence of the Exchequer in the course he had committed to.

He is somewhat uneasy about the general basis of our fiscal system, taxation being now derived from a few heads; and of those heads the income tax is too high & stamps are stationary. The Irish revenue is falling off rapidly; & the tobacco duty is exorbitant in its rate.⁹³

The Budget was approved in detail and principle at the Cabinet of 16 April,⁹⁴ and so the loss of Churchill the Tory Apostate was made good by Goschen the Liberal Renegade.

The first of Goschen's six Budgets was presented to Parliament on 21 April 1887 in a speech of two-and-one-half hours to a House which was less full than usual for such an occasion.⁹⁵ He could happily report that the Revenue for the 1886–87 financial year was £903,758⁹⁶ over the estimate, in spite of a £444,000 shortfall in Excise, due mainly to similar increases in Customs and Stamps. The much smaller £386,523 increase of Expenditure over estimate left a surplus of £776,006 on the year. The Estimated Expenditure for 1887–88 was a slight increase of £183,459 on an admittedly high base which Goschen blamed on the

⁹² *HD*, iii, p. 58.

⁹³ BL *HD Add. MS 48645*, f. 17.

⁹⁴ *Ibid.*, f. 18.

⁹⁵ Hamilton attributed this to Goschen's prior intimation that it would be a "humdrum" Budget, Gladstone was conspicuously absent. *HD*, iii, p. 59.

⁹⁶ All figures, unless otherwise noted, are found in or derived from the 26 April 1887 'Financial Statement 1887–88' pp. 1–5, P.P. 1887 (126) xlix. 249.

temporary phenomenon of the Naval scare of 1884, and the more permanent increase in the Civil Service Expenditure which was the result of new functions and responsibilities of the State and which 'has added 80% in less than twenty years to [its] cost'.⁹⁷ The Revenue was an even less satisfactory estimate, the increase of £382,242 not keeping pace with the increase of population. Goschen attributed this not 'to the diminished consuming power of the people, but rather a change in the habits of the working classes. ... Precisely what we should expect would occur during a period of commercial and agricultural depression such as has existed during the last few years'.⁹⁸ The result, based upon existing taxation, would indicate a surplus of £975,000 for the year ahead. A satisfactory outcome if he had no ambitions for his Budget beyond avoiding a deficit, but he had far more in mind to mark his debut as Chancellor of the Exchequer.

There were a combination of major and minor changes which would call upon far more than the estimated surplus for 1887–88. Reform of Local Government and its Finance was in store and it would begin with the provision for Loans to local government. 'I propose to discontinue the system of borrowing on Treasury Bills for local loans purposes' and to replace it with a new three-percent Local Loans Stock. In anticipation of the changes to come he would also transfer the yield of the Carriage Tax, equivalent to £560,000, to the reconfigured Local authorities.⁹⁹ Far more radical than this, however, was his plan to raid the Sinking Fund on a permanent basis, effectively to undo the work of the last Conservative Chancellor to have delivered a Budget.

Goschen justified this innovation on two grounds: firstly that when Northcote increased the permanent charge on the debt to £28,000,000 in 1878 'we were at the end of a

⁹⁷ 3 H 313. 1425–27.

⁹⁸ They were moving away from consumption of heavily taxed items such as beer and spirits to a greater consumption of tea and other non-taxed articles of consumption. *Ibid.*, pp. 1432–3.

⁹⁹ A relief on rates and "agriculturist's" boon. 3 H 313. 1443 and 1454.

period of great prosperity'; secondly, both Childers and Harcourt had had to suspend its provisions during 1885 and 1886 (and Hicks Beach too had acquiesced in this operation). Goschen proposed, therefore, 'in the interests of sound finance' to reduce the permanent charge to service the Debt.

Under the new proposals the total Debt Charge will be £26,000,000 ... as against a statutory charge of £28,037,000. The apparent saving to the Exchequer being ... £2,037,000. But the net loss to the Chancellor of the Exchequer by the Local Loans arrangements above mentioned amounts to ... £333,000. Therefore the net relief to the Exchequer on National Debt and Local Loans is ... £1,704,000.¹⁰⁰

'The Sinking Fund, I maintain, is not in a strong position; it has been proved to be in an unsafe position while it continues as heavy as it is at present.'¹⁰¹ Such an extraordinary step he meant to justify by two important remissions of taxation. The first and most substantial was to reduce the Income Tax from 8d. to 7d. at an estimated cost of £1,560,000. This he balanced by a remission of indirect taxation for the "masses", reducing the Tobacco Duty from 3s.6d. to 3s.2d. per pound. This was a moral balance only, the £600,000 cost to the Treasury far below the gain to the "classes", as the direct taxpayers were styled, on the Income Tax. The sum of these changes was to reduce the Revenue to £88,135,000 and the Expenditure to £87,846,294 for an estimated surplus of £288,706. Goschen concluded by confessing that he was 'perfectly aware that there are much larger tasks before us – much larger tasks either for ourselves or those who may follow us.'¹⁰² Those tasks he was satisfied for the time being to leave as hostages to the political fortunes of the Unionist cause.

Harcourt was first to speak on behalf of the Liberal Opposition, rejecting outright Goschen's assessment of the economy: 'the truth is that no great falling-off has occurred, and that the resources of the country are well maintained.' The real problem was not a shortfall of revenue, itself due to healthier habits of the working classes and so a falling off

¹⁰⁰ PRO T171/85, ff. 521–522.

¹⁰¹ 3 H 313. 1452.

¹⁰² 3 H 313. 1452–1459.

of alcohol revenue, but an excess of expenditure due in no small part to the Tories' contrived Naval scare. 'So long as the House of Commons and the British Public will allow itself to be made the victim of these newspaper scares, so long will the Expenditure of this country outrun the Revenue of the country.' Harcourt saw deliberate obfuscation in the presentation of the accounts, mainly as a result of changes to the amount of Debt service and the new scheme for local loans, and defied 'any ordinary mortal to ascertain what is the real Expenditure or Revenue of the country' from the Treasury returns. The biggest criticism was, of course, reserved for the reduction of the permanent annual debt charge, 'a fatal blow to any attempt to discharge Debt.' The argument on behalf of this reduction as put forward by Goschen was, furthermore, a fatal argument which would always find favour with taxpayers and be applicable at any time now or in the future. It would not only encourage reckless expenditure but also fund it. 'The only check there is upon this expenditure is to make it felt in taxation.' This, above all, being the point which divided Liberals and Conservatives on finance. The ultimate result would be borrowing, 'having broken down the provision for the liquidation of the Debt which I consider one of the fundamental provisions of sound finance.'¹⁰³

This line of attack was carried on by Churchill, who made sarcastic reference to Goschen's fiscal reputation. 'How great is the worldly worth of reputation ... if I had made a proposal of that kind, ... I should have raised the indignation of every person in the country who considered himself sound and orthodox in all the doctrines of finance.' He wondered that the Chancellor had 'not said one word on the subject of economy and retrenchment', despite the fact that the Army and Navy Estimates had increased £6,000,000 over 5 years. The real danger, according to Churchill, was that by not increasing taxation they would lose the best guarantee of retrenchment: the inevitable pressure of the taxpayers upon members

¹⁰³ 3 H 313. 1459–1473.

of Parliament for relief from the taxation necessary to pay for that expenditure. The reduction of the Debt charge was unpardonable.

I regret ... that the great principle of the repayment of the National Debt has been interfered with for so light, so trivial, and so unsound a case. I regret that a great weapon has been tampered with, blunted and spoiled for future use in a period of emergency. ... He has put out of court all the financial principles in which he has been trained, which he has heretofore proclaimed, and which he hoped, when he acceded to Office, he would be able to impress upon Parliament and country.¹⁰⁴

Unstated was the ill-concealed secret that his own plan to raid and reduce the Debt charge was, in his own estimation, for a weighty, serious and sound case of fiscal restructuring.

Churchill, having nailed his colours to the mast of “Sound Finance” with his resignation in December, was showing every proof of his intentions to stay with the sinking ship. He kept to it in January when he spoke before Parliament in defence of his resignation¹⁰⁵ and had even gone so far as to intrigue with Labouchere in February,

as to how some way could be devised in which he could support Gladstone against Salisbury. ... [He] was attempting to devise a situation in which he would tell the House that Gladstone and home rule were a lesser evil than Salisbury and unsound finance.¹⁰⁶

So it is no surprise that he took this opportunity to assail Goschen’s finance and courage, despite his own fruitless schemes to reduce the Debt charge and slash the Income Tax. But when he claimed that Goschen had ‘dashed all my hopes’ on the subject of economy; when he warned Goschen that ‘When you embark in unsound finance you pay dearly for it’; and when he charged Goschen with having succumbed to ‘a temptation which has strongly assailed every Chancellor of the Exchequer and every one up to now has been strong enough to resist it’ he was not merely engaging in hypocritical rhetoric. Churchill really meant it. He felt his own Budget would have been a political triumph for the Conservative party which would have boldly restructured the finances and so could have justified a

¹⁰⁴ Ibid., p. 1496.

¹⁰⁵ 3 H 310. 57–67.

¹⁰⁶ Cooke and Vincent, p. 78.

reduction of the Debt charge. His was a Budget designed to steal from the Liberals the mantle of fiscal responsibility and to establish with the newly enfranchised electorate the Conservative party's (and Lord Randolph's) reputation for low taxation and responsible Government.

All the hopes I had that the Tory Party would have taken up, and would have identified themselves with a policy of sound economy, finance and retrenchment are shattered. ... A golden opportunity for showing the country what our policy was has gone. ... I only make these remarks because of my intense and earnest desire that the present Government ... may embark upon the paths of financial stability.¹⁰⁷

Although he may well have been naive in his assumptions of the power of the Chancellor of the Exchequer in imposing his will upon the Government and unrealistic in the scope for economies and retrenchment in the existing military establishments, he was undoubtedly sincere in his belief that "Sound Finance" was the key to the Conservative party establishing its credibility with the new mass electorate. On this point he would in the long run be proven correct, but in the immediate time Goschen had no intention of conceding any of these points.

Goschen welcomed the opportunity to answer his critics and refute their interpretations of "Sound Finance". He took the chance to gently mock Churchill 'a late but very brilliant recruit to the financial corps.' He rejected outright the Liberal justification of a punitive Income Tax in order to reduce extravagance, especially in light of the unfair distribution of the burden of taxation on the Income Tax payer in favour of the indirect taxpaying "masses". With 'the Income Tax at 8d., you are not simply putting a burden upon the wealthy classes, but upon classes where there is much pinching penury. ... I say that on an income of £500 a-year, £16 a-year is a large sum to pay in the shape of Income Tax.' Furthermore, he argued, it was the Income tax paying classes who had been paying for the

¹⁰⁷ 3 H 313. 1831–1837.

reduction in the National Debt through Income Tax and Death Duties. This was an 'abnormally high tax upon one particular class of the community', and it was no longer reasonable in the face of present trade and revenue conditions, so very much less thriving than the 1874–76 period when Northcote initiated the present Sinking Fund, to continue forcing this class to carry the entire burden of reducing the Debt. The underlying economic conditions had changed. In any event he rejected the Liberal-Churchillite calls for economy as not only unrealistic but as dangerously wrong-headed.

It is not my idea of combining efficiency with economy, that when we have paid for the ships to be built, we should not provide the guns with which to arm those ships, or that when we have provided the guns with which to arm those ships we should not provide the ammunition for the guns.¹⁰⁸

The central problem as Goschen saw it was how, in a democratic age, could the demands of the electorate for expenditure be reconciled with their unwillingness or refusal to pay for it.

The income tax-payer could not legally avoid payment, but in the ten year period since 1877 his obligations had increased two and two-thirds times just as the revenue from alcohol had been falling off. Hamilton certainly believed this to be the essential feature of the Budget.

'[It] is not that the consuming power of the community has diminished but that the habits of the masses have changed. They formerly spent their money on excisable articles; they now spend it more on untaxed commodities.'¹⁰⁹ The main indirect tax sources of revenue could be avoided or reduced: alcohol, tea and tobacco were to a certain extent voluntary taxation.

It is no use pointing to the aggregate population if 9–10ths of that population are free from the obligation to contribute. ... I feel very strongly and deeply that, considering the fact that the whole of our taxation rests on so narrow a basis and so small a number of taxes, I am not prepared to abandon any single tax without the gravest reflection and the most anxious study, ... but until I have been able to see more clearly into the whole of our fiscal system, I shall hold onto every tax we now have, making such remissions from time to time as may be calculated to render them more endurable to those who have to pay them.¹¹⁰

¹⁰⁸ 3 H 313. 1837–1852.

¹⁰⁹ *HD*, iii, p. 59.

¹¹⁰ 3 H 313. 1915 and 1918.

The great task for the Chancellor of the Exchequer in the new democratic age was to tax the new voters without losing their votes.

There was another point of view which reacted to the Budget and this debate, that of the Treasury. There is no better expression of this than Hamilton, of whom it can fairly be said that he worked both sides of the street, confidant of both parties and so invited to the best parties, all the while upholding the famous impartiality of the British civil servant. His assessment is illuminating.

There was a very useful debate last night on the Budget proposals. Mr. Gladstone's purist susceptibilities were greatly injured. He regards any invasion of the provision for reducing debt as an invasion of the financial sanctum of the country. It is no doubt a perfectly legitimate point of attack, but he is not aware of the rude shock we received last autumn. The Sinking fund has no friends outside the limited circle of financial purists; & the more feeling he can exert in its favour, the better from the point of view of sound finance. A man like Chamberlain would as readily as R. Churchill run a tilt against the whole of the Sinking Fund. Accordingly, our object is to place the Debt Charge on such a footing as will secure it, at any rate for a time, from further encroachments.¹¹¹

It was not that "Sound Finance" was under siege, but rather that the doctrine now found itself with fewer friends amidst more testing times. It would remain to be seen how this paradigm of Gladstone's Liberal governments would survive the change to a Conservative-Unionist regime.

¹¹¹ BL *HD*, Add. MS 48645, 26 April 1887 ff. 28-9.

CHAPTER 6 CONVERSION AND REDEMPTION

1888: Conversion

The finance for 1888 was unusually complicated by the ambitious plans which Goschen hoped to achieve. He was 'displaying immense activity' according to Hamilton on 4 January, planning a conversion of the national debt and also the relief of local taxation as part of a Local Government measure.¹ Such an ambitious program depended on both good luck and good planning, a sufficient revenue to see things through, and on there being no crises that would upset the financial markets or impose unexpected expenditure. Goschen would prove fortunate in this respect, but insofar as it was possible he made his own luck by insisting on realistic, cautious and sensible policies. There was also the advantage he began with, for the revenue estimates for 1887–8 had been continuously exceeded, and he knew that he could look forward to a healthy surplus at the close of the year.² If this trend continued he would have further fiscal room to manoeuvre in 1888. Yet there were further complications in store, particularly on account of the Navy.

There would be a reduction of £679,453 on the combined Army and Navy estimates for 1888–89, yet this time, after a long time, the Navy was beginning to get the upper hand in the negotiations. The Treasury had a tendency towards arrogance when dealing with the military spending departments, and the mid-winter battles with the Navy showed this at its fullest. One approval came in spite of Treasury sarcasm, 'my Lords fear the former prison has hitherto been peopled only by its officers.' The provision for stores was likewise approved but not before noting that 'although clothes are matters of vital necessity, only dire extremity can justify their ever being regarded as victuals.'³ It was this attitude and line

¹ *HD*, iii, p. 71.

² By August Revenue was already £320,000 over the estimate for that period and by the end of September it was already clear where the increase was coming from. "1. Beer remarkable. 2. Spirits steady. 3. Stamps very good." PRO T168/16.

³ PRO ADM 181/98. The latter comment was a source of some contention when it became necessary to provide a memorandum explaining the change to the form of Navy Estimates. In response to a question from

of attack which made Treasury control so intolerable to the Navy. The great change had come to the Army and Navy in the face of the Lord Randolph Churchill's accusations of profligacy and inefficiency, and the Navy in keeping with Nelsonian tradition, had decided this time to "steer for the sound of gunfire".

They had come up with a strategy to "Copenhagen" the Treasury. The Navy had made commendable efforts at efficiency, and these tended to increase savings. The Estimates were framed 'to give a direct interest to responsible officers in the Economical administration of their different departments and the work placed in their charge.'⁴ The one area where efficiency brought about the greatest return was in shipbuilding, and particularly the Navy's own dockyard work. Better supervision by both the Navy Controller's office and those responsible for the actual dockyard work had brought forward significant savings on new construction, while concurrently there had been reductions and reorganization of the dockyard labour force.⁵ Having cleaned its own house the Navy felt confident to take the offensive against what it perceived to be the worst aspects of Treasury control.

No course can be more injudicious as regards the actual cost of building ships, or more likely to put their efficiency out of date when built, than to commence a large shipbuilding programme with insufficient funds. ... If real financial control is to be exercised over shipbuilding and dockyard expenditure, it is essential that the control should be in the hands of men who understand the nature of work they supervise and of the expenditure they check. No official, whatever may be his aptitude, who is a purely accounting officer, can with advantage undertake, or have imposed on him, such duties.⁶

the Admiralty Welby decided to have it printed. "I cannot resign myself to putting out the only laugh that shines a little light on this dreary discussion." PRO T1/8252c/12179.

⁴ PRO ADM 181/98, memorandum of 13 Dec. 1887.

⁵ Memorandum – Navy Estimates 1888, 3 H 323. 910–912. More than 2,000 had been let go and it had been decided to reduce the full-time establishment and supplement it with increased casual labour when necessary. See also Ld. G. Hamilton, i, p. 302.

⁶ Ibid., pp. 913–14. Delays and cost over-runs were 'largely due to the Treasury declining to give the annual sums necessary for their rapid and economical advancement.' Ld. G. Hamilton, i, p. 299.

Having dealt with the micro-economic aspect of their case the macro-economic was no less worthy of statement. While the vital necessity for efficiency was acknowledged the need for retrenchment, in fact the desirability of retrenchment, was questioned and rejected.

In the revision and preparation of our present Estimates we have made provision for all immediate requirements, and we have not hesitated in every direction to cut off extraneous and questionable expenditure. But new works may more than counterbalance future economies, and it would, therefore, not be safe in our judgment to attempt hereafter to place it at a lower total than the aggregate sums to be spent this year upon naval objects, the future annual expenditure of the Navy.⁷

The Navy had every intention of maximizing the utility to be derived from a Conservative government, a sympathetic Prime Minister and a Chancellor of the Exchequer who was at least not openly hostile, despite the traditions of his department. Besides, Goschen had an opportunity to achieve the fiscal equivalent of a Trafalgar.

The need for a conversion of the National Debt to a lower rate of interest had become compelling on at least two counts. The first and most obvious was that a successful conversion would result in substantial savings to the Exchequer on the permanent debt charge. Such a reduction of expenditure would clear the way for equal remissions of taxation or at the least allow for painless increased expenditure if necessary. The Chancellor of the Exchequer had of course a fiduciary duty to secure for the country what would in any way be in his own best interest. Secondly, but of more fundamental importance, was the evidence that Britain's National Credit was undervalued in comparison with not just that of other states but also other forms of safe securities such as railway debentures.⁸ In fact recent economic studies have confirmed econometrically the anecdotal evidence that convinced Goschen of this fact. Consols were trading above par but had reached a ceiling in price due to fear of conversion.

⁷ *Ibid.*, pp. 927–930.

⁸ Goschen used this argument in presenting his plan to Parliament, illustrating the decline in the yield of Dutch, American, Swedish and British colonial stocks compared to Consols. 3 H 323. 708–712, 9 March.

The opportunity for a conversion was also clear, the decade of the 1880's was one of historically low interest rates, both short and long-term. Harley and Klovland both argue that the market effectively priced conversion into the Consol price from at least April 1881 until the actual conversion and redemption was completed in 1889.⁹ There is clear evidence that the yield difference between Consols and Railway debentures was converging, particularly after Childers' unsuccessful attempt at conversion in 1884.¹⁰ In fact that failure had at least one positive effect, for Childers established that the market would accept a 2 1/2 percent Stock, even if not the terms of his conversion offer.¹¹ It was also the case that short-term interest rates were at a record low point in 1887 and 1888. Hamilton records this 31 January 1888.

I was at the Bank to day, raising £200,000 in Treasury Bills. We got our money on wonderfully low terms. The lowest on record for this time of year, Three Months Bills averaging only about £1/3s.0, and six months bills about £1/1s .0 per cent per annum.¹²

This gave encouragement to the Treasury on two fronts: that the time was indeed right to reduce the interest rate on Consols and that it would be possible to fund a cash payout to dissentients with cheap money by tapping these very low interest rates. The Treasury had further evidence from the Local Loans Stock, a three percent stock which it had been careful to introduce in order to establish a market for it. '[Goschen] underrated the value which was certain in these days to attach to a Government stock the interest on which was guaranteed at 3 per cent for 25 years.' There had been a greater demand than supply, the result being complaints about the way he had handled the issue but which nonetheless

⁹ C.K. Harley, "Goschen's Conversion of the National Debt and the Yield on Consols," *Economic History Review*, 29 (Feb. 1976), p. 102 and Jan Tore Klovland, "Pitfalls in the Estimation of the Yield on British Consols, 1850–1914," *The Journal of Economic History*, 54 no. 1, (1994), p. 171. Both articles are concerned with the effect of the conversion on the Consol price as a reliable indicator of long-term interest rates rather than with the process of the conversion itself.

¹⁰ Harley, p. 105. Klovland, p. 184, shows that the Consol yield reached a historical low in March 1888, coinciding with Goschen's announcement of the conversion offer.

¹¹ Both Harley and Klovland utilize the trading prices of the Childers 2 1/2 stock as an indicator of the actual long-term rate of interest, the fact that Childers' attempt at conversion failed does not diminish its utility as an indicator and in fact its subsequent success as a traded stock goes some way to vindicate his effort.

¹² BL *HD*, Add. MS 48647 f. 136.

further established that the interest rate for Consols was too high.¹³ This was irresistible evidence that the time was ripe for a conversion.

Goschen in fact needed little convincing of this, and he began the year with plans for 'either a limited or large conversion.'¹⁴ Childers wrote to him on 10 January to encourage him that a compulsory plan was both feasible and necessary in light of his failure to achieve it voluntarily.¹⁵ Within a day they had the basis for a new attempt.

He might attack 'reduced' and New Threes'; and probably the best way of proceeding would be to give holders the option of being paid off at par, or of having half in 2 1/2 per cent stock and half in a new three per cent stock, the interest of which would be guaranteed for (say) 20 years. By this means an increase to the nominal capital of the debt might be avoided. A holder of £200 Reduced would be given £100 in 2 1/2 per cents valued at 95, & £100 in "irreducible Threes" valued at 105.¹⁶

There was now no doubt that the plan would be put forward on a compulsory basis, but two huge questions remained. Would a brokerage commission be paid and would the plan encompass a small, large or complete conversion? The "New Three" per cent stocks were the obvious target as they could be, since 1874, redeemed at par and without notice. The other two classes of Consols, the "Three per cents" and "Reduced Three per cents" required a twelve months notice of redemption and accounted for more than double the amount of stock held by the public.¹⁷ To attempt to convert all classes of stock would be a vast undertaking but there were very sound reasons for wishing to do so. It would maximize the interest savings and result in a simplified, uniform and highly liquid class of security more attractive for the market. This latter consideration grew more important as the plan gestated.

¹³[t also impressed on Hamilton that 'It is no use nowadays to attempt to take any financial step without giving Brokers which are such a powerful body an interest & without taking the financial "big wigs" into confidence.' 7 Jan. 1888, BL *HD*, Add. MS 48647, ff. 116-7.

¹⁴*ID*, iii, p. 70, 4 Jan. 1888.

¹⁵Elliot, p. 146.

¹⁶1 Jan. 1888, BL *HD*, Add. MS 48647, f. 119.

¹⁷The public held the following amounts of stock in 1888: Three per cent Consols, £289 million; Three per cent Reduced, £59 million; and New Three Per Cents, £152 million. Harley, p. 102.

The plan for Conversion was delivered in Parliament on the morning of Friday 9 March, timing being determined in part by the need to ensure maximum publicity and notice to bondholders. Goschen made a great effort to emphasize Parliamentary precedents for his scheme, citing at length the five successful and two failed attempts at conversion between 1822 and 1884. This was important for two reasons: first, to ground his own plan firmly in established parliamentary precedent and, secondly, to appeal to influential members of parliament (namely Gladstone), to support his measure. The string of successful conversions of mostly Revolutionary and Napoleonic war debt in the more than twenty year period of the 1820s and 1840s provided the template for Goschen. The first of these was Vansittart's 1822 conversion of Navy and other 5 per Cents, amounting to £152,000,000 of stock. The terms provided that assent to the Government's terms would be assumed unless a formal notice of dissent was given, in which case Parliament was empowered to pay off the dissentients 'at such periods and in such manners as Parliament may direct.'¹⁸ This conversion was a great success, only £3,000,000 of stock notifying dissent and they were paid off at once, and in cash. Only two years later, Robinson was able to convert £75,000,000 of stock from 4 to 3½ per cent and on nearly identical terms as Vansittart, excepting a longer six months notice being required. Goulburn in 1830 converted "New 4 Per Cents" to 3½ Per Cents guaranteed for ten years of which £154,000,000 assented and £3,000,000 dissented. Again dissentients were paid off in cash, and assent was presumed unless notice of dissent was formally given. Althorp in 1834 enacted a minor operation which converted £10,600,000 of Four Per Cents into 3½ Per Cents, again on the above terms although in his case dissent was significant: £4,000,000 worth paid off in cash at once. The most important precedent was that of Goulburn's 1844 'conversion of £249,000,000 of Three-and-a-Half per Cents into an equal amount of Three-and-a-Quarter per Cents, guaranteed for 10 years, and then falling automatically to Three per Cents, guaranteed for 20

¹⁸ 3 H, 323. 714, 9 March.

years.¹⁹ This was again utilizing the successful precedents as to notice and method of payment of dissentients, and it achieved a remarkable success as only £103,000 declined the terms offered. This was the model for Goschen's conversion.

He was unapologetic in citing these precedents at length.

Remember that in all these cases these eminent men faced the same problem that you have to face now. They faced gigantic sums; they took great powers, and the result was successful, notwithstanding the largeness of the sums.²⁰

This he felt important to note by way of contrast with the two unsuccessful attempts at Conversion: Gladstone's of 1853 and Childers' of 1884. In both examples the terms offered were optional rather than compulsory, and were to some extent doomed by the circumstances of their timing. Goschen did concede the benefit of Childers' 'creation of those testing machines of public credit' in allowing him confidence to go forward with his own plan. Above all these precedents had provided him with proof of the conditions necessary for success, 'assent should be presumed in the absence of an expression of dissent, that the time allowed for the expression of dissent should be strictly limited, and that the power should be taken to pay off the dissentients in such a manner as Parliament would direct.'²¹ All three of these conditions were satisfied by the terms of Goschen's scheme, and he had two other provisions in addition. That the reduction of the interest rate, like the 1844 Goulburn precedent, would be gradual, and that the outstanding capital of the Debt would not be increased as a result of the Conversion operation. Most important of all, Goschen wanted to ensure that all three types of Three per Cent stock were converted and amalgamated into only one new type of stock.

This parliamentary statement served far more than a strictly legal purpose for Goschen. It was the first and critical stage in a shrewd publicity campaign to compel and

¹⁹ Ibid., p. 716.

²⁰ Ibid., p. 715.

²¹ Ibid., p. 719.

persuade all holders to convert their stocks, and it was also important to impress upon them the tremendous power of the state to ensure a successful conversion. Goschen went out of his way to emphasize the resources available to the Government to fund any cash payment as became necessary for dissentients, although he reiterated that it was for Parliament to determine in what “manner, order and period” it would be paid. ‘The Exchequer at the present moment is infinitely stronger than it was in 1844.’²² It had at its disposal £60,000,000 of Savings Bank Funds, and also had the option of borrowing on Exchequer Bills or even of issuing new Stock. Most importantly, dissentients would have to invest their money somewhere and would have no choice but to buy the very stock, on less attractive terms, that they had dissented from accepting. This outcome he did not think likely, surely it would also be in the interest of the Consol-holders were the Market in the largest sense to be relieved from that constant apprehension which we felt if there was a likelihood of their being paid off by degrees, and from that uncertainty which has so long prevailed.²³

Holders of New Threes had until 29 March to express dissent, while for Consols and Reduced Threes holders would receive the bonus, and brokers the paid commission, if they assented to the conversion terms before 12 April. According to Goschen’s calculations the advantages accruing to the State through the savings on interest would be substantial, £410,000 each year from April 1889 and £820,000 from April 1903 on the New Threes alone. If the conversion were to have the maximum success and the whole of the stock was converted the savings would be £1,400,000 and £2,800,000 respectively.

February then had been incredibly busy at the Treasury, with the Conversion work overshadowing the preparations for the Budget and the annual estimates. The good news had continued on the Revenue front and a surplus of £1,740,000 was now anticipated.²⁴ At

²² Ibid., p. 727.

²³ Ibid., p. 730.

²⁴ 6 Feb., PRO T168/16.

mid-month Goschen was hard at work on the Budget, despite incessant Conversion concerns.

What he wants to do is to take off a penny in the income tax as well as hand over in relief of local taxation about another million and a half. He cannot however do this without imposing some fresh taxation, which is the most difficult of all tasks. He thinks he sees his way to getting something more out of stamps; but I doubt his being able to get sufficient to enable him to carry out his intentions.²⁵

It would be a good while before the work on Conversion allowed the Budget to again take precedence, and any elation over their handling of the debt would have been foreshortened by the problems of coming to financial terms with the requirements for Local Government finance.

This second Budget must have been a joy for Goschen to present, as he had good news all around from the last fiscal year. 1887–8 had exceeded the estimated Revenue by £1,454,000 whereas Expenditure fell £422,650 short of the estimate. This left a handsome £2,165,356 surplus which, when added to that part of the fixed charge for the reduction of Debt, allowed him to pay off £7,293,000 of Debt. ‘The largest sum which has ever been paid off out of the moneys of a single year since 1872–3.’²⁶ The largest items of Revenue contributing to the increase were Stamps (mainly Death duties) and alcohol taxes, ‘the first time for many years, there has not been a decline in the revenue from drink.’²⁷ The estimates for the year ahead were similarly promising, Revenue to decrease by £302,000 to £89,287,000 with Expenditure of £86,909,944 was expected to yield a surplus of £2,377,000 on the existing basis of taxation.²⁸ However, changes to the basis of taxation would necessarily rearrange these figures, and Goschen had some considerable changes to make.

²⁵ *HD*, iii, 13 Feb., p. 73.

²⁶ 3 *H* 324. 278, 27 March 1888. ‘Financial Statement 1888–89’ pp. 1–10, P.P. 1888, (97) lxv. 235 for figures.

²⁷ *Ibid.*, p. 274.

²⁸ *Ibid.*, pp. 285–6.

The need to fund the Local Government Finance required that £1,400,000 of the Probate duty was diverted from the Imperial Exchequer. Goschen's simultaneous desire to remit 1*d.* off the Income Tax inextricably linked the two measures. It became for him not just a question of finding the Revenue but of developing a revenue philosophy to justify his choice. 'I have a strong opinion that Income Tax falls very severely upon professional men and the lower middle class. They, perhaps, feel the burden of taxation as severely as any class of the community.'²⁹ Moreover, 'the Income Tax payers are certain victims of every extraordinary emergency; and although they may not be able to escape a high tax even in a time of profound peace, they ought, nevertheless, to be able to have immunity from an amount above 6*d.*'³⁰ But these losses had to be made up, and Goschen took a scattergun approach towards his revenue target. A Cart and Wheel duty was to provide £300,000 and various Horse taxes another £540,000. Stamp Duties on "fugitive" foreign securities and almost innumerable obscure objects known only to the City, if indeed to them, were familiar enough to Goschen that he anticipated an additional produce of £410,000.³¹ Finally, and this was a somewhat punitive gesture towards French trade recalcitrance, he imposed a tax on bottled wines, chiefly champagne, intended to secure £125,000 and the attention of the French customs officials.³² The cumulative effect of these measures was to bring the Budget back into an estimated surplus of £212,000 and, most importantly, to redress and bring into better balance the sources and burdens of taxation.

I would wish to lay down certain propositions with regard to the mode by which [£1,400,000 loss of probate duty] ought to be met. ... It must not be met by any increase of duties which rest upon the industrial class. It must not be met by any increase of duties resting upon the earnings of the mass of the people. It must not be derived from duties contributed by professional men, by industry, and by skill. But it must be met by duties on property or the result of property, or from that promising item of stamps, from which I have already reaped a certain advantage, but which is by no means an exhausted field.³³

²⁹ Ibid. p. 290.

³⁰ Ibid., p. 306. The loss on the Probate duty would only have to be made up in the 1889–90 fiscal year.

³¹ Ibid., pp. 297–300 and 308.

³² Ibid., p. 313.

³³ Ibid., pp. 314–5.

Although his concern for the interests of the working and consuming “masses” may have appeared disingenuous, given that all of the relief in his Budget was applied to the “classes” paying Income Tax; and it was certainly true that his “club man” was at the sharp end of a lesson in civic fiscal responsibility which was equally if not more often applied to “teetotalling, non-smoking, working-class radicals”; it was and that was the point. Although he had spared the newly enfranchised working-classes from his taxation, he had not spared them from his oblique arguments in support of their present and continued responsibility to support the Exchequer. For Goschen the dilemma continued to be how to tax them without making them aware of it, thereby losing their votes.

There was a curious postscript to the Budget, although it had been foreshadowed in *The Economist*’s attack on the wheel and van tax and by Goschen himself when he had warned that ‘if in the conflict that will take place between the ratepayers and the users of horses and vehicles, these taxes are not passed, there will be so much less relief to the rates. We should not feel it our duty to substitute other taxes in their place.’³⁴ Yet this was exactly the conflict which took place, with the Chancellor of the Exchequer himself becoming the most noteworthy casualty. ‘The agitation proceeded in the main, and was throughout largely sustained by, the wheelwrights and carriers.’ It was attacked as a tax upon locomotion which would hamper trade, and ‘it was asserted that the tax was against the working man.’ The agitation gained sufficient popular support that ‘a strong feeling grew up amongst the supporters of the Ministry that it would be better to abandon it.’³⁵ It is important to note that the more important horse tax was also lost, so that the final arrangement for Relief of local Taxation England and Wales were to receive 4/5 of one-third of the Probate Duty, amounting to £1,136,000, and to lose the £260,000 grant in aid of roads. The new total was

³⁴ 3 H 324. 825, 9 April.

³⁵ The Ministry announced its withdrawal on 29 Nov. PRO T171/185, Budget Statement for 1888, ff. 64–66.

now £876,000 instead of £1,716,0000, due to the loss of the Horse duty and the Van and Wheel tax.³⁶

It was a remarkable example of how a popular agitation in a newly democratic society could, in an age before opinion polls and “on-message” focused spin doctors, not only gain the attention of their Parliamentary representatives but persuade them to apply the necessary pressure to change the policy of the Government. It seems not to have occurred to anybody to denounce this popular protest as anti-democratic, in fact it was presumed to be a manifestation of the popular democratic will to which Parliament was, ultimately, responsible. It is also a clear example of the extent to which Salisbury’s Ministry was fearful of provoking the working-class democracy, even at the expense of its own “propertied” rate-paying natural constituency. Of course the pecuniary loss to this special interest was short-lived, and Goschen would make up the money, in spite of his pledge. For a Conservative-Unionist government had a duty to property.

³⁶ Ibid., f. 68.

1889: Redemption

There were three over-arching themes which shaped Goschen's financial policy for 1889: military expenditure, the completion of the Consol conversion and the need to make up the revenue from the Probate duty which was being diverted towards Local Government financing. In combination all three would exert severe pressure on the revenue, necessitating fresh taxation, and this in turn would fuel the flames of a debate on the nature of the taxation necessary to meet it. This was the fiscal situation which Goschen found himself in at the close of 1888. He would have been especially mindful of the failure of the wheel and van tax which had been finally dropped at the end of November, much to his disgust. This had taught both him and the Treasury important lessons. Goschen had learned something of the power of popular agitation in a democratic society, and would have to bear this in mind when considering just which sections of society to target for additional revenue in his Budget. Hamilton had learned that 'there will always be the greatest difficulty in imposing a new tax; and the worst way of going about it is to hang the measure up for an indefinite time and allow every conceivable objection against it to be raised. The only chance of passing such a measure is to rush it.'³⁷ These lessons were not necessarily complementary but they could provide a justification for expediency over sound financial policy. For two years good fortune had smiled on Goschen's Budgeting, but 1889 would prove to be the true test of his convictions.

First and foremost of these was the anticipated rise in military expenditure, and particularly naval expenditure. There was a renewed agitation to create another Naval panic on the lines of 1884. Gladstone was disgusted at 'so early a recurrence of a naval scare' but Goschen had already capitulated, in the face of severe and concentrated pressure from his Prime Minister, although he insisted that there must be a five year programme that

³⁷ *HD*, iii, 29 Nov. 1888, p. 84.

Parliament would have to agree to.³⁸ Salisbury, as much as anybody else, was responsible for the Naval Defence Act of 1889. He had helped in November 1888 to contribute to the agitation and it was he who had pushed Smith, Stanhope, Lord George Hamilton, and especially Goschen to support the expenditure and the measure. In fact he had made a commitment to the Queen to secure the naval expansion on 11 December 1888.³⁹ It was a considered plan from the outset. The Admiralty had stated the need for a five year building plan 'in order to place this country in a position to meet with undoubted success a combination of France and Russia in a naval war.'⁴⁰ Programme and panic all in one. It then evolved into a scheme for ten battleships and cruisers to be built by contract during 1889–1893/4 at a cost of £18,000,000.⁴¹ Salisbury had deliberately restricted proposals for Government expenditure in order to smooth the way for this project,⁴² although from the first the intention was to finance the building program by borrowing. His motivation was not simply to please the Queen, because he needed the stiffening for his foreign policy which the programme offered.⁴³ The battles between Treasury and Admiralty were as fierce as ever, but it was now the forces for financial control which found themselves on the back foot.⁴⁴

There had been a dispute between the two over the Navy's utilization of money from unexpended Votes to make purchases which had not received Treasury sanction, the Admiralty arguing that this action had been taken in the interests of expediency and

³⁸ BL *HD*, Add. MS 48650 f.5, 14 Dec. 1888.

³⁹ Roberts, p. 539.

⁴⁰ 'The Requirements of the British Navy.' PRO CAB 37/22/24, p. 5 of July 1888.

⁴¹ 'Special Programme for New Construction, 1889 to 1893-94.' [of 31 Oct. 1888] PRO CAB 37/22/38, 9 Feb. 1889 [printed].

⁴² Roberts, p. 540.

⁴³ Shannon, *Salisbury*, p. 303.

⁴⁴ Hamilton conceded 'something will have to be done to allay the present scare.' BL *HD*, Add. MS 48650 ff. 15–16, 30 Dec. 1888. The ordinary Naval Estimate for 1889 had itself increased £1,297,000 by 10 Nov., PRO CAB 37/22/36, p. 6.

efficiency. Despite having incurred the wrath of Sir Reginald Welby,⁴⁵ the outcome was that the Navy seemed to have won its battle against what it considered excessive Treasury oversight. The whole point of the Naval Defence Act was to free the Navy from that tight and vigilant scrutiny which characterized the annual Navy Estimates, as well as Parliament's theoretical responsibility over it.⁴⁶ Henceforth they would have a five year funding plan and be allowed to shift unspent Votes from one year to the next. Yet the real enemy was the Treasury, not France. The Admiralty, both political and service lords, made clear their contempt for the French menace. 'I was able without much difficulty to show that [Beresford in 1888-9] had greatly exaggerated the French threat.' In the very same memo arguing for the Naval Defence Act the Admiralty noted that the French ships, because of construction delays were 'half obsolete before complete', whereas 'the exceptional building power of this country enables' a large new programme 'with comparative ease.'⁴⁷ Indeed, the navalist propaganda was successful even in carrying the historiography, until recently. John Beeler's thesis is that the post 1889 navalist assumptions of Marder et al, are 'ripe for reappraisal'; that 'there exists neither conclusive proof nor even ambiguous indications' that Britain's maritime supremacy was ever under threat; and that given the extraordinary pace of technical change in shipbuilding during the 1880s Britain's limited construction was pragmatic and sensible.⁴⁸

⁴⁵ "I think this is a case which justifies the strong line taken by Sir R. Welby. To have to justify its action before the P.A. Comm will act as a wholesome deterrent against the recurrence of such irregularities." Hamilton's notation, 5 January 1889 in PRO T1/8385a/20490.

