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THE WAR

Its Cost, Finance and Legacies.

BY

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NOTE.

THIS Article appeared in the June number of the 'NATIONAL REVIEW,' and I am much indebted to the Editor for permission to re-print it.

It was written, and in print, before the Birmingham manifesto of last May. No doubt the 'Inquiry' and discussion that has followed that important pronouncement, has momentarily diverted public attention from questions of national expenditure and national finance; but they still remain essential factors in our fiscal position.

The enormous burden of expenditure and of taxation due to the South African War, bore, on the whole, lightly on the country. A striking tribute to the broad and sound basis on which our trade and finance is founded; and an opportune object lesson at the present moment. For the country may well entertain a shrewd idea, that the burden of the South African War could not so easily have been borne, if we had had to depend for our resources upon a fiscal system, formerly tried and found wanting, and now again proposed for our adoption.

7 GROSVENOR CRESENT.

September, 1903.

SYDNEY BUXTON.

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THE WAR:

Its Cost, Finance, and Legacies.

THE time has now arrived at which it is possible to sum up the cost of the war, and to consider how that cost has been met, and what fiscal and financial legacies remain. This is not, however, the place to discuss the question of whether the cost was excessive; whether extravagance and waste, or due economy and foresight prevailed. Obviously the war was unexpected, and its nature, magnitude, and prolongation were matters of still greater surprise. Nothing, therefore, was ready when the storm broke—and unpreparedness costs money. Millions were at once lavishly voted, money flowed like water; and, of necessity, combined with much efficiency, there was also great waste in many quarters—not by any means confined to spavined horses and mouldy hay.

It is not intended either, on the present occasion, to discuss in detail the merits and demerits of the actual taxation imposed to meet the cost of the war, nor to consider whether such taxation was sound and wise. The reform of taxation since 1843 has been based on the principle that taxation should be levied on as few articles as possible, each head of taxation producing a substantial sum. In other words, simplicity and concentration; a large revenue from a few sources. Thus the thousand-headed tariff of sixty years ago had been gradually curtailed until, in 1899, but sixty-eight items of import remained liable to taxation by the Customs. But the more the basis of taxation is broadened—as the cant phrase is—the more complicated and vexatious the tariff, and the greater the restrictions and restraints on trade. The new duties of 1900, 1901, and 1902 increased the number of articles taxed to 170. It may well be questioned whether it would not have been better to have laid existing taxation more under contribution and to have imposed fewer new taxes.

To rightly understand the finance of the war, it has to be considered from two aspects: first, the financial position as it appeared to the Chancellor of the Exchequer, when from time to

time he was making his provisions for the year; and, secondly, the outcome of the whole affair. The one indicates the financial policy of the Government, and whether they show courage and resource in meeting emergencies; the other sums up the final financial result to the country.

On the first occasion of the imposition of war taxation, in his Budget speech of 1900, Sir Michael Hicks Beach made an appeal to the taxpayers to show themselves 'not unworthy of this country and of those who had gone before us.' 'This was not a time,' he said, 'at which we should shrink from showing our confidence in the resources of our country or in the self-denial of our people.' Shall we, he exclaimed, who sit at home at ease, show ourselves at such a moment financial cowards? Let us rather look back to the history of the past, and see what our forefathers did at the time of the Napoleonic War, and what our fathers did at the time of the Crimean War.

THE FRENCH WAR AND THE CRIMEAN WAR.

The cost of the French War was about 900 millions, and, approximately, of this over 300 million was met by immediate taxation, while some 600 millions was borrowed. No doubt at the beginning of the war, Pitt, who for long could not be brought to believe in the continuance and the staying power of the mushroom Republic, was content to borrow nearly the whole of the large sums required. But in 1798 he realised the gravity of the situation, and from that time forth he and his successors did not shrink from the most strenuous exertions, while conducting the Titanic struggle, to maintain the credit of the country and to meet a large portion of the cost of the war from additional taxation. The nation was far from rich, the population was comparatively small, yet for thirteen years an income-tax of two shillings in the pound was levied and cheerfully borne, while every article of luxury or of necessity, of food or of clothing, of warmth, light or illumination, was taxed, again taxed, and further taxed. The flag was kept flying and financial ruin was averted.