⁴⁶ 'A big building programme contained in an Act of Parliament under a time limit has this great advantage: the building authorities are sure in advance of the money they require and at the time they want it: under annual estimates they are always subject to the vagaries of those for the time being in control of the Treasury.' Ld. G. Hamilton, i, p. 301. Throughout he is scathing in his contempt for both Treasury control, Welby in particular, and for the supremacy of Parliament via the executive. 'Goschen, who knew [Gladstone's] unfailing propensity to starve Navy and Army expenditure, was most anxious that our naval policy should be so protected by an Act of Parliament as to prevent the future Prime Ministers from smothering it.' Ibid., ii, p. 205.

⁴⁷ Ibid., i, p. 106 and PRO CAB 37/22/40, 'Naval Estimates 1889-90' 1 Dec. 1888 demanding now £20,000,000.

⁴⁸ Beeler, pp. 253, 257 and 259. The role of the Admiralty, and especially Fisher, in getting up the panics has been elucidated in W. Mark Hamilton, *The Nation and the Navy: Methods and Organization of British Naval Propaganda, 1889-1914*, unpublished LSE Ph.D. thesis, 1976.

The Naval Defence Act was not really a defeat for Goschen but it was a triumph for Salisbury. He was advising that no ministers should take part in the public demonstrations for increased building as that might expose Lord G. Hamilton's plan and 'the accusation of trying to stoke up a panic would do our project more harm. ... The scheme which at present seems agreed upon is to spend £20,000,000 in four years upon new ships ... I hope they have also agreed to authorizing the whole cost of the ships by statute from the first.'⁴⁹

Salisbury had calculated the financing of the scheme as carefully as the building programme.

I should propose in addition to George Hamilton's present ideas to build a dozen cruisers at a cost of about £5,000,000. I should distribute them among a certain number of private yards – leaving them a good deal of liberty as to specifications; but of course under certain conditions with regard to speed, stability, thickness of armour, accommodation for men, number of guns. I should borrow this money on Exchequer bonds, repayable in five years.

The effect which this proposal would have on the public mind would enable you to defer a portion of G.H.'s programme, or, which I should like better, to raise by manipulating the house tax the requisite balance. But without such taxing programme I fear that G.H.'s proposal may seem unsatisfactory, & you would get lukewarm support for any new taxation.⁵⁰

The naval plans were no great secret and in early February A.J. Mundella was able to correctly discern that there would have to be considerable work sent to private yards if an ambitious building scheme was to go forward, while at the same time declaring that borrowing would not be welcomed by his side.⁵¹ By this time the intention of the proposal was clear, 'they are going to submit a cut-&-dry programme of ship-building which will be embodied in a separate Bill & which will be in addition to the Navy Estimates.'⁵² The reason for this was to ease finance and relax control. This was worrying for Hamilton, as in the Queen's speech

increased armaments are foreshadowed. They may be & probably are necessary; but if the Gov't don't look out it will be their finance which will bring them to grief. It is

⁴⁹ Salisbury to Balfour, 10 Jan. 1889, Harcourt Williams, p. 274.

⁵⁰ Salisbury to Goschen 26 Jan. 1889, Salisbury MS, Goschen corr., B/85-7.

⁵¹ 3 February 1889, BL *HD*, Add. MS. 48650 f.46. This was timely as the private yards wanted the work. A.J. Arnold, 'Riches Beyond the Dreams of Avarice? Commercial Returns on British Warship Construction, 1889–1914.' *Economic History Review*, LIV, 2 (2001), pp. 267-89.

⁵² *Ibid.*, f. 49, 7 Feb.

very likely that Goschen will wreck his financial reputation, which will have to be sacrificed to political expediencies.⁵³

As the proposals became more developed, and less sound, Hamilton's sense of Treasury outrage grew.

I have written today a remonstrance against the proposals of the Government... It will be the ruination of Mr. Goschen's financial reputation. There is absolutely no precedent for charging to capital account such expenditure when we are at peace with all the world, when the income tax is only at 6d. in the £, when the revenue is on the rise, and when there is a general increase of prosperity and distinct signs of a revival of trade. Moreover a precedent set by a man of Mr. Goschen's financial authority is a most dangerous precedent, and one which heterodox financiers of the future ... will not be slow to follow.⁵⁴

It was, however, Salisbury whose political instincts were determining the financial policy, and who saw in this issue the opportunity to attach to the Conservative party the approbation for a huge increase in the size of the Navy⁵⁵ whilst simultaneously pinning the opprobrium of the cost onto the Liberals for their neglect of the Navy while in office. It is absolutely clear that the Naval Defence Act was his creation, he had even elaborated a set of financial principles which he believed would achieve this end.

1. That this temporary exigency should not make a permanent change in our system of taxation.
2. That this financial operation should be kept separate, not affecting the rest of the Budget.
3. That the burden should fall on the two interests mainly concerned in augmenting our navy—viz. the fixed property and the sea going commerce of the country.

... £10,000,000 to be borrowed ... As soon as the Bank certifies that the loan is repaid the defence taxes will cease to be payable. [The defence taxes to consist of an addition to the death duties over £10,000 and a new ship tax of 2d. per ton on steamers and 1d. per ton on sail.]⁵⁶

These principles were immediately embodied in Goschen's financial provisions for the Act, although he was reluctant to embrace them as enthusiastically as Salisbury.

⁵³ BL *HD*, Add. MS 48650 f. 58, 22 Feb.

⁵⁴ *HD*, iii, 24 Feb. p. 91.

⁵⁵ The plan called for the construction of seventy new ships over the five year period 1889–90 through 1893–4: 10 battleships, 38 cruisers, 18 torpedo boats and 4 fast gunboats. Roberts, p. 540.

⁵⁶ The detail is remarkable. Salisbury to Goschen 26 Feb. 1889, Salisbury MS, Goschen corr., B/89-91.

The Chancellor of the Exchequer is beginning to realize the danger of not making proper provision for paying his way; and he is now thinking of ear-marking certain taxes to be levied for a certain number of years, which are to constitute a fund for meeting the extraordinary naval expenditure. The expenditure is to be in the nature of a naval programme laid down in a Bill; and the special taxation is most likely to take the form of increased death duties. A tax on shipping tonnage is also projected; but I doubt if there would be the least chance of carrying such a proposal.⁵⁷

It was extraordinary that Salisbury should become so involved in dictating a financial measure but it was not extraordinary that the measure was one which he considered vital for his foreign policy. The Naval Defence Act 'signalled a clear awareness of Britain's determination to defend its capital world interest, ... its command of the oceans and guarantee of freedom for its sea-borne commerce.'⁵⁸ This was something for which Goschen, with his own past Admiralty experience, did have some sympathy, but he had more than his own financial reputation to consider. He was also responsible for Britain's financial reputation, which goes some way to explain the convoluted nature of the plan as it was finally proposed.

The Naval Defence Bill ... is nearly ready. It is to bind Parliament to a programme of ship-building, to be carried out in the next 5 years at a cost of 21 ½ millions. Eleven & a half millions is to come out of the ordinary ship building vote, involving an increase in that Vote of about £600,000, and the remaining 10 millions is to be provided for out of a special Fund – "Naval Defence Fund" and to be paid for out of taxation in the course of the next 7 years. This is a sufficiently heroic step on the part of the Chan of the Exchequer; and I am very glad of it. But it is a very complicated arrangement. I believe it would be far better simply to make the requisite addition to the Navy Estimates with a power to carry over the surplus of one year and supply them to the shipbuilding service of another year.⁵⁹

This assessment was certainly prescient, and it is a clear indication of the measure and its Parliamentary weak points. In its complexity were the hidden roots of the financial expedients which would subsequently come back to haunt Goschen's finance. 'The only use of the so-called Naval Defence Account is to disguise the real expenditure, and to give

⁵⁷ *HD*, iii, 26 Feb., p. 91.

⁵⁸ Shannon, *Salisbury*, p. 292.

⁵⁹ BL *HD*, Add. MS 48650 ff. 68–9, 5 March.

greater freedom in the spending of the money.⁶⁰ Hamilton's last word on the subject was surely correct considering the subsequent debate before passage of the Act. 'The Government would have done much more wisely, had they simply increased the Naval Estimates by the required amount.'⁶¹ It remained now to find the Ways and Means to fund the forthcoming fleet.

The estimated deficit to be made up for the 1889–90 financial year was roughly £1.5 million. A number of possibilities had been considered including a graduated house tax and, in light of the combined demands of Salisbury and the Navy, the death duties again. They were in fact the key to solving this equation, as they did indeed fall on the category of "fixed property" specified by the Prime Minister, and rather boldly at that as a scheme of graduation was in mind. A suitable tax on shipping interests proved much more difficult, and Goschen eventually fell upon the idea of reviving 'a small ad valorem registration duty on imports & exports.' Hamilton, as he had been since it was first mooted, was hostile to the idea. It is a great improvement upon Mr. G.'s proposal of 1860; but still is cognate to it; & I don't like the idea of his making such a proposal to Parliament.⁶²

31 March brought the end of the 1888–89 financial year and the out-turn was spectacular, a surplus of £2,798,000 of revenue over expenditure although this was reduced by the £2,010,000 of expenses associated with the Consol conversion. By now, 2 April, all Goschen's efforts were concentrated on the Budget, and it was known that the deficit to make up was £1,100,000. The idea of the "registration duty" had, to Hamilton's relief, been dropped and in its place a new Estate duty and a change to the existing Beer duty. The

⁶⁰ *The Economist*, v. XLVII, no. 2,377, p. 328, 16 March.

⁶¹ BL HD, Add. MS 48650 f. 72, 9 March.

⁶² BL HD, Add. MS 48650. The graduated house tax had been floated in mid-February (f. 54) before the naval program and deficit were known; by 13 March (f. 75) they were and the death duty was to be called upon. The registration duty was considered 26 March, (f. 84).

Estate duty was a graduated duty of 1% on all estates of a value over £10,000 while the plan for the Beer duty was to return to Gladstone's complex proposal of 1881. The former was estimated to yield £800,000 and the latter £300,000 thereby making up the deficit but not with any sort of comfortable margin. A proposal on 11 April to tax the landlords' ground-rents, for a yield of perhaps £50,000, might have provided that margin but there was really no chance of a Salisbury Cabinet countenancing such a tax. "The Cabinet today would not hear of the Chancellor of the Exchequer's proposal to get at the ground-landlords" when it was presented on Saturday 13 April.⁶³ The rest of that day and Sunday Goschen and Hamilton spent finalizing the Budget for the Financial Statement to Parliament on the Monday, 15 April. It was destined to find favour in the House, but Goschen would be somewhat embarrassed by his support.

Goschen reported that the Revenue for 1888–89 was £88,473,000 and exceeded the estimate by £1,646,000; Expenditure of £85,674,000 had fallen £941,000 below estimate and produced the surplus noted above. There was no such happy prospect forecast for 1889–90, Revenue being estimated at £85,000,000 due to the transfer of funds to the Local Governments and Expenditure rising to £87,000,000 on account of the vast increase in Navy and Army expenditure. Fortunately the Chancellor of the Exchequer had methods in hand to meet this deficit. The conversion of the Consols had resulted in an annual interest savings of £1,500,000 on the national debt, and Goschen proposed to use £1 million of this savings to reduce the fixed charge for debt from £26 to £25 million, the remaining £500,000 would continue to operate for capital reduction of debt through operation of the sinking fund. The revision to the beer duty was to bring in an additional £300,000 by calculating 'the duty of 6s. 3d. on 36 gallons of beer of the specific gravity of 1.055, instead

⁶³ *HD*, iii, pp. 92–3. W.H. Smith was the only other member of the Cabinet to support the ground-rent tax.

of, as now, on 36 gallons of the specific gravity of 1.057.⁶⁴ The final measure, the Estate duty, was 'an additional tax of 1 per cent on all estates of more than £10,000, whether they consist of realty or personalty.'⁶⁵ This was expected to raise £1,000,000 annually but only £800,000 during 1889–90. All told this left a balance of £183,000 in the Exchequer's favour, a small margin in itself but given Goschen's caution in framing revenue estimates it was ample.

The most interesting and unusual feature of Goschen's Budget statement was the debate it ignited over the question of the balance between direct and indirect taxation and the inseparably related subject of taxation and representation. There had been, he noted, a decline in the revenue from indirect taxation over the past five years of 1 per cent per annum, whereas over the same period the direct tax revenues (the income tax, death duties and general stamps) had increased 5 per cent. From this he drew the conclusion that 'the old policy of relying upon a very small number of articles of general consumption is one which it is questionable whether we can trust to in the present state of things.' Changes in fashion, morality and even the "physical accidents" affecting the strength of tea and tobacco had combined to decrease and make uncertain the revenue which the state could derive from them. This approach was now obsolete. 'Those were the days of great simplicity of taxation. To trust to a few great articles of consumption was our fiscal ideal.' But the recent past had, for Goschen, demonstrated the poverty of this ideal.

Due to the falling off of indirect tax revenue, the income taxpayer bore a disproportionate burden of taxation. In a veiled criticism of Gladstone's last Ministry's fiscal management, it was pointed out that 'whenever there came an emergency, recourse was had

⁶⁴ PRO T171/185 f. 591. This 'being the amount of beer which 2 bushels of malt, or 84lbs. of malt or corn, or 56lbs. of sugar, have been estimated as capable of producing. The duty is levied either upon the malt, & c., or on the specific gravity of the worts, according as the one or the other method of levying it is more favourable to the Exchequer.'

⁶⁵ 3 H 335. 527, 15 April. 'Financial Statement 1889–90', pp. 1-5, P.P. 1889, (116) xlvi. 237 for figures.

to the income tax.' This was the case for all emergencies, great and small, which put pressure on the revenue. This 'constant reckless use of the income tax' was patently unjust.⁶⁶

I have rejected and I am anxious that the Government should continue to reject, the plan of constantly having recourse to the income tax, in order to save trouble to any Chancellor of the Exchequer who may be too timid to resort, when necessary, to any other source of taxation.⁶⁷

It was a further source of injustice that the income tax fell so heavily on 'small and struggling tradesmen and clerks who feel [it] with such peculiar weight'. It was their further misfortune that they were a 'quiet people' who didn't 'agitate or demonstrate' and so led to an inevitable outcome.

He has few champions, and thus it has happened that on every occasion it is the income tax payer who has had to meet whatever exceptional demands may have arisen. ... I do not think that it is safe, I do not think that it is just. ... It is better service to the State to increase the number of sources of Revenue than to attempt to find simplicity.⁶⁸

He similarly rejected graduation on the grounds that the principle was unsettled while the practical problem of levying and collecting it was immensely complex. This led inevitably to the related theme of the justice of taxation and representation.

Goschen rejected entirely the 'broad doctrine' that large proportions of the community should pay 'nothing whatever towards the taxation of the country'.⁶⁹ Taxation and representation went together.

It was desirable that all those who took part in the government of the country, as the great body of the people now do more largely than ever before, should in some small measure, according to their ability – and I do not wish them to do it beyond their ability – contribute towards the expenses of the State.⁷⁰

⁶⁶ 3 H 335. 512–3, 15 April.

⁶⁷ *Ibid.*, p. 565.

⁶⁸ *Ibid.*, pp. 513–4.

⁶⁹ *Ibid.*, p. 564.

⁷⁰ *Ibid.*, pp. 564–5.

Towards this end beer, tobacco and spirits could be considered optional luxuries, whereas the Tea duty could be considered 'a poll tax on a very low scale. If we abolish the Tea duty we shall have the result, which I think is unconstitutional, that a large proportion of the population will pay nothing whatever to the public revenue.'⁷¹ He had no intention of giving up any of the few remaining sources of revenue left to the Exchequer.

Gladstone picked up the theme of graduation when he spoke on the Estate duty on 2 May. He thought it the 'introduction of a great novelty into our taxing system.' The danger was that there was no 'absolute rule by means of which that graduation is to be kept within bounds' and stop it from becoming not graduation but confiscation.⁷² Although Goschen argued that the limitation to estates over £10,000 was the equivalent of an income of £400 pounds and so the graduation was comparable to the income tax, Gladstone was not convinced. In fact, he was rather ominous in his warning. 'What I wish to point out to the House is the likelihood, nay, the moral certainty, that proposals of this character will produce in future similar proposals in the same direction and going beyond the scope of the present proposal.'⁷³ This line of argument was carried on by Harcourt, who took the principle to its logical extension.

The proposals of the Budget open up in the future a great number of very important questions, such as graduated taxation, applicable equally to the income tax, and to the Succession and Probate and other Duties. The great question at the bottom of graduated taxation is, whether or not people with enormous means shall contribute in a greater ratio to the necessities of the State than people with humbler means. This was established to a certain extent some years ago in reference to the income tax; it was afterwards extended, and now it has been established in reference to the Death Duties by the Chancellor of the Exchequer. It is a characteristic of stones of this kind that when set rolling, they acquire the peculiar property of rolling faster and faster. These proposals also open up the question why property should only pay on accident of death, and why it should not, as in other countries, contribute annually to the necessities of the State.⁷⁴

⁷¹ *Ibid.*, p. 565.

⁷² 3 *H* 335, 1001, 2 May.

⁷³ *Ibid.*, p. 1004.

⁷⁴ *Ibid.*, p. 1019.

If Goschen had known to what conclusions his graduation innovation could be drawn, would he not have preferred a half-penny on the income tax?

Goschen's third Budget was a triumph of compromise, and probably more than any of the other five showed his mastery of finance and ability to improvise and adapt to pressing circumstances. It was also the first time he had experienced any real financial pressures such as the small colonial wars which had so plagued Gladstone in 1880–82. His desire to protect the income tax payers, if principled, was also dangerous given that the precedent of graduation he established in its place could, and would, be turned against them. It is also evident that in this Budget Goschen's finance was a distinctly Liberal-Unionist finance. In this Budget he was torn between notions of "Sound Finance" and Tory fiscal expediency. His concession to borrowing for the Naval Defence Act was balanced by his willingness to call upon property and the "beer barons" to make up his deficit. It was an awkward balance and it made his Tory allies uneasy and undoubtedly contributed to his not gaining the leadership of the House on Smith's demise.⁷⁵ He did not look back.

⁷⁵ Hicks Beach 'was much troubled in his mind by the idea that you had proposed the New Estate tax as a permanent addition to the taxing machinery of this country. I ventured to him that this was an entire misapprehension: and that the Bill would provide that the tax should only last until the cost of the present addition to the Navy had been defrayed.' (It would indeed prove to be not just a permanent addition but the starting point for Harcourt in 1894, as if in retaliation for the NDA). Salisbury to Goschen, Salisbury MS, Goschen corr., B.96, 24 April 1889. Even heavier criticism followed: '... successors to real property will actually be in a worse position than if Mr. Childers' Budget had been accepted.' Memorandum submitted to the [Ch. of E] on the Increased Charges upon Realty arising out of the Budget Proposals of 1888-89 and 1889-90'. PRO CAB 37/24/24 of 11 May 1889 [printed]. Goschen replied to Henry Chaplin: 'Now I am denounced for asking what is but a small contribution from realty towards the cost of Imperial defence. ... I contend that my policy throughout my three Budgets has been favourable to the landed interest, and will prove to be so, when regarded as a whole. ... Even if I had not done this—and I have only done it to a very limited extent—it would have been done the first moment the Opposition came into office... We cannot permanently resist the cry of inequality in the treatment of land and personality with respect to Death Duties, hollow as you may believe the cry to be. ... May I ask you to think whether it is or is not to the advantage of the landed interest ... should be settled by a Conservative Government, instead of being left to the tender mercies of Radical successors...' PRO CAB 37/24/25 of 9 May 1889 [printed].

CHAPTER 7 SALVATION

Goschen 1890–92

By the summer of 1889 Goschen had achieved a near mastery over the Treasury. He had by then delivered three successful Budgets and very nearly completed an unprecedented Consol conversion. There were, however, frictions within the Department itself between Goschen and his most senior subordinates. He was frustrated at the Treasury delays which were attributed to Sir Reginald Welby and for which he had to answer to his Cabinet colleagues.¹ Hamilton refers to his “donnishness” and “gaucherie” but at the same time Goschen was making an effort to get on and in fact had both Welby and Hamilton over to his country house, Seacox Heath, for a long weekend in November. ‘He certainly is a very agreeable talker and being less suspicious of us than he appeared to be at one time he is quite open in his conversation. ... He is evidently rather shy at attempting any big measures.’² In fact Hamilton had grown considerably in his respect for the Chancellor of the Exchequer, and saw in him an example of ‘the mistaken estimate which Mr. Gladstone has often made of men.’³ This was high praise from a Gladstonian. But fate, cruelly or kindly depending on one’s interpretation of the Chinese curse, was to provide Goschen the opportunity to display to the full his knowledge and skill.

Hamilton did not wait for the end of 1889 to begin his work on 1890 and 31 December found him reviewing the likely outcome of the year. ‘There have been real “good times” – a greater volume of trade than there has ever been, a slight rise in prices, better wages, & every prospect of a thumping surplus.’⁴ In fact the prospective surplus of £3

¹ *HD*, iii, p. 102.

² *HD*, iii, 23 Nov. 1889, p. 103.

³ *HD*, iii, 6 Dec. 1889, p. 106.

⁴ BL *HD*, Add. MS 48652, f. 19.

million would likely allow Salisbury to fulfil his pledge of "freeing" education and ensure another unpressured budget for the spring. This early speculation was soon confirmed. The Customs now looked likely to exceed their estimate by £474,000, and the Excise to beat its estimate by a staggering £1,250,000, while the Income Tax would be left to pick up the rear at a mere £50,000 over estimate. These were of course forecasts based upon the revenue and expenditure of the first three quarters.

On the other hand the calculations from the receipts of the current Quarter are based on the increase or decrease per cent during the whole of the first nine months of the present year; and as each of the first three Quarters has shewn an improvement on the preceding Quarter, it may be fairly assumed that the yield for the last Quarter has been somewhat under-estimated.⁵

Even with that caveat, prospective Expenditure was likely to contribute to the good news, as they indicated a decrease on estimate of £155,000. The result looked to be astonishing. The probable Exchequer Receipts being taken at £89,274,000, and the probable Exchequer Issues at £85,812,000, there will be a surplus of £3,462,000. Say 3 ½ millions.⁶ 1889–90 had been a very good year.

It was in March that the Budget was built, for Goschen had in mind pretty much the whole of the Budget at the beginning of the month.

His present ideas are to take 2d. off the Tea duty, to repeal the silver-plate duties, to reduce the duty on currants in order to purchase some commercial concessions from Greece, to cheapen somewhat the colonial postage, to take off from the beer-duty what he put on last year, and to ease the income tax by some extension of the abatements.⁷

Goschen was also under pressure to do some more for the relief of Local Taxation after the miscarriage of the wheel and horse taxes in the 1888–89 Budget. With the approach of Budget day caution overtook the Chancellor of the Exchequer. The forecast of surplus was

⁵ PRO T168/19, 10 Jan. 1890.

⁶ *Ibid.*

⁷ *HD*, iii, 5 March 1890, p. 111.

revised further downwards, 'he does not wish to be too sanguine with his Estimates; so the account will not be quite as brilliant as has generally been expected.'⁸ The victims were the Income Tax payers, although this was really more a case of Goschen maintaining his own consistency on the policy of exemption and abatements. He had spoken against Northcote's proposal to do so in 1876, and so the relief was transferred instead to the Inhabited House Duty.⁹ The next day, 28 March, the Budget proposals were submitted to the Cabinet and accepted, '*en bloc*'. The increased Beer duty of 1889–90, amounting to 3*d.* per barrel and an additional tax of 6*d.* per gallon of spirits, were to be transferred from the Imperial Exchequer in relief of Local Taxation. 'Out of this further grant to Local authorities, it is proposed to constitute a compensation fund for licensed victuallers – rather an ingenious way of dealing with the vexed licensing question by a side-door.' The great worry was in fact the reaction of these powerful groups, brewers and licensed victuallers, but 'fortunately, they are Government supporters, and in such roaring good times for them they are fair game.'¹⁰

Goschen began his statement by expressing his gratitude that there were no 'costly expeditions or small wars' to have deranged his finances over the past three years before going on to justify his Revenue estimates. 'It is discreditable, unless there are unforeseen circumstances, that you should land the credit of the country in a deficit.' His estimates were necessarily cautious but he had also enjoyed the benefit since taking office of 'an ascending curve of prosperity' which had also tended to swell the revenues in a way no Chancellor of the Exchequer would have been justified in counting on. Most importantly, there had been a reversion towards alcohol consumption which had contributed £2.5 million of his surplus.

⁸ BL *HD*, Add. MS 48652 f. 88, 15 March 1890.

⁹ *HD*, iii, p. 112, 27 March 1890. 'He wanted to raise the exemption and extend the abatement, thus making a concession to graduated or degressive taxation, which is making decided advances'. In fact this had been the very subject of a debate at the Political Economy Club a few weeks previous. 'G. Murray who raised a debate on progressive or graduated taxation. He did it with much ability; & in the discussion which followed his statement the principle of such a system of taxation was more accepted than rejected. Courtney who took the Chair spoke with extra-ordinary lucidity, as was to be expected. We have already recognized the principle in our system; & it is really a question of how far it can be carried, which the main objections to extending it are the practical difficulties that stand in the way, the fact being that the "Death duties" alone offer a field for its extension.' BL *HD*, Add. MS 48652 f. 78, March 8, 1890.

¹⁰ *HD*, iii, pp. 112–3.

‘All classes seemed to have combined in toasting the prosperity of the country in largely increased quantities of alcohol.’ The balance of the surplus he attributed to the £700,000 windfall on the seigniorage of silver, a sum which he would put to use in the recoining of the gold currency.¹¹ More than anything, Goschen was most proud of his prodigious feats of debt reduction. In 1889–90 there had been a reduction of £4,758,000 of funded and unfunded debts while a further £3,510,000 of terminable annuities had been reduced, bringing a total of £8,295,000 for the year. ‘The amount of Debt which we have reduced in three years is £23,323,000 – the largest amount that the Debt has ever been reduced in three consecutive years.’ He had also the privilege to report the successful Conversion of the remaining £41,000,000 of Consols, £24,378,000 of which had been paid off in cash.¹² This was the most successful conversion of debt in history and Goschen drew particular attention to the role of the Bank of England in facilitating the whole operation. It had been a very good year indeed.

The prospect for the year ahead was not as encouraging. Expenditure was estimated to rise by £544,000 to £86,827,000 and he made ‘no apology whatever to the fact’ that almost all of this would be on account of the army and navy. It was on the Revenue side that he was most apprehensive, and he cautioned the House on that account. ‘I think that it would be an error to say that we can prudently count upon a continuance of that progressive prosperity which I trust we may continue to enjoy, and of that speculative activity which has characterized a part of the past financial year.’ This was the sum of his economic forecast on the state of the nation, it meant that he would once more continue to be ruled by caution in

¹¹ ‘The Seigniorage accrued on Silver in the past year is far the largest that has ever accrued within twelve months. The large profit derivable therefrom, amounting to no less a sum than £774,000, is due to the exceptional demand for silver coins, at a time, moreover, when the metal was cheap to buy, and consequently the rate of seigniorage very high – as high, indeed, as 54 per cent.’ PRO T171/185, f. 608.

¹² ‘The total amount of Stock dealt with under the Conversion Act, 1888, and the Redemption Act, 1889, was £590,824,407./ 7/10. 1. There was converted into New Stock 565,684,464./14/9, 2. There was paid off in money 25,139,942.13/1; total: 590,824,407.7/10.’ PRO T171/185, f. 618.

his estimates. The year's Revenue he put at £90,406,000 for a surplus of £3,549,000. From this he could make significant remissions.

Harcourt's criticism was concerned with two broad fronts, a defence of free trade and an exploration of the possibilities opened up by graduation. For the first he asserted that the Revenue returns were proof that country had recovered its elasticity in both consumption and prosperity so that there was no need to pay any mind to 'quack remedies' such as bimetallism. 'We may rely upon its continuance if we do not tamper with the commercial principles upon which the wealth and prosperity of the country are founded.'¹³ The principle of graduation in taxation was not one in which he took issue with the Budget, rather he pointed out its implications for the future.

The rate at which the tax should be levied should be less in the case of persons with small incomes. That is a very important principle of finance, and is the one which the Chancellor of the Exchequer has adopted as his basis in dealing with the Inhabited House Duty. This may only be a small beginning but it opens up a large prospect in the future. I believe that it is a sound principle of finance, ... I thought it necessary to take notice of this because the principle itself is far more important than the application of it.¹⁴

Harcourt would not only be proved right in this, but he would be the one to put the principle into practice. Graduation was a fiscal principle which had found its hour, in both economic theory and politics.¹⁵ It would, in the next twenty years, prove the most important innovation in government finance.

This was not what Goschen had wanted to emphasize. Again this year he pointed out that,

¹³ *Ibid.*, 738-9.

¹⁴ 3 H 343, 1093, 20 April. 'Financial Statement 1890-91', pp. 1-6, P.P. 1890, (138) xli. 221 for figures.

¹⁵ 'From the mid-eighties onwards, we find that the principle of graduation, side by side with other distributional principles, was gaining more and more adherents.' Chamberlain's 1885 "Radical Programme" had recommended a graduated income tax of 10 percent. F. Shehab, *Progressive Taxation* (Oxford, 1953), pp. 190-1.

representation and taxation ought to go together. But, if so, the reverse is true also, namely, that taxation and representation should be combined and that every person who exercises the franchise should contribute in some degree to the Revenue. ... I believe it to be the general opinion that some small portion of every man's earnings should be contributed to the maintenance of the country. I would defend that principle before any working class audience.¹⁶

The two were inextricably linked. Graduation of taxation in a new age of near democratic representation. Goschen was the first Chancellor of the Exchequer to come face to face with the great conflict, still of course in embryo form, of property rights versus democratic rights; of the question of the responsibility to be demanded of representation and a determination of just what was the responsibility of property. In this he was fighting a rearguard action, whereas Randolph Churchill had wanted to initiate a bold offensive. It was Goschen who would prove the truer Conservative.

The Barings crisis in November was preceded by a month of volatility in the money market, with Treasury Bills costing £4.12 and Consols trading under 95.¹⁷ Goschen's diary records for 7–13 October the uneasiness in the City.

Financially the Revenue is going fairly, but money is very tight in the City. Consols lower than they have ever been since I have been in office, and the Treasury Bills bear a higher interest – not very comfortable. Went to the Bank, things queer! Some of the first houses talked about. Argentine, etc., have created immense complications. Uncomfortable feeling generally. Money, the Governors say, not likely to get cheaper.¹⁸

Similar entries about the rumours and uneasiness continued in October, although nothing concrete. More than a month later, 7 November, Hamilton's suspicions were aroused as the Bank rate was 6 per cent and the Treasury was paying 5 per cent, 'by far the highest rate we have ever yet paid and a very high rate for the British Government to pay in any

¹⁶ 3 H 343. 1090.

¹⁷ HD, iii, p. 124.

¹⁸ Elliot, p. 169. Barings had arranged before October to borrow £500,000 from each of Glyn, Mills, Currie & Co. and Messrs. Martin & Co., such were its difficulties as a result of Argentine speculations. Philip Ziegler, *The Sixth Great Power: Barings 1762–1929* (London, 1988), p. 249 and George Chancellor, *Four Centuries of Banking* (2 vols., London, 1964), i, p. 330.

circumstance.¹⁹ The following Sunday the Chancellor of the Exchequer received a 'mysterious' letter from the Governor of the Bank of England and he was informed on the Monday that Barings was in 'such danger that unless aid is given, they must stop.'²⁰ In all of his own City experience he had never faced anything like this crisis.

The Bank made it clear that it was looking for solid and substantial help from the Government but Goschen did not feel he could do anything of the sort without Parliamentary sanction.²¹ He informed Salisbury of the crisis that evening and in a letter the next day, after discussions with W.H. Smith, informed the Prime Minister.

I saw Smith and discussed possibilities and impossibilities with him. We agreed that any direct intervention on the part of the Gov't would be impossible under any circumstances. Tremendous pressure may be brought down on us to help but I think it will be absolutely necessary for *la haute finance* to find its own solution. The Rothschilds are sure to put the screw on, but it won't do, as Smith will explain.²²

On Wednesday, the 12th, the Treasury provided the Bank with £2 million in Treasury Bills 'in a roundabout fashion' and Nathan Rothschild, acting as an intermediary for the Bank, saw Salisbury for an undertaking to suspend the Bank Charter Act, if necessary.²³

I answered Rothschild in this way, as far as agreements on our side went.

1. I said that if the Bank made advance to B.[arings] and was hard pressed in consequence we would authorize the suspension of the Charter Act.
2. That if, in contravention of their charter, they lent to B. on Argentine securities, we would join in a bill of indemnity provided they obtained Gladstone's consent.
3. That the plan of inspection of Argentine finances, though I saw no objection on the surface, was so new to me that I reserved any definitive opinion till I knew more of it and could consult others.²⁴

¹⁹ *HD*, iii, p. 125. Hamilton acquiesced in this rate partly to support the Bank, and inquired of the Governor, William Lidderdale, if the rumours of big banks in trouble had any foundations, but he was put off with the confidence that it was only "Murietas".

²⁰ Elliot, p. 170.

²¹ Goschen offered a Chancellor's letter to suspend the Bank Act which Lidderdale refused; but Lidderdale did ask Goschen to arrange through Rothschild's for gold from the Bank of France. Sir John Clapham, *The Bank of England. A History* (2 vols., Cambridge, 1944), ii, p. 329.

²² Goschen to Salisbury, 12 Nov. 1890, Salisbury MS, Correspondence from Goschen, v. 2, 1889-90, f. 223. Elliot, p. 173. 'Goschen and W.H. Smith have come to the conclusion, and rightly so, that any guarantee on the part of the Government is out of the question. They never could justify such assistance to Parliament.' *HD*, iii, 11 Nov., p. 127.

²³ Lidderdale did not want to see the Government officially. *HD*, iii, 12 Nov. 1890, p. 127. The Bank had borrowed £3,000,000 of French gold and bought £1,500,000 of Russian gold on the sale of Exchequer bonds, Clapham, p. 330. There was a further request for a Treasury Bill on Friday morning to cover an additional £1,000,000 of French gold. So the Treasury was using its limited fiscal powers to aid the Bank. BL *HD*, Add. MS 48654, f. 37.

‘After the meeting, Salisbury proposed to the Cabinet that an Act of Indemnity be passed to help the Bank of England lend to Barings on Argentinean securities, but only if Rothschild obtained cross-Party support from Gladstone.’²⁵ At this point Goschen left the scene for Dundee and a number of speaking engagements, convinced that failure to show might ignite a panic. The resolution of the crisis which followed is ambiguous. It was left to Salisbury and W.H. Smith to keep a watch over the rescue for the Government. But they did more than this, it is alleged. At lunchtime Friday 14 November, they ‘agreed to bear half of any losses on Barings bills taken on by the Bank of England in the twenty-four-hour period after 2 p.m. that day.’²⁶ The following day the crisis was ‘practically settled by guarantees’ from the private banks amounting to more than £7,000,000.²⁷ Yet in January Hamilton reviewed the affair with Lidderdale and was astounded to learn from him that the Government had promised to ‘strengthen [the Bank’s] balances if he called upon them to do so, up to the extent of 9 millions... I must clear this point up; for I am sure that either the Governor misunderstood Lord Salisbury and Mr. Smith, or else they misunderstood him.’²⁸ When he discussed this with Goschen he found the Chancellor of the Exchequer incredulous, ‘How

²⁴ Salisbury to Goschen, 12 Nov. 1890, Salisbury MS, Goschen corr. [typescript 1886-99], C. 123. Rothschilds were much more interested in preventing a banking crisis than in rescuing Barings. ‘Though he believed that a catastrophe might be averted, he spoke with the utmost certainty that the house [Barings] must disappear. ... This certainty made him dismiss as impossible your suggestion that they should be saved by a syndicate.’ [this was the eventual solution] Salisbury to W.H. Smith, 12 Nov. 1890, Salisbury MS, W.H. Smith corr., C. 260-3. This letter illuminates clearly that the Government were only offering a suspension of the Bank Charter, and that Rothschild told Salisbury: ‘He thought Mr. Gladstone would assent to a Bill of indemnity being passed. ... [Salisbury qualifies his promise] I said I can freely promise that if Mr. Gladstone assents to such a Bill of indemnity before hand, we will support it.’ *Ibid.* Gladstone’s diary gives no indication that Rothschild or anyone else had raised the indemnity issue with him. *GD*, xii, pp. 334-5.

²⁵ Roberts, p. 552. This, Kynaston argues, as the result of ‘discreet pressure’ on Salisbury by Rothschild for a more active intervention on the part of the Government, but this is contrary to Salisbury’s letters to Smith and Goschen. David Kynaston, *The City of London. Volume I: A World of Its Own, 1815-1890* (London, 1994), p. 431.

²⁶ Roberts, p. 552. ‘What the Governor asked of [Salisbury and Smith] was, first, an increase of the government’s balance at the Bank, and second, the assumption by the government jointly with the Bank of the risk of loss on Baring’s liquidation, pending the raising of a guarantee fund.’ Salisbury and Smith agreed to the first request but held out against the second, at which Lidderdale threatened to immediately return to the Bank and stop accepting Barings’ paper. That was enough to secure the government’s support, Clapham, p. 332. In this Lidderdale was balancing the Bank’s public duty as lender of last resort against his own responsibilities to his shareholders. ‘It may have recognized a general responsibility to the money markets but it was not as uninhibited a responsibility as might be exercised by a modern central bank.’ Michael Collins, *Money and Banking in the UK: A History* (London, 1988), p. 189.

²⁷ *HD*, iii, p. 128, Elliot, p. 173 and Kynaston, p. 433.

²⁸ *HD*, iii, 8 Jan. 1891, p. 134.

could I have undertaken to find ... [it] without breaking the Bank Charter at least?²⁹ By such a muddling through the panic was averted and Barings saved to collapse again in another hundred years time.³⁰

Goschen's penultimate Budget was the one which required the least effort or worry to construct, or at least that should have been the case. He and Hamilton discussed at length the Budget prospects in mid-December, and the prognosis did not much change over the following four months. The forecast was especially important for the year's finance, as lower margins meant greater uncertainty for the year ahead. Goschen was particularly interested in the Customs, spending almost all of the day and night of 7 January going over the Customs with the Secretary to the Treasury, Jackson.³¹ There was a margin of some £1 or £1.5 million which was likely to be consumed by the provision for education. At an estimated cost of some £2,000,000 education was the most ambitious item in the legislative agenda, but it was ambition born of expediency rather than conviction. It served two purposes, firstly to 'minimize the expected defeat' in an ensuing election and secondly to anticipate possible Liberal reforms which might interfere with the Church of England schools to a degree intolerable to Salisbury.³²

So there will be neither room nor necessity for taxation changes; and he said he would be rather glad to have a plain Budget next spring. The only fiscal matters which he would care to touch are the income tax, which he can't touch because he has not the means, and the death duties which he can't touch because he would never get the time.³³

²⁹ Ibid., 9 Jan. 1891, p. 135 and Elliot, p. 178.

³⁰ 'If none the less England developed central banking, truly she did so absent-mindedly.' L.S. Pressnell, 'Gold Reserves, Banking Reserves, and the Barings Crisis of 1890', in C.R. Whittlesey and J.S.G. Wilson, eds., *Essays in Money and Banking* (Oxford, 1968), pp. 167-228. A lucid yet very technical account which places the foremost emphasis upon Bank of England gold reserves. Pressnell argues there was a government guarantee, but his evidence is not definitive, pp. 203-4.

³¹ Elliot, p. 178.

³² Roberts, p. 556. 'Although Salisbury ... tried to portray [it]... as one of his long-term policy objectives ... it was in fact nothing of the sort.'

³³ *HD*, iii, 18 Dec. 1890, p. 132.

It was at this point that Hamilton became very ill, and we are deprived of him as a source of information about the budget-making; just as Goschen was deprived of his very great abilities in budget-crafting.

Goschen was consoled with a surplus of £1,756,000 to announce to Parliament on 23 April 1891, the fortunate result of £87,733,000 of Expenditure on Revenue of £89,489,000. The former £356,000 in excess of the estimate and the latter a more substantial increase on estimate of £1,879,000, for once more the Chancellor of the Exchequer had found relief in the bottle. More precisely, alcohol and tobacco, the latter accounting for some £474,000 of this increase and alcohol £900,000. The increase was chiefly in spirits and, he was keen to make clear, not just or mainly in Ireland and Scotland, which had increased their consumption by 7 ½%; but in England as well. ‘The consumption of home made spirits was over 18,000,000 gallons ... the highest consumption in England since 1880.’ This was an important economic indicator.

Although this increase in the consumption of alcoholic beverages may be viewed with some disappointment and regret, there is at the same time in that consumption one element of satisfaction. It shows that the powers of consumption of the working classes, owing to the increase of wages, has been on the increase during the last year.³⁴

Lastly, he had the great satisfaction in being able to state that the increased consumption of currants had been matched by a twenty-two per cent increase in Greek imports of British goods.

For the financial year 1891–92 Goschen was, again and as usual, very cautious in framing his estimates. He allowed for an increase of £950,000 on Expenditure for £88,319,000 because ‘the public itself is urging us and is responsible for a great part of this increased expenditure.’ The estimate of Revenue was essentially a forecast of economic conditions, and in estimating £90,430,000 he wanted to make clear that he was taking into

³⁴ 3 H 352. 1181, 23 April. ‘Financial Statement 1891–92’, pp. 1–6, P.P. 1891, (200) xlviii. 217 for Budget figures.

his considerations the fact that the income tax was calculated on a three year average, in this case three prosperous years; and the lucky fact of there being no Good Friday or Easter Monday in the financial year they would have the benefit of two additional business days.

On the basis of this last fact he put down a one per cent increase on Customs and Excise.

1890 has been a brilliant year in many respects. I speak particularly as to trade and wages; but there are many people who believe that we may find ourselves upon the top of the curve of prosperity, and that we have not so good a year before us as the past.³⁵

This would leave a prospective surplus of £1,986,000, and so had to be accounted for.

The freeing of education would, as of September, account for £900,000 of the surplus (and a full £2,300,000 in the 1892–93 financial year), for which reason the continuing claims of the Income tax payers would have to be ignored. 'It is impossible for me, looking to the future to mortgage that £900,000.' He would spend £500,000 on barrack building which would otherwise have been funded through loan finance as part of the Imperial Defence Act of 1891. His last measure would be to put aside £400,000 towards the cost of withdrawing light gold from circulation.³⁶ His surplus, or balance for contingencies, was now £166,000. It was a Budget with no changes to taxation and he apologized for his lack of ambition.

The reconstruction of the Death Duties could not be undertaken without the reconstruction of some features of the Income Tax. The reconstruction of the Death Duties involves an increase in the taxes on real property; and, if so, you would have at the same time to consider whether a change in the Income Tax ought not to be balanced by a corresponding change in the House and Land Duties.

³⁵ 3 H 352. 1181.

³⁶ Mr. Goschen took the amount of light gold in circulation as being about £30,000,000. It was found that the degree of lightness per sovereign was 2.57d., and per half-sovereign, 2.65d.; and on this basis he estimated that the cost of dealing with the £30,000,000 of light gold would be £400,000. The whole of this sum will not be spent in 1891-92, as the operation will extend over several years; but as Mr. Goschen estimated that the entire £400,000 could be spared out of the surplus revenue of the year, he preferred that it should all be issued within the year for the purpose of the Coinage Act, such portions as should not be expended during the year being invested and retained as a distinct fund for expenditure in subsequent years for the purposes of the Act.' PRO T171/185 f. 670.

He also warned off any changes to the Stamp duties. 'There is no field more dangerous, in which there are more pitfalls and snags for the unwary, of which I have had experience myself.'³⁷ He had by now exhausted both his subject and his audience. Gladstone, 'considering that there is no question of new taxation', had no comment. Nor were any others, at that time, disposed to make any substantial criticism.³⁸ That was left for the second reading.

The financial journals did not share this indifference. There was a reluctant acquiescence in *The Times* towards the funding of education as well as reassurance at the continued growth of 'the consuming power of the masses' which it juxtaposed against the sad lot of the income tax payer.³⁹ *The Economist* turned its analysis into an unrestrained assault upon Goschen's finance, finding fault in almost all aspects of his efforts. The whole scheme of advance provision for army and navy expenditure 'has already proved a failure.' Not even his considerable efforts towards debt reduction were beyond abuse.⁴⁰ The theme of the sinking fund was continued by *The Statist* which, after expressing its 'disappointment that the income tax payers are to receive no relief' condemned the accumulated neglect by the Government to provide an adequate provision for the repayment of Debt.

Surely the country can as well afford 28 millions a year now as it could when [Northcote] revised the charge to that amount. ... it would have been no more than prudent to have exerted ourselves to the utmost to reduce our debt while times were prosperous and peace was maintained.⁴¹

These criticisms would be, quite literally, taken up when discussion resumed for the second reading of the Budget on 27 April.

³⁷ 3 H 352. 1210.

³⁸ 'The Budget proposals seem to have taken most people by surprise. They believed free education had been dropped.' *HD*, iii, 24 April, p. 141.

³⁹ *The Times*, no. 33,307, 24 April, p. 9.

⁴⁰ *The Economist*, no. 2,487, 25 April, pp. 523-4. In fact this phrase was quoted by Harcourt, to which Goschen replied, 'When I read the *Economist* of Saturday, I said to myself "I know now the exact speech which will be made by the right hon. Gentleman." ' 3 H 352. 1496 and 1512.

⁴¹ *The Statist*, no. 687, 25 April, p. 473.

There were good reasons for this renewed intensity of debate, for 'an opposition with a general election coming at last into sight could not afford to weaken its attitude, and in the absence of fresh contentious matter in the budget speech a general attack developed on Mr. Goschen's financial policy.'⁴² This attack was led off, with great enthusiasm and vigour, by Sir W. Harcourt, and he ranged far and wide in his criticisms. The Debt had not been reduced to the extent advertised by Goschen, in fact if a fairer time period was chosen for comparison it would show that four representative Liberal years exceeded his best four year effort by £3,600,000, and that without the benefit of such contrived surpluses as had been utilized in Conservative finance. In fact what was proved most emphatically was that Goschen had put on £8 million more in taxes than was wanted or necessary.⁴³ Even worse were the dubious innovations which had been introduced into the Budget. Here Harcourt echoed Gladstone's Midlothian attack on Disraeli.

The new patent system of finance which has overthrown all the old English traditions. ... Three Budgets, – first, what may be called the old English Budget; next, the new-fangled Continental "Extraordinary" Budget; and lastly, the Local Subsidy Budget. ... The great security for economy and sound financial administration has always in this country been that you ... closed the account, and began a fresh account the next year. That was the great security of English finance, and it was one which had carefully been built up by great masters in finance. [Peel, G.C. Lewis and Gladstone].⁴⁴

This confusion and opacity had allowed Goschen to produce artificial surpluses from borrowed funds and the reduction of the new Sinking Fund, all of which were 'ingenious shifts to make people believe that the finances are in a very flourishing state.' The Naval finance was based on a pretext now discovered, in the unexpended construction fund, to be 'utterly unfounded'. Goschen's method of taking the House into his confidence as to the reasoning behind his revenue estimates, based for the most part on growth of population

⁴² Mallet, p. 49.

⁴³ 3 H 352. 1491–1493, 27 April. Harcourt's numbers showed that Goschen had applied towards the reduction of debt £5,225,000 in 1887–8, £6,428,000 in 1889, £8,200,000 in 1890, and £6,100,000 in 1890–1 for a total of £25,953,000. The Liberal effort had been £6,940,000 in 1881–2, £6,776,000 in 1883, £8,900,000 in 1884, and £7,273,000 in 1884–5, which amounted to £29,889,000.

⁴⁴ Ibid., 1494.

and projections of trade and output, was derided as an ‘unheard of’ innovation. The only remote justification for this criticism would have been the fact that these ‘unheard of’ innovations had consistently under-estimated the revenue throughout Goschen’s tenure. Yet this was at the heart of the criticism: ‘extraordinary innovation ... in the financial business of this country’, ‘extreme revolution ... in all those safeguards which have been considered most essential to secure the solidity of the finance of the country’, and an overall ‘financial policy of shifts and devices’ to obscure the true state of affairs from Parliamentary scrutiny. This was, indeed, an election critique to which the Chancellor of the Exchequer would have to answer.

Goschen did so in an extraordinarily pugnacious manner, trying from the outset to draw Gladstone into the fray,⁴⁵ before coming to grips with Harcourt. This he did, in debating terms at least, for he went over them point by point, easily refuting the charges relating to the unfunded debt and the price of Consols. In defending the Naval program he was satisfied with stating that ‘we have raised from the people as much as we thought necessary for the purpose, throwing the expenditure over a limited number of years and arranging that the balance shall be so carried forward’ as to complete the building. After his going over once again the Debt reduction numbers Gladstone concluded that the whole subject was now in ‘inextricable confusion’, and Fowler that the Budget is ‘now worse confounded than when [Goschen] sat down on Thursday night’.⁴⁶ Things were moving now towards an election footing, at least as far as rhetoric was concerned. It had been conceded by the Liberals that they did approve of the ‘application of the surplus to the abolition of

⁴⁵ Gladstone advised him that he ‘need not go far afield, for there is pretty tough business before him in meeting the statements of [Harcourt].’ *Ibid.*, 1501.

⁴⁶ 3 *H* 352, 1522 and 1523. In fact Goschen had considerable trouble with his initial Budget statement. ‘There is no doubt that the Budget was not well delivered. Goschen twice got his papers mixed and got into confusion.’ 26 April 1891. Hamilton on the 28th received a letter from Goschen. ‘He did not consider his Budget statement at all a success. He had conceived it in too wide a plan and could not get the whole into the necessary limits of time. ... He is good enough to say that he missed my ‘help and experience very much indeed.’ *HD*, iii, pp. 141–2.

school fees.⁴⁷ The issue was overall financial policy and there was a sense from the Liberals that Goschen had gotten too close to the Tories on property, and so strayed too far from “Sound Finance.” This would make them vulnerable on finance as an election issue, and already these lines had been drawn in 1891.⁴⁸ Harcourt would make it a key to their election strategy,⁴⁹ and an election was already starting to be discussed.⁵⁰

In spite of the anticipation and distraction of an impending election there was still a Budget to be constructed, and the usual process was in full swing through January and February. The outlook was barely satisfactory, predicting a small surplus on the financial year just ending but raising severe doubts about the 1892–3 financial year being balanced without additional taxation, taxation which would be very hard to put on in the face of a probable election campaign.⁵¹ There was some improvement a fortnight later, although the conclusion seemed even more inescapable.

Goschen has been in Town this week budgeting, and has managed to cut down the War Office & Admiralty requirements for next year. By this means and by further paring down of the Civil & Post Office estimates, we are getting ends to meet approximately. One thing is certain, & that is that it is impossible to put on taxation just before a General Election.⁵²

After another two months’ revenue returns a respectable surplus of £750,000 had come in. But for next year ends won’t meet, even after putting the estimates of revenues on perhaps

⁴⁷ Sydney Buxton, 3 H 352. 1534.

⁴⁸ In fact, they had been drawn by the autumn of 1890 when it was asked ‘after the lapse of four years, what has been the result of these unequalled opportunities. Have we advanced public economy? Have we made the financial future of the nation more secure? Have we rectified injustice in taxation? Have we placed local taxation on a proper basis?’ The polemical answer was, no. Sir Thomas H. Farrer, Bart. ‘The Imperial Finance of the Last Four Years.’ *Contemporary Review*, v. LVIII, Oct. 1890, p. 482.

⁴⁹ ‘The weak joints in Goschen’s financial armour are the excessive complication of his financial arrangements, the establishment of extra Funds, the wide introduction of “Extraordinary expenditure”, and the reduction of the Debt charge, which however I am prepared to defend. If Harcourt would confine his attack to these points, he would attack with much greater effect. But the discipline is too academical & technical either to be followed generally or to interest people. Finance does not interest the public as it formerly did; for the best of all reasons that the taxation necessary to meet the expenditure, huge though that is, does not really press heavily on any class.’ 30 Oct., BL *HD*, Add. MS 48656, f. 125.

⁵⁰ Hamilton in conversation with Harcourt on 22 July. On 12 Sept. Rosebery and Hamilton had gone so far as to ‘amuse’ themselves by drawing up an imaginary Liberal Cabinet. *HD*, iii, pp. 144–5.

⁵¹ *HD*, iii, 6 Jan. 1892, p. 152.

⁵² 22 Jan. 1892, BL *HD*, Add. MS 48657 f. 38.

too sanguine a scale, by several hundred thousands.⁵³ Goschen would have to draw upon all the Treasury's artifice in order to present a respectable Budget. 'I think, by dint of a little financing – holding back some of this year's revenue, quite legitimate under the circumstances, we may be able to make ends meet next year; but it will be a tight fit.'⁵⁴ Which indeed it was, the Cabinet on 5 April reviewed the Budget proposals, rejecting the wheeze to obtain £210,000 by charging local authorities for the cost of collecting revenues on their behalf by the Imperial Treasury. 'So it is a question of just making ends meet: no more and no less, and but for good luck connected with the Misc. Revenue, we should have had a small deficit.'⁵⁵ The Goschen era of finance was to end without clamour or excitement. Prudence, this time as always, proving to be the overwhelming characteristic of his tenure.

There had been an Expenditure of £89,928,000 in the 1891–2 financial year, a savings on the estimate of £336,000, which in combination with the realized Revenue of £90,995,000 had produced a surplus of £1,067,000 on the year and compensated for the misgivings of January. There had been, again, an increased consumption of tea and tobacco but the alcohol had not continued its staggering progress. From this Goschen could 'see some reason to hope that wages have not fallen, and that there is still a widely diffused prosperity amongst the working classes of the country.'⁵⁶ Death duties, thanks to an influenza epidemic, were £8,239,000 and £689,000 over estimate. This led Hamilton, on the occasion of W.H. Smith's death, to the gloomy conclusion that 'budgeting work certainly conduces to hardness of heart and immorality; for the more deaths there are and the more

⁵³ *HD*, iii, 4 March 1892, p. 154.

⁵⁴ March 16, BL *HD*, Add. MS 48657 f. 93.

⁵⁵ *HD*, iii, 5 April, p. 155. 'The surplus of the financial year expiring today is larger than I anticipated lately: it amounts to £1,067,000! We shall make ends meet next year with the help of retarding some of the payments on account of Miscellaneous Revenue – a perfectly legitimate expedient in my opinion to avoid the necessity of imposing fresh taxes, but one to which Parliamentary purists would take exception if they knew about it.' 31 March, BL *HD*, Add. MS 48657 f. 106.

⁵⁶ 4 *H* 3, 1139, 11 April. 'Financial Statement 1892–93', pp. 1-5, P.P. 1892, (162) xlvi. 213 for Budget figures.

intoxicating drinks are consumed, the more one feels gladdened from a fiscal point of view.⁵⁷ Stamp duties were the first indicator of a possible recession, showing 'a considerable decline ... mainly in what may be called City transactions. The usual business of the country has not fallen off to the same extent.'⁵⁸ The Income Tax, partially because of the three year averaging calculation, showed a record return of £13,810,000 which was within £60,000 of the £500,000 estimated increase. It was here that Goschen paid tribute to the long and valuable service of Sir Algernon West, who had tendered his resignation and would soon take over duties as personal secretary to Gladstone. The Chancellor of the Exchequer, it seems, was not a man to hold a grudge.⁵⁹

Expenditure for 1892–3 was estimated at £90,253,000, an increase of £325,000 on that of last year.⁶⁰ On the Revenue side Goschen saw 'ground for caution, but I see no ground for alarm.' So the estimate was for £90,477,000 which, after taking off £25,000 for a reduction in Patent Fees, left a contingency surplus of £200,000.⁶¹ In between these predictions he had made a searching statistical enquiry into the consumption and wealth components of the Revenue which he shared with the House.

The working man it seems, if his wages should diminish, first reduces the amount of his beer and spirits, he clings longer to his tobacco, and as regards the tea for himself and his family, he does not reduce it at all. ... We had a great time of prosperity in 1874 and again in 1890. We must study the events which followed 1874 to see on what articles we must expect a fall in consumption if we are really entering upon the descending curve after 1890.⁶²

So in this way Goschen was trying to gauge both where in the business cycle the economy was and just what the implications were, based on past experience, for the Revenue.

⁵⁷ W.H. Smith's estate had left £1,750,000 in personalty. *HD*, iii, 16 Feb., p. 154.

⁵⁸ 4 *H* 3. 1145.

⁵⁹ Nor was Salisbury. Welby was his pet peeve at the Treasury, yet he agreed to an honour. 'If it is a poor man's destiny to work the Treasury system, it is not fair to blame him for doing it industriously and conscientiously. I have sent his name for a G.C.B.' Salisbury to Goschen 6 Aug. 1892, *Salisbury MS, Goschen corr.*, C.168.

⁶⁰ 4 *H* 3. 1153.

⁶¹ 4 *H* 3. 1167.

⁶² 4 *H* 3. 1158.

Likewise his investigation of the Income Tax, and just who was contributing their wealth for the benefit of the State. 'It is astonishing how many quiet callings keep up the average, and how large a proportion is contributed under Schedule D by persons and professions who do not figure as bloated monopolists or rich men in the ordinary sense of the word.' To this end he was attempting to get beyond the banalities of rule of thumb calculations towards a much more precise understanding of the underlying economy and how it affected the Income Tax under assessment.⁶³

The basis of the criticism, when it came, was over Goschen's treatment of the National Debt over six years. So it was very much preparing the way for making this a substantial election issue. Sydney Buxton took the lead in taking the Chancellor of the Exchequer to task.

Mr. Lowe once said that the Sinking Fund was a thing made to be robbed, and he has on two occasions reduced the effectiveness of that Fund, and evaded the principle that within the fixed charge every farthing of savings should go to the future reduction of Debt.⁶⁴

Harcourt, at his turn to speak, converted the above into a slogan. 'Sir Stafford Northcote raised the Income Tax in order to maintain the Sinking Fund, [Goschen] destroys the Sinking Fund in order to lower the Income Tax.' Had this not been done an additional £10,000,000 of the National Debt would have been paid down, 'you have ruined the system, because you have broken down the cumulative principle upon which it was founded.'⁶⁵ He wasted no subtlety in his criticisms and they were not wasted on Goschen, whose response was even better constructed sarcasm than that of the year before. 'Half of [Harcourt's] speech was delivered last year, a portion of it during the year before, and a very large

⁶³ 4 H 3. 1163-4.

⁶⁴ 4 H 4. 991, 16 May 1892.

⁶⁵ 4 H 4. 998 and 1006. Hamilton did not appreciate this argument. 'I have been having much correspondence with Harcourt on sundry points connected with the Budget. I have taken great pains to try and make one or two things clear to him; but in spite of his quickness at criticizing he is most difficult to convince, partly from not sufficiently wishing to understand & grasp the difficulty in question. He thinks everything ought to be "understandable" straight away, never admitting that National finance is a science and requires many years study if the invariable intricacies of it are to be mastered. His letters to me are always friendly but they generally contain a sneer at the Treasury & its ways.' 2 May 1892, BL *HD*, Add. MS 48657 f. 125.

number of the arguments which he put forward today have been submitted during every Budget Debate since I have had the honour to hold my present office.⁶⁶ There was nothing for it but to let the electorate decide, aided as they would be by the various commentators and newspapers which would endeavour to guide them in their judgement and interpretation of the Government's financial conduct and the Budget.

The Times found the Budget Statement 'interesting and instructive', and noted with no little satisfaction that 'In a year when trade has been stagnant, profits declining, and the labour market disturbed' that a small surplus was still possible.⁶⁷ *The Statist* found itself in agreement with one point at least, 'that the depression began towards the end of 1890, that it has been going on now for nearly a year and a-half, and that it is likely to continue for a considerable time.' In such conditions Goschen 'would have been safer to have exercised a little more caution' in framing his Revenue estimates.⁶⁸ *The Economist* questioned the basis of the change in treatment of part of the Miscellaneous revenue which reclassified £925,000 of it as appropriations in aid which no longer had to be treated as revenue, nor as voted expenditure. It did, however, congratulate him on the completion of the conversion, 'a lasting testament to [his] financial ability and resource.'⁶⁹ It was and it remains so.

Goschen's importance to Salisbury's Unionist "project" developed and increased over time, notwithstanding that he was vital from the outset. Initially it had been a case of simple expediency, the need to find a credible (and credible to both Liberal Unionists and financial "purists") alternative to Churchill. It was because no one within the Conservative party could fulfil that role that Goschen entered the Government as a Liberal Unionist. The whole period of panic and confusion following Lord Randolph's resignation demonstrates

⁶⁶ 4 H 4. 1021.

⁶⁷ *The Times*, no. 33,610, 12 April 1892, p. 9.

⁶⁸ *The Statist*, v. XXIX, no. 738, 16 April 1892, pp. 435–6.

⁶⁹ *The Economist*, v. L, no. 2,538, pp. 505–7.

the desperate situation Lord Salisbury felt himself to be in. “Sound Finance” was vital to the Government, particularly because it was not one of the Prime Minister’s strengths. Salisbury has been described as being an undogmatic adherent of *laissez faire* economics⁷⁰ whereas a more recent biographer actually questions even this commitment, citing the Prime Minister’s unorthodoxy on the question of fair trade.⁷¹ Yet this was not a point of contention between him and Goschen. They had in common not just the Unionist purpose of preserving the Union, but also the defence of the principle of property in a new more democratic age ‘which most invidiously subjected that principle to direct and popular challenge.’⁷² Churchill had wanted to embrace and harness this popular challenge, and he lost his position in the Government and his party because of it. Although their difference was in both outlook and approach, with Churchill embracing and attempting to take advantage of the change while Goschen was, from the outset, on the defensive; there really was a conjunction of thinking between the two. Both wanted to achieve respectability for Tory finance, although Churchill’s failure meant that Goschen would serve an explicitly Unionist cause. In this Goschen was more than a qualified success, and in doing so he vindicated Churchill, whose program he substantially implemented. Salisbury would prove to be the more ambiguous factor. He was much more pragmatic than a “sound financial” Chancellor could afford to be, but this did not become fully apparent until his subsequent Ministry.

Goschen’s tenure at the Exchequer was ‘held by contemporary critics to have fallen somewhat short of the great expectations which his reputation encouraged.’⁷³ This, it was argued, was because his caution didn’t allow him to take bold, decisive steps; instead his approach was ‘tentative, partial, and piecemeal.’⁷⁴ This is certainly true in the case of his

⁷⁰ Marsh, p. 159.

⁷¹ Steele, p. 148.

⁷² Shannon, *Salisbury*, p. 280.

⁷³ Mallet, p. 59

⁷⁴ *Ibid.*

treatment of the currency, the Barings crisis and the whole question of broadening versus narrowing and simplifying the basis of taxation. This view is shared by Lord Jenkins in his unsympathetic assessment of Goschen as a 'stolid, and uninnovating Chancellor' whose failure to understand the underlying components of the Revenue 'led him from the true church of Peel and Gladstone'.⁷⁵ But in this Lord Jenkins was simply wrong.⁷⁶ The whole experience of the Consol conversion belies this interpretation. It was a bold and comprehensive move in the face of considerable political risk. However, the fundamental risk to the country (and the financial markets) had been precisely calculated and correctly assessed by Goschen and his Treasury. This was why he was so confident of being able to tackle it in a bold and resolute manner. In any event, a certain amount of caution and *gravitas* in a Chancellor of the Exchequer is no bad thing. Yet, over six Budgets, Goschen's financial achievement is remarkably close to what Churchill had hoped to achieve in 1887. The annual Debt charge was reduced by £3 million instead of £4½ million, the Income Tax reduced to 6d. instead of 5d., Tea and Tobacco duties were reduced, and revisions were made to the Death duties (although not as radical as Churchill's plan for a uniform rate on all property), and a beginning made to the reform of local taxation. The great difference between them was that Goschen did not reduce expenditure through retrenchment (except for the Savings on the Debt charge from the conversion and raid on the sinking fund), and that he took six Budgets to accomplish what Churchill had intended to do in one. The more measured and reasonable assessment of Goschen is better left to Mallet than Lord Jenkins:

⁷⁵ Roy Jenkins, *The Chancellors* (London, 1998), p. 81.

⁷⁶ He makes much of the superficial change of 1.5% between the ratio of direct to indirect taxation during Goschen's tenure, from 54.4 to 55.9 per cent indirect, without taking any account that the change in the level of the income tax, which Goschen went some way to redress, had been considered by the three Liberal Chancellors of the Exchequer responsible for it (Gladstone, Childers and Harcourt), as a temporary and extraordinary war measure. Gladstone had reduced it in 1881, at his first opportunity, from 6d. to 5d. When he criticizes Goschen for not repealing in its entirety the tea duty he verges on the ridiculous, and may just as well demand that the Income Tax should have been repealed in its entirety, for he makes no effort to explain where the money was to be made up. Jenkins, p. 82.

‘in the unavoidable collisions which arose between finance and politics, finance in his hands suffered less than might have been expected.’⁷⁷

Despite the certainty of an election in 1892, Goschen had not delivered a “popular election” Budget. It could not have been, there just wasn’t the fiscal room for manoeuvre to allow it, the most that could be done was nothing: to make no changes to taxation. In any case, Goschen was not the man to court popularity, even had he known how to. But he did achieve one crucial objective. The financial reputation of the Tory (Unionist) party had been rehabilitated, if not to the heights of Peel and Gladstone, it had at least been raised from the dismal level where Disraeli had left it. They could even use it as a positive election issue,⁷⁸ although both Marsh and Shannon argue that Salisbury was looking for no more than a close defeat and considered the election result a success.⁷⁹ From the Tory point of view, even more than from a Unionist perspective, Goschen’s finance had served its purpose.

⁷⁷ Mallet, p. 67.

⁷⁸ M. Pugh, *The Making of Modern British Politics 1867–1939* (Oxford, 1982).

⁷⁹ Marsh, pp. 220–1, and Shannon, *Salisbury*, p. 309.

CHAPTER 8

HOBSON'S CHOICE

On their return to office in the general election of 1892 the Liberals faced three serious and one overwhelming financial crises: naval expenditure, the pressing need to increase government revenue, the monetary question of silver and bimetallism; and a financial constitution for Irish Home Rule. In light of these Sir William Harcourt's reappointment as Chancellor of the Exchequer in mid-August 1892 ought to have reassured anyone wishing for strength and stability in this near most important of all ministerial posts. Unfortunately, Irish Home Rule finance and Harcourt could not co-exist, yet the Liberal party could not remain in office with Gladstone without it. The Navy could not be increased without the increase to the Revenue, but Gladstone could not live with an increased Navy. All that the Ministry could agree upon was that to meddle with bimetallism was madness.

Bimetallism had come again to the economic forefront with the Salisbury Government's commitment to participate in the proposed International Monetary Conference, mainly at the request of the United States government, to discuss the fall in the value of silver relative to gold and to consider official support for silver.¹ Even this concession was heterodoxy in the minds of Treasury officials sworn to the gold standard such as Hamilton.² Of course there were also British groups interested in promoting the Conference and its goals, particularly in agriculture and manufacturers such as the Lancashire cotton merchants who had seen the fall in silver values affect their own markets.

¹ Ted Wilson believes that India was the key to this. 'Were it not for India's perceived currency problems, it is doubtful if Britain would ever have participated at all in any of the monetary conferences of the period.' However, he ignores the 1892 International Monetary Conference completely. *Battles for the Standard. Bimetallism and the spread of the gold standard in the nineteenth century* (Aldershot, 2000). The American position is discussed by Angela Redish, *Bimetallism: An Economic and Historical Analysis* (Cambridge, 2000), pp. 232–238, but again, the 1892 Conference is not mentioned. The background to the political debates in Britain over bimetallism is in E.H.H. Green, 'Rentiers versus Producers? The Political Economy of the Bimetallic Controversy, c.1880–1898', *English Historical Review*, 103, (1988), pp. 588–612 and A.C. Howe, 'Bimetallism, c.1880–1898: A Controversy Re-opened?', *English Historical Review*, 105 (1990), pp. 377–391.

² BL *HD*, Add. MS 48657 f. 131, 12 May 1892. Hamilton disapproved of Salisbury and Goschen's receiving a deputation of Lancashire bimetallists, 'It may all be very well in theory, but it is absolutely impossible in practice.'

In general these were those same interests which promoted inflation, or soft money. Having inherited the commitment to participate, Harcourt and the Gladstone government set out to ensure that their delegates would undermine the conference and uphold the gold standard.

Having thus grudgingly consented to continue with Britain's participation in the Conference, Harcourt had to go about ensuring that the right people would participate as British delegates. This was a delicate task, especially for someone whose personal diplomacy tended to the Palmerstonian rather than the subtlety of a Metternich. Hamilton persuaded Harcourt to meet Goschen to discuss, amongst other subjects, the International Conference.³ Their discussion did nothing to mollify Harcourt's hostility towards either the Conference or bimetallism.

Anybody who did not know him would have been amused, if not shocked, by the fulminations against it in which he indulged while pacing up and down the room. It was the most immoral proceeding he ever knew; it was holding out the most idle hopes; merely a dodge to catch the Lancashire Votes. He would sooner die on the floor of this or any other House than be a party to any step which was calculated to endanger our gold standard system. ... He would not see Goschen's instructions to the Delegates, and left to Welby and me the responsibility for issuing them. His idea was to increase the number of Delegates representing this country in order that there might be a strong mono-metallic majority which would make it clear to the other powers that they might discuss as much as they pleased and devise as many plans as they liked, but that nothing would induce the British Gov't to entertain any silly financial proposals. The conference at any rate should not be held in London. Indeed Goschen had already refused this.⁴

Given these preconceptions, and Gladstone shared in them,⁵ it was then necessary to find delegates who would advance them at the Conference. Welby was proceeding along similar lines, thinking of Currie, Lubbock, Rivers Wilson, and Farrer.⁶ Gladstone wrote to Bertram Currie on the 26th and Hamilton prepared the ground for the entrapment of a Rothschild over the next few days, writing to Natty Rothschild on the 28th hinting that he might be

³ *HD*, iii, 17 Aug., p. 172.

⁴ BL *HD*, Add. MS 48658, 20 Aug. 1892, f. 116.

⁵ 'We cannot put ourselves in the position of receiving a report more or less Bimetallistic signed by a majority of British Commissioners.' Gladstone, 21 Aug. 1892, Kynaston, ii, p. 71.

⁶ BLPES Welby Papers, v. 5, MF 373 f. 6.

asked to attend the conference. By the 30th 'Harcourt is going to insist on a Rothschild going to the Conference. He says they can't refuse. "England owes something to the Rothschilds; but the Rothschilds owe a great deal more to England.'" Hamilton seems to have netted his quarry at dinner that evening with Alfred and Natty Rothschild, who acknowledged they could hardly with propriety refuse Harcourt's request.⁷ On the 1st of September it was settled, after two more dinners with Hamilton, that Alfred Rothschild would be a delegate to the Monetary Conference.

In an exchange of letters 28 and 29 August Harcourt and Gladstone ensured that what the latter called "sane" men would dominate the British delegates. While the outcome of the conference was to be a foregone conclusion it was not to appear that the Liberal government had determined it.⁸ It didn't have to, government bureaucracy would to ensure that nothing would be allowed to subvert the gold standard. Sir Arthur Godley, permanent secretary of the India Office, wrote Welby to express his hopes that if the British government would not withdraw its participation from the Conference, it should at least inform the Americans that 'under no circumstances would HM Government agree to any bimetallic arrangement' so that they might 'think it not worth while to proceed.'⁹ Harcourt of course was more emphatic. 'In these days of contagion I can't have London infected by an incursion of insane bimetallists. It would be too embarrassing to have to treat them as if they were *compos mentis*.'¹⁰ Nor did he.

⁷ BL HD, Add. MS 48658, 30 Aug. f. 126. Natty Rothschild wrote to Harcourt 31 Aug. to assent to Alfred's representing the family firm. Kynaston, p. 71. Not everyone was so enamoured at the Rothschild presence, Bertram Currie wrote to Welby on 31 Aug. '[He] bears no doubt a name of weight but that is about all. ... but if you secure Farrer, one or more dummies may be tolerated. I doubt whether Lord R. has any strong convictions on the question to be discussed.' BLPES Welby Papers, v. 5, MF 373, f. 8.

⁸ A.G. Gardiner, *The Life of Sir William Harcourt*. ii, p. 205. *GD*, xiii, p. 67.

⁹ He concluded 'We had resolved not to give any instructions to our delegates, but in present circs. I should be inclined to send them a copy of your instructions and say they must govern themselves accordingly.' BLPES Welby Papers, v. 5, MF 373, f. 5, 27 Aug.

¹⁰ BL HP, Add. MS 48615A, f. 155, 2 Sept.

Hamilton wrote to Harcourt on 15 October to apprise him of preparations for the Conference. 'I am communicating with Welby about appointing formally the UK delegates and communicating to them our instructions. He has kept the matter in his own hands, and he is most jealous of interference, as you will find.'¹¹ This must have been agreeable to Harcourt, for within a week he was taking time out to indulge in some bimetallist baiting, and at the behest of Gladstone was replying to Henry Hucks Gibbs' query about the upcoming conference. After first assuring Gibbs that he had not changed Goschen's instructions to the conference delegates, Harcourt went on to argue his pragmatic philosophy in favour of the gold standard. First he favoured sound money against inflationists, 'people who believe cheapness and low prices the greatest of human evils and that the proper cure for them is to debase the currency.' The role of London as the international centre for finance was paramount and inseparable from the gold standard, 'All nations come to London to settle their accounts, because it is the only country the stability of whose currency can be relied on.' At the same time gold supported capital which in its turn employed labour. 'The cheapness of commodities is therefore not only a special benefit to the consumer, but it is the main source of the accumulation of capital.' So the great financier and humble working man both prospered because of the gold standard.¹² This is a clear statement of Liberal orthodoxy with respect to the Gold Standard, fully consistent with Mill's monetary economics.¹³

¹¹ Hamilton to Harcourt, 15 Oct. MS Harcourt dep. 62, f. 84.

¹² Gardiner, ii, pp. 612–15, 21 Oct.

¹³ Mill noted of bimetallism that 'with most of its adherents, its chief merit is its tendency to a sort of depreciation, there being at all times abundance of supporters for any mode, either open or covert, of lowering the standard.' Bk. III, Ch. x, p. 509. A more polemical statement was that 'profligate governments having until a very modern period seldom scrupled, for the sake of robbing their creditors, to confer on all other debtors a licence to rob theirs, by the shallow and impudent artifice of lowering the standard.' Bk. III, Ch. vii, p. 486. John Stuart Mill, *Principles of Political Economy* (London, 1929).

The Conference was in session from 22 November through 18 December, producing much talk, few ideas and no action.¹⁴ This of course was Harcourt's intent. Alfred Rothschild's plan was one of the few ideas, a compromise to bring together international agreement to support the price of silver through agreed purchases, but it was acceptable to nobody.¹⁵ Above all it was unacceptable to Bertram Currie, 'our worst enemy' as Rothschild's assistant Carl Meyer described him. It was soon rejected by the Americans, but not before first alarming Harcourt (who was simultaneously thundering at Welby that in essence the United States proposed 'that we should pull out their chestnuts for them'), and who had to be reassured by Rivers Wilson and Mabington Smith (via Welby) that events in Brussels were under (British) control.

Sir William Harcourt need be under no misapprehension as to our having committed ourselves to Alfred Rothschild's plan. ... We have shown a willingness to examine any plan put forward and to send to our Government for consideration any proposals (not at variance with orthodox principles, i.e. mono-metallism) which received a large and influential measure of support in the Conference.¹⁶

The Conference dragged on until the 18th, apparently with only Bertram Currie's outrageous gold monometallic chauvinism to keep it interesting. Although officially adjourned until May, it was over. British interests would prevail, and Britain was the gold standard bearer, as succinctly put by Hamilton when he reviewed the Conference. 'We hold the key to the monetary position of the world; and so long as we remain mono-metallic, as we undoubtedly shall do, the case of bi-metallism is a hopeless one and the Americans recognize this.'¹⁷

¹⁴ This was the early indication from Henry Mabington Smith, formerly Goschen's private secretary, to Welby, BLPES Welby Papers, v. 5, MF 373, f. 14, 25 Nov. 1892.

¹⁵ Kynaston cites Welby's reaction: 'we are much amused at the Rothschild proposal.' Alfred Rothschild made his proposal on 28 Nov. but himself realized by 5 Dec. that it was unacceptable and so withdrew it. Kynaston, ii, pp. 73–4. Hamilton described it as 'a proposal to do on a smaller scale in Europe what the United States have failed to do on a large scale by forced purchases.' BL *HD*, Add. MS 48659, f. 49, 8 Dec. 1892. It is outlined in Ferguson, ii, pp. 349–50.

¹⁶ Rivers Wilson to Welby, 6 Dec., BLPES Welby Papers, v. 5, MF 373, f. 17.

¹⁷ BL *HD*, Add. MS 48659, f. 63, 23 Dec. 1892. His argument is shared by Michael Bordo and Finn Kydland whose hypothesis is that the gold standard acted as a commitment mechanism in the late 19th century, 'to reassure the public that the real value of debt [would] not erode in the future as a result of inflationary policy.' This is why most of the industrial world had moved to the gold standard by 1890, bimetallism a last reaction to salvage a silver standard. The British advantage was 'the use of sterling as a reserve asset and the location in

The Death duties (comprising probate, account, legacy, and succession)¹⁸ were long, long overdue for reform. The ball had been started rolling by Northcote in 1880, Gladstone in 1881 and Childer's still-born attempt of 1885. Lord Randolph Churchill had intended to deal with them in his abortive budget for 1887. Goschen had taken up this challenge in 1888 and again in 1889 when he introduced a graduated estate duty. The Liberals had never agreed with the Goschen reforms, feeling that they were really just another dodge in favour of landed property, although they did applaud certain aspects of the estate duty, particularly its introduction of the principle of graduation. Goschen had opened Pandora's box, and Harcourt and his advisers were determined to see what was inside. So as early as January 1892 Harcourt had determined on 'the reconstruction – simplification and equalization – of the Death Duties.'¹⁹ That determination was emphatically endorsed by Fowler, Harcourt's financial secretary to the Treasury in 1886, in conversation with Hamilton. 'If he had a voice in the finance of the future, the two principle measures at which he would aim would be (1) an increase of the death duties – probably an uniform scale, and (2) the raising of the income tax exemption.'²⁰ Thus it is clear that the Death Duties were to be an important component of the Liberal party's financial aims, in combination with adjustment of the income tax and against what they perceived as the unfair advantages to realty and the landed interest of Goschen's 1888 adjustments.²¹

London of the world's key asset and commodity markets.' 'The Gold Standard As a Rule: An Essay in Exploration.' *Explorations in Economic History*, 32:1995, pp. 423–464.

¹⁸ Buxton, ii, p. 292. The later "estate" duty was Goschen's 1889 innovation.