In 1854, the first year of the Crimean War, ten millions were required. The whole was provided by Mr. Gladstone from additional taxation, to produce a little over six millions in the current and an additional four millions in the following year. In 1855, twenty-three millions were required when the Budget was introduced, and Sir Charles Wood imposed further taxation to the extent of another five and a half millions. In 1856, the balance required was borrowed. For war purposes the income-

tax was raised from 7*d.* to 16*d.*, the tea duty by 6*d.* to 1*s.* 9*d.*, the sugar duty by 2*s.* to about 12*s.* a cwt., while the malt duty and spirit duty were largely increased. In round numbers, out of a total cost of nearly seventy millions falling on three years, thirty-seven and a half millions were met by taxation and thirty-two millions were borrowed. Within ten years the last fiscal and financial traces of the Crimean War had disappeared. By then the debt had been again reduced to the level of pre-Crimean days ; and the remaining remnant of the war taxation, that still left on tea and on sugar, had been finally remitted. The statesmen of the day may have put, and indeed had put their money on the wrong horse. But at least they appreciated that those who had clamoured for war were bound to pay for their whistle, and that it was not just to leave to posterity the results of their policy.

Such was the war finance of the past ; and it is clear, that in the year of Grace 1899, we were in a far stronger and better position for meeting the burden of a war than were our ancestors or our forefathers. For decade after decade, year after year, had seen the country grow in wealth, commerce, and comfort, with lightened taxation, a simplified tariff, and with the debt largely reduced. This was the situation when the South African storm-cloud broke, and a grave financial position had to be faced.

THE FIRST COST OF THE WAR.

The only preparation made for a possible war were the preliminary arrangements in July for the despatch to South Africa from India, of 10,000 men ; a force that was ultimately sent at the beginning of September. A policy of bluff and of metaphors was to carry the day—there would be no war. But these sanguine ideas were rudely dispelled when, in October, 1899, the Boers issued their ultimatum and war began. The House was thereupon called together to vote supplies. Ten millions were asked for to enable the Government to despatch 35,000 additional troops to South Africa, and to bring the war to a speedy and successful conclusion. 'Of course,' said the Chancellor of the Exchequer, 'if we had known in April last that we should have been called upon to provide for an expenditure of ten millions for a war in South Africa, I should have felt bound to provide for it out of the resources of the year.' But this being October, and the financial year half sped, he did not think it wise or feasible at once to impose taxation. Three millions of the ten were to be met by the anticipated surplus of the year—the revenue was showing great expansion—while the balance was to be met by an issue of Treasury Bills. But the

borrowing was to be merely temporary, for Parliament would have to make provision for the expenditure.

Instead, however, of our men eating their Christmas dinner in Pretoria, the dark days of Magersfontein, of Stormberg, and of Colenso intervened; still further darkened by the heart-rending flash-signal of 'Hope can hold out' of hardly pressed Ladysmith. But when the House met again on January 30th, 1900, matters had somewhat improved, troops had been poured into South Africa, Lord Roberts had arrived, the relief of Kimberley was imminent. The Government had, however, to confess that the job was a bigger and more formidable one than they had anticipated. A vote for 120,000 additional men and a sum of thirteen millions were taken.

THE FIRST WAR BUDGET.

The Budget of 1900 was introduced on March 5th, nearly five weeks before the end of the financial year. The estimated expenditure for the coming year was put at £154,000,000, the estimated revenue at £116,900,000, giving a deficit of £37,000,000. Included in the estimated expenditure was a sum of £38,000,000 for war purposes; so that, for 1900-1, it was expected that 'the ordinary revenue of the country would well cover the ordinary expenditure.' To the thirty-eight millions required for the war, some five millions additional would, so the Chancellor of the Exchequer stated, be required for army purposes, for replenishing the reserve of guns, ammunition, and stores, if was realised the hope and expectation that the war would be brought to a successful conclusion by the following September. The total actual and estimated war liabilities amounted, therefore, to sixty-six millions, made up of the ten millions of October, 1899, the thirteen millions of February, 1900, and the thirty-eight and the five millions now required. Some five and a half millions would, it was expected, be provided by the 'abounding revenue,' which had already, a month before the close of the financial year, resulted in a realised surplus of that amount over the ordinary expenditure of the past year.* This surplus had been diverted to meet the extraordinary war deficit instead of being applied to the reduction of existing debt. Thus a balance of some sixty millions remained, for which provision had to be made.