¹⁹ 'One of the first measures ... that the Liberals would have to take in hand, whenever they came into power,' Hamilton added, 'I don't envy them that task; though I should like to see the question dealt with.' *HD*, iii, p.152, 10 Jan. 1892.

²⁰ BL *HD*, Add. MS 48657, f. 101, 24 March 1892.

²¹ The best accounts are M.J. Daunton, 'The Political Economy of Death Duties: Harcourt's Budget of 1894', in Negley Harte and Roland Quinault, eds., *Land and Society in Britain, 1700–1914. Essays in Honour of F.M.L. Thompson* (Manchester, 1996), and Avner Offer, *Property and Politics, 1870–1914: landownership, law, ideology and urban development in England* (Cambridge, 1981).

This was by no means an attitude confined to the Radical wing of the Liberal party. Gladstone saw it as one of the key planks of an English program to counter-balance the attention on Irish measures, and he was writing to Harcourt on 14 July 1892 to recommend it.

I have a hankering after legislation which shall be at once concise and decisive, to help the British part of the bill of fare. [Sir Algernon E.] West told me he thought you were inclined more or less to entertain his scheme of the Death Duties. This I think for the present purpose could be made to fulfil the two conditions. There is also a question of taxing ground rents.²²

Gladstone included it in his sketch of a legislative program for 1893, under the headings: Finance. Budget. '1. Tax ground-rents. 2. Abolition of Death Duty Acts from a distant day: impose uniform duty.'²³ Harcourt was even more insistent on a Radical programme to satisfy the British constituencies, and over dinner with Hamilton 'hinted at financial measures such as the reform of the Death Duties.' His son, Lewis Harcourt, was even more insistent that what Gladstone proposed was not enough. 'We must have a 'revolutionary' Budget next year. Graduated Income tax if possible and further reduction of the Inhabited [house] duty, and if it can be managed, something more off tea and cheap tobacco.'²⁴ The point was reinforced when Hamilton dined with Harcourt "*en famille*" after work on 25 August. 'He wants to take up the Death duty question next year; but he will find it a terribly difficult one to tackle.'²⁵ It did indeed prove to be so, but not for the expected reasons. It simply transpired that the anticipated yield of the reformed Death Duties would be insufficient to cover the forecast financial deficit for 1893–94 and a more immediate fiscal fix was required. The Death Duties would have to wait. Finance would continue to be at the very heart of Liberal political strategy, but in the Budget of 1893–94 the Death Duties would not, as Home Rule overshadowed everything.

²² *GD*, xiii, p. 42. He wrote again on the 18th to say 'My two points of finance were only meant as those parts of a policy which might specially fall to your consideration.' p. 44.

²³ *GD*, xiii, p. 47, 20 July 1892.

²⁴ BL *HD*, Add. MS 48658, f. 60, 21 July and Lewis Harcourt, 21 July, cited in Daunton, *Death Duties*, p.156.

²⁵ *HD* iii, p. 173.

There had been in the intervening period no great re-thinking of the question, and this was especially the case insofar as finance figured. Irish Finance had been rather curiously circumnavigated, in spite of the emphasis which the Liberal party continued to place on Irish Home Rule. Once in office the financial aspects were entrusted to Harcourt's Treasury department, but under the direct supervision of Gladstone. The key figures were Sir Reginald Welby, Edward Hamilton and Alfred Milner.²⁶ To this end Hamilton had begun working on the problem at the start of October, assisted by Alfred Milner.²⁷ There were three conflicting proposals about how to resolve the financial relationship between Britain and Ireland under the Home Rule Bill. First and favoured by Gladstone was his own plan of 1886, in which a quota system would fix the Irish contribution for a set period of years: 'unalterable (except downwards) for thirty years: £4,236,000 *per annum*, plus £360,000 *per annum* to service the Irish share of the national debt.'²⁸ There were opposed to this Harcourt's plan for a "dole" to cover the cost of Irish administration and what would become the Treasury plan in which Britain would retain the Irish Customs revenue and Ireland would be given over her Excise revenue. Meanwhile, Harcourt was still fighting a rearguard action in raising objections against the overall scheme, let alone the financial provisions.²⁹ It was a three-cornered fight. Gladstone was confident of Irish capacity to manage their Home Rule finance and so willing to concede power and responsibility, but stern about the amount he was willing to give them. Harcourt was contemptuous of Irish ability and so determined to give them a "dole" but no financial power or responsibility. The Treasury point of view was pragmatic, that if the Irish were to have any power and responsibility then the financial provisions must be generous if they were to have any hope of being workable.

²⁶ Gladstone wrote to Alfred Milner on 20 Aug. 1892 'asking him, with Welby and Hamilton, to make an examination of the financial relations of Britain and Ireland; Milner agreed.' *GD*, xiii, p. 62, n. 2. Sir Algernon West, Gladstone's private secretary, records forwarding a memo on Irish finance written by Welby for John Morley to the Irish Viceroy, Lord Houghton, on 16 Aug.

²⁷ *HD*, iii, p. 176, 5 Oct.

²⁸ Matthew, ii, p. 251.

²⁹ *GD*, xiii, p. 149, 22 Nov.

The key to the Treasury view can be derived from the report of 14 December 1892, "Irish Finance" which was prepared and signed by Welby, Hamilton, and Milner.³⁰ It was an exhaustive overview of the Irish financial provisions proposed by Gladstone in 1886 and updated to account for changes to both the Imperial and Irish finances. The Treasury plan, had the benefit of simplicity, for under it,

the Imperial Government should retain the collection of the customs duties in Ireland, and the collection and control of the Irish excise, stamps, and income-tax should be handed over to the Irish Government, together with the Irish non-tax revenue; but the collection of excise duties on beer and spirits should be confined to the duties actually paid by Irishmen on the dutiable articles which they consume.

The key to this scheme was that Irish revenue and expenditure were nearly balanced, £5,584,000 versus £5,649,000 (including the full charge of the Irish Constabulary, £1,500,000). Likewise the Irish Customs revenue of £2,358,000 almost offset the £2,367,000 Imperial contribution. The problem was the deficit of £74,000,³¹ but this problem was common to both schemes, insofar as there was little or no working balance left for the Irish Parliament. In conclusion it was stated that the plan had seven advantages: less complication than the 1886 plan; the Irish Imperial contribution would be the same as it was actually now paying; the Customs duties, difficult to differentiate between Irish, Scottish and English claims, were left in Imperial hands; minimal interference of Imperial officers in Ireland (and that in Customs ports where they would have the support of the Navy); reduction of friction between the Irish and Imperial Governments; that Ireland's fiscal freedom would be enhanced without unduly hampering that of the Imperial Government; and finally that the proposed fiscal arrangements for Ireland were no more than an extension (admittedly considerable) of the precedent 'made by recent legislation with local authorities in England and Scotland'.³² So in this the Treasury had stated its views and made its bid to supersede the Gladstone plan.

³⁰ PRO CAB 37/32 no. 51, 14 Dec. 1892.

³¹ Ibid., p. 39.

³² Ibid., p. 40. This last referred to Goschen's 1888 scheme of grants-in-aid for Local Government finance.

Gladstone had other ideas, and set them out in a paper of 14 January. It began with a statement of first principles: that taxation was only justified in meeting those public charges deemed necessary or of high utility for which government must determine both the amount of charge and means of raising it. In the case of Home Rule the task for his government was to fix an equitable charge for Ireland's contribution to the Imperial expenditure 'as a matter of primary necessity.' The key Imperial concerns in this regard were the national Debt, Defence, and the inevitable charge of Imperial government. In this the government was to be guided by the consideration that 'the contribution of Ireland to Imperial expenditure should be governed by an equitable consideration of comparative resources.' From this he concluded that the best charge was a quota 'rising or falling with the increase or decrease of the Imperial charge.' After deducting Imperial obligations from the revenue assigned to Ireland there appeared to be left a surplus of only £48,000, compared to a requirement of £400,000. It follows that under the new arrangement a sum of £350,000 and upwards per ann. has to be provided at the expence of Great Britain for the pecuniary benefit of Ireland.³³ This was not the least of concerns for Harcourt.

Harcourt's objection's were mainly a reiteration of the questions raised in the Treasury report of 14 December 1892. The fatal objections were that it would be necessary for customs and excise duties to be identical for Britain and Ireland, otherwise free trade between the two islands would be interfered with. Given that, the Irish Parliament would only have control over Stamps and direct taxes at present amounting to £1,251,000 and one-fifth of its revenue. The complications of the Irish members sitting in the Imperial Parliament and their rights and responsibilities with respect to the British Budget raised seemingly insoluble problems. It was also feared that in the event of some future need for emergency or war finance there would be no means to ensure that Ireland contributed her share of the Imperial obligation, except through 'an enormous increase of the indirect

³³ BL *GP*, Add. MS 44775 ff. 14-18.

taxation upon the people of Great Britain and Ireland alike.' Harcourt concluded that the scheme as Gladstone envisaged it would lead to a loss of control by Great Britain over her Imperial financial policy.³⁴

Harcourt was not content with being merely a destructive force, and presented his own plan at the Cabinet of the 18th, recorded by Gladstone as '3. Harcourt's plan—to give them 5 ½ [million] & taxing [P] power other than Customs and Excise.'³⁵ It was much more than this, for in it Harcourt attempted to surmount the objections to the plan from the Chancellor of the Exchequer's point of view, albeit at the expense of the Irish perspective, for it was his old idea of making the Irish legislature content with a dole from the Imperial Exchequer.³⁶ In fact, Harcourt's proposal was a breakthrough, for it caused Gladstone to consider alternatives to his own plan and to accept that other ideas were open for consideration.³⁷

Gladstone had prepared another memo on Irish Finance. This was very nearly the Treasury plan: '1. All Irish Revenues except the Revenue of Customs to be collected by the Irish Government.' It did not concede taxation power over the Customs and Excise to the Irish Parliament, only collection of the latter (and allowed Ireland a 25% interest in any gains on these), but all other taxation was devolved to Ireland. The Constabulary charges were still a sticking point but Gladstone envisioned that there would be a positive working balance of £360,000 from the arrangement: '1. The present Irish Revenue being taken at £8[000,000] and Great Britain undertaking a charge of £6[000,000] will retain from Irish sources an annual sum of £2[000,000] available for Imperial Expenditure.' Crucially, he also held out the possibility that Ireland could augment that surplus from '4. All future economies on any

³⁴ Memorandum by the Chancellor of the Exchequer on the Financial Arrangements proposed in the 'Government of Ireland Bill', MS Harcourt dep. 160, ff. 144–67, 16 Jan. 1893.

³⁵ *GD*, xiii, p. 183.

³⁶ MS Harcourt dep. 160 ff. 18–22, 18 Jan.

³⁷ *Ibid.*, ff. 36–8.

of the existing heads of charge.³⁸ This, for Hamilton, was progress. Gladstone was shifting towards his position and so it was only necessary to win over Harcourt.

Both Hamilton and Welby prepared memos for Harcourt on the 20th, the former a brief critique which sought to point out the virtues of the Treasury plan³⁹ and the latter a more formidable criticism and restatement of Harcourt and Gladstone's Irish finance.⁴⁰ Hamilton proffered a solution: give Ireland an interest in the collection of the Excise duties, better still, let Ireland collect it.

That revenue amounts on the present basis of taxation to £3,316,000 and if to this be added the Irish (1.) misc. receipts £262,000 (2.) crown lands £65,000 [subtotal] £327,000 [=] 3,643,000. Which would very nearly amount to the proposed Imperial subvention of 3,750,000 Would it not under the circumstances be more simple to hand her over the collection of her own Excise[?]⁴¹

That Excise would be fixed at the present rate 'in order that the Chancellor of the Exchequer's hands may be kept free', an addition to the rates of duty would accrue to the Imperial Exchequer although any reduction would have to be made good to the Irish Legislature. 'The C. of E. would thus be free to raise or lower the Excise duties as well as the Customs duties just as he can now.' As with the Harcourt plan, the Irish revenue of £5,593,000 and expenditure of £5,087,000 would leave a working balance of £406,000.⁴² Once again it was the Treasury plan put forward, and in the face of this relentless advance the opposition collapsed.

The following day, Saturday the 21st, Gladstone wrote Harcourt and met with Hamilton. Harcourt had begun by restating his proposal that

the rate of taxation for the whole Kingdom would be settled as now by the Imperial Parliament, the proceeds as now would go to the Imperial Exchequer, the only change introduced by Home Rule would be the important one that the Irish Parliament would have the disposal and control of the sum total of Irish expenditure...⁴³

³⁸ BL GP, Add. MS 44775 f. 40, 20 Jan.

³⁹ MS Harcourt dep. 160, 20 Jan. ff. 26–9. The Treasury plan was really a Hamilton-Milner plan.

⁴⁰ Ibid., ff. 30–3.

⁴¹ Ibid., f. 27–8.

⁴² Ibid., ff. 28–9.

⁴³ MS Harcourt dep. 13, ff. 32–48.

Gladstone's letter of reply indicated that he had changed over to the Hamilton horse in mid-stream. I think Hamilton's new manipulation carries us altogether *past* all or nearly all the objections to your plan or to my suggestions. I hope it will have your favourable consideration.⁴⁴ It did, Harcourt replying that it was 'the best "Arrangement in Home Rule" we have yet reached.'⁴⁵ Hamilton's diary is, unsurprisingly, triumphant.

It is at any rate the simplest, because we get rid of the quota of Imperial expenditure which would infallibly have led to an immense amount of wranglings and complications. Under it, the Irish Government has to pay her own administrative expenses; and to enable them to do so the Stamps, Income Tax and Excise licenses are handed over to them bodily, and they will be credited with the Irish proceeds of the Excise beer and spirit duties at their present rates.⁴⁶

And so, for better or worse, the Treasury plan for Irish Home Rule Finance had been reluctantly agreed upon, it was a compromise accepted by the Gladstone and Harcourt only because they couldn't stand each other's plans. This paternity would be much discussed in the coming months as the Government of Ireland Bill made its way through the Commons.

Harcourt spent his holidays working on the Death Duties, the Budget and Irish Home Rule Finance at his Malwood home. His natural optimism, based on the six months revenue returns, had yet to be rudely interrupted.

Goschen estimated a loss of £556,000 as compared with the last year. In the third quarter there is a gain of £300,000. So that we have a margin of £800,000 to meet the next quarter. I do not find A. Milner an alarmist as to the Income tax for the next quarter. What is good about the return is that each successive quarter is an improvement on the preceding.

Harcourt wanted to spend £100,000 on the Recoinage fund and do everything else possible to use up this surplus.⁴⁷ In fact it was slowly being whittled away, as Hamilton constructed the forecasts for 1892–3 and the preliminary estimates for 1893–4. The nine months Customs receipts indicated that the fall had not been counter-acted, although the forecast

⁴⁴ *GD*, xiii, p. 188.

⁴⁵ *Ibid.*, p. 188, n. 2.

⁴⁶ *HD*, iii, p. 187.

⁴⁷ BL *HP*, Add. MS 48615B, ff. 2–3, Harcourt to Hamilton 2 Jan. 1893.

for the year was now for the Excise to exceed its estimate and total Revenue to beat the estimate by £140,000 so as to provide a surplus of £215,000 on the year.⁴⁸ After congratulating himself on the accuracy of his estimates Hamilton recorded that,

Goschen's estimates will be well vindicated; and ends will meet comfortably. Next year will be a very different affair; and I am afraid there will be a very appreciable deficit to meet. Harcourt writing yesterday says Mr. G. is ... not a little concerned at the menacing amount of the Estimates for next year; but he hopes that Lord Spencer and Campbell Bannerman may be able to hold their own against the professionals.⁴⁹

This forecast was duly sent to Harcourt at Malwood, who remained at work on the Death Duties with Alfred Milner. Finding that Milner concurred with Hamilton's figures Harcourt had some minor comments for Hamilton.

I would like a little less shrinkage on the Income Tax and a little more on Stamps than you do. As regards Revenue this year's income is good enough but for extra Expenditure is it decent? It leaves the surplus somewhat thin ice to skate upon. However I hope we may be able to impound £100,000 of it for Coinage. As to the future, that will very likely not be my affair. ... I am not alarmist at the prospect of a Deficit next year, as I intend my hand to deal with Death Duties it is better to be made compulsory.⁵⁰

Not much compared to Goschen's surpluses, but at least something, and especially useful if they could spare the finances for 1893–4.

This, however, was wishful thinking. The serious budgeting of February provided the death by a thousand cuts for this surplus, on the 2nd of February it was reduced to £197,000, on the 15th expenditure was increased by £65,000 and a week later on the 22nd Customs could only forecast a shortfall of £100–150,000 on its estimate. 27 February still showed a hopeful surplus of £185,000 but by 21 March it had shrunk to a mere £4,000,

⁴⁸ PRO T168/27, 5 Jan.

⁴⁹ *HD* iii, p.182, 5 Jan.

⁵⁰ BL *HP*, Add. MS 48615B, ff. 8–10, Harcourt to Hamilton, 6 Jan.

practically nothing.⁵¹ The Customs estimate had had to be reduced a further £50,000 because 'in some quarters there is an idea that a further reduction in the [tea] duty is probable.' This had led to a fall in consumption of stocks out of bond from warehouses.⁵² Not by any means a disaster, it would be made up in the 1893–94 financial year, but significant when the existing surplus was so small. If Goschen had meant to pay back Harcourt for the latter's constant criticisms of his habitual under-estimating of the surplus over the previous five budgets, he could not have cut it closer. The good times were over.

The prospects for the 1893–94 Revenue were even poorer, and when Hamilton prepared his Budget forecast on 7 January 1893 he had bleak prospects ahead of him.

I am afraid I cannot put the deficit at less than a million and three quarters. Harcourt says he does not mind a little 'compulsion' to enable him to deal with the death duties; but that is more than he will care to have even for that purpose. We cannot expect anything else when revenue is at a stand-still and expenditure is steadily growing. Economy is gone completely out of fashion; and it is no use any longer to preach it or practice it.⁵³

He anticipated a decrease of £410,000 on Revenue versus an increase of £1,266,000 in expenditure which meant the prospect of an £1,656,000 deficit (which included £200,000 for contingencies). On the revenue side it was expected that the economic stagnation of the 1892–93 financial year would continue, particularly affecting the alcohol yield of Customs and Excise, but also the Income tax on account of the three year averaging system which would now take account of an additional "bad" year. Stamps were expected to decline on account of 1892–93 being an exceptionally good year for mortality and, therefore, the death duties. On the expenditure side the main heads of increase were Army (£400,000), Civil Services (£360,000) and Post Office (£250,000). Naval expenditure, remarkably, was

⁵¹ PRO T168/27, for 2, 15, 22 and 27 Feb. 1893, and 21 March. On 21 February Milner wrote to Hamilton that 'the last week or two have been very discouraging as far as Revenue goes, but I still think we shall get about the total you name, though if Probate continues to go much worse than we expected, I may have to turn the Income Tax screw on a bit next month.' PRO T168/27.

⁵² PRO T168/27, 10 March. W. Pittar (Customs) to Hamilton.

⁵³ *HD* iii, 7 Jan. 1893, p. 183.

expected to remain constant.⁵⁴ These changes represented the variable range inherent in the nature of the Revenue sources, that is, they reflected the changes in the underlying economy – moving in step with the growth or decline in economic conditions. In other words, this was what the Treasury meant by “elasticity.”

For Harcourt, the news was bleak⁵⁵ but not without its uses. It would reinforce the necessity of reforming the Death Duties and he intended to use it as stick with which to beat the spending departments. He put on a brave face in replying to Hamilton the following day. ‘I am extremely obliged to you for your forecast for ‘93-94. You are like a good & wise physician who announces to his patient the presence of a mortal disease. I shall have the pleasure of announcing the agreeable intelligence to my colleagues in a few hours.’⁵⁶ He wished to ‘mention it at the Cabinet as a warning to the great spending depts., e.g. War Office, Admiralty, Post Office, and Education.’⁵⁷ He wrote to Gladstone in the morning, ‘I have a very bad financial outlook to deal with ... I am being pushed on all sides by all my colleagues for increased expenditure. I will ask leave at the commencement of the Cabinet today just to state the figures of E. Hamilton.’⁵⁸ He then lunched with him before the Cabinet, at which he duly presented his deficit.⁵⁹

The pressure on the Revenue came from the estimated Expenditure, which was just about £1 million over that of 1892–3 and split almost equally amongst the spending departments. In combination with the estimated fall in revenue this amounted to

⁵⁴ PRO T168/27, 7 Jan.

⁵⁵ Lewis Harcourt’s journal notes: ‘The final figures are most depressing and work out to a deficit of at least £1,500,000 or possibly more. There is a prospect of a steady decline in the Revenue and a steady and large increase in the ordinary expenditure.’ MS Harcourt dep. 389, f. 31, 10 Jan.

⁵⁶ BL *HP Add. MS 48615B*, f. 14, Harcourt to Hamilton, 11 Jan.

⁵⁷ MS Harcourt dep. 389, f. 34, Lewis Harcourt journal, 11 Jan. 1893.

⁵⁸ BL *GP, Add. MS 44203*, f. 10, Harcourt to Gladstone 11 Jan.

⁵⁹ Gladstone replied: ‘On the forecasts I will only say that they only have full authority, I think, at a later date, & when including the views of the Revenue Departments. But I quite agree that they may have their use at the present moment.’ *GD*, xiii, p. 177.

£1,594,000.⁶⁰ So the military and civil service increases were significant but not immense, and the whole estimated deficit was still less than the yield of an additional penny on the income tax. Given this, it was not the increase on expenditure which was so important, but the continued high level of overall expenditure which also threatened the ability of the Government to sustain its attack on the National Debt. To these ends Harcourt was not averse to taking to the field of battle against expenditure.

Military spending was still Harcourt's *bête noire*, and Lord Spencer, First Lord of the Admiralty, was clearly in his sights. One of his earliest efforts was to countermand Goschen's Naval Defence Act of 1889, which was in its final year. In spite of cautious advice from Welby and Hamilton at the Treasury as to the constitutionality of the plan, he was determined to abolish the loan finance and pay off the debt incurred.⁶¹ It was perhaps unfortunate, therefore, for Spencer to catch him with his blood up, for the Admirals were scheming to increase the peril of the Royal Navy from the prospective fleets of Russia and France. Harcourt was unmoved.

The Admirals are up to their well-known "tricks and manners." In order to swell the list of foreign ships and to prove the inferiority of the British Navy they have stuck into the list about thirty foreign ships which are not yet launched and will not be for three or four years to come. ... The table really proves what I have always affirmed that at this moment in armour-clads and first-class cruisers the British Navy is a match not only for any two Powers but for all the Powers of the world. ... We can build when we please four ships to their one, and we can man ten ships to their one with mariners who understand the work, which theirs do not. ... I am really as great an advocate of British maritime supremacy as any jingo, for I regard it as the great security for our neutrality, but I like to know what the actual facts are and to confound the panic-mongers.⁶²

⁶⁰ PRO T168/27.

⁶¹ MS Harcourt dep. 62, ff. 92–99 of 18 (Hamilton), 7 (Jenkyns) and 16 (Welby) Oct. 1892. Welby, however, shared Harcourt's disdain for this method of finance. 'Of course they represent the general wish of mankind to do great things without having to pay for them. The great blot in the policy is that it assumes that no one except the Ministry existing at the moment will have any demands which it will be convenient to meet by drafts upon the future.' [f.96] Harcourt's reply of 19 Oct. is ff. 100–1.

⁶² Gardiner, ii, pp. 201–2, Harcourt to Spencer, 29 Nov. 1892. Harcourt had met with Spencer and the Admirals to clarify the state of the Navy. Spencer recalling that 'H. had every sort of theory, and wished to ignore Russia altogether. He seems to have long had a craze about ships. He was very odd and extravagant at times, but kept his temper admirably, and did not trample on us to any extent. He said that it was the most interesting 3 hours possible to him. I got rather exhausted as did the Admirals.' Peter Gordon, ed., *The Red Earl. The Papers of the Fifth Earl Spencer, 1835–1910* (2 vols., Northampton, 1986), ii, p. 219.

Spencer replied with mild rebuke⁶³ and considerable good humour, but the fact was that Harcourt's charges were correct. The Admiralty were overstating their case, and they were contributing towards a panic.

I remember being told to supply their Lordships with a statement of the combined strengths of the Navies of France and Russia, against which had to be shown, ship by ship, our own Navy. I was given the hint that, the object being to wring more money for more ships out of the Chancellor of the Exchequer, I was to make out as formidable a list as I could of our then probable enemies. Naturally, I did as I was told, and no old lame duck was too obsolete to be trotted out for the occasion. Personally I was convinced that the device was too transparent to deceive a child, let alone such an old political hand as was Sir William Harcourt, the then Chancellor of the Exchequer. To my secret delight, my precious report came back with the Chancellor's own annotations on it, and very much to the point they were. I felt that with all the knowledge of those Fleets that I had at the moment, I could not have made a better selection of the obsolete and useless vessels than did the Chancellor with his blue pencil.⁶⁴

The state of the Admiralty's authorized building program was clear by 12 December, and by the 15th their attempts to increase it still further led to another long memo from Harcourt to Spencer.⁶⁵ He did not spare the sarcasm. 'I think now the best thing we can do is declare war against all the world at once and conquer it off hand. Then we shall have no further trouble and there will be no minor questions of annexations and protectorates.'⁶⁶ What no doubt amused Spencer the most was that it was the Army which was predicting an increase of expenditure, not the Navy. He had on 9 December informed Harcourt that 'the sketch estimate prepared by the Accountant General is about £400,000 over that of 92–93. The Financial Secretary has reduced it by 200,000£ and I hope we may reduce it further. The amount that I think is possible (and it will be very difficult to attain that) will be to ask for the same amount as that in the Estimates of 92–93.'⁶⁷ On 9 November the Treasury estimated an increase of about £400,000 for the Army and by 27 December that had grown

⁶³ Gardiner, ii, p. 202, 5 Dec. 1892.

⁶⁴ Sir Seymour Fortescue, *Looking Back* (London, 1920), pp. 193–94. He was on the staff of Naval Intelligence, responsible for France and Russia. I am indebted to Professor Beeler for this reference.

⁶⁵ PRO T168/27 of 12 Dec. 1892 and MS Harcourt dep. 389 of 15 Dec. f. 1.

⁶⁶ Gordon, ii, p. 221.

⁶⁷ Ibid., p. 219.

to £450,000 as, '...recruiting has been so good, during the bad times, that we have more mouths to feed than has been our wont.'⁶⁸ Concurrently, Harcourt and his son were writing memos upon that expenditure.⁶⁹ I am glad to hear that you are making these additional demands & I take it to be a certain sign that you have reduced all your estimates in other respects.⁷⁰ They would not be the last.

January of course saw the start of the real business of budgeting, and the first week was the most furious in the battle of the estimates in which Harcourt had the inestimable support of his chief.

I have reflected with sorrow on the menacing prospects of the Estimates which you mentioned to me. Must you altogether renounce the hope of getting them somewhat restrained? Both the heads are men who I think might not dislike being supported against professional oppressors. The thing really to be dreaded is that we may cease to pay off debt. As long as the process of liquidation is continued at a tolerable or at least appreciable rate, the evils of extravagance though great are within bounds.⁷¹

4 January found Harcourt questioning the willingness of Spencer and Campbell-Bannerman to stand up to their oppressors, or perhaps they rather found Harcourt to be their oppressor. Harcourt, while complaining to Hamilton of the high level of peacetime military expenditure, suggested that Gladstone's support 'would be a good deal nearer to the purpose if he paid a little more heed to the matter himself.'⁷² For the Army and Navy expenditure would require supplemental estimates, of £225,000 and £63,000 respectively.⁷³ Remonstrating with Spencer about his inability to control his Admiralty experts he fulminated:

Verily in six months we have out-Heroded Herod and out-jinjoed the Jingoes. We have annexed more territory and spent more money than any Government that preceded us. The Tories are great fools if they do not do all they can to keep us in office, for, if we remain in, we shall have forfeited for ever the right to criticize any folly of which they should be capable. ... I don't know who is going to find the

⁶⁸ PRO T168/27 of 9 Nov. and 27 Dec. 1892.

⁶⁹ MS Harcourt dep. 389, f. 23 of 26-8 Dec.

⁷⁰ Harcourt to Campbell-Bannerman, BL Campbell-Bannerman Papers, Add. MS 41219, f. 50, 31 Dec.

⁷¹ *GD*, xiii, p. 174, Gladstone to Harcourt 1 Jan. 1893.

⁷² BL *HP*, Add. MS 48615B, f. 6, 4 Jan. 1893.

⁷³ PRO T168/27, 5 Jan. 1893. Harcourt communicated this to Gladstone on 4 Jan. *GD*, xiii, p. 174, n. 4.

money or ask Parliament to sanction all this. I am however acquainted with one person who will not.

Campbell-Bannerman was the recipient of a similar jobation, and responded in kind, refuting the charge and resenting the tone. 'Other people besides the Treasury are doing their best to keep down estimates, but while there is no difficulty whatever in propounding general principles, there is a good deal in keeping in check the actual growth of requirements.'⁷⁴ On the 7th an alarmed First Lord of the Treasury was commiserating this deplorable state of affairs with his Chancellor of the Exchequer. 'If the figures justify your apprehensions can we not make some expostulation with the Heads? You may depend upon my earnest support whatever it may be worth.'⁷⁵ On the 8th Harcourt called a truce, conceding to Campbell-Bannerman, 'All right. If you will keep down your Estimates I will keep down my bile.'⁷⁶ He would renew his offensive at the Cabinet.

His strategy was simple, to brandish Hamilton's forecast deficit for 1893–4 before the Cabinet 'as a warning to the great spending depts. of War Office, Admiralty, Post Office, Education.'⁷⁷ Gladstone was a little more wary of the tactic, but only because his concern for precedent made him hesitate at submitting revenue forecasts which were not officially from the heads of the Customs and Inland Revenue. Nonetheless he agreed that 'they may have their use as to the present moment.' The diary dryly records that 'Sir W. Harcourt gave notice of a probable deficit of 1 3/4 [million].'⁷⁸ And that was the end of it, for Treasury concerns over the Budget were swept away by much greater Treasury fears over the financial provisions of Irish Home Rule. The Estimates were presented and accepted in a perfunctory and, for Harcourt, near agreeable manner at a Cabinet of 23

⁷⁴ Gardiner, ii, p. 227, 4 and 6 Jan. Even Spencer was being pushed to anger, and after detailing the great efforts he had made towards economy, gave warning that he had had enough. 'I am not so now, and I do not pretend to argue against you, although I can be obstinate when I think I am right.' Ibid., p. 228.

⁷⁵ *GD*, xiii, p. 176.

⁷⁶ BL Campbell-Bannerman, Add. MS 41219, f. 57.

⁷⁷ MS Harcourt dep. 389 f. 34, 11 Jan..

⁷⁸ Gladstone to Harcourt, 11 Jan. 1893 in reply to Harcourt's letter of the same day reporting that 'I have a *very bad* financial outlook to deal with'. *GD*, xiii, p. 177 and n. 3, p. 177.

February. The Army was to be increased by £171,000 and the Navy would get no increase whatsoever.⁷⁹

Gladstone continued that work on Home Rule, and especially finance, in preparation for his introduction of the Government of Ireland Bill in Parliament on Monday 13 February.⁸⁰ Yet, before that could happen, the whole thing nearly blew up in a battle between Harcourt and Morley over the exact working and wording of the Excise clauses. It had been agreed that any increase in the rate of the Excise by the Imperial Parliament would accrue to the Chancellor of the Exchequer only, the Irish would have only that part representing the Excise at the time of the Home Rule agreement. Harcourt had insisted upon this as a means by which the Imperial Government could still raise extraordinary revenue in Ireland, such as war taxation. 'The Irishmen resent very strongly the provision which will enable the Imperial Chancellor of the Exchequer to raise the Excise duties over their present rates for his own purposes; and J. Morley yesterday, after consulting with Welby but not with Harcourt, altered the clause.'⁸¹ Harcourt was livid, and wrote to Gladstone on the 12th at 10 p.m., when he learned of it.

The proposal as stated to me is that if the Excise is lowered the whole loss in Ireland is to be borne by the Imperial Exchequer, and if it is raised for a great emergency only half the increment is to come to the Imperial Exchequer. ... All this confusion seems to have arisen from the attempt to introduce the consideration of the disputed and disputable question of *quota* into a scheme which was expressly framed to exclude it altogether.⁸²

Eventually a truce was agreed so that the issue could be discussed at special Cabinets 14 and 16 February that duly provided a forum for Harcourt's discontent, which was relentless.

2. Harcourt. There is no plan of a separate finance for Ireland which is not destructive of the finance of Great Britain. ... Resolved at 8 P.M. to propose to Irish leaders through Mr. Sexton that the Clause should at present stand so as to give the

⁷⁹ MS Harcourt dep. 163, ff. 15–16, 23 Feb. and *GD*, xiii, pp. 206–7, for letter to Harcourt of 22 Feb. and Cabinet notes of the 23rd.

⁸⁰ Friday: 'Worked on Irish Question.' Saturday, 'Worked much on Irish question ... Saw Welby & Hamilton on the Irish Finance.' Sunday, 'Worked on Irish Financial notes'. *GD*, xiii, p. 200.

⁸¹ *HD*, iii, 13 Feb., p. 190.

⁸² *Gardiner*, ii, 12 Feb. pp. 220–1.

whole proceeds to the British Exchequer but should be subject to reconsideration in the interests of Ireland.⁸³

Given that treatment of the financial provisions of the Bill in the Cabinet its reception in the House of Commons should have been no surprise.

The Government of Ireland Bill was presented to Parliament on 13 February with more than usual anticipation, in fact it was an event of the highest Parliamentary theatre.⁸⁴ As always for Gladstone the moral issue was inextricably bound up with the financial question. It was this which drove him and it was this that drove the Bill.

My contention is this ... that a permanent system of repressive law inflicted upon or attached to a country from without, and in defiance of the voice and the judgment of the vast majority of its Constitutional Representatives, constitutes a state of things of such a character that while it exists you have not, and you cannot have, the first conditions of harmony and good government established in that country. ... [citizens cannot be] brought into that sympathy with the law and that respect for the law without which there can be no true political stability, and no true social civilization.⁸⁵

Such a state of citizenship had to be established, and the first stage had been accomplished with the 'wide extension of the franchise' in 1885, in combination with the secret ballot. That led inevitably to the question of representation, and it was necessary to retain the Irish members in Westminster if there was to be a continued financial connection between Britain and Ireland.

He did not evade the difficult question of extraordinary taxation. 'The quota plan by its elasticity meets every exigency of peace and war. The fund plan is not quite so exact.' While Gladstone himself did not think Ireland would shirk its obligations, in the event of extraordinary taxation the Customs was in Imperial hands while the Excise and Income Tax were held by Ireland. Ireland's balance sheet, however, depended upon an Imperial grant of £500,000 towards the cost of the Irish Constabulary, which could be withheld. Of course that begged the question then of who in fact paid for it? 'Undoubtedly in the whole or in the

⁸³ *GD*, xiii, p. 202.

⁸⁴ See Hamilton's description, *HD*, iii, pp. 190–1.

⁸⁵ This same moral analysis had been foreshadowed by John Stuart Mill in the aftermath of the Irish famine when he wrote that the 'English nation owes a tremendous debt to the Irish people for centuries of misgovernment ... If ever compensation was due from one people to another this is the case for it.' Kinzer, p. 65.

main it would fall on the British taxpayer. You may be shocked by that.' Gladstone, however, contended that it was the present arrangement of finance between Britain and Ireland which was really shocking. 'I am well convinced that Ireland in former days has been most shabbily and most unjustly treated with respect to money matters.' The proposed arrangement would do justice to both sides, for the £500,000 charge was a 'vanishing' charge, it would fall away as the Irish Constabulary was reduced. The real benefit to Britain was that it would escape from the present considerable, and growing, charges for Irish local services. These would now become Ireland's responsibility. The stakes were high but the ends did justice to them. 'It is no less in my view, than to redeem the fame and character of this country and its political genius from an old and inveterate dishonour, and to increase, enhance, and magnify the strength, greatness, glory, and union of the Empire.'⁸⁶ "Sound Finance" would be essential in reconciling these irreconcilable objects, but it was no mere minimal government nostrum, the awesome financial resources of the state would be used to deliver this great Imperial and moral end. That was the 'greatness and glory' of "Sound Finance", it made great objects possible, while imposing a financial responsibility upon citizenship and democracy.

The second reading of the Home Rule bill was 6 April 1893, and Gladstone led off again in the masterful style with which he had introduced it. His speech, emphasizing points of principle, was perhaps even better than that, going right to the heart of what a modern democracy meant for representative government.

Then came the Reform Act, and with the Reform Act came to Ireland the beginnings of political life, ... By the largest majority, perhaps, ever returned within these Islands for any purpose whatever—in the last and in the present Parliament the only elections since their great franchise has been given—the Irish people have pressed upon you in a respectful and Constitutional manner that you should make them this great final concession.

⁸⁶ 4 H 8. 1243–75.

For Gladstone it was absolutely necessary that finance be at the very core of this argument, both to deal truthfully with the Irish problem and to reassure Britain about that solution. In a restatement of his first reading remarks on finance he admitted that 'I do not believe that it can be done in any manner which will be entirely free from inconvenience.'⁸⁷ Gladstone was convinced of the possibility and promise of Irish renewal within an Imperial framework. Home Rule for Ireland was in response to the legitimate, constitutional and democratically expressed will of the Irish people. It was clear, and Gladstone understood this perhaps better than anyone, that the financial consequences of Home Rule for Ireland would require sacrifice from its citizens (and taxpayers), but that was the necessary cost of political power and the price of responsible citizenship.

The Unionist response was that the Irish were irresponsible and unworthy of citizenship, incapable if not unwilling to pay that price, and ultimately, as Irishmen, unfit for democracy and freedom. A greater challenge was that Irish Home Rule finance had hardly exhausted its quota of trouble or its fund of mischief for either the Government or the Treasury, but Harcourt had first to look to the Imperial finance.

The Budget forecasts had became more elastic by the month, indeed by the week. Hamilton was cast in the role of bearer of bad news, which he tried to mitigate with useful remedies. 'Next year we may be worse off than I told you by £100,000 but, if we are all right as regards this year, we can slacken off payments into the Exchequer at the end of March and throw a little of this year's Revenue into next year, raising the Customs estimate to £19,750,000 or even £19,800,000.'⁸⁸ A month later, on 14 February, Milner, Chairman of the Inland Revenue, was inquiring of Hamilton 'how much do you reckon that you will want from the Inland Revenue to make your Imperial Budget balance? ... This is, of course, strictly entre nous I am asking for what you think as a friend, not for your instructions as the

⁸⁷ 4 H 10. 1597–1620.

⁸⁸ MS Harcourt dep. 63, Hamilton to Harcourt, 18 Jan. 1893.

'Treasury.' Hamilton wanted £56,715,000 (he estimated that Inland Revenue was good for £54,800,000), for his calculations now indicated a deficit for 1893–94 of £1,910,000, although it did make room for a contingency of £250,000.⁸⁹ He would not get it. This was putting serious pressure onto the prospects for Government's inaugural budget.

It is extraordinary bad luck for the Government to have to increase taxation in its very first year; and what is more nothing can be more inopportune than any change in taxation just before the Home Rule Bill is taken in Committee: all the awkwardnesses attending fiscal changes under a dual Budget system will be at once apparent. "Either," as Harcourt said, "Home Rule will kill the Budget, or the Budget will kill Home Rule."⁹⁰

Milner wrote back on the 17th: 'Without committing myself definitely, I think I may say that your estimate is not excessive. I should vary the items by putting a little more on Excise & a little less on Income Tax, but you may take it that, as far as we can at present judge, we are good for £54,800,000.'⁹¹

Harcourt had now to beware of his schemes for reform, for the Ides of March would indeed kill his Death Duties reform. Even at the beginning of the month he was faced with this prospect.