Additional taxation was to be imposed to an amount of £12,317,000 on the current year, with £1,900,000 additional

* This realised surplus, estimated at £3,000,000 in October, at £5,500,000 in March, as above, actually reached the amazing sum of £9,334,000 by the end of the financial year.

to fall on the following year; a total of £14,217,000. As it was hoped that the war, though 'acute and costly, would not be a long one,' this additional taxation was to be raised by temporary additions to existing taxation; for it did not seem advisable 'to meet temporary necessity by permanent fiscal changes.' Direct and indirect taxation were to suffer in companionship. So tea, tobacco, beer, and spirits were all additionally taxed, to the tune of £5,800,000; while fourpence was put on to the income-tax, raising it to a shilling, to produce some £8,400,000. In addition, the sinking fund within the fixed debt charge was suspended—on which subject a few words will be said later on—thus reducing the expenditure by £4,550,000. In round figures, therefore, the aggregate war expenditure of sixty-six millions was to be met, to the extent of fourteen millions and a quarter, by additional taxation, and to the estimated extent of ten millions by the interception or suspension of the old and new sinking funds respectively. The balance was borrowed. Thirteen millions of Treasury Bills had already been issued, and a War Loan of thirty millions now followed. It was, however, contemplated that a considerable sum—some said thirty millions—would ultimately be forthcoming from the Transvaal when the war was over, as a contribution towards the cost of the war. Taking them all round the financial proposals of 1900-1 were not unworthy of the pluck and the policy of an English Chancellor of the Exchequer.

FURTHER WAR EXPENDITURE.

The somewhat sanguine estimates of the military authorities were not fulfilled; and, in July 1900, a further supplementary estimate was taken for £11,500,000, of which three millions were for China. The number of men now in South Africa was 223,000. But the war was thought to be drawing to a close, and this sum would suffice to finish it off; and, indeed, a considerable portion of the estimate was concerned with charges for re-transport, gratuities, and other terminal charges. No ways and means were provided to meet this extra expenditure.

Then came September, with the war officially over—and the Election. As soon, however, as the Election was completed, it was found, to the surprise of everybody, that the Boers did not agree with the view of the Government, and persisted in keeping up a sort of a war; which, however, involved as many troops and as much cost as the real war. In December, therefore, the new House was called together to vote further supplies, in order to enable the Government to maintain a force of 230,000 men, and effectually and finally to deal with their obstinate and

persistent opponent. A further supplementary vote of sixteen millions (of which £500,000 was for China) was therefore taken. In February 1901, there was yet another supplementary estimate of three millions. Thus the additional war expenditure of the year, over and above the Budget estimate of thirty-eight millions—the five millions additional, originally intended to be taken for contingences, had been superseded by the larger supplementary votes—amounted to thirty and a half millions, of which three and a half millions was due to the Chinese *imbroglio*. The war cost had mounted up to £91,800,000. No further ways and means were provided in the year, but the money now required was raised from the balance of the War Loan and by the issue of Exchequer Bonds and Treasury Bills.

THE SECOND WAR BUDGET.

This, then, was the position when the Chancellor of the Exchequer presented his second War Budget on April 18, 1901. The war had already cost some ninety-two millions, and the further estimated war expenditure for the coming year was put at £60,230,000 (including £2,000,000 for China); a total aggregated war expenditure of about £152,000,000. Of this, eleven millions only had been met from the war taxation imposed the previous year—the increase in the ordinary expenditure had absorbed the balance of the additional taxation. About another fourteen millions had been liquidated by the diversion of the sinking funds,* leaving, in round numbers, some 127 millions still outstanding to be met. And the worst of it was that the expected contribution from the Transvaal, that had looked so rosy and realisable the previous year, when the war liability was but half the present amount, had become dim, distant, and hazy. Then, besides and beyond this somewhat unfortunate financial outlook, the ordinary expenditure had shown an enormous and alarming increase. The estimate of the ordinary expenditure for the coming year, 1901-2, was greater than that for 1899-1900 by no less than eleven and a quarter millions, and amounted to £127,372,000. The estimated revenue was put at £132,255,000, which left an apparent surplus of £4,880,000. But included in the revenue were over fourteen millions of war taxation, imposed the previous year; so that the increase on the ordinary expenditure would swallow up ten millions of this additional taxation.

* The total estimated expenditure for the year was put at £187,600,000, which, against the expected revenue of

* See Note, p. 6.

£132,255,000, left the enormous deficit of £55,345,000. New taxation was to be imposed. But as the financial difficulty was now not so much the war expenditure as the ordinary expenditure, permanent fiscal changes were proposed. It became necessary 'to make some endeavour to put our financial system on a broader basis, so as to enable us to bear the increase in our ordinary expenditure which may be necessary.' So the sugar duty and the export duty on coal were revived. This new indirect taxation would produce £7,200,000; and another twopence was added to the income-tax, raising it to 14*d.*, to produce £3,800,000 in the current and £900,000 in the following year. In all, eleven millions of additional taxation in the current, and another million in subsequent years. But this eleven millions was but little more than sufficient to fill the yawning chasm caused by the increase of the ordinary expenditure. There was not nearly enough left over even to cover the additional interest on the war debt, now estimated at three and a quarter millions a year—Pitt, in his worst time, had at least provided each year by taxation for the interest on his additional war debt. The sinking fund was again, and rightly, suspended, and the expenditure was thereby again reduced by £4,600,000. The balance of the funds required were borrowed in the form of an issue of Consols to an amount of £60,000,000.

CRITICISM OF BUDGET.

The war was still not over, and, indeed, showed little signs of coming speedily to an end. The total war cost amounted to 153 millions; the debt had been increased by 127 millions. Yet, in 1901, no further substantial effort was made, beyond continuing the existing war taxation of fourteen to fifteen millions a year, to liquidate this enormous debt. The whole effort made in two years to meet the cost of the war was thus measured by some twenty-seven millions. The financial pluck of the previous year had given out. The idea that the 'tax-payers of the country should make some substantial sacrifice, which in these days of prosperity they were well able to bear,' was forgotten; and substantially the whole aggregated debit balance of war expenditure was carried over, to be paid at some distant and uncertain date. Comparisons with the Napoleonic and Crimean Wars would now be distinctly odious and in bad taste, so the Chancellor of the Exchequer avoided any reference to the way in which the war expenditure of our fathers and forefathers had been courageously met.

THIRD WAR BUDGET.

Time went on, and so did the war; and, in January 1902, a further sum of five millions was required for army purposes, the army in the field still numbering 240,000 men. Previous to this, in July, 1901, yet another six and a half millions were asked for and voted as a 'grant-in-aid' for civil purposes for the Transvaal and Orange River Colony. Three millions of this was an advance intended to be repaid by the Colonies, the balance was required to enable the Queen's Government to be carried on. The charges due to the war were thus increased in the year by £11,600,000.

The Budget of 1902 was introduced on April 14, after the Conferences at Vereeniging had begun, and were still proceeding, but while it was as yet questionable if a peaceful settlement would ensue. At all events, the Chancellor of the Exchequer desiring peace wisely prepared for war. And, indeed, even if peace came, he could not anticipate that there would be any saving on the army estimates, the whole sum would probably be absorbed in winding up the war.

The war estimate for the year amounted to £39,650,000, together with £3,800,000 for interest on the war debt, and £1,800,000 for further civil charges; in all, £45,250,000. Besides this, a supplementary provision to meet contingencies of £17,750,000 was taken, while the interest on the new debt to be created would require a further £750,000. The grand total of estimated war charges on the year thus amounted to nearly sixty-four millions. Adding this to the former liabilities created by the wars, amounting to 165 millions, a grand total was reached of some 229 millions, of which six millions was due to China. Of this, as we have already seen, about twenty-seven millions had been met from increased taxation, and eighteen and a quarter millions had been liquidated at the cost of the redemption of the existing debt by the diversion or suspension of the sinking funds. On balance, therefore, an actual liability of 184 millions was still outstanding. Against this enormous total the anticipations of payment by the Transvaal of a substantial contribution to the cost of the war—now talked of as fifty millions—was 'coming nearer;' while the British share of the Chinese indemnity, amounting to six millions, though not yet realised, was assumed as a good asset.

The total estimated expenditure for the year was put at £193,785,000, the revenue, including the additional taxation of 1900 and 1901, was put at £147,785,000, leaving a deficiency of £45,324,000. This was primarily a war deficit, for while the ordinary expenditure, put at £129,159,000, showed an increase of two millions, the revenue was still buoyant, and showed a

surplus of £18,824,000 over this estimated ordinary expenditure; a sum which was available for war charges. This sum was to be enlarged by additional taxation; and direct and indirect taxation were, for the third time, to share in adversity. The income-tax was to be increased by a penny to 1s. 3d., and the penny stamp on cheques was to be doubled—a proposal subsequently abandoned. At the same time the basis of taxation was to be again broadened. The alarming increase in the ordinary expenditure, necessitated, in the opinion of the Chancellor of the Exchequer, a further permanent addition to the tariff of articles on which taxation should be levied. The former corn duty, repealed in 1869, of threepence a cwt., was therefore reimposed. This fresh taxation would produce £5,150,000 in the present and £500,000 in the following year, of which £2,650,000 was derived from indirect taxation, and £3,000,000 from direct taxation.

In the year, therefore, the revenue available for the liquidation of the enormous war debt would amount to an aggregate of 23½ millions—*i.e.*, surplus, £18,600,000; increased taxation, £5,100,000. But of this, £4,400,000 was required to meet the additional interest on the war debt, so that some twenty millions alone was available for the reduction of the capital debt. The sinking fund was, of course, to be again suspended, reducing the expenditure by £4,670,000. A further war loan of thirty-two millions was to be issued, bringing the total increase of the debt up to 159 millions. The balances were to be drawn upon to meet the rest of the deficit.