Harcourt, after further talk, is himself coming round to the conclusion that he may have to abandon any extensive fiscal changes, like the reconstruction of the Death Duties, and for want of being able to get time to resort to a humdrum proposal for bridging over the deficit by putting an extra penny on the income tax. I believe it will be the wisest course for him to take.⁹²

On 7 March Milner was again writing to Hamilton to advise that the yield of Income Tax for 1892–93 was £13,500,000. 'On this basis we might safely put Income Tax for next year at £13,300,000 on the present basis and, if a penny were added, you could safely count on £15,000,000.' That meant the Inland Revenue forecast had fallen still further to £54,560,000 or £56,350,000 with the additional penny on income tax. Hamilton's new balance sheet for 1893–94 now showed a deficit of £1,884,000 on total Revenue of £89,580,000 against

⁸⁹ PRO T168/27, 14, 15 Feb.

⁹⁰ *HD* iii, p. 192, 16 Feb.

⁹¹ PRO T168/27, 17 Feb.

⁹² BL *HD*, Add. MS 48659, ff. 131–2, 3 March.

expenditure of £91,464,000. Other sources were also being considered, the effect of an increase to the spirit duties was reviewed.⁹³ With the additional £1,700,000 on the Income tax and by drawing down the Treasury Chest Fund⁹⁴ by £350,000 that could be converted into a surplus of £166,000. 'We may be able to hold over a little Miscellaneous Revenue (say) £50,000. Margin would then be £216,000.'⁹⁵ These were tight assumptions, too tight for an ambitious Budget.

Harcourt is coming round to the idea that anything but a humdrum Budget is out of the question this year: humdrum means a 7d. instead of 6d. income tax. He can't get enough money by a reconstruction of the death duties in the first year, and that would mean the temporary imposition of other duties besides: such a Budget would take up an immense amount of time and raise all the difficulties that can be raised in connection with Irish finance. It will be a disappointment to him and also to many of the Radicals who are very keen for something in the direction of appreciable graduation of taxes, such as that for which his death duty scheme provides.⁹⁶

Hamilton, after seeing Milner on 21 March was able to set out his near final balance sheet forecast for the 1893–94 budget. Having lost a further £100,000 on Inland Revenue it was decided to hold back £144,000 of 1892–93 Miscellaneous Revenue so as to reduce the anticipated deficit to £1,834,000. With the addition of a penny to the Income Tax and taking £250,000 from the Treasury Chest Fund that deficiency was converted into a small surplus of £116,000.⁹⁷ This precluded any populist reduction of the Tea Duty by a penny from 4d. to 3d., as that would have cost £851,000 according to the Customs' estimate.⁹⁸ Humdrum and no fun, a potentially fatal combination in these democratic times.

The Budget was approved by the Cabinet on 24 March, after Harcourt subjected it to what Hamilton describes as a 'very "high saluting"'[sic] speech and read them a strong

⁹³ 'Financial Effect of the Addition of 6d. a Gallon to the Foreign Spirit Duty in 1890–91,' PRO T168/26, 7 March.

⁹⁴ MS Harcourt dep. 63, "Treasury Chest Fund", Hamilton memorandum to Harcourt, 10 March.

⁹⁵ PRO T168/27, 7 and 8 March.

⁹⁶ BL HD, Add. MS 48660, f. 4, 10 March.

⁹⁷ PRO T168/27, 21 March.

⁹⁸ 'Memorandum as to the Financial effect of reducing the Duty on Tea from 4d. to 3d. per/lb', produced by T.W. Pittar. 'I may just add that in 1889–90 the last year of the sixpenny duty on tea, the produce of 1d. of the rate was £748,000. This year the produce of a penny is likely to be about £862,000.' MS Harcourt dep. 63, ff. 21–28, 13 March.

lesson on the reckless extravagance of the day', a rehearsal for what he would subject Parliament to.⁹⁹ A week later the financial year 1892–93 was complete: 'probably by far the most closely balanced public account on record – 90 1/4 millions balanced on the right side by £20,000.'¹⁰⁰ The rest was routine, the budget having essentially been determined, and the three weeks before its delivery was for fine tuning and polishing, not constructing. Work early in April¹⁰¹ was concerned with the figures, and it was the Customs estimate that was troubling Harcourt. He was reassured that 'A Chancellor of the Exchequer can never be blamed for accepting the estimates of the Heads of Revenue Departments. Indeed, I believe in old days, the estimate was always accepted by him blindly, which moreover it was framed on a looser or more or less rule of thumb principle than it now is.' The balance sheet for the year ahead was now complete and a surplus of £176,000 was now estimated.¹⁰² On the day following Harcourt was, for the purpose of adding colour to his speech, requesting figures to illustrate the volume of food imports the last two years.¹⁰³ Then the 'final rehearsal' on 21 April. 'My advice to Chancellors of the Exchequer before Budget is (1) Don't be too long and bore the House with too great detail (2) Be careful not to jumble up thousands and millions (3) Keep clear of all contentious points or party hits.'¹⁰⁴ The following Saturday Hamilton provided a memo showing the growth in taxes during the six years of Unionist government, a essential part of a Budget speech after a change in Government.¹⁰⁵ It only remained to deliver the Budget, and the evening prior Hamilton reiterated, 'Harcourt is quite ready for his Budget tomorrow; and I don't believe that any serious fight can be raised over it. It is completely "Hobson's choice".'¹⁰⁶ Indeed it was, for the state of finance was such that no other choice or outcome was possible. Nothing but a penny on the income tax

⁹⁹ *HD*, iii, p. 195, 24 March. Hamilton refers to this as "Hobson's Choice".

¹⁰⁰ *HD*, iii, p. 196, 31 March.

¹⁰¹ BL *HD*, Add. MS 48660, ff. 32–33, 2–4 April.

¹⁰² Hamilton memorandum to Harcourt. MS Harcourt dep. 63, ff. 52–57, 7 April.

¹⁰³ *Ibid.*, f. 63.

¹⁰⁴ *HD*, iii, p. 198, 21 April.

¹⁰⁵ MS Harcourt dep. 63, ff. 67–9, 22 April.

¹⁰⁶ BL *HD*, Add. MS 48660, f. 51, 23 April.

would suffice. The spending could not be cut, so the additional revenue must be found.

Goschen and the Conservatives would have done the same.

Harcourt's Budget statement for the 1893–94 financial year was an unavoidable anti-climax, none of the bold measures could be put forward and on the whole it was overshadowed by the Home Rule debate, not the least on the financial implications of the latter. Nonetheless it was an important Budget and an historical milestone, and the subsequent debate was perhaps the most straightforward exposition of the choices in government finance which would dominate Parliament for the next twenty years. Harcourt's performance was not inspired, at least not the delivery.¹⁰⁷ But the substance was sound, and profound. He concentrated on two key points: the transient pressure on the revenue and the underlying wealth of the country.¹⁰⁸ The former point was an inconvenience, particularly for the Chancellor of the Exchequer, but it was no cause for alarm. In spite of a prospective deficit of £1,574,000, the causes could be remedied, as it was not so much a fall in revenue as the increase in expenditure which had brought it about. The British public was responsible for it, and they would pay for it.

The nation has grown rich, taxation compared to the resources of all classes is relatively light, and this is probably in proportion to its wealth the most lightly taxed nation in Europe at the present time. ... I state these facts in order to say that there is the means to pay, if you choose to pay, and you must choose to pay, if you choose to spend. There may be temporary depression, but there is no permanent decline. On the contrary, there is a gradual growth in the wealth and resources of the country. ... There is, in our opinion, only one sound and straightforward method of meeting this deficit, and that is by increased taxation. This is the only policy which is worthy of a solvent and wealthy nation which finds itself over-spending.¹⁰⁹

His preferred means of imposing taxation were the Death Duties, and he rejected J.S. Mill's objections to them, pointing out that in the post-Barings era it was not a deficiency of capital that was a problem but the employment of capital in 'dangerous and speculative

¹⁰⁷ *GD*, xiii, p. 229, 24 April Gladstone dryly noted: 'Budget: H. largely read his speech.'

¹⁰⁸ This had been well prepared in a typewritten section of his "Budget Notes, 1893", ff. 1–10, MS Harcourt dep. 133.

¹⁰⁹ 4 H 11. 1044–47, 24 April. 'Financial Statement 1893–94' pp. 1–5, P.P. 1893, (182) l. 231 for figures.

investment in foreign enterprises.' He had in mind two main objects to reform the Death Duties:

all property, whether real or personal, settled or unsettled, should be brought into account and valued and taxed on an equal basis; and secondly, that properties of large amount should pay at a higher rate than those of less considerable value; and for this purpose the whole of the assets should be aggregated so that a progressive graduation should be applied to the total value of the property of all kinds on an ascending scale according to the whole amount.¹¹⁰

He could not, however, do this. The prospective yield of the first year of the death duties would not cover the deficit and, in any event, such a complex piece of legislation would not be able to find the time in the Parliamentary calendar. Instead, he would raise the income tax by one penny from 6d. to 7d. He made no apology, 'The only sound foundation of a popular Budget is a moderate Expenditure and a buoyant Revenue.'¹¹¹ As to the latter, he had neither, and nor would he the former.

The Budget debate in the Commons would touch upon all points at the heart of Government finance, and this in fact was done immediately, for in spite of the tradition to withhold substantive criticism for the second reading polemical points were raised on both sides of the House. When the debate resumed on 27 April Goschen led the assault, his criticism balanced and statesmanlike, sweeping across the spectrum to encompass the vital questions of democracy, relative burdens of taxation, the state of trade, and his versus Harcourt's finance. His great point was that the Liberals had misled the electorate, particularly the working classes, with false promises of financial reform and democratic finance which had been thrown over for Home Rule. Having tacitly accepted the Unionist's expenditure on Army and Navy, the Liberals were sacrificing the lower and poorer middle class income taxpayer.

They are men and women who particularly deserve our consideration, and I protest against the idea that either from want of time or from want of financial reserve you

¹¹⁰ Ibid., 1047–48.

¹¹¹ Ibid., 1052.

should, as I think, commit the error of seizing on a great engine of national reserve, and at the same time of taxing a class of the community already as heavily taxed, perhaps more heavily taxed, than any other class. ... The Chancellor of the Exchequer has been sacrificed to the Chief Secretary for Ireland, and the British Income Tax payers have been sacrificed to the Nationalist Irishmen.¹¹²

He contrasted this with his own recent tenure, never having raised the income tax and actually broadening the basis of taxation through beer and spirit duties.¹¹³

Others followed his lead, and none more recklessly than Leonard Courtney, who had been Childers' financial secretary and now made it clear that whatever Liberal sympathies he once had were not Radical but ultra Whig. He castigated the bidding for the votes of the new electorate as 'a vulgar appeal to the mind of the vulgar and ignorant people, ... simply an appeal to ignorance, and was a most corrupt and improper method of seeking the suffrages of the electors.'¹¹⁴ He especially disliked the hints at reform and taxation of the Death Duties, arguing that 'A man could have no motive for economy in knowing that at his death such and such a sum would be taken from his estate.' It would involve a diminishment and destruction of the capital available to the country for productive investment, 'for the survivor did not feel under any obligation to make it up out of his income by diminishing his expenditure.' Citizenship bore the burden of responsibility, and it was a good thing that it be brought home to the taxpayer his responsibility for that expenditure, and no better method of doing so than the Income Tax.

If the appreciation of what he was called to pay led the taxpayer to exercise an influence over the expenditure of the country, then let that expenditure be brought home to him as directly as possible. If they wished to evade the knowledge and consequent influence of the taxpayer, then they might resort to indirect taxation.¹¹⁵

Sir John Lubbock pointed out that under the Home Rule scheme the increase on the income tax would in Ireland be devoted to her own purposes so that the real burden fell

¹¹² 4 *H* 11. 1322-5, 27 April.

¹¹³ Hamilton thought that 'Goschen made a capital fighting speech.' BL *HD*, Add. MS 48660, f. 53, 27 April.

¹¹⁴ *Ibid.*, 1336.

¹¹⁵ *Ibid.*, 1341.

only on England and Scotland. And of course the cry of protection was heard, clamorous but faintly, as ‘the only way in which our trade and agriculture could be rescued from the ruin that was impending.’¹¹⁶

Gladstone’s speech in defence of the Budget was an historic but unremarked occasion, for it was to be his final participation in a Parliamentary Budget debate. He rebuffed the advocates of protection and bimetallism, to focus on the great issue of fairness and equality in taxation. Gladstone rejected the arguments for further aid in relief of local rates, contending that more than enough had been done by Goschen’s grants in aid of local taxation ‘at the expense of the general public by direct taxation.’ The main point was to achieve an overall fairness and equality of taxation, and the special pleadings of the agriculturists could only be considered from that point of view.

That one shall not pay the tax which another shall pay, is striking at the absolute root and foundation of the [income] tax, which loses all its warrant and justification when it ceases to be aimed at substantial equality between all payers. ... The question of the Death Duties then comes immediately into view.¹¹⁷

This was to state the question plainly, without attempting at a solution; for the problem now being faced was to require a working definition of just what was meant by “substantial equality”? This was the controversy that was swirling all around him in the House.¹¹⁸

Harcourt, in contrast, jumped right into the controversy. He thoroughly refuted Goschen’s criticisms and justification, on the grounds that the former Chancellor of the Exchequer had relieved direct taxation at the expense of indirect taxation. ‘We believe that the proportion of indirect taxation to direct taxation is greater when it ought to be less.’¹¹⁹

¹¹⁶ Ibid., 1344–60, Sir John Lubbock p. 1327. Hamilton writing to Harcourt dismissed Lubbock’s contention, MS Harcourt dep. 63, f. 70, 26 April.

¹¹⁷ 4 H 12. 1363–69, 27 April.

¹¹⁸ Goschen had tried to draw him into it when he doubted ‘whether the ... Prime Minister has any sympathy with these new developments of democratic finance.’ Ibid., 1321.

¹¹⁹ Ibid., 1333–34. The controversy turned on the point that Goschen had cut direct taxation by 2d. on the income tax. Goschen denied this was a benefit to direct taxpayers, claiming that a rate over 6d. was not to be

He accepted that 'the richer people in this country pay less in proportion than the poorer people towards taxation,' but rejected the principle of differentiation on two counts. In the first place 'It is a necessary consequence of the obligations of public credit that the funded debt should not be made a subject of exceptional taxation.' But to treat such securities differently than others would raise practical problems. There was also a problem of fairness, for a large income from an industrial source could support higher taxation than a small income from capital, and he illustrated this with a contrast between Guinness and the proverbial widow. There was also the practical problem of determining which part of a business' profits derived from industry and which from capital. 'I do not see how we are to overcome the difficulty.'¹²⁰ With respect to graduation he had no hesitation. 'I have no objection to the principle of graduation; I think it is just.' The problem again was of a practical nature.

I agree that the Death Duties ought to be altered, but the reason why I draw a distinction between them and the Income Tax is the different way in which they are collected. Under the Death Duties, you can ascertain the whole value of a man's property; but when you collect the Income Tax, you do not ask a man the value of his whole fortune. ... I have no hesitation in saying that if you attempt to collect the Income Tax by calling upon each man to disclose the whole of his fortune, you will lose a very large proportion of the tax.¹²¹

Practicality, not principle, was the problem. This unflinching admission would frighten more money than it reassured.

The Budget debate outside the House, at least that which took place in the financial columns of the newspapers, was in uniform agreement: the Budget was unfair. It was unfair because it placed the burden of increased expenditure solely on the shoulders of the income taxpayers. *The Statist* thought this unavoidable in a plain and unsensational Budget simply

considered normal taxation. Harcourt's figures showed the ratio of indirect to direct taxation was 54.4:45.5 in 1886-7; 55.9:44 in 1890-91; and would be 54.7:45.2 after his Budget.

¹²⁰ He did suggest that some relief could be obtained either through either an increase of the exemption limit or by a greater abatement on the Income Tax. 4 H 12. 1828-1831, 2 May.

¹²¹ Ibid., 154-5, 4 May.

because 'it would be impossible so to increase the Death Duties as to supply a million and a half.'¹²² *The Economist* could not take so philosophic a view. 'The great bulk of the additional expenditure for which provision has to be made is of a kind to which all classes of the community ought to be called upon to contribute.' It was wrong to throw the entire burden on the income tax, particularly when there was a likelihood of a "free breakfast table" the next year. By then, however, 'British finance will be dominated by Ireland ... at every turn Irish financial interests will conflict with ours.'¹²³ As to Harcourt's method of adding a penny to the Income tax, *The Times* was scathing in its sarcasm. 'Anybody could have done that.' 'The merest novice in finance is quite competent to provide for a deficit' in that way. It also concurred in the unfairness of making the Income taxpayers shoulder the full burden of the extra government expenditure which he neither wanted nor was responsible for. It insinuated that the thin Liberal majority was due to electoral bribery and that the poor state of trade was their fault as well. 'Nobody conversant with business has much hope of seeing things improve so long as the present Government remains to disturb the country with revolutionary schemes and to discourage enterprise by coquetting with every wild proposal in the Newcastle programme.'¹²⁴ So that while the House debated the great principles upon which the future of finance would unfold, the most interested financial journals concerned themselves with only the minutiae of the Budget itself. Why was this?

The great underlying questions of government finance, constant growth of expenditure and an apparent levelling off of revenue, had been overshadowed by the political question of Irish Home Rule and blurred by the rarefied theological schisms of gold versus silver as monetary doctrine. The fiscal dimensions of the new democracy, indeed the dimensions and definition of British democracy itself, had still to be determined. A

¹²² *The Statist*, v. XXXI, no. 792, 29 April p. 454.

¹²³ *The Economist*, v. LI, no. 2,592, 29 April p. 502.

¹²⁴ *The Times*, no. 33,934, 25 April p. 9.

reckoning would have to be faced, and the politicians had recognized and taken up the challenge ahead of both the broader public interest and the narrower, specialized financial interests. Parliament was the forum in which Britain's fiscal future was decided, and where Ireland's would be dashed.

Unfortunately for all concerned, and probably no one was more mortified than Hamilton when it was discovered, the key argument of Home Rule finance was that the Irish Customs revenue represented a close proxy of the 'average annual contribution of Ireland to Imperial expenditure during the last three years.' It was not. The £2,370,000 which Ireland was to be required to contribute towards Imperial expenditure and the £2,370,000 of Irish customs duties were not the same thing, because the former figure had been made meaningless by the Irish Excise miscalculation.

It has been discovered that the figures relating to the movement of Irish spirits to Great Britain, with which we have been furnished by the Excise Officers in Belfast are incorrect; and the error will destroy the Balance Sheet. It is most provoking, and I take the error much to heart though it was not our fault at the Treasury.¹²⁵

By that standard neither was it the fault of the Government, but they would certainly be held responsible for it. This led inexorably back to the quota plan.

On the same day that the Irish Excise error was explained Gladstone had prepared a substantial memorandum outlining in definitive form his thinking on the financial form for Irish Home Rule.¹²⁶ The two great and related issues to be dealt with were the 'probable growth' of Imperial expenditure and the implications of a future war or other similar emergency. How could the Irish Imperial contribution adjust to these circumstances? 'I have arrived at my second conclusion which is that to provide for these and for [war emergency] in particular, by the method of laying hold on any particular fund will entail so much complication as will greatly increase Parliamentary difficulties.' Gladstone held that it was

¹²⁵ *HD*, iii, p. 200, 6 May.

¹²⁶ MS Harcourt dep. 162, ff. 92-9.

impossible to 'limit our provisions to indirect taxes, for emergency requires the augmentation of direct taxes also.' The conclusion was emphatic,

I see no method of dealing with this difficulty except the adoption, direct or virtual, of the elastic method of quota. We might say that as regards her share in increased Imperial outlay she shall pay so much per cent; or she shall pay a proportion of the increase corresponding with the relation between her customs revenue, and the total amount of the charge deemed Imperial. This would materially simplify the financial part of the Bill, and would only require the introduction of a provision perfectly plain and workable.¹²⁷

As might be expected, Harcourt did not see this perfection or workability.

Harcourt was just as busy with the problem of the quota/Customs Fund. 'I remain of the opinion I have always held that there is only one practicable course, viz. that we should continue as now to collect the whole Revenue of Ireland.'¹²⁸ It was not sufficient to have a purely negative approach to the problem, and Hamilton undertook from both the Treasury point of view and in the interest of his Minister to provide something definitive towards resolving it.

The Hamilton plan was based on work done by Cecil Spring-Rice and was an attempt at last to come up with some sort of acceptable compromise for Irish Home Rule Finance. The principles and the revised balance sheets arose from his desire to salvage something from the Treasury plan, to do that he had to work with Harcourt who was soon brought into the picture.

It may be well for us to have something in the way of a new plan to consider tomorrow. I understand that you wished to retain in the hands of the Imperial Government the levying and collection of the whole of the taxes collected in or contributed by Ireland – in short that all taxes should as now be paid into the Imperial Exchequer, but in any such plan it is most desirable that Ireland should have an interest in the due observance of the Excise & Customs laws and in any elasticity of Revenue.

Hamilton reiterated some of the main points which he had long been making about Irish Home Rule Finance, that at the present Ireland's contribution was simply the excess of Irish

¹²⁷ Ibid., ff. 95–6. Welby had prepared for Harcourt a memo on this question which Harcourt had summarized as 'Heads I win, tails you lose effect on British taxpayer.' MS Harcourt dep. 162, f. 226.

¹²⁸ Harcourt to Hamilton, 25 May, BL *HP*, Add. MS 48615B, ff. 22–3.

tax revenue over Irish expenditure, despite whatever ought to be her fair contribution, and that any quota sufficient to cover Irish expenditure would leave the balance, as at present, available for Imperial purposes. 'The first question to decide is this – is the quota of revenue to be a quota of the Revenue collected in Ireland or of the revenue contributed by Ireland?' As had been noted about Harcourt's plan, there were drawbacks to both collection and contribution, but Hamilton thought that this could be overcome.

What we might do, then, is to base the quota of Revenue on contribution for excise spirits, and the collection for all other taxes. I submit the following scheme on the latest figures to hand for 1892–3: Let us credit Ireland with 2/3rds of the amount of Excise spirits duty contributed by Ireland at present rates, and with 2/3rds of the amount of all the other taxes at present rates, crediting her also with her non-tax revenue and licences (which are practically local taxes). Let us see how this would stand:

It stood at £4,299,000 of Irish tax revenue and £1,137,000 of additional revenue for a total of £5,436,000 which, less Irish expenditure of £5,400,000, left a £36,000 surplus. 'The account is thus practically balanced; and if we left it as it now stands, the Imperial Exchequer would be practically unaffected ...'¹²⁹ The main difficulty continued to be that the only united and coherent strategy on Home Rule, finance and otherwise, was the position of the Unionists: rejection. Those in favour continued in disarray to disagree: The Cabinet was split dangerously between the Prime Minister and the Chancellor of the Exchequer, and the Nationalists were likewise divided between Parnellite and anti-Parnellite.

The basis of the plan continued to be the evolution of the revised Treasury plan, which Welby and Hamilton calculated that 'by crediting Ireland with 2/3 of her true Revenue, we could balance her account with a surplus of about £500,000. ... [and] that the one third of her Revenue retained for Imperial purposes would represent a quota of about 3 1/2 % of Imperial Expenditure.'¹³⁰ In his own notes Gladstone emphasized the advantages of this latest scheme 'to baffle the Irish': the percentage of contribution was low relative to Irish

¹²⁹ MS Harcourt dep. 63, ff. 90–3, 30 May.

¹³⁰ BL *GP*, Add. MS 44775, f. 157, 6 June.

tax resources, such a favourable offer could hardly be repeated and 'perhaps cannot be carried as it stands.'¹³¹

By this time the Imperial interests in Irish finance had been defined and defended as the finance clauses reached their final form. The considerable work and effort in this was both for legislation and propaganda purposes. A preliminary draft of the 20th was refined and all but accepted on 22 June. The key points in the new draft were the admission and correction of the Irish Excise error with the new balance sheet and the fixing of the financial arrangement itself.

1. Establish a provisional term of 6 years.
(During 6 years)
 2. no change in fixing, managing, or collecting present Taxes.
 3. Ireland may establish new taxes.
 4. Ireland's contribution to be 1/3 of her ascertained revenue.
 5. And whole yield of any tax imposed on her by Parliament expressly for war or special defence.
- (After 6 Years)
 6. Irish contributions and financial particulars to be revised: Ireland to collect and manage taxes, except Customs, and to fix, except Customs, Excise & Postage.¹³²

With this decided finally the clauses were able to go to the Commons, although the trouble and horrific complexity of moving them through Committee, in the face of avowed Parnellite hostility led Hamilton to speculate that 'the result must be fiendish chaos.' Their actual reception and defence in the House brought him close to genuine despair.

The new financial clauses are of course being torn in pieces by the Opposition. But what else can you expect when you plump down on the Table of the House a bran-new [sic.] scheme, which is necessarily difficult to follow, and about which not one word is said in defence! One can get no Minister to get it up or to decide small points connected with it. Everything is taken for granted; but it is rather an unfair responsibility to throw upon Welby and me, who have no means of defending either ourselves or the scheme.¹³³

¹³¹ BL *GP*, Add. MS 44775 f. 158, 7 June. In an earlier note on the Hamilton (Spring-Rice) plan Gladstone had listed the advantages as being that it avoided charging Ireland with the Revenue Establishments, left Ireland with the power to impose, independently, new taxation, and imposed a 'very low rate of contribution'. From the Imperial perspective the advantages included 'checkmating' Irish opposition to the taxation and that it would both 'simplify and shorten the financial clauses.' BL *GP*, Add. MS 44775 f. 159.

¹³² The draft of 20 June is MS Harcourt dep. 162, ff. 308–17, and the draft and final summaries are BL *GP*, Add. MS 44775 f. 171 (20 June) and f. 176 (22 June).

¹³³ *HD*, iii, pp. 204–5, 22 and 23 June.

The bureaucrat's lament. Fortunately he was able to cheer himself up by working on a Parliamentary brief defending the scheme, and then to console himself with the thought, on the 28th, that with the application of closure 'even the Finance Clauses will somehow or other now be rammed through.'¹³⁴ It was a surreal situation that the greatest moral support for the financial clauses of the Bill, Gladstone always excepted, came from the Treasury and that nobody in Parliament, either on the Government or the Nationalist sides, again excepting the Prime Minister, really believed in it. There was indeed nothing left for the finance then but to ram it through the Commons.

The debate on the financial clauses ended on the evening of 27 July, and Hamilton's summary was that no very serious points had been made against the Bill in what had been 'a rather wearisome debate to listen to.'¹³⁵ Home Rule would continue to occupy and exasperate the House for another month, before gaining a majority of 34 on its third reading 2 September. It was a strange triumph, for it would be rejected almost a week later in the Lords by 419 to 41: point taken, argument dismissed. For Shannon, 'it remained something that the principle of Home Rule had been accepted by the House of Commons. [Gladstone] always insisted on the significance of the analogy of the case of Catholic Emancipation seventy years earlier on that ground.'¹³⁶ Matthew concurred in this, to a degree, seeing it as 'a remarkable exercise in representative politics', but concluding that 'The Government of Ireland Bill of 1893 showed that a Home Rule bill could pass the Commons, but it had not shown that it could do so conclusively.'¹³⁷ Morley, so close to the issue and outcome,

¹³⁴ The draft prepared by Hamilton of "Summary of principal objections to the Finance of the Irish Bill." BL *GP*, Add. MS 44775, f. 168. 'I have revised and amplified this memo on the new Irish finance scheme in the hope of making it intelligible. I should be very much obliged if you will look at it and tell me whether you can follow the memorandum through now without any difficulty. The memorandum has been drawn merely to explain the outline of the new scheme.' MS Harcourt dep. 63, f. 96. *HD*, iii, p. 205, 28 June.

¹³⁵ *HD*, iii, p. 210.

¹³⁶ Shannon, *Gladstone*, ii, p. 547.

¹³⁷ Matthew, ii, p. 338–9.

refused even to assess their achievement, merely describing the process.¹³⁸ Once again and despite his bias, Hamilton's is a balanced assessment.

And so here endeth the second Home Rule Bill: To have got it through the House of Commons in any shape is a wonderful tribute to the genius of Mr. G.; but will it, marvellous as the *tour de force* has been, add to his reputation? I doubt it. He will have unsettled a great deal and settled nothing about the relations between Great Britain and Ireland; and in attempting a settlement on Home Rule lines he has given to so many of his former colleagues and followers an excuse to break away from him and the Liberal or advanced party of the future.¹³⁹

And yet there is something to be said for having established a point of principle in a House of Commons elected on the reformed franchise of 1886. If this is conceded then Gladstone's subsequent desire to dissolve and fight the election on the issue of the Lords' rejection of Home Rule is more comprehensible.

¹³⁸ Morley, *Gladstone*, ii, p. 557.

¹³⁹ *HD*, iii, 9 Sept., p. 211 and cf., *Ibid.*, p. 199 Hamilton's diary comments of 21 April after the first reading of the Bill.

CHAPTER 9

DEATH AND TAXES

The year 1894 was to be the climax of Gladstone's Premiership and Harcourt's political career; it would also, for both of them, be their nadir. Events and decisions would combine in shocking but not unimaginable patterns that would lead to the final and paradoxical triumph of Gladstonian "Sound Finance," and the end of the Gladstonian era of British Liberalism defined by "Peace, Retrenchment and Reform." The two events which would collide and decide this were the Naval estimates and the financial imperatives of the 1894 Budget. Both of these questions had been held in abeyance since the previous financial year, in fact they had been essentially unresolved as soon as the Unionists departed office in 1892. Only the legacy of the Naval Defence Act of 1889 and Harcourt's postponement of the Death Duties revision from his 1893 Budget had avoided the confrontation. There was now no more fiscal room for manoeuvre.

With the expiry of the Naval Defence Act at the end of the 1893 financial year the question of the future requirements of the Royal Navy could no longer be postponed, at least the Admiralty were no longer content to just keep their powder dry. Three events had conspired to make the 1894 Naval estimates decisive: Fisher's 1 February 1892 appointment as third naval Lord and Controller of the Navy, the loss of H.M. battleship *Victoria* in collision with H.M. battleship *Camperdown* on 22 June 1893¹, and the (unwarranted, if not fraudulent) fears over the French programme of 1890 which had between 1890–92 begun with the building of five new battleships of the *Carnot* class.² These allowed the Admiralty to foment, manipulate and direct a panic over the state of the Navy beginning in the summer of 1893 through February 1894. The campaign was initiated as early as 26 July 1893 when a

¹ This is described in William Laird Clowes, *The Royal Navy. A History From the Earliest Times to the Death of Queen Victoria* (7 vols., London, 1997, reprint of the 1903 edition), v. vii, pp. 415–20. Spencer's explanatory letter to Queen Victoria is in Peter Gordon, ed., *The Red Earl. The Papers of the Fifth Earl Spencer, 1835–1910* (2 vols., Northampton, 1986), p. 224.

² Theodore Ropp, *Development of a Modern Navy. French Naval Policy 1874–1904*, edited by Stephen S. Roberts, (Annapolis, Md., 1987), pp. 223 and 364. Ropp's original dissertation was written in 1937.

provisional program of 5 new battleships and a £1,000,000 increase in the new construction vote was drawn up.³ These desires had by no means been cleared by the Treasury, nor even Spencer, the First Lord of the Admiralty. There was against this the likely prospect of a £1,500,000 deficit for the 1893 financial year (due mainly to a falling off in death duties) to say nothing of the subsequent year's finance.⁴

Lines had been drawn, even before the summer, between Harcourt and Spencer, with Rosebery prominent in his support for the Admiralty demands. These demands were stated in a letter of 26 May 1893 where Spencer pointed out his disagreement with Harcourt's interpretation that the Navy would be at its greatest strength by Christmas. Spencer pointed out that it was in 1896 that 'France and Russia will by then have more ships and we shall only be about equal to them in power', and refuted Harcourt's contention that Russia could be discounted as a naval power.

H. is always hinting that he expects us to cut down Estimates, but I very much fear that the difficulty will be *not* to increase them, for new and additional ships to the Navy mean more men, larger docks etc. etc. ... I am sure that it will not do to stop new construction.⁵

Fisher was putting pressure on to approve a large and increased programme at the end of July, and Ughtred Kay-Shuttleworth, the Parliamentary and Financial Secretary to the Admiralty, advised Spencer that 'it would be for you to consider whether so sweeping a change of ship building policy should be mooted: it would obviously need much

³ Marder, p.191. This coincided with an article written by T.A. Brassey, 'Great Britain as a Sea Power', *The Nineteenth Century*, v. 34, no. CXCVII, July 1893, pp. 121–30, who argued that the Royal Navy was 'by no means sufficient for our needs.' p. 130.

⁴ £1,540,000 according to the Treasury forecast. PRO T168/30, 2 Oct. 1893, see also BL *HD*, Add. MS 48661, 3 Oct., f. 76. Hamilton had a month earlier complained to Ward of *The Times* about their violent and unfair attacks on Gladstone and the Liberal Government. He was told that the new age of business and politics made such impartiality for newspapers a thing of the past. 26 Aug. 1893, f. 42.

⁵ Spencer to Rosebery. Gordon, ii, pp. 223–4. Harcourt had the week before sarcastically written to Spencer that 'I am glad to find that the French pessimists are a match for our own.' MS Harcourt dep. 46, f. 77, 15 May 1893.

consideration from many points of view.' Rosebery responded emphatically the next day:

'You must I am afraid increase your Mediterranean strength.⁶

These did not find Harcourt resting on his oars. He was vehement in his attacks on the Admiralty facts and figures to calculate the strength of the navy and, furthermore, was not afraid to make his own analysis and calculations. From his efforts he was able to conclude that the French and Russian threat was not credible, especially as he noted the construction time of French building.

If that is not an overwhelming [British] naval superiority I don't know what is. The timidity of these modern admirals and sea captains, I confess, dismays me. ... I am very anxious to bring your admirals to book in particulars, and not to let them ride off in vague generalities.⁷

Spencer stood behind his Admirals and their calculations, but he did send Harcourt two papers 'drawn up at the Admiralty and approved by the Admirals.'⁸

The end of October and beginning of November confirmed the gloomy financial prospects, with Harcourt fully committed to the 'consolidation, uniformity, simplification and graduation' of the Death Duties. He was also determined to redeem the Naval Defence Annuity which would be treated as any other debt and liquidated by way of the Sinking Fund. The problem continued to be the deficit incurred by a falling off in the 1893 Death

⁶ Gordon, ii, pp. 225–6, 28 and 29 July 1893. Gordon, following Marder, here asserts that Admiral Sir Frederick Richards, the Second Sea Lord (he would succeed Admiral Hoskins as First Sea Lord in Nov. 1893), was the driving force behind the large building programme and Fisher his right hand. Marder, p.176, says of Richards that 'he was from the beginning determined to quash any cheese paring tendencies' and 'was a standing terror to the Chancellor of the Exchequer and those politicians who had too much regard for fiscal considerations.' It appears unlikely that he had this effect on either Harcourt or Gladstone. If it is true that Fisher's was only a subordinate role then he was a tool of genius and learned his lessons brilliantly for the 1906–10 battles with the Liberal government. Yet in the words of another Fisher biographer, 'Fisher's influence in bringing this about was profound.' Richard Hough, *First Sea Lord* (London, 1969), p.98. Nicholas Lambert makes note of 'Fisher's ability to exaggerate the magnitude of the German naval menace, blur the true strength of the Royal Navy and conceal the real direction of British naval policy.' *Sir John Fisher's Naval Revolution* (Columbia, S.C., 1999), p .8. Rosebery continued his pressure in favour of the Navy in September through Campbell-Bannerman, Gordon, p. 227.

⁷ MS Harcourt dep. 46, ff. 79–82, 28 September 1893. The Admiralty agreed with him, in 1890: 'Our great superiority in ship-building power enables us to produce with ease the ships necessary to arrive at this [two]power standard.' PRO CAB 37/29/3 of 1891 [dated 3 Jan. 1890], p. 1.

⁸ MS Harcourt dep. 46, f. 85. Fisher had, on recollection, described Spencer as a "perfect gentleman" from his dealings with him at the Admiralty. His description of Harcourt, from the same time, was a "genial ruffian". Hough, pp. 93 and 96.

Duties, which Harcourt intended to use as a club to beat down the 1894 Estimates, warning the Cabinet that ‘there will be a considerable deficit this year and that ends won’t meet by a long way next year, and urging therefore all Ministers to avoid supplementary estimates this year and to keep down expenditures next year.’ There was the “confidential” and official warning from Hamilton to Harcourt ‘that unless the last six months are better than the first six months, we may have to face a deficit of 1½ millions on Revenue.’⁹ The Naval demands marched in lockstep with the projected deficit, and Rosebery gave Hamilton a preview of the Cabinet divisions over the Navy which would soon become (almost) public. Due to Russian and French amity and the French fleet in construction he would ‘stipulate for further strengthening of our Naval Defences.’¹⁰ It was in fact the next two days that were to count, as *The Times* began a campaign to put pressure on the Government’s naval policy. Hamilton could see the writing on the wall. ‘Lord Spencer will have his work cut out for him. The periodical Naval scare has commenced its appearance: and he will have no easy task in steering between Scylla (the British public or a section of it) and Charybdis (an impoverished Exchequer).’¹¹

It was indeed the outbreak of another naval scare, but one far more calculated and irresistible than any which had preceded it. The great paradox was that it should occur just at the time when the Navy was indeed better positioned against its rivals and in a greater state of efficiency than for many years. For it was above all a political agitation, calculated to take advantage of the Liberals’ vulnerability to charges of neglect of imperial defence. A series of four leading articles made their appearance in *The Times* beginning 6 November 1893 entitled “The Strength of the Navy and the Need for a New Programme”.¹² This series was constructed of four main arguments: an attack against Treasury control over and financial limitation of naval estimates; an elaborate apology for the old Naval Defence Act

⁹ *HD*, iii, 26 Oct. and 3 Nov. 1893, pp. 212–3 and PRO T168/30 of 2 Nov.

¹⁰ BL *HD*, Add. MS 48661, 4 Nov., f. 113.

¹¹ BL *HD*, Add. MS 48661, 6 Nov., f. 116.

¹² *The Times*, 6, 13, 17 and 20 Nov., pp. 7, 8, 8, and 8.

and a demand for another one; the need for naval superiority in the shape of a two power standard; and that naval superiority over-rode all other Party and Parliamentary considerations, 'we are not to be cozened into bartering it for a few paltry millions.'¹³ The goal was explicit, to remove

the unseen control of the Treasury, always insidious and very often mischievous, and the baleful power of the Executive Government of the day to make the naval expenditure dependent on its transient financial or party exigencies.¹⁴

This was to neatly turn on its head Gladstone's arguments from "Sound Finance" for the annual provision of estimates under Parliamentary control so as to ensure scrupulous accounting and control of public funds towards the goal of a balanced and transparent budget. Democratic accountability and responsible government were to be overturned and rejected in favour of a military primacy. Peace, Retrenchment and Reform for War, Expenditure and Military Dictatorship. Solon for Alcibiades. Gladstone and Harcourt recognized this.

The Naval Estimates themselves would be the result of a dialectic process, and while there was the expected Parliamentary response to *The Times* article,¹⁵ it was within the administration itself that the argument played out, at the very highest levels. Gladstone and West were the intermediaries between Harcourt and Spencer although none concerned realised at this time how great was the distance between them. Worse, Gladstone and Harcourt did not realise that they, and not the First Lord of the Admiralty, were becoming isolated on the issue. Perhaps the Prime Minister was coming to beware the ides of March, for at this time he was reading *Julius Caesar*.¹⁶ Rosebery was from the beginning Spencer's

¹³ *The Times*, 17 Nov., p. 8. There was also much made of the Navy's insufficiency of cruisers and torpedo boats, a further suggestion of official inspiration for the series.

¹⁴ *The Times*, 20 Nov., p. 8.

¹⁵ 4 H 18. 348, 7 Nov.

¹⁶ *GD*, xiii, pp. 324–5, 13 and 15 Nov.

stauncest and most voluble ally in Cabinet, and he was encouraged in this by the Queen.¹⁷

This was followed by the inevitable yet painful report from Shuttleworth. Admitting outright the enormous difficulties ahead he urged the need not only to come to a decision for 1894–5 but for five years into the future as well. The inspiration was quite clear. ‘The idea of the Sea Lords (at least this is Fisher’s rough impression) is a Programme of New Construction totting up to 22 millions. They wish to do this in 4 years.’¹⁸ Fisher’s impression was ambitious, and it was repeated (and amplified) in the ‘Memorandum of Meeting to discuss Programme of New Construction, April 1, 1894, to April 1, 1899’.¹⁹

Spencer did not think that Harcourt’s proposed reallocation of ships to the Mediterranean was the solution as it would cause ‘a terrific storm abroad to satisfy an exaggerated scare at home.’ Hard at work and ‘deep in Estimates’, he nonetheless had the courtesy to acknowledge Harcourt’s assistance. ‘Although I do not think it likely that I shall be able to agree to all criticisms and remarks, they are useful to me ... for I shall be able to use them to test the work which is now going on here now.’²⁰ The Admiralty position came very close to an implicit challenge of civilian control of the military, and therefore, in the British case, of executive responsibility and Parliamentary supremacy. This is the necessary context in which the naval debate of 1893–4 must be placed. It was not simply a case of Treasury cheese-paring or ‘insidious and mischievous’ Treasury control of naval expenditure. It was a battle over responsibility and democratic accountability. It was hardly a surprise that Gladstone would see this as militarism, and a dangerous precedent for both Britain and Europe.

¹⁷ Rosebery wrote on 16 Nov. that he ‘shares your Majesty’s feelings in the fullest degree.’ She noted on 24 Nov. that she talked to Rosebery ‘of the anxiety that the Navy should be increased.’ G.E. Buckle, ed., *Letters of Queen Victoria*, 3rd series, v. 2, 1886–1901, (London, 1931), pp. 321 and 327.

¹⁸ Gordon, ii, p. 229, 17 and 18 Nov.

¹⁹ PRO CAB 37/34/54, dated 21 Nov. The aggregate cost of the ‘Minimum’ programme in this was £23,325,000 and for the ‘Desirable’ programme it was £30,095,000.

²⁰ Spencer to Harcourt, MS Harcourt, dep. 46, ff. 93–4, 28 Nov.

The programme of construction from the 21 November Admiralty board meeting represented the steeled resolve of the Admirals to impose their will on the government, thus the ‘minimum’ and the ‘desirable’ programmes.²¹ The opposition was also gaining resolve, for now Gladstone himself was taking notice of the navy scare and the skirmishing between Harcourt and Spencer was giving way to battle. Spencer again supported his Admirals’ classification and calculation of strength of the relative navies, ‘the naval men consider that these French ships cannot be brushed on one side, and would be formidable ships in battle,’ and closed by asking ‘will that satisfy the Admiral of the Exchequer?’²² Of course it did not, for the financial implications of the naval programme were starting to emerge out of the fog of war. ‘He would not give me a figure; but I hazarded a guess, that the Navy estimates would be up a million next year. He said, “I fear more nearly 2 millions.”’²³ That is to say, at least an additional penny on the income tax.

The subject of increased Navy Estimates is a thorny one, for Mr. Gladstone said the other day he thought it was best to refuse fresh expenditure, etc., resign, and go to the country on it —and what a smash it would be! but little does Mr. Gladstone think how the people love expenditure but hate paying for it!²⁴

What is important is the suggestion that at this, the very earliest stage of the debate, Gladstone considered it a matter of such an important principle as to merit resignation and an appeal to the people.

What may indeed have made Gladstone unwell was the Admiralty’s “Programme of New Construction. 1894–95 to 1898–99.” This was an additional statement to accompany the Memorandum of 22 November which confirmed that it was necessary a minimum of

²¹ Marder, p. 190, states that it was here that Richards ‘resolved to take the bit between the teeth.’

²² Hutchinson, ed., p. 222, 1 December 1893; MS Harcourt dep. 46, ff. 95–6, 2 Dec. 1893.

²³ Hamilton’s recollection of a discussion with Spencer, BL *HD*, Add. MS 48662, f. 9, 4 Dec 1893.

²⁴ West also noted that Rosebery informed him on the 8th that ‘the Queen knows that a Naval Scheme is preparing and writes to say the Government had been apathetic, but she had stirred them up.’ Hutchinson, p. 225.

seven battleships be included in the Programme for 1894–5 and that expenditure on armour should be considerably increased. The aggregate cost of the programme was estimated at £31,000,000 over five years, and in this was the key yet unstated gamble by the Admiralty that they could again impose another five year Naval Defence Act, with or without that label, on a Liberal government.²⁵ Harcourt was immediately writing Spencer in language which might be thought incendiary by anyone else. ‘I do not consider the Admiralty are acting fairly towards the country in allowing panic to be created with reference to the conditions of our Naval Defences by false statements circulated by persons interested in getting up a scare without any official statement of the true facts of the case.’²⁶ Spencer in reply was moderate but adamant in his position. He believed that a statement would ‘do more harm than good’ as it would expose questions about the torpedo boats even as it reassured as to battleships. ‘At the same time I do not want to proclaim our weakness to the world.’ Manning levels in the fleet were insufficient and ‘not altogether a matter for boasting’ while above all it was first necessary to come to an agreement as to what the naval programme was to be. ‘I do not know what you and Mr. Gladstone and the Cabinet will say to our programme which I admit is a very serious one, and will I fear meet with your opposition. ... When this serious question is settled by the Cabinet, it may be desirable to make an authoritative statement.’ There was a subtle yet unambiguous threat that if Harcourt were to make a statement ‘independently of the Admiralty’ Spencer would resign.²⁷ The Chancellor of the Exchequer saw and raised him with a resignation threat of his own, but he agreed that

the sooner the Cabinet make up their minds whether with the prospect of a deficiency of at least £3,000,000 in the coming year they propose largely to the Military and Naval Expenditure of the country the better. This Government has thoroughly proved itself to be the most extravagant and reckless in its expenditure of any which has existed for many years and if it is

²⁵ PRO CAB 37/34/57, 8 Dec. 1893.

²⁶ MS Harcourt dep. 46, ff. 97–8, letter to Spencer [copy] 9 Dec. 1893.

²⁷ MS Harcourt dep. 46, ff. 99–100, letter from Spencer, 10 Dec. 1893.

resolved to be still more extravagant in the future the sooner it retires the better.²⁸

Fortunately there was an external threat which at least temporarily united Admiralty and Treasury in defence of the government.

Lord George Hamilton, the former Conservative First Lord of the Admiralty, had put forward a motion to demand an immediate increase in the strength of the navy. Harcourt took a clear lead in dealing with the motion because he thought it could be manipulated to deal with the naval problem in and out of the house.

Though I have supplied you with materials which will be very important when we come to close quarters on the subject of expenditure I think at the present moment it would not be expedient either in the Cabinet or in the House of Commons to enter on the merits of the question.²⁹

What Harcourt proposed was to convince first the Cabinet that there should be no discussion of the merits of the motion or what the proper policy should be, because that 'might lead to differences of opinion which it is better at present to avoid.' Yet rather than a simple negative of the motion he proposed to defeat it with an amendment which Gladstone was himself to move 'putting directly in issue the true ground of our resistance viz. the responsibility of the Ministers of the crown and a direct assertion of the confidence of Parliament in their due performance of their duty.' Harcourt felt that this tactic ought to bring even the wavering supporters of the Government to its defence, while strategically it might be the 'most potent appeal to the Party and the country. If our men will not support us on this the sooner we throw up the cards the better.'³⁰ What is most significant here is that at this time before the naval estimates had even been seriously thrashed out between the

²⁸ Harcourt to Spencer, 12 Dec. 1893, Gordon, ed., ii, p. 231.

²⁹ Harcourt to Gladstone, BL *GP*, Add. MS 44203, ff. 143–7, 12 Dec. 1893. In this he had Spencer's encouragement and thanks, see MS Harcourt dep. 46, ff. 105–6 and f. 109, 12 and 13 Dec. 1893.

³⁰ Harcourt to Gladstone, [copy] MS Harcourt dep. 13, ff. 219–21, 13 Dec. 1893. Harcourt sent Gladstone multiple copies of his proposed amendments.

Treasury and the Admiralty, let alone put before the Cabinet, Harcourt and Gladstone had recognised the danger and were working energetically to torpedo the Admiralty proposal.

The following day's Cabinet unfolded as Harcourt had suggested: the motion was to be treated as a vote of confidence and Gladstone was to move the amendment. He then read to them the Queen's letter of 7 December, and in his reply to her explained that Lord George Hamilton's motion 'substitutes the House of Commons for the executive in the discharge of its capital duties [preparation of estimates]... It also entirely subverts our established administrative and financial system' by demanding the naval estimates before they could be prepared.³¹ Still, Gladstone had grasped the more ominous portents of that Cabinet, as he described explicitly in a letter to Morley. The 'motion for a Navy scare' was the 'most factious and dangerous motion I have ever known announced from the opposition Bench' and he was dwelling in the realm of political tactics, when he stated 'it is regarded as good for us in a party view.' It was his Cabinet and government which worried him.

In my view they seem to indicate another of these irrational and discreditable panics which generate one another and to which Spencer will probably feel himself obliged to bow; or will think himself so. They seem to indicate a large increase of the Navy estimates probably with most unsatisfactory financial consequences. Many of the Cabinet remained silent. But on the whole and excepting the protests of Harcourt, economy appeared to be not dying but dead. With these indications upon me I felt myself bound in honour to say that I could in no way pledge myself to take part in proposals of such a colour and must reserve active liberty of action which as S. fairly enough said was "very serious".

Hardly less significant was Gladstone's request of Spencer the following day for copies of the Admiralty papers sent to Harcourt about the relative strength of battleships and

³¹ *GD*, xiii, p. 338; *Buckle, Q*, ii, pp. 330–1, 14 December 1893.

cruisers.³² The first and second lords of the Treasury would have to hang together or they would be hanged alone, unless of course Harcourt shot himself first.

Spencer told West that the Board of Admiralty would resign if they did not get the money they wanted, which money was more than Harcourt was prepared to spend. West added, 'I fear [Gladstone] does not realise what everybody else does, the necessity of expenditure, even if it were only for torpedo catchers, which Harcourt even is prepared for.' Further discussions involving Spencer and Gladstone made it clear to him that the navy demands would not go away and that Gladstone, who 'talked in a melancholy vein about economy now dead' would not agree to them. 'I think the time is fast approaching when he should retire.' He soon felt that he had no choice but to confront him with the gravity of the situation. Gladstone was informed that his views about the navy were not shared by many and that both the Board of Admiralty and Spencer would resign if 'they did not get the millions they required.' He tried to bring Gladstone round by persuading him that duty to Ireland could not be thrown up for 'the sake of a few millions.' The response was evasive, 'perhaps he did not care so much, if the country wished it, to spend the millions, but he could not permit the whole system of paying off the National Debt to be abandoned.'³³ Or perhaps he was ambiguous about the direction of popular government and fiscal policy, unwilling to tarnish his legacy by undermining his fiscal system. Was this a paradox of popular government or a contradiction in fiscal terms between the joint responsibility of electorate and executive over expenditure in a parliamentary democracy? Gladstone's behaviour suggests the former.³⁴

³² *GD*, xiii, pp. 339–40.

³³ Hutchinson, pp. 227–9, 14, 16 and 18 Dec. 1893.

³⁴ The naval question brought this out in stark simplicity. 'The reformed House of Commons looked upon expenditure from a standpoint very different from that adopted by the Parliaments of 1832 to 1885.' This was due now to the domination of the middle class according to Lord George Hamilton, ii, p. 60. David Brooks argues that Gladstone had come to realize this, 'as he now confessed privately, he dreaded "the Democracy's first use of power.'" *Gladstone's Fourth Ministry 1892–94. Policies and Personalities*. Unpublished Cambridge Ph.D. thesis, (1975), p. 40.

In his speech in support of the motion Lord George Hamilton insisted that Britain must uphold a two power standard for its naval policy and that after the expiry of the Naval Defence Act in 1894 it would start to lose that supremacy with respect to France and Russia. Cost was no object, 'the duty of the Chancellor of the Exchequer, so far as Naval Expenditure is concerned, thus being simply to provide the amount of money required under the Act.'³⁵ Gladstone in reply was careful to refute that argument without making future commitments. He pointed out that British shipbuilding could do in three years what would take France four and a half, and that advantage was increasing. He insisted that to accept the motion would undermine both executive responsibility and Parliamentary accountability. 'We rest on the principle of annual account, annual proposition, annual approval by the House of Commons ... which will secure Parliamentary control.' He concluded by stating emphatically that the British navy was not only greater in strength than any other country but was stronger than any other two. 'There is no state of danger and emergency in the present.'³⁶ In this he had made a success of the tactics recommended by Harcourt and they might have hoped for a strategic triumph as well. Except that Harcourt by his intervention in the debate managed to snatch defeat back from the jaws of victory.

'I will tell you exactly how these things stand' was how the fateful intervention began. He assured Parliament as to the 'absolute' supremacy of the present navy, dismissed almost entirely the Russian navy and claimed that in 1898 there might hypothetically be a ratio of 22 British to 24 French and Russian ships but only if Britain didn't build any more and the French and Russians were capable of actually building theirs.³⁷ 'As regards the future, do not for a moment doubt that we mean to maintain the supremacy of the British

³⁵ 4 H 19. 1771–88, 19 Dec. 1893.

³⁶ 4 H 19. 1789–1803. This precise statement as to the strength of the navy had been agreed by Spencer and Gladstone on the 16th, Hutchinson, p. 228. This was sufficient, just, to mollify *The Economist*, which believed that the Navy must be 'sufficient to overpower any probable combination of enemies.' 23 Dec. 1893, p. 731.

³⁷ They were not. On 1 Jan. 1900 Britain could range 39 battleships against 11 French, 12 American and the formidable 14 of Russia, the last of which would within 5 years give a conclusive demonstration of its naval efficiency and Harcourt's powers of analysis.

Navy.³⁸ It did not prevent the government's amendment from being carried by a majority of 36, but it completely incensed the Admiralty. 'The situation almost hopeless when a large minority allows itself in panic and joining hands with the professional elements works on the susceptibilities of the people to alarm' was Gladstone's weary conclusion.³⁹

Harcourt 'must have been aware of the fact that the sea lords had threatened to resign if an optimistic statement with no large naval increase were announced.'⁴⁰ In this they were as good as their word. In an immediate letter to Spencer they reiterated their demands of 22 November that seven battleships be laid down in 1894, the creation of 'at least 80 Torpedo Boat Destroyers in the shortest possible time, and no matter what the cost', and the need for additional cruisers. It got worse. 'Having regard to the above statement of fact, it is not understood on what grounds Sir William Harcourt in the debate yesterday made the following statement, under which we are unable to rest.'⁴¹ They were not alone, although their Minister was by no means as outraged. Spencer did not like Gladstone's speech, 'he fell into arguments which I implored him not to touch ... and was not in tune with the feeling of the House.' As to Harcourt, Spencer did not object to his statement, it was the attribution of Admiralty approval which was the problem.⁴²

There followed a series of letters between Harcourt and Spencer in which the former had to come to suitable terms in the draft of his apology to the Admirals. In his

³⁸ 4 H 19, 1877–83. What most incensed them was the implication that Harcourt's information had 'come from the highest authority.' Gardiner, ii, p. 250. Hamilton could only agree that 'it is a very awkward question; for we cannot afford to lag behind in shipbuilding; and the more we build, the greater will be the efforts of other powers.' BL *HD*, Add. MS 48662, f. 23, 20 Dec. 1893.

³⁹ *CD*, xiii, p. 342, 19 Dec. 1893.

⁴⁰ Mander, p. 199. Of course Spencer had himself threatened to resign if Harcourt made an independent statement. See above, p. 220.

⁴¹ Gordon, ii, p. 232. This letter was signed by all four Admirals on the board: Richards [now First Lord], Kerr, Fisher and Noel.

⁴² In fact Spencer provided Harcourt with tables working out schedules of completion and distribution of the fleet on the 18th, MS Harcourt dep. 46, ff. 111–6. Spencer to Rosebery, Gordon, ii, p. 232–3, 20 Dec. 1893. Rosebery did not like the speech at all. 'At the moment when a clear and decisive note should have been sounded in Europe, which would have anticipated many evils and guaranteed peace, ... what was wanted quite as much as new naval strength was the moral effect of a timely if general declaration.' Rosebery to Spencer, *ibid.*

letter Harcourt questioned the accuracy of *The Times* report of his speech, and denied mocking the authority of the Admiralty or their building programme.

I never heard till today of any suggestion of laying down 7 Battleships in 1894. No mention of such a project was ever made to me or in my presence at the Admiralty or elsewhere. ... I hope you will explain this to your admirals as I am very grateful of the kind trouble they took to give me the information I desired and I should be very sorry to think that they considered I had in any way misrepresented their views.

Spencer to Harcourt: 'I fear however that they will press for some public announcement to put them right.' After further refinement Lewis Harcourt noted: 'The admirals agree and are grateful but want the word "completed" inserted.' The statement was duly made in the Commons the same day as Harcourt refined his earlier statement to mean 'first class battleships completed in the present financial year.' All had ended well and Spencer informed his wife that 'after some struggle and correspondence. W.V.H. volunteered to make a statement in the House and to my joy my Admirals agreed to accept it.' Of course he did further note that the next week he and Harcourt would have to try and settle the navy estimates. Gladstone informed Rosebery of the same.⁴³

The Treasury had first to calculate the probable burden of the Navy estimates before Harcourt could be prepared to battle Spencer over their precise amount. There was in any event due to the nature of the Naval Defence Act a greater complication in knowing exactly where they stood as to the authorised borrowings offset against spending actually incurred on new construction. Hamilton had been charged with working this through and he was able to report that the act was in fact winding itself down 'in terms of payments required, for shipbuilding.'⁴⁴ This left then only the repayment of the loans outstanding, and so raised for them the question of how to deal with the outstanding obligations, by following through

⁴³ MS Harcourt dep. 46, ff. 117-25; 4 H 20. 112; and Gordon, ii, p. 233. *GD*, xiii, p. 343.

⁴⁴ PRO T168/30, 22 Dec. 1893, Naval Defence Act 1893. Hamilton was also able to report the good news that there was in fact a margin of £289,000 available which would further reduce the debt. MS Harcourt dep. 63, ff. 154-7, 25 Dec. 1893.

with the act or, more drastically, repealing the act and making a special provision for repayment. Harcourt favoured the latter, and Hamilton provided him with two options. The first was to make a direct assault by applying the Sinking Fund towards it, the second to only appropriate a fixed amount, £1 to £1.5 million, of the Sinking Fund. Harcourt pressed for the first option, 'I would rather charge the whole fund for two years and then have it clear for the future.'⁴⁵ This was a significant step, for it would force the provisional deficit further into the red and at the same time increase the taxation necessary to meet it in the financial year, as borrowing could not be countenanced. It was the bold decision of a "financial purist", for Harcourt could not abide what he saw as the needless confusion of government accounts and debt calculations by this footnote finance, better by far to simply admit to it as ordinary debt and pay it off manfully by the customary and sanctioned manner of the Sinking Fund. But it did make things worse for the present and next year's finance.

It also seemed likely to make things worse for Spencer and the Admiralty, as Harcourt began their estimates haggling where he had left off, complaining about the facts and figures he had been supplied about the navy. Spencer would not be rebuffed, and his reply was both firm and decisive. Harcourt's complaints were dismissed as a simple inability to listen to what he was being told. He insisted on his right to give his opinion on the estimates before a Cabinet consensus had been reached, otherwise 'he would not be doing his duty.' He was willing nonetheless to 'meet reasonable objections and criticisms and especially counsel as to money with the Chancellor of the Exchequer.' The estimates were not the result of a scare, but followed naturally on the winding down of the Naval Defence Act.

It would have been wrong for a new board before they knew anything of their work to play with anything new and large. ... We always knew that we should be obliged to enter upon a large expenditure this year. I did not, I

⁴⁵ Hamilton was more cautious, 'There is some advantage in not having the whole of the Sinking Fund strictly appropriated; while on the other hand the fact of it being mainly appropriated is a distinct safeguard.' PRO T168/30, 28 Dec. 1893. Harcourt had been thinking along these lines as early as 25 Nov. 1893, BL *HP*, Add. MS 48615B, f. 57.

admit contemplate ... [before 22 Nov. 1893] anything as large as what we have before us.

There followed a breakdown of the estimated £4,750,000 expenditure for new construction in 1894–5, the key expenditure roughly divided amongst the seven new battleships, the cruisers and the Torpedo boat destroyers.⁴⁶ The great significance of this was that Harcourt was about to strike his pennant and surrender to the Admirals.

Harcourt began his negotiations with Spencer on the same day as meeting Gladstone 'on the great Admiralty scare'. Gladstone's diary records 'Subjects of last night *stiffens* in my mind more and more', an indication of just how the Prime Minister's opposition to the navy expenditure was hardening just as his first mate prepared to abandon the ship. A letter to Morley stated his position clearly.

In our Naval debate I personally laid it down in strong terms that there existed no condition of Naval danger or I think emergency. I am at present puzzled to find an answer to the question how, as a matter of honour, such a declaration would stand in the light thrown upon it by the adoption a month afterwards of the stronger scheme which was in our mouths last night.⁴⁷

His puzzlement must have turned to bewilderment upon receipt of this letter from his Chancellor of the Exchequer.

I have been examining the Admiralty figures tonight with the help of Shuttleworth and find that they appear a very different colour from that which they bore as Spencer related to me. Spencer is not an adept at figures and had failed to appreciate the true effect of Goschen's borrowing device under the Naval Defence Act. I find that the average expenditure on New Construction in the last 5 years has been:

Out of Votes £2,500,000
Out of Consol. Fund 2,000,000
4,500,000 [sub-total]

Shuttleworth articulates that the proposals which Spencer is to bring forward will raise the Expenditure on New Construction to 5,000,000 which is only

⁴⁶ Gardiner, ii, p. 249, MS Harcourt dep. 46, ff. 138–45 and f. 148, which notes a further six *Talbot* class cruisers would raise the cost to £5,000,000.

⁴⁷ GD, xiii, pp. 344–5, 27 and 28 Dec. 1893.

500,000 above the average expenditure of the last 5 years.

There will be in addition to this £1,000,000 for increase of other Votes, viz. Works Establishment &c. so that in the whole as far as I can ascertain the actual increase on Navy Votes will be 1,500,000 above the average of the last 5 years which is a very different thing from the 4,000,000 reported by Spencer who took no account of the 2,000,000 now supplied out of the Consol. Fund.

I will explain this to you at length when I see you on Monday.

Gladstone's response was near incredulous.

An exceptional expenditure having been proposed by the late Govt. to make up arrears and lay in a stock for the future – and having been a good deal objected to for excess (as well as on financial grounds) by the Liberal party – it is proposed to adopt a rate equal to the whole of that exceptional expenditure, and to add to it a million and a half?⁴⁸

This was the precise point at which Gladstone found himself alone against the naval expenditure and his Cabinet.

1894 began for Gladstone with an attack on the navy programme after thoroughly working through the figures with the assistance of Hamilton: 'they seem but too conclusive.' He had found that the average naval expenditure for the five years before the Naval Defence Act was about £13 million, even when taking account of the 1885 crisis and vote of credit. This he took to be the normal naval expenditure. Over the five years of the act the average expenditure was £16,190,000 and thus an increase of £3,190,000 over normal. Even in 1894–5 after the expiry of the act there was still to be paid the annuity of £1,429,000 which would raise the normal expenditure to at least £14,429,000 and he thought closer to £15 million. Now on top of this and in time of peace was to be added the Admiralty demand for £4 million which would thus raise the normal expenditure in 1894–5 to at least £18,429,000. Even if the annuity were excepted the figure was unprecedented and would

⁴⁸ BL *GP*, Add. MS 44203, f. 156, 29 Dec. 1893, and *GD*, xiii, p. 346, 30 Dec. 1893. Morley concluded the year with a letter to West speculating that on account of the Navy Harcourt would have to find an additional £4 million in taxation. Hutchinson, p. 231.

still be £810,000 higher than the average during the five years of the Naval Defence Act.

Having seen Harcourt and interrogated Hamilton on the figures Gladstone was 'greatly exercised in his mind. It was, he said, a step taken by this country for the first time to join in the race of Europe for huge armaments. It was a grossly exaggerated scare. Had the country gone mad? he was tempted to ask.' He had left Hamilton, who knew him so well, in no doubt that he would not assent to the increase and that 'a great political crisis' was likely.⁴⁹

Spencer seemed to understand perfectly the situation, Harcourt alternating between abuse and attempts to find the money, Gladstone opposed and Morley noncommittal but likely to support the navy.⁵⁰ Gladstone had written him contending with some of his Admiralty calculations, the position of the Russian Black Sea fleet and the danger of a five year plan or act binding the estimates of the future. Most importantly he disputed the whole outcome of the Naval Defence Act. 'The promise, not the mere hope, under the N.D. Act was double: it was 1. to make up arrears, 2. *to lay in a stock.*' He promised to meet him next day to discuss it and further sent along a memo of his calculations.⁵¹

Gladstone's analysis again concerned the growth of the Admiral's £4,240,000 programme over the Naval Defence Act both as to the expenditure itself, the militarism which it represented, and his own personal position. 'He could not stultify the work of his life by adopting what he looked upon as militarism, which he had always resolutely and effectively opposed...', but he also admitted to West that his physical decline in eyesight and hearing made it 'impossible ... to stay on.'⁵² This last revelation caused shockwaves, not so much as to cause but to implications, and his colleagues conspired to forestall his resignation, at least on this subject.⁵³ In writing to Morley on the 5th to summon a Cabinet

⁴⁹ *GD*, xiii, p. 348, BL *GP*, Add. MS 44776, f. 1, and *HD*, iii, p. 216, all 1 Jan. 1894.

⁵⁰ Spencer to Rosebery, Gordon, ii, 2 Jan. 1894, p. 233.

⁵¹ Gladstone had seen Harcourt 'on the Navy imbroglio: rather severe. Worked further on Navy question.' *GD*, xiii, pp. 348–9.

⁵² He also thought the figure likely to increase. BL *GP*, Add. MS 44776, ff. 11–12, and Hutchinson, p. 233.

⁵³ See Morley to Spencer, 4 Jan. 1894 in Gordon, ii, p. 234, who reports that Gladstone was 'extremely angry with W.V.H.' It was indeed a conspiracy on many levels, for Morley's role as intermediary between Gladstone and Spencer was not disinterested, as he had come round to support the navy. He was also among the group

he hinted at the peculiar personal position he held with respect to Europe and then rounded on the naval estimates again.

As you are my depositary, I request you to take particular note that my concession (so to speak, and it is only one from my point of view) would admit in round numbers

1. of an increase of 2½ millions on the normal Naval Estimate (of 1888–9) being equal to the augmentation actually made upon it under the Naval Defence Act in the *first year* 1889–90.

2. of an increase of a million on the estimates or voted monies of the preceding, i.e. the present year—not upon its total expenditure.

This is so large a proceeding that it requires effort to justify it to myself.⁵⁴

He had worried West with his good mood and absence of Navy talk, especially as Spencer and Morley were in no such mood, and the former's concession of '£1,000,000 instead of £3,000,000 looked bad.'⁵⁵

It was considerable concession on Spencer's part but did nothing for Gladstone's position, being still £3½ million over normal and £2 million over the 1893–4 naval estimates. Gladstone, in Brighton since the 5th, was on the 6th 'much haunted by the Spectre in front', and the Sunday service inspired him to face it, and on his terms. 'Quite apart from myself, I think the proposal a most alarming one. It will not be the last. It is not the largest piece of militarism in Europe, but it is one of the most virulent.'⁵⁶ Gladstone, *in extremis*, was prepared to spend £15,250,000, but Spencer now demanded £17,249,000 (with the annuity taken into account). All seemed set for the Cabinet showdown.

The other side of the equation was the Budget, and the turn of the year was the opportunity for Hamilton to prepare forecasts for the out-turn of 1893–4 and the 1894–5 estimate. It was very clear nine months into the financial year that prospects were not good.

concerned mainly with the effect of resignation on Gladstone's reputation, along with West and Hamilton (and probably Gladstone himself). Harcourt, Rosebery and others were much more concerned for their party and personal prospects.

⁵⁴ To Morley, 5 Jan. 1894. *GD*, xiii, p. 351.

⁵⁵ Hutchinson, p. 235.

⁵⁶ *GD*, xiii, pp. 351–4. The militarism had begun with Italy's 'immense new Army law of July 1893,' which was both a reaction and catalyst to French and Russian militarism. Taylor, p. 340.

There had already been large borrowings on deficiency and ways and means, only 1879–80 and 1885 on account of military expenditure were comparable, ‘this is a normal year and a year of peace.’ He had warned Harcourt ahead of his forecasts what to expect and was confident it could be dealt with.

It is disagreeable to have to increase taxation; but it has been mainly in connection with difficult and bad times that our greatest financiers (notably Pitt & Peel) have made their reputations; and I believe that a bold course, such as (I rejoice to see) you contemplate, will ensure yours.⁵⁷

Hamilton’s report of 3 January, arrived at after consultation with Milner at the Inland Revenue, predicted a shortfall in the Customs and Stamps revenue of some £910,000 below estimate in combination with a diminution of £183,000 of expenditure and a probable deficit of £551,000, after allowing a suitable margin. There were further uncertainties as to the out-turn of the exceptionally large income tax estimate and possible anticipations on indirectly taxed consumables in March before the Budget.⁵⁸

There followed on the 8th a ‘very rough’ forecast for the 1894–5 Budget. Revenue would be more or less unchanged at £90,496,000, but expenditure would increase substantially, to £95,080,000. This was mainly on account of the anticipated £3 million increase for the navy but also included a further £500,000 on the civil services and perhaps £300,000 on the Army. The anticipated deficit was therefore £4,584,000 and could be reduced by a number of tactics. Termination of the Naval Defence Act annuity of £1,430,000 and the return to the Exchequer of any unappropriated balance in the existing Naval Defence Account, (‘say, £290,000’) along with the appropriation of the Suez Canal share receipts from the Imperial Defence account would yield a possible £1,980,000 and reduce the deficit to £2,604,00. If a margin of £196,000 were allowed then the deficit that

⁵⁷ PRO T168/30, 30 Dec. 1893; MS Harcourt dep. 63, f. 159, 30 Dec. 1893.

⁵⁸ PRO T168/30, 3 Jan. 1894 and MS Harcourt dep. 64, ff. 1–15. Harcourt replied the next day that he was obliged and hoped ‘you may be a true prophet,’ but that he thought the forecast too rosy. BL *HP*, Add. MS 48615B, f. 57.

fresh taxation would have to provide would be £2,800,000. Not a pleasant prospect but a surmountable one, which could not be said of the Cabinet problem.⁵⁹

The 9 January Cabinet resolved everything and nothing. Gladstone in a speech of almost an hour outlined and detailed his opposition. He could not personally 'break himself in pieces' after working most his life in 'a continuous effort for economy.' It ran counter to the Liberal party's principles of "peace, retrenchment, and reform." From a government point of view it required excessive taxation, questionable finance and the abdication of responsibility and control of policy to the 'professional elements' at the Admiralty. The effect abroad would be to encourage jealousy and alarm against Britain and possibly encourage defensive alliances at the same time as to stimulate increased naval expenditure against them. '*Far above all.* Stimulus and provocation to the accursed militarism.' As to the Admiralty proposal in itself, '*the demand is unreasonable.*' It represented a betrayal of the reasons put forward in support of the original Naval Defence Act of 1889 which claimed to 'efface the arrears' and 'lay in a stock' of ships to secure naval supremacy. Now, before even this plan was paid for they were asked to increase expenditure by another £3 million. He questioned the two-power standard, it was not 'cast-iron', especially the way it had been calculated with respect to Russia and France. It ignored that the Austrian, Italian and German fleets would offset them to some extent. If there had to be an increase it ought to be a gradual increase, as indeed it had been under the Naval Defence Act. He kept therefore to his own plan for an increase of £2.5 million on normal expenditure for a total of £15,500,000 and which was still an increase of £1 million on the 1893–4 estimates and almost £500,000 on the actual naval expenditure of 1893–4 when the annuity expence was included.⁶⁰ He persuaded nobody, and his Cabinet colleagues could not move him. The question of his resignation, 'a remarkable course', was raised by Harcourt and Rosebery and

⁵⁹ PRO T168/30, 8 Jan. 1894 and MS Harcourt dep. 64, ff. 16–22.

⁶⁰ Gladstone's notes for the Cabinet. BL GP, Add. MS 44648, ff. 142–5 and Add. MS 44776 ff. 20–1.

‘in the end the matter stood over without a ray of hope against this mad and mischievous scheme.’ ‘The special responsibility is on Spencer and Harcourt.’⁶¹

It is certain that the both of them accepted that special responsibility. Spencer wrote to Gladstone that ‘it was only what I considered the necessity of the case which made me do it.’⁶² Harcourt, as could be expected, was more blunt in his reasoning and to Hamilton he made no pretence at diplomacy in an ‘irate’ denunciation of Gladstone’s behaviour. While he agreed in disliking the naval demands which he characterised as unnecessary and the result of a foolish scare there was no alternative. Spencer and the whole Board of Admiralty would resign ‘(with a probability that no Admirals would be forthcoming to form a new Board)’ along with Rosebery, and the Government would fall. ‘These facts,’ he said, ‘must be recognised; and I am prepared to find the money. If there is to be extravagance, the least harmful form of it is over-insurance.’ Hamilton thought the government, even without Gladstone, was prepared to face this.

I expect [Harcourt] will have to find an additional 3 or 3 ½ millions of taxation. He hopes to get out of his Death Duty scheme about 1 million. He will put on an additional penny or two pennies (if necessary) on the income tax, relieving the landlords under Schedule A by allowing them to be assessed on their net incomes and extending the exemptions in the case of small incomes; and he will increase the duties on Beer and Spirits.⁶³

This was the Budget.

Gladstone was further assailed by Harcourt who challenged his current rejection of naval expenditure with the precedent of the years 1859–60. Harcourt pointed out that in 1861 the charges for the navy and the army were increased £4,000,000 and £2,500,000 above those of 1859. ‘The total addition therefore to the Naval and Military charges to which you then were a party was about double what is now proposed. ... In order to meet

⁶¹ *GD*, xiii, p. 354.

⁶² *Gordon*, ii, p. 236.

⁶³ *HD*, iii, pp. 220–1, 10 Jan. 1894.

this vast expenditure the Income Tax was raised from 5*d.* to 10*d.* and an additional 2 millions on Customs and Excise.⁶⁴ Gladstone did not see it this way, 'I entirely or in the main differ as to your statement.' He explained that the precedent of 1859–63 did not apply because the increases were due to causes, the China war, Italian unification, and tensions arising from the American civil war, rather than in response to a scare, 'though scare had something to do with them.'⁶⁵ Gladstone seems to have wilfully misconstrued Harcourt's comparison and he calculated the increase as only £2.4 million by avoiding the 1859 base date. His own inclination was to look to 1848 for precedents, when an increase had been withdrawn and the estimates reduced. 'The Government proposal for increasing the Income Tax from 7*d.* to 1/ was abandoned almost at once; and the estimates were referred to a Select Committee, by whom they were revised and reduced.'⁶⁶

Clearly, however, the question of precedents had some effect on Gladstone because in his notes he went through the figures in detail and repeated his admonitions of 'excessive taxation', 'shady finance', 'irresponsible professional domination', 'alarm in Europe' and 'stimulus to militarism'. The diary records 'the scheme is in my opinion mad', and the next day 'I am now like the sea in swell after a storm, bodily affected, but mentally pretty well anchored. It is bad: but oh how infinitely better than to be implicated in that plan!'⁶⁷ He then opened a second front against Spencer, questioning the breakdown of naval expenditure after 1894, how much in addition to the £3,146,000 outstanding on the Naval Defence Act would be added by these estimates, and how much was to go for new construction of battleships and torpedo craft.⁶⁸ Hamilton was by now becoming further convinced that Gladstone would resign on the question, 'he whispered to me about the dangerousness of the course on which his colleagues seemed to be embarking. "I foresee,"

⁶⁴ MS Harcourt dep. 14, to Gladstone (copy), 10 Jan. 1894, ff. 1–2.

⁶⁵ MS Harcourt dep. 14, 10 Jan. 1894, f. 3.

⁶⁶ BL *GP*, Add. MS 44776 f. 23, 10 Jan. 1894.

⁶⁷ *Ibid.*, ff. 24–7, *GD*, xiii, pp. 358–9, 10 and 11 Jan. 1894.

⁶⁸ *GD*, xiii, p.360. The answer is in BL *GP*, Add. MS 44776, ff. 31–3, which includes Gladstone's detailed notes on Spencer's plan.

he said, “serious calamities ahead.”⁶⁹ Having fired his salvos the Grand Old Man fled to Biarritz, out of range, at least for a while, of his colleagues.⁷⁰

The precedent of 1859 became so important because it was hoped that Gladstone, who put so much store in them, would acknowledge that what was being asked of him in 1894 was not worse than what he took responsibility for in 1859.⁷¹ The idea originated with Harcourt but was soon inspiring the “Treasury ring” of Welby, Hamilton, and West, even Acton was a party to this ploy while at Biarritz. At the same time Rosebery was working actively to prevent, ‘at all hazards’, a compromise, determined that Spencer should stick to the Admiralty program.⁷² Rosebery was completely dismissive of Gladstone’s concerns for European militarism, believing that Britain needed the navy to maintain its security against that militarism.⁷³ West travelled to Biarritz and made a great effort to reconcile Gladstone to the Cabinet’s position on the navy. He failed completely. None of his arguments as to the effect of a resignation on the Party, his Cabinet colleagues, or even Ireland, would do. The danger to Europe of this naval militarism outweighed everything, and Gladstone entirely dismissed the 1859 precedent.⁷⁴ Gladstone composed his own analysis of his position with respect to “The plan.”

I deem it to be in excess of public expectation. I know it to be in excess of all precedent. It entails unjust taxation. It endangers sound finance. I shall not minister to the alarming aggression of the professional elements ... not lend a hand to dress Liberalism in Tory clothes. I shall not break to pieces the continuous action of my political life, nor trample on the tradition received from every colleague who has ever been my teacher. Above all I cannot and will not add to the perils and the coming calamities of Europe by an act of militarism which will be found to involve a policy, and which excuses thus the militarism of Germany, France or Russia. England’s providential part is to help peace, and liberty of which peace is the nurse; this

⁶⁹ BL *HD*, Add. MS 48662, f. 57, 12 Jan. 1894 and *HD*, iii, p. 222.

⁷⁰ West claimed that as a part of this strategy Gladstone forbade his Ministers holding any Cabinets while he was away in order to avoid the issue being decided. Hutchinson, p. 238.

⁷¹ See Buxton, i, pp. 176–188 for the naval scare and its implications for Gladstone’s budget.

⁷² BL *HD*, Add. MS 48662, f. 68, 16 Jan. 1894. Hamilton is here bitter at the Admiralty Board system, ‘professional men with no responsibility to Parliament can almost dictate their own terms on threat of resignation.’ Also Hutchinson, p. 246, 17 Jan. 1894 for Lewis Harcourt’s intervention.

⁷³ *HD*, iii, p. 225, 19 Jan. 1894.

⁷⁴ Hutchinson, pp. 247–54, 19 and 20 Jan. 1894.

policy is the foe of both. I am ready to see England dare the world in arms: but not to see England help to set the world in arms.⁷⁵

This was an unequivocal statement, and all subsequent attempts to argue him out of it, whether based on the 1859 precedent or others, were doomed to fail. Still they were made.