Thus, while the war liabilities of the year were increased by sixty-four millions, some five millions of additional taxation only were to be imposed in the year. In other words, of the deficit of forty-five millions, some five was met from taxation, four and a half from the sinking fund, and the rest was borrowed. Better than the year before; but hardly courageous finance.

SUMMARY OF FINANCIAL POSITION.

This was the last War Budget, and this, then, is the moment to sum up the financial position as estimated, and the financial provision as intended by the Chancellor of the Exchequer.

The estimated war expenditure (including China 6 millions), and including interest on the debt, had been as follows:

	£	Total.
1899—00 . . .	23,217,000 . . .	23,217,000
1900—01 . . .	68,620,000 . . .	91,837,000
1901—02 . . .	73,197,000 . . .	165,034,000
1902—03 . . .	63,950,000 . . .	228,984,000

This expenditure had been intended to be met as follows :

	From New Taxation (as estimated).	From Sinking Fund	Debt Increased.
1899-00 .	—	9,334,000	13,000,000
1900-01 .	12,167,000	4,547,000	54,000,000
1901-02 .	15,000,000	4,681,000	60,000,000
1902-03 {	18,624,000 {	4,640,000	32,000,000
	5,150,000 }		
	<u>£51,026,000</u>	<u>£23,202,000</u>	<u>£159,000,000</u>
		Producing	<u>£152,400,000</u>

The actual results were, of course, somewhat different and more satisfactory, and they will be summed up later.

FINANCIAL COURAGE?

The real touchstone of the financial courage and resource of a Chancellor of the Exchequer is the way in which, in time of trouble, he meets his difficulties and rises to the occasion; in other words, he must be judged by the amount of taxation he and his Government are willing to impose on the country in order to meet the needs of a costly war. Judged by this test, it must be confessed that the figures already given show that the Government failed adequately to meet the emergency, and that financial courage was not conspicuous in their dealings with the liabilities thrown on the country by the war. They talked big, but, in taxation, they sang small; there was much cry but little wool. The more there was to meet, the less was done to meet it.

In 1899 there was a sum of ten millions to be met; and the whole of this, so the Chancellor of the Exchequer declared, he would have been bound to meet, and would have met in the financial year, if the liabilities had been known in April instead of in October. In 1900 the liabilities had risen to sixty-six millions, of which possibly half, it was hoped, might be recovered from the Transvaal. Taxation to an amount of fourteen millions a year was imposed; a substantial contribution towards the liquidation of the balance. On the third occasion, in 1901, the liabilities aggregated a hundred and fifty millions, and the Transvaal contribution had become somewhat doubtful. No substantial taxation was, however, imposed to meet these grown and growing charges. Additional taxation, it is true, to an amount of eleven millions was imposed, but practically the whole of this was already hypothecated to meet the deficit on

the ordinary expenditure. On the fourth and last occasion, in 1902, the aggregate liabilities having now mounted up to 229 millions, of which 184 millions was still unliquidated, fresh taxation to an extent of five and a half millions in all was imposed—a ha'porth of bread to an intolerable deal of sack.

Every one, as we know, would readily be a good Samaritan, if it were not for the oil and the twopence; and everybody would be in favour of increasing the taxes to meet the charges of a war if it were not for a tea duty and an income-tax. But whatever he may feel in the abstract, no one likes taxation in the concrete, and it is much easier and pleasanter to run up debt, and to provide merely for the interest, rather than to impose taxation in order to liquidate the principal. It requires, therefore, exceptional courage and ability to overcome the dead weight of public opinion and to face the unpopularity of heavy taxation.

The England of a hundred years ago, involved in a great war, met over three hundred millions of war charges from additional taxation, one-third of the whole cost. Fifty years later, the wealthier and more populous England met nearly forty millions of war charges, more than half the whole liability, in three years. The still wealthier and more prosperous England of to-day—'the most lightly taxed country in Europe,' so the Colonial Secretary informs us—was only called upon by its Government to provide fifty millions by additional taxation in four years, to meet a total war expenditure of nearly two hundred and thirty millions; not much more than a fifth of the whole. A Pitt, a Gladstone, even a Wood, had done better than that.

PEACE.