Hamilton was instructed to send Gladstone facts and figures from the 1859 Budget speech, and he sensed 'this will be rather a poser for him', a precedent not even Gladstone could argue himself out of.⁷⁶ Welby also submitted a letter to convince him of the 1859 precedent, and while that seems to have made a significant impression, Gladstone held firm. 'I am quite sure of my memory,' according to West's recollection.⁷⁷ Pressing the issue became Hamilton's special task, and he was urged on in this by both Gladstone ('still harping on the precedent of 1859') and Harcourt, who was determined to make the most of it.

Your "secret" letter of yesterday was satisfactory as far as it goes. I am extremely glad that you have worked the precedent of 1859 so effectively. ... as I am sure it is the one which will have most effect as "showing" that his "traditions" are all the other way.

Hamilton was instructed to incorporate some additional Harcourt arguments before sending the revision, 'as and from you', to Gladstone immediately so he could 'have time to digest it.'⁷⁸ This did in fact turn the tables, because Gladstone now felt he had enough material to refute the precedent. He wrote to Hamilton and Lord Acton on the 6th, 'my own contemporary exposition of my proceedings at that date which were in my view as compared with the present proposal chalk & cheese.' He wrote to Harcourt the next day,

⁷⁵ *GD*, xiii, p. 364, 20 Jan. 1894.

⁷⁶ *HD*, iii, p. 227, 25 Jan. 1894.

⁷⁷ Hutchinson, p. 262.

⁷⁸ BL *HP*, Add. MS 48615B, Harcourt to Hamilton, 4 Feb. 1894. Hamilton complied, sending to Gladstone on the 5th, but finding that he was in fact correct about Sardinia and Nice. MS Harcourt, dep. 64, ff. 46–7. See also ff. 43–59 for Hamilton's work on this precedent.

ending the precedent battle by declaring himself undefeated.⁷⁹ This victory made his own resignation unavoidable.

The resignation came at a Cabinet on 1 March, but had become effective nearly a month earlier when he could not come to terms with his colleagues on his return from Biarritz. Richard Shannon argues that the turning point was 31 January, but that Gladstone had made one last effort to thwart his colleagues and avoid the increased estimates. 'Gladstone would turn the tables on them by setting aside the naval problem and by using the wickedness of the House of Lords against his party as he had once used the Eastern question [in 1877–80]. ... Gladstone proposed to dissolve the 1892 Parliament on the grounds of its representation of the people being thwarted by the Lords.'⁸⁰ This, Shannon asserts, was one of Gladstone's 'brilliant insights'.

The fourth of the series of supreme moments of political juncture, in his career, when his providentially inspired appreciation of the general situation and its result and his insight into the facts of particular eras generated in his mind a conviction that the materials existed for forming a public opinion and directing it to a particular end.⁸¹

Matthew is less dramatic in his interpretation of the resignation, noting that while Gladstone was prepared to consider a dissolution on the Lords, 'whether the people of the U.K. are or are not to be a self-governing people,' that he abandoned it once he realised that it had no support in the Cabinet.⁸² Morley's rather reticent account of the whole naval estimates crisis and Gladstone's plan for dissolution tends to support Matthew's interpretation, yet he

⁷⁹ *GD*, xiii, pp. 371–3, 6 and 7 Feb. 1894. Gladstone was technically correct, he had acknowledged the crises abroad as a justification for the £5,180,000 increase on military estimates which he insisted on paying for out of current revenue through fresh taxation. 'In time of peace nothing but a dire necessity should induce us to borrow.' 3 *H* 154. 1393–5, 18 July 1859; but also 3 *H* 150. 180 and 240, 21 July and p. 1142 of 8 Aug. 1859 noting the 'great crisis in European history.'

⁸⁰ Richard Shannon, *Gladstone: Heroic Minister, 1865–1898* (London, 1999), pp. 558–9. The Home Rule Bill, Employers' Liability Bill, and the Local Government Bill were rejected or mutilated in the upper chamber.

⁸¹ Shannon, *Gladstone*, p. 559. The other three were his 1853 budget, the question of the Irish Church in 1868, and the question of Home Rule for Ireland. Morley confirms this, recalling that even in 1897 Gladstone was still insisting to him that they ought to have dissolved and called an election, 'The case, he said, was clear, thorough, and complete.' *Gladstone*, ii, p. 558.

⁸² Matthew, ii, p. 352.

probably underplays the sheer force and fury of Gladstone's position. Given his hatred of militarism and his belief in a kind of popular democracy, albeit filtered through the representative process of Parliament, it is plausible that he was willing to kill the estimates and out-flank his colleagues by this strategy. Yet by this same reasoning he was himself forced to bow to the inevitable acceptance that his colleagues themselves had every claim to a representative and democratic legitimacy for their naval estimates, and that those estimates seemed at least to have the benefit of popular support.

What had not changed at all were the prospects and problems of the 1894–5 budget. Yet their great task was the budget itself, even if a resignation spectre haunted the prospects of Harcourt ever actually delivering it. The main concerns were expenditure, debt repayment, and the likely 1893–4 deficit, and the new taxation necessary to make up the anticipated 1894 deficit. The last was at least likely to be ameliorated by the death duties plans reluctantly postponed from 1893 and long decided upon. Hamilton's speculative guess above was essentially correct: income tax and beer and spirit duties would have to make up the balance. The question was how much to make up and what ratio between direct and indirect taxes? 1859 certainly provided a precedent, for the greatest part of the burden was met by the income tax and little else from indirect taxation.⁸³

The plan for the Budget fell into place along exactly these lines. The Death Duties were to be revised and reformed, increasing the revenue but not to its fullest extent in the first year. Income tax, by now always the great shock absorber for making ends meet, would be increased again, and there were bold contingencies. Beer and spirit duties would play their part on behalf of indirect taxation. There would be a financial adjustment of the Naval Defence Act so as to eliminate debt finance, and everywhere else revenue would be squeezed and massaged to meet the targets, where necessary.

⁸³ Buxton, i, p. 188. Hamilton found that the budget of 1859 offered useful precedents for that of 1894, for example the likelihood that an anticipation of a prospective deficit would encourage a 'rush to clear the duties on ... tea and spirits' so as to avoid the likely budget increases on customs and excise. MS Harcourt dep. 64, f. 34, 20 Jan. 1894.

First, estimates had to be finalised, and the key variables were those of the Army and Navy. Harcourt was aggrieved to report that the Army estimates would also have to be put up to £18,100,000, and he was doubtful the Navy could be kept to £17,240,000 when £18,000,000 was so close at hand. 'I only hope the day may come and that before long when it shall be impossible that a Government which produces such Estimates should exist.'⁸⁴ Hamilton's feelings ran the same way, 'I am afraid I am not likely to see the day when the existence of Governments will be imperilled by vast estimates.'⁸⁵ The peril would lie with the Chancellors of the Exchequer and their budgets.

Harcourt's attack on and overturning of Goschen's Naval Defence Act finance was for him the easiest choice even though it made for financial hardships. Harcourt was set to be fierce, and no arguments for tenderness towards Goschen or consideration towards the will of Parliament could be entertained.⁸⁶ Hamilton urged professional caution, his plan was to apply the Sinking Funds past, present and future to redeem the outstanding and future liabilities under the Acts. Of course this laid Sir William open to the charge of a raid on the Sinking Fund, and to forestall any such assault Hamilton was commissioned to produce a memorandum over-viewing the Act and their repudiation of it.⁸⁷

The end of February brought them close enough to the financial year-end to prepare an accurate forecast of the out-turn and to fine tune the 1894–5 estimate. The latter was prepared without the revised Navy Estimate but with the Army at £18,100,000 after Hamilton had confirmed the £294,500 increase.⁸⁸ Expenditure was provisionally put at

⁸⁴ BL *HP*, Add. MS 48615B, Harcourt to Hamilton, ff. 61–3, 17 and 19 Jan. 1894.

⁸⁵ Hamilton to Harcourt, MS Harcourt dep. 64, ff. 32–5, 20 Jan. 1894. Milner was now advising Hamilton that the Inland Revenue should come close to realising its estimate for 1893–4, '£200,000 down as the worst that is likely to happen', and that Hamilton's rough forecast of £15,500,000 for 1894–5 was realistic. PRO T168/30, 17 Jan. 1894.

⁸⁶ This would also be applied to the Imperial Defence Act of 1888. MS Harcourt dep. 64, f. 25, 16 Jan. 1894.

⁸⁷ Memorandum on the Machinery of the Naval Defence Act 1889. MS Harcourt dep. 64, ff. 67–79, 20 Feb. 1894. Harcourt was broadly in approval but thought that it should also include a statement explicitly treating the proposed scheme to discharge the debt. Once done he offered 'A thousand thanks for your explanation of the Naval Defence Act which is excellent.' A copy was sent to Spencer. BL *HP*, Add. MS 48615B, f. 68 and f. 71, 22 and 27 Feb. 1894.

⁸⁸ PRO T168/30, 24 Feb. He was later informed the increase would 'stand I think at £278,100. ... Every little helps.' *Ibid.*, 28 Feb. 1894.

£92,369,000 against Revenue of £90,416,000 which made a deficit of £1,953,000. 'This deficit would admit of being made good by the contemplated amendments of the Defence Acts.' Elimination of the £1,430,000 NDA annuity and £145,000 on the interest charge of the Army and Navy votes provided £1,575,000 of reduced expenditure. The restoration of the "mortgaged" Suez Canal dividends (£260,000) and foregoing the £290,000 payment to the Naval Defence Account increased revenue by £550,000 to £90,966,000, and deficit was converted to a surplus of £172,000. Harcourt's thorough reading of this estimate was more optimistic, he put the Excise at £25,000,000 on Milner's advice, thought Stamps likewise too pessimistic, and doubted that the increased cost of the Post Office would not yield a gain in revenue. On the other hand, he felt income tax arrears would not increase by £350,000 given the depression in the yield. 'I don't know how far these things will balance one another but I am disposed to think you have put the estimate of revenue for next year too low when you fix it at £1,200,000 less than in the current year.'⁸⁹ It was left for Hamilton to arrive at these figures.

For 1893–4 revenue of £90,610,000 against expenditure of £91,359,000 was forecast to yield a £749,000 deficit, an improvement at least upon earlier fears and entirely due to an £800,000 shortfall on Stamps. This was not an acceptable prospect when it was so important to use the proceeds of the Sinking Fund to pay down the NDA debt, and so the revenue departments were advised to "squeeze".

I hope you will impress upon the Customs the necessity of collecting this year up to the quick. Our measures will give us plenty of money next year. What we want is to cut down our deficit as much as possible this year and to justify as far as possible our estimates. I should think it possible that with the screw on we might bring the Customs nearly up to the mark. A. Milner is prepared to do all he can with the Inland Revenue in this direction.⁹⁰

⁸⁹ PRO T168/30, 28 Feb. 1894. Hamilton had in fact been advised by Milner that his figures were 'about right', and similarly as to the Post Office. MS Harcourt dep. 64, ff. 85–86a.

⁹⁰ Harcourt to Hamilton, BL *HP*, Add. MS 48615B, ff. 69–70, 26 Feb. 1894.

There was more than ever a need to get close to a balanced budget. But it was not going to be so easy to do so, and there was some resistance. Milner, despite Harcourt, had reservations about it. 'I can't do again what I did last year, & deliberately put up my estimates to get the C. of E. out of a hole. It is magnificent, but it isn't business.' Even the Post Office was obstreperous, 'a general election would justify an addition of about £10,000 to the Postal revenue. Will you add it?'⁹¹

Yet further work on the 1894–5 Estimates had by 10 March settled the broad principles of the Budget. It had not been smooth sailing, Customs for example had to push hard to get their figures up to £19,800,000 and £190,000 beyond what was expected from 1893–4 on account of slight falls in tobacco and rum.⁹² These measures, when combined with revised Army and Navy estimates of £18,081,000 and £17,366,000 suggested a deficit of £4,870,000 from £95,476,000 expenditure on £90,606,000 revenue. The new measures would cut expenditure by the elimination of the NDA annuity at £1,430,000 and foregone interest charges on these loans of £145,000 which made £1,575,000, thus reducing the deficit to £3,295,000. Suez Canal dividends worth £260,000 and the return of a £290,000 overpayment on the NDA combined to add £550,000 to the revenue and brought the deficit down to £2,745,000.

To meet this there would be

- (1) The estimated yield from Death Duties amendment £1,000m
- (2) The proceeds from additional tax on Beer (6d per barrel) & on Spirits (6d per gallon) 1,500m
- (3) An additional penny on Income Tax would yield £1,780m
 - a. An abatement of £150 extended to incomes under £500 wd. mean loss of 824m [subtotal] 956
 - b. An allowance of 15% under Schedule A would mean loss of 689 [subtotal] 267m

The addition to revenue therefore would be 2,767,000
The margin therefore would be 22,000
But by springing the Revenue very moderately over different heads it ought

⁹¹ PRO T168/30, Milner to Hamilton, 16 and Post Office to Hamilton, 15 March.

⁹² PRO T168/31, 9 March.

to be quite possible to calculate on an additional sum of £200,000; and the account would thus be balanced.⁹³

It was well that it sufficed, for Hamilton and Milner were keen to stop there, believing these innovations radical enough for one year's budget.

What most concerned them was the plan to impose an additional income tax surcharge on large incomes. The speculative plan was to impose a graduated Income Tax surcharge above £5,000 at a rate of 1/2d. at £5,000 increments up to £100,000. I am afraid it will frighten people while the result to Revenue is a pure shot and may lead to very little.⁹⁴ Hamilton advised that, as above, the Budget would be safe to balance while allowing the income tax abatement to be raised to £150 from £120 on incomes under £500 and a change in calculation of income tax liable under Schedule A from gross to net income with an allowance of 15% on this. It was further suggested that land and houses could be differentiated, 'it being land, which is entitled to the most consideration, and the relief of which would most likely grease the Budget wheels. I attach great importance to this point.' This because it was felt that the impact of the revised death duties would fall hardest upon land. The surtax, however, was beyond the pale.

I confess the abandonment of the idea of establishing an income tax surcharge would not be unwelcome to me. It has never much smiled upon me from the first. I have always felt

- a. that it would establish a principle that might create great alarm for probably a very small return/result;
- b. that it would over-weight your already heavy Budget, & that you might thus endanger other parts of it;
- c. that graduated taxation, though sound in principle, should be introduced by slow degrees & very easy steps; & that therefore the proposal to graduate one tax in one year is perhaps sufficient & more politic.

I have long held that the tax of all others which lends itself most easily and most justly to graduation is the House Tax; that being the best of all

⁹³ MS Harcourt dep. 64, ff. 94-7, 10 March 1894.

⁹⁴ David Brooks, ed., *The Destruction of Lord Rosebery. From the Diary of Sir Edward Hamilton, 1894-1895* (London, 1986), p. 118, 6 March. Hereafter: Brooks, *HD*.

measures of the means of individuals; but for the reasons I have just adduced I should be afraid of it this year.⁹⁵

Milner shared these objections. 'I am glad you think the surcharge abandoned for the present. I shall never like it, at any time, but, of course, my great objection is to over-loading the ship with it this year.'⁹⁶ This last objection did indeed seem most pertinent, for the Treasury was itself divided on the subject, Welby sceptical of some of these objections and Harcourt unconvinced. Daunton in fact argues that it was at this very point that the arguments in favour of graduation carried the day.⁹⁷

This was more than just a theoretical point, for Harcourt had to present his budget to the Cabinet 15 March, and there were various reasons for the reception to be less than welcoming. Having failed in his bid for the leadership of the Liberal party, acrimonious in his personal relationship with Prime Minister Rosebery, he had also alienated many Cabinet colleagues by his style of outrageous combativeness and seemingly explosive temper.⁹⁸ Although speculation about his resignation was tactical rather than principled, and his seeming leadership of the party's radical faction ambiguous,⁹⁹ he really did have an opportunity with this budget to consolidate his new position as leader in the Commons and recover his prestige. It was a chance to make history, as he and Hamilton were both well

⁹⁵ Hamilton to Harcourt, MS Harcourt dep. 64, ff. 92–3, 10 March 1894.

⁹⁶ PRO T168/30, 16 March 1894, Milner to Hamilton.

⁹⁷ Martin Daunton, 'The Political Economy of Death Duties: Harcourt's Budget of 1894', p. 164, in Negley Harte and Roland Quinault, eds., *Land and Society in Britain, 1700–1914. Essays in Honour of F.M.L. Thompson* (Manchester, 1996).

⁹⁸ See Gardiner, ii, pp. 259–74, R. R. James, *Rosebery. A Biography of Archibald Philip, Fifth Earl of Rosebery* (London, 1963), pp. 294–328, Brooks, *HD*, pp. 1–12 and pp. 110–20 for Hamilton's diary 20 Feb. through 8 March 1894. The other important change, while not significant or eventful in terms of Treasury policy, was the retirement of Sir Reginald Welby as permanent secretary to the Treasury. He was created Baron Welby (Lord Welby of Allington) and succeeded by Sir Francis Mowatt (1837–1919) in March 1894. Hutchinson, p. 276, 14 Feb. 1894 gives West's account of his discussion with Gladstone on this point, having first raised the matter himself with Welby on 10 Jan. 1894, p. 238.

⁹⁹ Harcourt saw himself as the spokesman 'of rank and file Liberalism, especially its more Radical inclinations.' David Brooks, 'Gladstone's Fourth Administration, 1892–1894', in Bebbington and Swift, eds., *Gladstone Centenary Essays*, pp. 225–42, p. 231. This made his confrontation with Rosebery, inspiration for Liberal Imperialism, even more charged with antipathy.

aware.¹⁰⁰ The Cabinet accepted the proposals, although the Income tax surcharge had been 'reluctantly' abandoned. Hamilton continued to moderate his opposition, not 'opposed to the principle' of the graduated surtax, but agreeing with Milner's practical objections that it was uncertain in yield and so hard to estimate, would encourage evasion, make the Budget bill too complicated, and especially its inquisitorial nature and the attendant increase in staff which would be required by the Inland Revenue.¹⁰¹

The continued efforts to get in the 1893–4 revenue were meeting with success, indeed, perhaps too much. Hamilton's 22 March estimate of the 1893–4 balance sheet showed revenue of £90,796,000 and expenditure of £91,303,000 yielding a £507,000 deficit. Milner informed Hamilton on the 28th that the Inland Revenue would have a further £50,000 to contribute towards lowering the deficit. Also that his squeezing of the Income tax had been almost too successful, and that if it did not come to £15,400,000 'it is only because I am back watering as hard as ever I can. As ever, the efforts we have made to get the tax in have over-shot the mark. I don't want a penny more under this head in view of next year.'¹⁰² It was what was wanted, and the recast balance sheet now showed a deficit of £207,000 on revenues of £91,096,000 and £91,303,000 expenditure. The revenue reports were almost being updated day by day, expenditure already known, and it was soon found that the deficit had been whittled down to £170,000. Given that at various times the deficit had been put at £1 million or more, this out-turn was a great relief.¹⁰³

The Estimate for 1894–5 was coming to fruition almost as fast, but Harcourt was still looking for reassurance that ends would meet. He had decided by 27 March to follow Hamilton's suggestion and graduate the House duty at values over £150 or £200. Rosebery

¹⁰⁰ Hamilton had written a long and tactful note to Lewis Harcourt about his father being passed over for leadership by Rosebery, but also pointing out the duty and opportunity of his position as Chancellor of the Exchequer. MS Harcourt dep. 64, ff. 86b–d, 4 March 1894. Hamilton was in an awkward position because of his close friendship with Rosebery, his classmate at Eton.

¹⁰¹ Hamilton still favoured the House Tax for graduation. Brooks, *HD*, pp. 124–5, 15 March 1894.

¹⁰² PRO T168/30, 22 and 30 March 1894. On the 28th the deficit was still being put at £407,000. MS Harcourt dep. 64, f. 119.

¹⁰³ Brooks, *HD*, p. 128, 1 April 1894.

was also thinking along this line, 'a double dose of graduation would, he thought, alarm people considerably.'¹⁰⁴ Hamilton made every reasonable effort to avoid recourse to the House duty, he had only to build on the £90,596,000 of estimated revenue. 'I don't think the deficit can be larger; and it is quite possible, if revenue goes on tumbling in as it has lately, the deficit may be even still smaller.'¹⁰⁵ The additions to beer and spirits were estimated to raise a further £1,400,000 on Customs and Excise, but he was also able to gain another £50,000 from the Customs, and even the Post Office chipped in £50,000 more.¹⁰⁶ He could now anticipate a deficit of £4,624,000 from £90,846,000 of revenue and £95,470,000 expenditure. Termination of the NDA would reduce that expenditure by £2,123,000, while the new taxes would produce £2,710,000 and turn the deficit into a small surplus of £209,000. The graduated house duty could be abandoned.¹⁰⁷

But that was not the end of battles on graduation, Harcourt presented his Budget to the Cabinet again on 2 April, and the death duties were in a definitive form. The scale of graduation began at 5% on estates over £25,000 and moved in one percent increments above £100,000, £200,000, £300,000, £500,000 to a maximum of 10% on estates above £1,000,000. Rosebery wanted this adjusted at lower rates and Hamilton agreed with him, albeit with a *caveat*. 'After all, who is it that called for this huge naval expenditure? The propertied and commercial classes: so they ought not to complain if the bulk of the charge falls upon them.'¹⁰⁸

Yet in spite of the clarity of the above statement this became a bitter and divisive question between Harcourt and Rosebery, sparked by the latter's memo of 4 April in which he raised some concerns regarding the treatment of property by the budget. Rosebery felt that the Liberal party had lost touch with men of property and that the budget would worsen that

¹⁰⁴ *Ibid.*, pp. 126–7, 27 and 28 March.

¹⁰⁵ MS Harcourt dep. 64, f. 117, Hamilton to Harcourt, 28 March 1893.

¹⁰⁶ PRO T168/30, 30 and 31 March 1894.

¹⁰⁷ Brooks, *HD*, p. 128, 1 April 1894.

¹⁰⁸ *Ibid.*, p. 129, 2 and 3 April 1894.

division. The tax measures were likely to favour those earning under £500, he admitted, but felt they would be neither grateful nor numerous enough to compensate for the antagonism of property. He thought it would insufficiently attract the masses, as no benefit was given to teetotallers whereas 'if they drink spirits, those spirits are further taxed. So we can hardly hope for much enthusiasm or active support from the masses.' Rosebery was concerned that the Liberal party was developing towards only working class support, and he pointed out the further danger of art collections having to be sold off to America in order to pay the Death Duties.¹⁰⁹ He finished by pointing out that the end result in raising the £1,000,000 by this tax would be to redistribute it back to those below the £500 exemption, 'while all other classes are taxed for a common interest, the maintenance of an adequate efficient navy. ... I hope therefore that the graduation may be mitigated as far as possible. Proposals of this kind should be introduced with gentleness, and high graduation appears to me in any case to be essentially a war tax.'¹¹⁰ Harcourt's response was withering in its sarcasm and obnoxious for its condescension, yet was nonetheless a fair and able defence of the principles behind his graduation of the Death Duties.

In the first place he pointed out that his object was 'to place all property of whatever kind upon an equal footing in respect to liability to taxation.' To this end he had little sympathy for 'Tories and Whig magnates' who might as a class be alienated from the Liberal party. As for those under £500, Harcourt ignored the strict application of this question to income tax payers, noting that their numbers made up the vast bulk of the electorate and population, and that the Liberal party was unlikely to gain the support of the masses so long as they defended the 'fiscal privileges and exemptions of the wealthy which are universally condemned.' He asserted that the 'horizontal division of parties' and the 'cleavage of classes'

¹⁰⁹ Peter Mandler points out the rather gentle treatment such collections received at the hands of the Inland Revenue, and also the way in which the "old masters" of the landed interest received preferential treatment as compared to the "impressionists" of the nouveau rich. 'Art, death, and taxes: the taxation of works of art in Britain, 1796–1914', *Historical Research* 74, (2001), pp. 271–97.

¹¹⁰ James, Rosebery, pp. 342–3.

was a natural consequence of household suffrage and their democracy. The death duty was defended as a suitable property tax which struck but once in a generation and would be difficult to avoid so long as the property was to be legally settled.

The fear as to the taxation of capital had some foundation fifty or sixty years ago when capital in this country was in deficiency. At the present time it is superabundant, and not finding sufficiency of employment at home runs to waste in Argentine and elsewhere. ... Your argument seems to involve that it is necessary to maintain an unequal incidence of taxation in order to avert the breaking up of large properties irrespective of the character of their possessors. This is a very fine old Tory doctrine – it is one which the Liberal Party are not likely to accept.

The question of art collections was dismissed, but not without an allusion to public galleries and an imprecation as to the public spirit of private owners. The misunderstanding as to the £1,000,000 to be raised was swiftly corrected, in point of fact and in principle. 'Our first object is to accomplish an act of financial justice to which the Liberal Party are deeply pledged.' The £1,000,000 represented a six month yield in the first year of a tax which should produce £4,000,000 per annum for 'the reduction of other taxes or, what is more probable, to satisfy further Jingo panics.' The question of election finance was beneath his contemplation or contempt, and he challenged Rosebery to have both of their memorandums put on record before the Cabinet. Yet this blustering confrontation was followed by a vital concession on graduation.

I believe the principle of graduation to be a sound one, and I am sure it is one on which the Liberal Party will insist, but I agree that a new principle of this description should be introduced in moderation, and I am quite disposed to meet your views on the subject of the mitigation of the scale as far as is consistent with the exigencies of the Revenue, and this I hope may be to a great degree accomplished. As to aggregation I do not see what argument can be advanced against it. If graduation is accepted at all it must be upon the total sum of the value of the whole property whatever may be its description.

His last point was that the changes to the death duties would not affect anyone leaving less than £25,000 personality.¹¹¹ Afterwards both Chancellor of the Exchequer and First Lord of the Treasury were agreed at least that the Government could not last much longer.¹¹²

Fortunately the prospect of delivering such a historic budget seems to have, at least temporarily, turned Harcourt's mind from battling Cabinet colleagues towards perfecting his brief and rising to the occasion on its delivery. Hamilton was in London over the weekend to be available to work with Harcourt on the budget, and the estate duty scale was modified so as to 'go up in smaller steps and the maximum rate of duty is limited to 8 per cent.¹¹³ This will tend to diminish alarm.' Hamilton took satisfaction in noting that those who had demanded the Navy expenditure would soon have the pleasure of paying for it, in which case the increased Death Duties were preferable to the income tax, let alone a graduated income tax, again because it was capital and not income which bore the burden.¹¹⁴ As the budget date drew closer Harcourt's mood improved, Hamilton thinking it good for the Liberal Party and his chief. It was 'cut and dried' the 14th, and Harcourt read it out the morning of the 15th. While anticipating that it would be furiously denounced both for its effect on property and spirits, Hamilton predicted (and really hoped for) 'a distinct success. ... To gain the name of a financier would go some way to compensate for recent disappointments: and success may conduce to keep him in a good humour and make him a little less anti-Roseberyite.'¹¹⁵

¹¹¹ Gardiner, ii, pp. 283–7, 4 April 1894. Harcourt's analysis is consistent with Mill, *Principles of Political Economy*, W.J. Ashley, ed., (London, 1929), p. 809. Indeed, estates below £500 and £1000 would gain by the changes at a cost of £100,000, PRO IR63/2, 10 April, ff. 7–10.

¹¹² Hamilton relates this sentiment of Rosebery on 5 April and Harcourt the 7th. Brooks, *HD*, pp. 130–1.

¹¹³ This 8% rate had been proposed 20 March, PRO IR63/2, ff. 17–46. The higher and steeper 10 % rate of graduation was in a later memo of 2 April, PRO T168/31.

¹¹⁴ *HD*, iii, p. 259, 8 April 1894.

¹¹⁵ Brooks, *HD*, p. 133. Hamilton recorded that this was the twentieth and last time Harcourt had read the statement to him in preparation for Parliament.

Harcourt's Budget, delivered on 16 April 1894, was almost universally acknowledged as a "great" budget, although this was not necessarily meant as a compliment.¹¹⁶ By this time he had mastered the rhetoric of budgets, using the opportunity to make a report on the economic situation of the past year as indicated by the yield of the respective taxes, and he predicted, correctly, that 1893 would prove to have been the nadir of the business cycle, in decline since 1890. He went further in proclaiming that his Budget, in spite of this adversity, showed the soundness of British finances and the underlying stability of its fiscal resources. Despite a deficit of £170,000 he denied that the Treasury had resorted to squeezing the income tax, had they done so there would have been no deficit, but he did not regard such practice 'as sound finance.' Instead he praised his Treasury staff for the precision of their forecast in the face of such obstacles. He then took the opportunity to dismiss bimetallism as an 'inflationist doctrine' along with its similarly unsound counterpart, 'protectionist practice'.

1894–5 would bring £3,994,000 of increased expenditure due mostly to the navy but not really surprising given the growth of expenditure over the past twenty years. Harcourt might deplore this but could not hope to vanquish it. Revenue of £90,956,000 against Expenditure of £95,458,000 was estimated to produce a £4,502,000 deficit. The naval expenditure had now to be considered as normal, and so Harcourt rejected any notion of borrowing to meet the charge, for that would be 'a fatal and a cowardly error, unworthy of a great nation.' Most importantly he argued that Britain's financial credit, which was maintained by the Sinking Fund, was as important a resource for war as the navy and army. 'The stability of your currency and your commercial prosperity is very greatly sustained by the constancy and fortitude with which this principle is maintained.' The £6–7 million debt reduction represented by the Sinking Fund was equivalent to the annual interest charge on

¹¹⁶ 4 *H* 23, 469–509. 'It was universally admitted that his speech was most lucid and able. Of course the delivery of it was pompous and funereal-like.' Brooks, *HD*, p. 133. See 'Financial Statement 1894–95' pp. 1–5, P.P. 1894, (68) li. 125, 16 April 1894, for Budget figures.

£200,000,000, and would therefore be available in the event of a serious war (as indeed proved to be the case during the Boer war). Having said this, he was determined to follow through on his commitment to throw the NDA debt onto the general Consolidated fund and so to treat it as ordinary debt, which meant the interception of the new sinking fund for this purpose. This also required that fresh taxation would have to be imposed to make up the now £2,379,000 deficit, and the death duties were foremost in this.

Following on the economic principles of J.S. Mill¹¹⁷, 'and every work that has ever professed to deal with political economy' he accepted graduation as an 'axiom of finance' which required the reform, equalisation and graduation of the death duties. Again, to justify this graduation, he noted that 'every writer on political economy and finance has laid down the doctrine that taxation should be proportionate to the ability to bear it of those on whom it is imposed.' The top rate of graduation would be 8% and Harcourt expected to receive £3,500,000 annually, although only £1,000,000 of this would arise in the first year of its application. Again, as in 1893–4, the income tax would be raised by a penny, from 7d. to 8d. for an expected yield of £1,780,000. Yet reform was necessary if the income tax were to be maintained at such a high rate and he resolved to 'adjust its pressure so as to make it less intolerable to those who are least able to bear it.' This meant abatements for those with incomes under £400 and £500, 'a large and most deserving class' numbering some 500,000. Property was also to be relieved somewhat by way of an allowance of 10% (15% for landlords with responsibility for repair of rentals) on gross income assessed under Schedule A.¹¹⁸ The cost to the Treasury of both measures was estimated at £840,000 and £800,000 respectively, but only £1,450,000 during the first year so that the increased income tax would yield a mere £330,000. Harcourt did not rule out the principle of graduation being

¹¹⁷ 'The principle of graduation (as it is called), that is, of levying a larger percentage on a larger sum, though its application to general taxation would be in my opinion objectionable, seems to me both just and expedient as applied to legacy and inheritance duties.' J.S. Mill, *Principles of Political Economy*. W.J. Ashley, ed., (London, 1929), p. 809. Gladstone marked exactly this passage in his copy of the 2 v. 3rd edition of 1852, Temple of Peace library, Gladstone Estate, Hawarden.

¹¹⁸ Milner elaborated this in PRO T168/31 of 10 April 1894.

applied to the income tax in the future, if only the practical and administrative problems could be overcome. Still having £1 million of deficit to make up he imposed additional duties of 6d. per barrel on beer and 6d. per gallon on spirits, this strictly for revenue and 'not upon moral or social considerations.' Believing the incidence of the new taxes low enough to avoid being passed onto the consumer, he anticipated an increased revenue of £1,340,000, notably the largest of the increases. All of which neatly turned the deficit into a £291,000 surplus. He concluded in justifying his measures by an appeal to the philosophy and principles of taxation and finance.

He rejected the charge that his budget was partisan or class biased, arguing that his responsibility was that of a financial trustee for the nation as a whole. Yet the rest of his statement was just such an analysis. 'The guiding principle of taxation is that the liability should be imposed where it shall be least heavily felt.' There ought to be no effective increase of taxation on those with incomes below £160, unless the increased spirit duties were to increase by a penny the price of a bottle. 'That is the extent of the burden imposed upon the means of the great mass of the people who earn their livelihood by the sweat of their brow.' Incomes between £160 and £500 would gain by the changes to the income tax, effectively a form of graduation at the lower end of the scale, while those above £500 'will be called upon to pay an additional 1d. for national defence.' For this he was unapologetic, implicitly following Gladstone's 1859 precedent.

You have voted your vast Estimates from a conviction that the expenditure was necessary and politic. If you have performed your duty in that respect you will not fail in the obligation to meet that charge. The House of Commons will never ... shrink from or refuse any effort which is necessary to sustain the honour and provide for the safety of the country.

Those who would call the tune were expected to pay the piper.

Bernard Mallet's assessment was that Harcourt had achieved a budget which 'in its social and fiscal results, was as significant as those for which [Gladstone] had been responsible half a century before.'¹¹⁹ He had made a breakthrough in taxation by the introduction of graduation, ensured that debt reduction charges remained sacrosanct and that the now normal extraordinary expenditure would be met by taxation raised in the current year for which it was required. Even his decision to impose further indirect taxation upon beer and spirits was a courageous insistence that all levels of society had to bear some of the responsibility for increased national expenditure, although his explanation was disingenuous in his hope that the trade, not the consumer, would absorb it.¹²⁰ Daunton argues that Harcourt was updating Gladstone's fiscal constitution.

He was in many ways pursuing the same end as Gladstone in 1853: to use the tax system to unite rather than divide classes. He was building from the middle out, offering concessions to the lower level of income tax payers. The increase in the death duties helped to contain the pressure from the radicals for an outright attack upon land, without mounting an onslaught on land as a separate fraction of capital...¹²¹

Insofar as this is true, for there is no doubt that Harcourt was using the system to impose responsibility for expenditure on the wealthier taxpayers and to consolidate political support at the more popular level of incomes below £500, this revised fiscal constitution was also a response to the new, more democratic constitution of 1884. Yet land taxes were symbolic, income taxes brought tangible rewards to the Exchequer, and it was this realisation which shaped so much of the reaction to the Budget in Parliament and the Press. It was the ways

¹¹⁹ Mallet, *British Budgets*, p. 77. The budget is discussed pp. 77–94, and he notes p. 93, that the Budget finally passed its third reading in the Commons by a 14 vote majority on 17 July, and on 30 July 1894 in the Lords, 'without a division.'

¹²⁰ Mallet states that Harcourt was correct in this, p. 88. Hamilton had started working on a comparison of the ratio of Direct to Indirect taxation on 18 Jan. 1894, and a memorandum had been completed and printed by 8 March, showing that in 1891–2 indirect taxation paid 56.44 direct taxation. MS Harcourt dep. 64, f. 29 and f. 87. Harcourt had also requested that Hamilton provide him with the debates from 1885 when Childers had increased the beer and spirit duties. Hamilton's advice, noting also the precedent of 1890, was to expect opposition from the Scottish and Irish at what they perceived as the excessive taxation of spirits compared to English beer. BL *HP*, Add. MS 48615B, f. 64, 28 Jan. 1894 and MS Harcourt dep. 64, f. 41, 3 Feb. 1894.

¹²¹ Daunton, 'The Political Economy of Death Duties: Harcourt's Budget of 1894', p. 166, in Harte and Quinault.

and means which mattered, not the symbolism.¹²² Harcourt, and Gladstone, knew this;

Lloyd George would pay for his ignorance after 1909.

Goschen was first to respond to the Budget and, as expected, his immediate target was Harcourt's decision to use the Sinking Fund to pay 'new debt instead of old debt.' He was especially concerned that sufficient time should be made available for Parliament to thoroughly debate the complex and important provisions of the Budget.¹²³ Opposition criticism covered two main points: that land was now being placed under an undue burden on account of the death duties and increased income tax; and that the principle of graduation was in itself dangerous because it could be extended to the point of confiscation.¹²⁴ *The Economist* was concerned that the Budget attempted to do too much, but did concede that while it would appeal to class interests it was free from an 'electioneering taint.' On the great question of the death duties there was cautious approval. 'The principle of graduation has long been admitted in our finance, but no scheme of progressive taxation on a like scale with the present one has ever before been proposed in this country.'¹²⁵ The economist C. F. Bastable discounted criticism of the death duties as an attack on capital. 'There is not much effect produced on the accumulation of wealth even by fairly high death duties,' while evasion was unlikely to prove a serious problem.¹²⁶ Even banking journals were cautious in their criticism, 'It is impossible to regard the Budget as altogether a bad one,' despite finding the principle of graduation with respect to death duties and the income tax 'repugnant'.¹²⁷ These ideas were less ardently theoretical for *The Times*, whose leader page was given over to Harcourt's Budget three times in the week following, and in the *Edinburgh*

¹²² This is the conclusion drawn by T.H. Farrer, 'Sir William Harcourt's Budget', *Contemporary Review*, 66 (1894), pp. 153–64.

¹²³ 4 H 23. 510. Hamilton had advised Harcourt to have some consideration for Goschen's sensibilities when amending the Local Taxation and NDA so as to avoid a wrangling debate. MS Harcourt dep. 64, f. 109, 14 March 1894.

¹²⁴ Mallet, pp. 90–3.

¹²⁵ *The Economist*, v. LII, 21 April 1894, pp. 476–8.

¹²⁶ *The Economic Journal*, v. IV, June 1894, 'The New Budget', p. 353.

¹²⁷ *The Bankers', Insurance Managers' and Agents' Magazine*, v. LVII, April 1894, 'The Budget', p. 688.

Review which virulently denounced Harcourt's budget as that of a "Ministry of the Masses" against the "classes".¹²⁸

What must be realised is that while the death duties budget was a direct response to the naval estimates in particular and the general rise in expenditure, the death duties themselves, with all their revolutionary implications in terms of the graduation of taxation, were going to be imposed with or without the huge increase in the naval estimates. It was the combination of a shortage of Parliamentary time available in 1893 on account of the Home Rule debates with the need to surmount a deficit greater than the estimated first year yield of the death duties which caused Harcourt to postpone their introduction that year. This was merely tactical, the strategy had already been decided. The death duties were a response to both the great growth in expenditure and the growth in the electorate. The first required a significant and robust addition to taxation, the second that the disproportionate balance between direct and indirect taxation be redressed in favour of the latter. Throughout this period the Liberals had always been willing to impose additions to the income tax to meet exceptional circumstances, because this direct tax was especially suited to this end. Now, given that exceptional circumstances had to be accepted as normal expenditure, the revision and graduated extension of the death duties allowed Harcourt not just to supplement but to reform the income tax with another direct tax. As Daunton has argued, he was able to graduate at both ends of the scale, the lowest level of the income tax payers and the highest levels of property liable to the death duties. This was always going to happen. What the naval estimates did was ensure that Harcourt had to impose instead of remit taxation, for in their absence he would have been able to reduce the income tax by two pennies, or more probably, by one penny and remit the taxation on tea, coffee and tobacco towards the goal of the "free breakfast table" which was so dear to the hearts of the members of the radical wing of his party.

¹²⁸ *The Times*, 17, 18, and 24 April, p. 9. *The Edinburgh Review*, v. clxxx, no. 369, pp. 235–58.