But to turn again to the history of the finance of the war. In June, 1902, peace having now definitely succeeded to the three and a half years of costly and devastating war, Sir M. Hicks Beach—his final appearance, alas! as a Chancellor of the Exchequer producing a Budget—gave a revised estimate of the expenditure of the year. He now found that his requirements were considerably reduced, and that though, as he had anticipated, the whole of the unexpended balance of forty millions would be required for winding up the war, the seventeen and three-quarter millions taken for contingencies would only be required to the extent of a million. The suspension of the sinking fund was therefore arrested; and the deficit, now reduced to twenty-four millions, was to be met out of the loan of thirty-two millions that had already been issued, and which had produced thirty millions in cash. The balance of the

loan, amounting to six millions, was left in the hands of the Chancellor of the Exchequer, on 'the distinct understanding that, if it be possible, it shall all be devoted to the reduction of debt.'

One further financial statement was made, this time by Mr. Ritchie, who succeeded Sir M. Hicks Beach in August. On November 4, 1902, he introduced a supplementary estimate for South Africa to an amount of eight millions, for civil purposes for the new Colonies. Three millions of this was necessary to provide the sum which, under the Treaty of Surrender, the Government had promised as 'a free grant;' but which, for some inscrutable reason, they had at first imagined to be in the nature of a loan to be charged on the Transvaal. Another two millions was a free grant to other persons in respect of war losses; and the balance of three millions was for loans to burghers and others, the amount to be repaid by the two Colonies to the Imperial Exchequer out of their first loan.

Subsequently, in February, 1903, a further sum of a million was asked for as a grant-in-aid to the Transvaal Constabulary. The South African quagmire had thus swallowed up the free balance of six millions that was to have gone to the reduction of debt, and had involved the borrowing of three millions besides. Substantially, the civil expenditure, from first to last, falling on the supply votes, amounted to £17,450,000. Of this, the Transvaal will repay six millions, leaving, in addition to the direct war expenditure, a British contribution of eleven to twelve millions, applied, for the most part, to oiling the billows.

FINANCIAL RESULTS OF THE WAR.

The actual financial results of the war may be summed up as follows. The Chinese six millions can be eliminated, as it is hoped that the indemnity will cover the outlay. The total cost to us of the South African War, and of its aftermath, was £224,000,000. Of this, £191,500,000 (including four millions borne by the army votes for 1903-4, and which will be met, we may hope, out of the taxation of that year) was due to army supply services, original and supplementary; £17,450,000 was due to civil services; £9,250,000 represented the accumulated interest on the war debt; while the loss that will be ultimately entailed on the redemption of the various war loans issued below par cannot be put at less than five to six millions. Against this 224 millions, 37 millions will (we are informed and we will assume) be received from the Transvaal; namely, at once, six to seven millions, to be repaid out of the Transvaal loan; and thirty millions, in three years, as a contribution to the cost of the war.

The net cost of the war to the country is, therefore, 187 millions, met as follows:

	Million £
Proceeds of Taxation, 1900-1 to 1902-3	49
To be met from Taxation, 1903-4	4
Diversion of Sinking Funds	18½
Net addition to Debt	115½

THE SINKING FUNDS.

A word must be said in reference to the Sinking Funds. Sir M. Hicks Beach always and continually asserted—a proposition which some of us as persistently disputed—that he was entitled, not only to claim credit for the liquidation of the war charges by the amount of the additional taxation that he imposed, but also to claim credit for the diminution in the amount that had to be borrowed consequent on the absorption of the old sinking fund, and the part suspension of the sinking fund within the debt charge.

In 1899 there was a realised surplus (the 'old sinking fund') of no less than £9,335,000. This sum, instead of being applied, as it would have been in the ordinary course, to the redemption of the old debt, was applied to meet current war charges, to that extent reducing the amount it was necessary to borrow. In 1900-1, 1901-2, and 1902-3 the sinking fund was suspended. That is, about four and a half millions, which would, in each year, in the ordinary course, have been applied, by means of terminable annuities, and by means of the new sinking fund, to the purchase and extinction of old debt, was not so applied; and to that extent, the liabilities of these years were reduced.

These two actions were perfectly legitimate, for it would have been absurd to apply money to the purchase and cancellation of debt, and at the same time to borrow money in the Money Market. But, obviously, the sum in question cannot be reckoned, as Sir M. Hicks Beach contended, as though it were taxation raised for and applied specially to the purposes of the war, and therefore to be taken into account in calculating the total taxation applied to meet the charges of the war. The nine millions of the Old Sinking Fund came, it was true, from taxation, though not from additional taxation. But, had they not been diverted, they would have gone to the extinction of the old debt, instead of being applied to the liquidation of new liabilities. Then, as regards the New Sinking Fund, a certain customary expenditure was, for the time being, pretermitted, and to that extent—to the extent of £9,228,000, if 1902-3 be excluded—less taxation had to be imposed, or less borrowing was rendered necessary. But Posterity—and that is the test—will, in the result, be no better off from either transaction. The

new debt, it is true, will be less by eighteen millions and a half than it otherwise would have been; but, on the other hand, there will be eighteen and a half millions more of old debt for future taxpayers to meet than would otherwise have been the case. I think it is clear, therefore, that in estimating the amount of taxation specially applied by the country (or by the Chancellor of the Exchequer) to the purposes of the war, the question of the sinking funds should be eliminated.