Gladstone had accepted this in 1893 just as he would have in 1894, except that he could not abide the increase in the naval estimates that the graduation of the death duties helped to pay for. Harcourt understood, as in fact did Gladstone, that the gradual evolution towards a democratic electorate required the strengthening through the tax system of the fiscal accountability and electoral responsibility which “Sound Finance” depended upon. Where they differed was that Gladstone could not accept what he considered the reckless and dangerous popular demands to submit to a naval panic. Harcourt, in contrast, would reluctantly bow to the demands of his new masters, and provided they were for their part willing to accept the yoke of financial responsibility and thus the burden of taxation necessary to meet it, he was willing to find the money to pay for it. This is exactly what he accomplished in his Death Duties Budget of 1894–5. “Peace, Retrenchment and Reform” may have been no more, but “Sound Finance” endured.

CHAPTER 10

CONCLUSION

Gladstone never trusted Leviathan, he sought to tame, master, control and direct it. It was his presumption, perhaps born out of equal parts arrogance and idealism, that the people, the masses, were morally fitted to take upon themselves – through their representatives in Parliament – this grave and sobering responsibility. 1894 dashed this illusion, insofar as what he considered the moral cowardice of his Liberal Cabinet colleagues was disillusioning for what it revealed about the masses. He had already long despised of the Tories for their selfishness and recklessness. Salisbury, for his part, learned this lesson through 1887–92: democracy would not master them, rather it could be led, within certain constraints. Those constraints were, above all, imposed by “Sound Finance”. Yet, in 1894 Harcourt had removed one of the most important of these checks which would contribute to the disaster of the Boer war: a limit on expenditure. Had not the military been unleashed in 1894 Harcourt might well have been able to reduce the income tax by two pence in combination with the death duties, perhaps even remissions on tea and tobacco towards a free breakfast table. Instead Hicks Beach was awash in revenue and there was consequently little to check the Conservatives from the escalation of jingoistic Imperialism in South Africa when the opportunity for adventure arose. Of course, they were able to harness public opinion for some while before they were made to account for the responsibility of the financial burden they had imposed upon the electorate.

Gladstone had foreseen this, and Salisbury too, but they each feared it from opposite poles of perspective: Gladstone wary of democratic enthusiasm for war, Salisbury that the enthusiasm of the masses would not long tolerate the sacrifices required by his foreign policy. Idealism ranged against cynicism. Nothing illustrates more clearly the paradox of the democratic imperative that they faced, and which has continued to challenge

all British statesmen and women: democratic responsibility may be managed but it cannot be evaded, for long.

In 1895 the Liberal government self-destructed, not over finance but certainly the tensions between finance and foreign policy contributed to it. The hatred between Rosebery and Harcourt was too much to be contained within one party let alone one Cabinet.¹ The Budget of 1895 was the last for Harcourt and would be the last for the Liberal party for ten years. Harcourt probably welcomed the first and may have anticipated the latter, for his budget speech admitted as much. There were almost no changes to the finance, his work had been done the year before and he could only put on record the fact that the age of economy was done and expenditure begun.² It was also true that the role of the economy in politics and politics in the economy had also changed.

The resignation of Gladstone in 1894 marked both the beginnings of a new politics and new tensions within the Liberal party. In the second instance it exposed the fault-lines between Liberal Imperialists and Radicals, broadly represented by Rosebery and Harcourt. Although the immediate result would be to divide the party and keep it out of office for a decade, the longer-term implications were of greater significance. The Liberal Imperialists rejected Gladstone's 'moral force liberalism', and their commitment to an Imperial vision would require that expenditure and foreign policy take precedence over 'the traditional idea that retrenchment and reform should extend the political rights of the individual'.³ This would pave the way for an expansionist state in both social and foreign policy when the

¹ See Brooks, *HD*, ch.4 'The 1895 Session and the Fall of the Government', pp. 63–95.

² 4 H 23, 293–319, 2 May 1895. See Mallet, pp. 95–101. Hamilton was in agreement, 'I am certain that finance is going to be the crux ahead for the Government of the day in the near future.' Brooks, *HD*, p. 246. He raised the alarm further for the benefit of the Conservative Government in a memorandum outlining the revenue options and constraints which were in prospect. 'Some Remarks on Public Finance', PRO CAB 37/39/38 of 24 July 1895.

³ H.C.G. Matthew, *The Liberal Imperialists: the Ideas and Politics of a Post-Gladstonian Elite* (Oxford, 1973), pp.135–227.

Liberals returned to office, because Asquith would make sure to tap the full resources of ‘Sound Finance’ which had been demonstrated since Harcourt’s budget of 1894.

In the first instance it ‘marked not only the end of Gladstone, but it constituted also a significant landmark in the emergence of that solid party system so characteristic of twentieth century politics.⁴ From now on political parties would seek advantage from fiscal policy no longer constrained by the moral force for self-restraint imposed by personalities as dominant as Gladstone’s or even the collective check imposed by back-bench conscience. This is why by the end Gladstone had come to dread ‘Democracy’s first use of power’⁵ just as Salisbury was learning to live with it. “Sound Finance” allowed tremendous fiscal resources to the state but depended upon the responsibility of the electorate to constrain it. When Gladstone delivered Reform in 1884-5 he had believed that the masses would act on his definition of responsible and disinterested virtue. By 1895 it was apparent that the virtue of the democratic masses, like that of the Liberal party itself, was no longer, if it had ever truly been, under Gladstone’s tutelage.

Yet the foundations he had provided would continue to serve a vital purpose, because no matter what end the expenditure would be directed to, it was still within the compass of Parliamentary control and, ultimately, democratic accountability. “Sound Finance” provided the institutional structure to ensure this, and much more besides. As the role and ambition of the state changed Britain would find itself with the financial resources to accomplish its ends, whether social reform or *Dreadnoughts*, as the minimal state was displaced by the nascent welfare state. “Sound Finance” would make this possible, and its guardians fully realized this.

⁴ David Brooks, *Gladstone’s Fourth Ministry 1892–94. Policies and Personalities*. Unpublished Cambridge University Ph.D. thesis, (1975), p. 236.

⁵ *Ibid.*, p. 40.

Not long after his warnings against expenditure Hamilton would send to Gladstone his own ‘tale of progress, testifying to the “leaps and bounds” which this country has made in material progress during Queen Victoria’s reign.’

Her people are better governed, better protected and better educated. The wages of the manual classes are appreciably higher; ... they are able to feed and clothe themselves more cheaply. They are much less heavily taxed; indeed every commodity which constitutes a necessity of life is (unless tea is held to belong to that category) duty free. They have relatively not only less burdens to bear, but they have more resources with which to meet the burdens which are still imposed for the purpose of carrying on the government of their country. There is unquestionably a higher standard of life throughout all classes. In short, it is perhaps not too much to say that it is a splendid record of a splendid reign.⁶

The evidence for the material progress of the British masses was unassailable.

This analysis was extended both in terms of analysis and time frame by Welby in his presidential address to the Royal Statistical Society surveying the century to 1914. He pointed out the important yet fine balance which the actions of the state had on the national economy.

Financial administration has direct influence on national progress. The State Expenditure is a necessary deduction from the spending and saving power of the people themselves, and its growth must be criticised in its relation to the growth of population and wealth.

He noted that the first act of the unreformed Parliament in 1815 was to repeal the income tax and reduce the malt tax, ‘two striking instances of class legislation ... for [it] left untouched the taxes on consumption, which are essentially taxes on the poor.’ This despite the ‘wretched condition of the working classes’; but the great reform acts, especially 1884, had now changed all this.

These measures admitted the working-classes to a large share of power – in the long run, perhaps, to predominant power. ... With us it has been a time of unparalleled

⁶ BL *GP*, Add. MS 44191, f. 242, 14 June 1897. Hamilton had not, however, lost his trepidation about the future of finance. ‘The plainest and simplest of all answers is that it is fashionable now to spend money profusely; and that the public and the House of Commons representing the public, instead of complaining of our vast annual outlay, would like to spend a great deal more if they could. Economy is dead and buried.’ To Robert Giffen, 14 March 1898. BLPES, Giffen Papers, v. 1 no. 144, ff. 221–3.

prosperity shared by all, but especially by the working classes. They claim not unreasonably a larger share of that prosperity, and there is in consequence some unrest among them. ... [1853–1913] has a special interest for the financial student. It records the transition from a financial policy of economy and tax reduction to a policy of unlimited expenditure and increased taxation. ... From these facts I draw the conclusion that the change from the old to the new financial policy dates approximately from 1885.⁷

This was the great hinge, and it is of crucial importance that it occurred while Gladstone was still ultimately responsible for the finance of his governments. It was his “Sound Finance” which made it possible.

It also represented an important change in the relationship between citizen and state. Welby’s professional insight was also recognized in economic theory.

There is a real advance when national wealth has reached so high a point that the lowest class are called to contribute only through their luxuries, but the highest stage is that in which the improvement of society is such that all classes are in a position to pay their share as citizens for the common services of the state.⁸

This would prove to be the great question for “Sound Finance” in a modern democratic society, for it depended on the electorate performing their responsibilities as citizens and, in theory at least, in a virtuous and disinterested manner. This is what Gladstone expected of them. Yet it was almost simultaneously threatened by the slippage from citizen to consumer, in which the self-interest of the classes that Gladstone reacted against, was replaced, over time, by the self-interest of the masses as consumers.⁹ Without the restraint of civic virtue, and if government was similarly unscrupulous, “Sound Finance” threatened to make available to the state sufficient resources to extinguish itself as a financial institution. If, once more, Leviathan was unchained, could it possibly be trusted? This was the awesome responsibility that Gladstone had bequeathed to Democracy.

⁷ Lord R. Welby, ‘The Progress of the United Kingdom from the War of the French Revolution to 1913’, *Journal of the Royal Statistical Society*, v. LXXVIII, pt. 1, Jan. 1915, pp. 1–31. This compares interestingly with the memorandum prepared for Lloyd George showing the growth of taxes and expenditure, particularly military. ‘Budget Statement 1912: Liberal Finance’, PRO T171/2.

⁸ C.F. Bastable, *Public Finance* (London, 1903), p. 324.

⁹ This transition is the subject of Trentmann’s research, although along very different lines. See ch.1, p. 21 n.41.

This study has by no means exhausted “Sound Finance” as a subject for scholarly enquiry. Indeed, it has raised a great many more questions than was practical to encompass in this thesis. The growth of the state and the development of political economy theory deserves further and deeper exploration. The great debate over the gold standard and the challenge of bimetallism is worth a monograph of its own, particularly the role that monetary theory played in expanding or retarding the growth of the British economy before 1914. The present divide between economic theory and history needs to be bridged. The whole question of Irish Home Rule finance has been, perhaps for understandable reasons, neglected. Yet it was so critical to the whole project of Home Rule and so integral to Gladstone’s vision of what Home Rule would allow Ireland that it should be pursued to the full. There is a similar need to investigate the financial history of the Royal Navy and its relationship with government between 1880 and 1895 at the least (perhaps what is needed is a financial history of the Navy). In fact this list could be continued almost indefinitely, the Treasury records, in their multitudes, await us in the Public Record Office. Additionally, we have in Hamilton’s diary not just an extraordinary insight into these sources, but very good company as well.

APPENDIX A

FINANCIAL STATEMENTS, 1880–1895

Revenue 1880-81¹

	Budget Estimate for 1880-81	Payment into Exchequer 1880-81	Estimate for 1881-82
Customs	19,300,000	19,184,000	19,180,000
Excise	25,151,000	25,300,000	27,440,000
Stamps	11,800,000	11,940,000	12,290,000
Land Tax (& House Duty)	2,760,000	2,740,000	2,760,000
House Duty			
Property and Income Tax	10,425,000	10,650,000	9,540,000
Total Produce of Taxes		69,814,000	
Post Office	6,400,000	6,700,000	6,800,000
Telegraph Services	1,420,000	1,600,000	1,600,000
Crown Lands	390,000	390,000	390,000
Interest on Purchase Money of Suez	1,250,000	1,247,712	1,200,000
Miscellaneous	3,800,000	4,289,576	3,900,000
Total Revenue	82,696,000	84,041,288	85,100,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	28,800,000	28,800,000	28,920,000
Interest on Local Loans	500,000	575,410	500,000
Charge of Suez Loan	200,000	199,854	200,000
Other Consolidated Fund Charges	1,846,978	1,669,769	1,750,000
Total Consolidated Fund Services	31,346,978	31,245,033	31,370,000
Army(+Afghan War& India Forces)	17,587,300	16,673,943	18,109,500
Navy	10,702,935	10,702,935	10,845,919
Civil Services	15,907,805	15,778,730	16,087,504
Collection, Customs & I.R.	2,891,809	2,850,491	2,851,208
Post Office	3,438,604	3,415,200	3,539,525
Telegraph Service	1,245,126	1,240,000	1,294,081
Packet Service	719,468	716,934	707,767
Total	83,840,025	82,623,266	84,805,504
Surplus/(Deficit)	1,144,025	1,418,022	294,496

¹ P.P. 1881, (169) lvii. 217. Financial Statement for 1881–82.

Revenue 1881-82²

	Budget Estimate for 1881-82	Payment into Exchequer 1881-82	Estimate for 1882-83
Customs	19,180,000	19,287,000	19,300,000
Excise	27,440,000	27,240,000	27,477,000
Stamps	12,290,000	12,260,000	11,145,000
Land Tax (& House Duty)	2,760,000	2,725,000	1,035,000
House Duty			1,740,000
Property and Income Tax	9,540,000	9,945,000	9,400,000
Total Produce of Taxes		71,457,000	
Post Office	6,800,000	7,000,000	7,150,000
Telegraph Services	1,600,000	1,630,000	1,650,000
Crown Lands	390,000	380,000	380,000
Interest on Purchase Money of Suez	1,200,000	1,219,262	1,180,000
Miscellaneous	3,900,000	4,135,220	4,235,000
Total Revenue	85,100,000	85,821,482	84,692,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	28,920,000	28,961,836	29,003,672
Interest on Local Loans	500,000	504,235	510,000
Charge of Suez Loan	200,000	199,874	200,000
Other Consolidated Fund Charges	1,750,000	1,664,439	1,701,000
Total Consolidated Fund Services	31,370,000	31,330,384	31,414,672
Army(+Afghan War& India Forces)	18,109,500	17,409,585	17,058,000
Navy	10,845,919	10,756,453	10,483,901
Civil Services	16,087,504	16,419,038	16,502,729
Collection, Customs & I.R.	2,851,208	2,840,755	2,900,977
Post Office	3,539,525	3,606,800	3,743,300
Telegraph Service	1,294,081	1,366,000	1,435,298
Packet Service	707,767	708,542	710,514
Total	84,805,504	84,437,557	84,249,491
Surplus/(Deficit)	294,496	1,383,925	442,509

² P.P. 1882, (155) xxxvii. 211. 'Financial Statement for 1882-83'.

Revenue 1882-83³

	Budget Estimate for 1882-83	Payment into Exchequer 1882-83	Estimate for 1883-84
Customs	19,300,000	19,657,000	19,749,000
Excise	27,477,000	26,930,000	26,755,000
Stamps	11,145,000	11,841,000	11,510,000
Land Tax	1,035,000	1,045,000	1,040,000
House Duty	1,740,000	1,755,000	1,785,000
Property and Income Tax	9,400,000	11,900,000	10,265,000
Total Produce of Taxes		73,128,000	
Post Office	7,150,000	7,300,000	7,400,000
Telegraph Services	1,650,000	1,710,000	1,580,000
Crown Lands	380,000	380,000	380,000
Interest on Purchase Money of Suez	1,180,000	1,218,845	1,185,000
Miscellaneous	4,235,000	5,267,611	4,380,000
Total Revenue	84,692,000	89,004,456	86,029,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	29,003,672	29,003,672	28,954,000
Interest on Local Loans	510,000	510,000	525,000
Charge of Suez Loan	200,000	200,000	200,000
Other Consolidated Fund Charges	1,701,000	1,701,000	1,640,000
Total Consolidated Fund Services	31,414,672	31,414,672	31,319,000
Army(+Afghan War& India Forces)	17,058,000	16,689,400	17,337,000
Navy	10,483,901	10,438,901	10,757,000
Civil Services	16,502,729	17,350,001	17,253,000
Collection, Customs & I.R.	2,900,977	2,870,301	2,775,000
Post Office	3,743,300	3,828,500	4,124,000
Telegraph Service	1,435,298	1,510,000	1,518,000
Packet Service	710,514	719,625	706,000
Total	84,249,491	84,821,400	85,789,000
Surplus/(Deficit)	442,509	4,183,056	240,000

³ P.P. 1883, (122) xxxviii. 295. 'Financial Statement for 1883-84'.

Revenue 1883-84⁴

	Budget Estimate for 1883-84	Payment into Exchequer 1883-84	Estimate for 1884-85
Customs	19,749,000	19,701,000	19,850,000
Excise	26,755,000	26,952,000	26,778,000
Stamps	11,510,000	11,620,000	11,490,000
Land Tax	1,040,000	2,875,000	1,055,000
House Duty	1,785,000		1,880,000
Property and Income Tax	10,265,000	10,718,000	10,050,000
Total Produce of Taxes		71,866,000	
Post Office	7,400,000	7,730,000	7,900,000
Telegraph Services	1,580,000	1,745,000	1,800,000
Crown Lands	380,000	380,000	380,000
Interest on Purchase Money of Suez	1,185,000	1,196,128	1,180,000
Miscellaneous	4,380,000	3,408,056	3,170,000
Total Revenue	86,029,000	86,325,184	85,533,000

Expenditure

National Debt Services		29,651,526	
(a) Inside the Fixed Charge	28,954,000		28,883,673
Interest on Local Loans	525,000		725,000
Charge of Suez Loan	200,000		
Other Consolidated Fund Charges	1,640,000	1,589,647	1,495,000
Total Consolidated Fund Services	31,319,000	31,241,173	31,103,673
Army(+Afghan War& India Forces)	17,337,000	17,140,326	16,180,600
Navy	10,757,000	10,728,781	10,811,770
Civil Services	17,253,000	17,181,935	17,243,754
Collection, Customs & I.R.	2,775,000	2,771,749	2,733,566
Post Office	4,124,000	4,507,500	4,752,517
Telegraph Service	1,518,000	1,707,000	1,734,589
Packet Service	706,000	721,100	731,356
Total	85,789,000	85,999,564	85,291,825
Surplus/(Deficit)	240,000	325,620	241,175

⁴ P.P. 1884, (139) xlvi. 223. 'Financial Statement 1884-85'.

Revenue 1884-85⁵

	Budget Estimate for 1884-85	Payment into Exchequer 1884-85	Estimate for 1885-86
Customs	19,850,000	20,321,000	20,200,000
Excise	26,778,000	26,600,000	27,800,000
Stamps	11,490,000	11,925,000	11,650,000
Land Tax	1,055,000	2,950,000	1,050,000
House Duty	1,880,000		1,880,000
Property and Income Tax	10,050,000	12,000,000	15,400,000
Total Produce of Taxes		73,796,000	
Post Office	7,900,000	7,905,000	8,000,000
Telegraph Services	1,800,000	1,760,000	1,720,000
Crown Lands	380,000	380,000	380,000
Interest on Purchase Money of Suez	1,180,000	1,027,350	1,360,000
Miscellaneous	3,170,000	3,174,760	3,200,000
Total Revenue	85,533,000	88,043,110	92,640,000

Expenditure

National Debt Services		29,548,239	
(a) Inside the Fixed Charge	28,883,673		23,363,939
Interest on Local Loans	525,000		752,000
Charge of Suez Loan	200,000		
Other Consolidated Fund Charges	1,495,000	1,479,412	1,760,000
Total Consolidated Fund Services	31,103,673	31,027,651	25,875,939
Army (+Afghan War)	16,180,600	18,655,338	29,000,700
Navy	10,811,770	11,427,064	12,386,500
Civil Services	17,243,754	17,561,836	17,686,825
Collection, Customs & I.R.	2,733,566	2,745,368	2,800,890
Post Office	4,752,517	4,666,000	4,854,659
Telegraph Service	1,734,589	1,731,000	1,839,816
Packet Service	731,356	728,625	753,781
Total	85,291,825	88,542,882	95,199,110
Surplus/(Deficit)	241,175	-499,772	-2,559,110

⁵ P.P. 1885, (174) xlvi. 245. 'Financial Statement 1885-86'.

Revenue 1885-86⁶

	Budget Estimate for 1885-86	Payment into Exchequer 1885-86	Estimate for 1886-87
Customs	20,200,000	19,827,000	1,970,000
Excise	27,800,000	25,460,000	25,694,000
Stamps	11,650,000	11,590,000	11,365,000
Land Tax	1,050,000	1,040,000	1,040,000
House Duty	1,880,000	1,850,000	1,880,000
Property and Income Tax	15,400,000	15,160,000	15,755,000
Total Produce of Taxes		74,927,000	
Post Office	8,000,000	8,150,000	8,270,000
Telegraph Services	1,720,000	1,740,000	1,730,000
Crown Lands	380,000	380,000	370,000
Interest on Purchase Money of Suez	1,360,000	1,376,080	1,165,000
Miscellaneous	3,200,000	3,008,213	2,900,000
Total Revenue	92,640,000	89,581,293	89,869,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	23,363,939	23,449,678	27,424,214
Interest on Local Loans	552,000	478,340	635,333
Charge of Suez Loan	200,000	199,979	0
Other Consolidated Fund Charges	1,760,000	1,638,387	1,762,000
Total Consolidated Fund Services	25,875,939	25,088,065	29,821,547
Army (Afghan+ Credit 9,451,000)	29,000,700	26,728,084	18,233,200
Navy	12,386,500	12,660,509	12,993,100
Civil Services	17,686,825	17,725,764	18,008,691
Collection, Customs & I.R.	2,800,890	2,751,664	2,753,563
Post Office	4,854,659	4,793,744	5,218,955
Telegraph Service	1,839,816	1,745,000	1,845,510
Packet Service	753,781	731,014	735,663
Total	95,199,110	92,223,844	89,610,229
Surplus/(Deficit)	-2,559,110	-2,642,551	258,771

⁶ P.P. 1886, (123) xxxviii. 223. 'Financial Statement 1886-87'.

Revenue 1886-87⁷

	Budget Estimate for 1886-87	Payment into Exchequer 1886-87	Estimate for 1887-88
Customs	1,970,000	20,155,000	19,600,000
Excise	25,694,000	25,250,000	25,292,000
Stamps	11,365,000	11,830,000	11,758,000
Land Tax	1,040,000	2,980,000	1,065,000
House Duty	1,880,000		1,920,000
Property and Income Tax	15,755,000	15,900,000	14,340,000
Total Produce of Taxes		76,115,000	
Post Office	8,270,000	8,450,000	8,600,000
Telegraph Services	1,730,000	1,830,000	1,950,000
Crown Lands	370,000	370,000	370,000
Interest on Purchase Money of Suez	1,165,000	1,176,192	240,000
Miscellaneous	2,900,000	2,831,566	3,000,000
Total Revenue	89,869,000	90,772,758	88,135,000

National Debt Services		27,978,023	
(a) Inside the Fixed Charge	27,424,214		26,000,000
Interest on Local Loans	435,333		214,000
Charge of Suez Loan	200,000		0
Other Consolidated Fund Charges	1,762,000	1,762,000	1,714,000
Total Consolidated Fund Services	29,821,547	29,740,023	27,928,000
Army	18,233,200	18,653,138	18,393,900
Navy	12,993,100	13,265,401	12,476,800
Civil Services	18,008,691	18,008,691	18,261,508
Collection, Customs & I.R.	2,753,563	2,676,918	2,715,727
Post Office	5,218,955	5,436,893	5,420,770
Telegraph Service	1,845,510	1,935,000	1,950,248
Packet Service	735,663	724,900	699,341
Total	89,610,229	90,440,964	87,846,294
Surplus/(Deficit)	258,771	331,794	288,706

⁷ P.P. 1887 (126) xlix. 249. 'Financial Statement 1887-88'.

Revenue 1887-88⁸

	Budget Estimate for 1887-88	Payment into Exchequer 1887-88	Estimate for 1888-89
Customs	19,600,000	19,630,000	19,925,000
Excise	25,292,000	25,597,000	25,505,000
Stamps	11,758,000	12,940,000	11,780,000
Land Tax	1,065,000	1,050,000	1,046,000
House Duty	1,920,000	1,890,000	1,890,000
Property and Income Tax	14,340,000	14,340,000	12,250,000
Total Produce of Taxes		75,447,000	72,396,000
Post Office	8,600,000	8,650,000	8,800,000
Telegraph Services	1,950,000	1,950,000	2,000,000
Crown Lands	370,000	390,000	390,000
Interest on Purchase Money of Suez	240,000	242,000	241,000
Miscellaneous	3,000,000	2,910,000	3,000,000
Total Revenue	88,135,000	89,589,000	86,827,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	26,000,000	26,000,000	26,000,000
Charge of Suez Loan	214,000	213,911	214,000
Naval Defence Fund	0		0
Other Consolidated Fund Charges	1,714,000	1,758,084	1,647,000
Total Consolidated Fund Services	27,928,000	27,971,995	27,861,000
Army	18,393,900	18,167,196	16,730,300
Navy	12,476,800	12,325,357	13,082,800
Civil Services	18,261,508	18,210,000	17,850,293
Collection, Customs & I.R.	2,715,727	2,707,745	2,745,549
Post Office	5,420,770	5,403,438	5,666,666
Telegraph Service	1,950,248	1,940,012	2,036,836
Packet Service	699,341	697,901	641,500
Total	87,846,294	87,423,644	86,614,944
Surplus/(Deficit)	288,706	2,165,356	212,056

⁸ P.P. 1888, (97) lxv. 235. 'Financial Statement 1888-89'.

Revenue 1888-89⁹

	Budget Estimate for 1888-89	Payment into Exchequer 1888-89	Estimate for 1889-90
Customs	19,925,000	20,067,000	20,050,000
Excise	25,505,000	25,600,000	22,870,000
Stamps	11,780,000	12,270,000	12,580,000
Land Tax	1,046,000	1,020,000	1,035,000
House Duty	1,890,000	1,940,000	1,925,000
Property and Income Tax	12,250,000	12,700,000	12,550,000
Total Produce of Taxes	72,396,000	73,597,000	71,010,000
Post Office	8,800,000	9,100,000	9,350,000
Telegraph Services	2,000,000	2,080,000	2,230,000
Crown Lands	390,000	430,000	430,000
Interest on Purchase Money of Suez	241,000	240,957	280,000
Miscellaneous	3,000,000	3,024,855	2,850,000
Total Revenue	86,827,000	88,472,812	86,150,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	26,000,000	26,000,000	25,000,000
(b) Outside the Fixed Charge	214,000	224,594	220,000
Naval Defence Fund	0		1,430,000
Other Consolidated Fund Charges	1,647,000	1,629,986	1,624,000
Total Consolidated Fund Services	27,861,000	27,854,580	28,274,000
Army	16,730,300	15,957,738	17,335,000
Navy	13,082,800	12,999,895	13,685,000
Civil Services	17,850,293	17,872,986	15,739,092
Collection, Customs & I.R.	2,745,549	2,718,322	2,679,961
Post Office	5,666,666	5,667,849	5,452,553
Telegraph Service	2,036,836	1,965,000	2,135,516
Packet Service	641,500	637,502	664,405
Total	86,614,944	85,673,872	85,966,827
Surplus/(Deficit)	212,056	2,798,940	183,173

⁹ P.P. 1889, (116) xlvi. 237. 'Financial Statement 1889-90'.

Revenue 1889-90¹⁰

	Budget Estimate for 1889-90	Payment into Exchequer 1889-90	Estimate for 1890-91
Customs	20,050,000	20,424,000	19,116,000
Excise	22,870,000	24,160,000	23,652,000
Stamps	12,580,000	13,060,000	13,642,000
Land Tax	1,035,000	1,035,000	1,030,000
House Duty	1,925,000	1,965,000	1,460,000
Property and Income Tax	12,550,000	12,770,000	13,200,000
Total Produce of Taxes	71,010,000	73,414,000	72,100,000
Post Office	9,350,000	9,450,000	9,670,000
Telegraph Services	2,230,000	2,320,000	2,470,000
Crown Lands	430,000	430,000	430,000
Interest on Purchase Money of Suez	280,000	279,000	240,000
Miscellaneous	2,850,000	3,411,000	2,700,000
Total Revenue	86,150,000	89,304,000	87,610,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	25,000,000	25,000,000	25,000,000
(b) Outside the Fixed Charge	220,000	227,000	214,000
Naval Defence Fund	1,430,000	1,429,000	1,430,000
Other Consolidated Fund Charges	1,624,000	1,634,000	2,124,000
Total Consolidated Fund Services	28,274,000	28,290,000	287,680,000
Army	17,335,000	17,361,000	17,828,000
Navy	13,685,000	13,842,000	13,787,000
Civil Services	15,739,092	15,590,000	15,851,000
Collection, Customs & I.R.	2,679,961	2,655,000	2,668,000
Post Office	5,452,553	5,463,000	5,548,000
Telegraph Service	2,135,516	2,176,000	2,244,000
Packet Service	664,405	664,000	683,000
Total	85,966,827	86,041,000	87,377,000
Surplus/(Deficit)	183,173	3,263,000	233,000

¹⁰ P.P. 1890, (138) xli. 221. 'Financial Statement 1890-91'.

Revenue 1890-91¹¹

	Budget Estimate for 1890-91	Payment into Exchequer 1890-91	Estimate for 1891-92
Customs	19,116,000	19,480,000	19,700,000
Excise	23,652,000	24,788,000	25,300,000
Stamps	13,642,000	13,460,000	134,500,000
Land Tax	1,030,000	1,030,000	1,030,000
House Duty	1,460,000	1,570,000	1,450,000
Property and Income Tax	13,200,000	13,250,000	13,750,000
Total Produce of Taxes	72,100,000	73,578,000	74,680,000
Post Office	9,670,000	9,880,000	10,120,000
Telegraph Services	2,470,000	2,380,000	2,480,000
Crown Lands	430,000	430,000	430,000
Interest on Purchase Money of Suez	240,000	242,000	220,000
Miscellaneous	2,700,000	2,979,000	2,500,000
Total Revenue	87,610,000	89,489,000	90,430,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	25,000,000	25,000,000	25,000,000
(b) Outside the Fixed Charge	214,000	207,000	200,000
Naval Defence Fund	1,430,000	1,429,000	1,430,000
Other Consolidated Fund Charges	2,124,000	2,067,000	3,485,000
Total Consolidated Fund Services	28768000	28,703,000	30115000
Army	17,828,000	17,560,000	17,545,000
Navy	13,787,000	14,125,000	14,215,000
Civil Services	15,851,000	16,040,000	16,641,000
Collection, Customs & I.R.	2,668,000	2,644,000	2,694,000
Post Office	5,548,000	5,683,000	5,924,000
Telegraph Service	2,244,000	2,272,000	2,422,000
Packet Service	683,000	706,000	708,000
Total	87,377,000	87,733,000	90,264,000
Surplus/(Deficit)	233,000	1,756,000	166,000

¹¹ P.P. 1891, (200) xlvi. 217. 'Financial Statement 1891-92'.

Revenue 1891-92¹²

	Budget Estimate for 1891-92	Payment into Exchequer 1891-92	Estimate for 1892-93
Customs	19,700,000	19,736,000	19,900,000
Excise	25,300,000	25,610,000	25,452,000
Stamps	134,500,000	13,700,000	13,560,000
Land Tax	1,030,000	1,050,000	1,040,000
House Duty	1,450,000	1,434,000	1,410,000
Property and Income Tax	13,750,000	13,810,000	13,400,000
Total Produce of Taxes	74,680,000	75,340,000	74,762,000
Post Office	10,120,000	10,150,000	10,400,000
Telegraph Services	2,480,000	2,480,000	2,560,000
Crown Lands	430,000	430,000	435,000
Interest on Purchase Money of Suez	220,000	222,000	220,000
Miscellaneous	2,500,000	2,373,000	2,076,000
Total Revenue	90,430,000	90,995,000	90,453,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	25,000,000	25,000,000	25,000,000
(b) Outside the Fixed Charge	200,000	200,000	200,000
Naval Defence Fund	1,430,000	1,429,000	1,429,000
Other Consolidated Fund Charges	3,485,000	2,381,000	1,683,000
Total Consolidated Fund Services	30,115,000	29,010,000	28,312,000
Army	17,545,000	17,259,000	17,631,000
Navy	14,215,000	14,150,000	14,240,000
Civil Services	16,641,000	17,501,000	17,791,000
Collection, Customs & I.R.	2,694,000	2,692,000	2,649,000
Post Office	5,924,000	6,126,000	6,345,000
Telegraph Service	2,422,000	2,489,000	2,556,000
Packet Service	708,000	701,000	729,000
Total	90,264,000	89,928,000	90,253,000
Surplus/(Deficit)	166,000	1,067,000	200,000

¹² P.P. 1892, (162) xlviii. 213. 'Financial Statement 1892-93'.

Revenue 1892-93¹³

	Budget Estimate for 1892-93	Payment into Exchequer 1892-93	Estimate for 1893-94
Customs	19,900,000	19,715,000	19,650,000
Excise	25,452,000	25,360,000	25,100,000
Stamps	13,560,000	13,805,000	13,600,000
Land Tax	1,040,000	1,040,000	1,035,000
House Duty	1,410,000	1,410,000	1,425,000
Property and Income Tax	13,400,000	13,470,000	15,150,000
Total Produce of Taxes	74,762,000	74,800,000	75,960,000
Post Office	10,400,000	10,400,000	10,600,000
Telegraph Services	2,560,000	2,480,000	2,480,000
Crown Lands	435,000	430,000	430,000
Interest on Purchase Money of Suez	220,000	220,000	220,000
Miscellaneous	2,076,000	2,065,000	1,950,000
Total Revenue	90,453,000	90,395,000	91,640,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	25,000,000	25,000,000	25,000,000
(b) Outside the Fixed Charge	200,000	200,000	200,000
Naval Defence Fund	1,429,000	1,429,000	1,429,000
Other Consolidated Fund Charges	1,683,000	1,677,000	1,691,000
Total Consolidated Fund Services	28,312,000	28,306,000	28,320,000
Army	17,631,000	17,542,000	17,803,000
Navy	14,240,000	14,302,000	14,240,000
Civil Services	17,791,000	17,780,000	18,136,000
Collection, Customs & I.R.	2,649,000	2,616,000	2,706,000
Post Office	6,345,000	6,513,000	6,791,000
Telegraph Service	2,556,000	2,595,000	2,739,000
Packet Service	729,000	721,000	735,000
Total	90,253,000	90,375,000	91,464,000
Surplus/(Deficit)	200,000	20,000	176,000

¹³ P.P. 1893, (182) 1. 231. 'Financial Statement 1893-94'.

Revenue 1893-94¹⁴

	Budget Estimate for 1893-94	Payment into Exchequer 1893-94	Estimate for 1894-95
Customs	19,650,000	19,707,000	20,010,000
Excise	25,100,000	25,200,000	26,240,000
Stamps	13,600,000	12,860,000	14,080,000
Land Tax	1,035,000	1,035,000	1,030,000
House Duty	1,425,000	1,425,000	1,440,000
Property and Income Tax	15,150,000	15,200,000	15,530,000
Total Produce of Taxes	75,960,000	75,427,000	78,330,000
Post Office	10,600,000	10,470,000	10,570,000
Telegraph Services	2,480,000	2,540,000	2,620,000
Crown Lands	430,000	420,000	420,000
Interest on Purchase Money of Suez	220,000	218,000	396,000
Miscellaneous	1,950,000	2,065,000	1,839,000
Total Revenue	91,640,000	91,140,000	94,175,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	25,000,000	25,000,000	25,000,000
(b) Outside the Fixed Charge	200,000	200,000	
Naval Defence Fund	1,429,000	1,429,000	
Other Consolidated Fund Charges	1,691,000	1,681,000	1,653,000
Total Consolidated Fund Services	28,320,000	28,310,000	26,653,000
Army	17,803,000	17,940,000	18,006,000
Navy	14,240,000	14,048,000	17,296,000
Civil Services	18,136,000	18,226,000	18,688,000
Collection, Customs & I.R.	2,706,000	2,671,000	2,677,000
Post Office	6,791,000	6,721,000	7,038,000
Telegraph Service	2,739,000	2,664,000	2,777,000
Packet Service	735,000	723,000	749,000
Total	91,464,000	91,303,000	93,884,000
Surplus/(Deficit)	176,000	-163,000	291,000

¹⁴ P.P. 1894, (68) li. 125. 'Financial Statement 1894-95'.

Revenue 1894-95¹⁵

	Budget Estimate for 1894-95	Payment into Exchequer 1894-95	Estimate for 1895-96
Customs	20,010,000	20,115,000	20,240,000
Excise	26,240,000	26,050,000	25,950,000
Stamps	14,080,000	14,440,000	15,800,000
Land Tax	1,030,000	1,015,000	1,020,000
House Duty	1,440,000	1,435,000	1,450,000
Property and Income Tax	15,530,000	15,600,000	15,530,000
Total Produce of Taxes	78,330,000	78,655,000	79,990,000
Post Office	10,570,000	10,760,000	10,900,000
Telegraph Services	2,620,000	2,580,000	2,620,000
Crown Lands	420,000	410,000	415,000
Interest on Purchase Money of Suez	396,000	413,000	687,000
Miscellaneous	1,839,000	1,866,000	1,550,000
Total Revenue	94,175,000	94,684,000	96,162,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	25,000,000	25,000,000	25,000,000
(b) Outside the Fixed Charge			0
Naval Defence Fund			
Other Consolidated Fund Charges	1,653,000	1,642,000	1,625,000
Total Consolidated Fund Services	26,653,000	26,642,000	26,625,000
Army	18,006,000	17,900,000	17,984,000
Navy	17,296,000	17,545,000	18,701,000
Civil Services	18,688,000	18,915,000	19,298,000
Collection, Customs & I.R.	2,677,000	2,646,000	2,702,000
Post Office	7,038,000	6,869,000	7,134,000
Telegraph Service	2,777,000	2,674,000	2,805,000
Packet Service	749,000	727,000	732,000
Total	93,884,000	93,918,000	95,981,000
Surplus/(Deficit)	291,000	766,000	181,000

¹⁵ P.P. 1895, (244) lxi. 173. 'Financial Statement 1895-96'.

Revenue 1895-96¹⁶

	Budget Estimate for 1895-96	Payment into Exchequer 1895-96	Estimate for 1896-97
Customs	20,240,000	20,756,000	21,020,000
Excise	25,950,000	26,800,000	27,000,000
Estate, duties, etc.	10,140,000	11,600,000	9,775,000
Stamps	5,660,000	7,350,000	6,700,000
Land Tax	1,020,000	1,015,000	900,000
House Duty	1,450,000	1,495,000	1,475,000
Property and Income Tax	15,530,000	16,100,000	16,200,000
Total Produce of Taxes	79,990,000	85,116,000	83,070,000
Post Office	10,900,000	11,380,000	11,660,000
Telegraph Services	2,620,000	2,840,000	2,940,000
Crown Lands	415,000	415,000	415,000
Interest on Purchase Money of Suez	687,000	690,000	695,000
Miscellaneous	1,550,000	1,533,000	1,700,000
Total Revenue	96,162,000	101,974,000	100,480,000

Expenditure

National Debt Services			
(a) Inside the Fixed Charge	25,000,000	25,000,000	25,000,000
(b) Outside the Fixed Charge			
Naval Defence Fund	0		
Other Consolidated Fund Charges	1,625,000	1,601,000	1,660,000
Total Consolidated Fund Services	26,625,000	26,601,000	26,660,000
Army	17,984,000	18,460,000	18,056,000
Navy	18,701,000	19,724,000	21,823,000
Civil Services	19,298,000	19,800,000	19,795,000
Collection, Customs & I.R.	2,702,000	2,702,000	2,735,000
Post Office	7,134,000	7,018,000	7,242,000
Telegraph Service	2,805,000	2,744,000	3,009,000
Packet Service	732,000	715,000	727,000
Total	95,981,000	97,764,000	100,047,000
Surplus/(Deficit)	181,000	4,210,000	433,000

¹⁶ P.P. 1895, (244) lxi. 173. 'Financial Statement 1895-96'.

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