THE NATIONAL DEBT.

This brings us to the question of the National Debt, to which the war added enormously, while adversely affecting the credit of the country. The total war debt issued consisted of Consols to a nominal amount of ninety-two millions, of a War Loan of thirty millions, of Exchequer Bonds to an amount of twenty-four millions, and of Treasury Bills to an amount of thirteen millions. In all, £159,000,000, which produced a sum of £152,415,000. The discount of £6,585,000 represents an addition to the cost of the war if the debt be redeemed at par.

The interest on the war debt involved a charge, in 1902-3, of £4,400,000; and the accumulated interest, in the four years 1899-1900 to 1902-3 inclusive, amounted to £9,400,000. As the charge for interest is due to the addition to the debt, and as it is a continuous charge which must be met each year, it ought by rights to be deducted from the aggregate total of war taxation imposed—namely, fifty millions—if we desire to arrive at a correct estimate of the amount of the war expenditure that was actually liquidated from war taxation.

The total gross amount of the National Debt in 1815 was nine hundred millions. By 1853 the gross amount of the debt had been reduced to eight hundred and fifteen millions. The Crimean War somewhat increased the total, but, by 1879, the gross amount had been reduced to seven hundred and eighty millions. The institution of the new sinking fund in 1875, and its growing effectiveness, more rapidly extinguished debt, and the next five-and-twenty years saw it fall to its minimum—£635,000,000 gross, the figure at which it stood in 1899. The debt is now, in gross, £800,000,000. At one fell swoop the patient savings of two generations have been dissipated. The laborious, if unconscious, Sisyphus, has been rolling up his stone, and now, behold, it has rolled most of the way back again, and he must begin his work anew!

The actual charge, for the interest and management of the debt, amounted in 1815 to nearly thirty millions a year. In 1874 the charge was still about twenty-four millions; but in 1898 it had fallen to £17,200,000, and as much as £7,800,000,

the balance of the fixed annual charge of twenty-five millions, was available for the reduction of the debt. In 1887 and 1888 the fixed charge for the debt was reduced from twenty-five to twenty-eight millions a year. Mr. Goschen defended this action chiefly on the ground that the sinking fund had become so rich a prize, that if he himself did not plunder it, some less scrupulous successor would be tempted to do so. But, naturally, his example, instead of preventing, encouraged a successor to go and do likewise; and, in 1899, Sir M. Hicks Beach also raided the sinking fund, and reduced the fixed annual charge for the debt from twenty-five to twenty-three millions a year, thus reducing its effective by another two millions a year. This reduction, which was commended to the House as an act of special foresight, was based on a threefold reason. First, that the fixed debt charge ought to bear some relation to the outstanding debt, and that as the debt had of late been, and in the future would be still more rapidly reduced, the fixed charge and the available sinking fund were excessive. Further, that the new sinking fund had worked so well that its very effectiveness was becoming embarrassing; by 1906, if left alone, it would be annually extinguishing no less than ten millions of debt. Within an appreciable time, therefore, nearly all the Government securities in the market would be bought up; and, meanwhile, the country was buying consols above par.

These specious pleas unfortunately prevailed. The financial Cassandras, who were, as usual, unheeded, prophesied that the unknown would happen; that it was a wiser policy to reduce the national liabilities largely and effectively while taxation was yet light, while prosperity and surpluses continued, so that when war, dark days, bad times, or increased expenditure came, the country would be in a better position to meet all or any of these adverse vicissitudes. This was four years ago. No one, of course, not even the most pessimistic of prophets, anticipated what has actually occurred, nor has a right to say, 'I told you so.' But there is no doubt that the country would have been in a considerably stronger financial position when the war broke out, if the sinking fund had not been reduced in 1899. Even before the war came, the withdrawal of the support which the sinking fund purchase of consols gives to the market, had considerably weakened the stock and lowered its price; thus the national credit was affected, and the price at which the millions which had to be borrowed for the war could be raised, was lower than it otherwise would have been. Further, if the sinking fund had been left alone, a yearly sum of some six and a half millions, instead of only four and a half, would have been available when war came, either to meet the interest on new loans, or to go to the reduction of the war expenditure.

THE REDEMPTION OF DEBT.

What is our position now? The gross debt at £800,000,000, the figure of thirty-five years ago. Consols at 91 instead of at 110. The Chancellor of the Exchequer was terribly afraid of redeeming a few millions of debt at 110; he has had, one way and another, to borrow a hundred and forty millions at considerably below par; debt which will ultimately have to be redeemed somewhere near par. The fixed charge, overflowing in 1899, was, in 1902, little more than adequate to provide the interest and charges on the whole debt. It became clear, therefore, that the policy of 1899, as applied to the sinking fund, required reconsideration. Two of the arguments for the reduction of the annual fixed charge—the difficulty of finding investments for the sinking fund, and the high price of consols—have not only disappeared, but the increased amount of purchasable debt and the low price of consols are now substantial arguments in favour of increased annual redemption of debt. The last and more important argument, namely, that the fixed debt charge should bear some relation to the outstanding debt, remains in full force, but now makes in the opposite direction to that which it did in 1899.

Mr. Ritchie proposes to raise the fixed debt charge from the twenty-three millions a year, to which it was reduced in 1899, to twenty-seven millions. The debt charge for 1903, on the basis of 1902, would have amounted to £27,500,000—namely, £23,000,000 within, and £4,500,000, interest on the new war debt, outside the fixed charge. Against this there would be a present and future saving within the fixed charge of £1,250,000, in consequence of the automatic reduction of interest on consols from $2\frac{3}{4}$ per cent. to $2\frac{1}{2}$ per cent. If the whole advantage of this were given to the taxpayer—which, under the altered condition of things, clearly should not be the case—the charge of £27,500,000 would be reduced to £26,250,000. But the fixed debt charge is to be £27,000,000 a year, and thereupon the Chancellor of the Exchequer claims great credit for having thereby added £750,000 a year to the sinking fund—in itself a very inadequate contribution to make to the redemption of the enormous war debt. But the position may with more truth be put in another way, namely, that the Chancellor of the Exchequer is reducing the annual burden of the debt to the tax-payer by half a million a year, and this at a time when, on the one hand, a remission of twelve millions of taxation is given, and when, on the other, the net debt stands increased by a hundred and twenty millions.

When, in 1899, the debt charge was reduced, and fixed at a

minimum amount of twenty-three millions a year, the gross debt was only 635 millions, the net debt (after deduction of the Suez Canal shares) being 609 millions. The gross debt is now £798,400,000, the net debt £772,000,000; or, if the anticipated Transvaal contributions to the reduction of debt and the possible Chinese indemnity are deducted, a net debt of 732 millions remains. Clearly, therefore, on the basis of 1899, the fixed minimum debt charge for such a debt as this should, at the very least, be not less than twenty-eight millions a year. Then, again, in 1899, a sinking fund of £5,820,000, to increase automatically each year, was considered as the just proportion to the outstanding debt of 609 millions, and as no more than adequate; a sum which, by 1903, would have reached £6,500,000, by which time the net debt would have been reduced to about 585 millions. A sinking fund of £6,600,000 a year—even though it rise by 1908 to £8,800,000—is therefore, on the basis of 1899, wholly inadequate for a net debt of 732 millions.

We should surely have taken example by the Crimean War. Ten years showed its liabilities wiped off, and a special effort should have been made to liquidate the liabilities of this war within a reasonable period. Moreover, late events have shown how easy it is, with the best intentions in the world, to drift into a war; and, once in, how rapidly and irresistibly debt is incurred. It is the more essential, therefore, that we should take the lesson to heart and reduce the burden of the debt while peace yet prevails, so that, if war again unhappily occurs, we may enter on it with our credit good and our means of raising loans at its best.

CONSOLS.

The one bright spot during the war was the way in which the financial credit of the country was maintained. Various causes—the reduction in the sinking fund, the contemporary discussion of the inflated price of consols, and of the forthcoming reduction in the interest, &c.—had already before the war brought down the price from 110 to nearly par. The declaration of war further adversely affected the price, yet consols fairly well maintained their strength. The first loan, for thirty millions, a $2\frac{3}{4}$ per cent. stock redeemable at par in ten years, was issued in 1900 at $98\frac{1}{2}$ per cent. The second loan, a consol $2\frac{1}{2}$ per cent. loan for sixty millions, was issued in 1901 at $94\frac{1}{2}$ per cent., and the third loan, also a consol loan, for thirty-two millions, was issued in 1902, at $93\frac{1}{2}$ per cent., a reduction in the price of issue over the previous loan of only one per cent. After its issue consols went up. Since then (and especially since the war was concluded) the price has

dwindled, and consols have been as low as 90, and are now about 91. But, taking into account the fact that a hundred and fifty-nine millions were borrowed in the space of little over thirty calendar months, and looking to the ease with which the money was raised, it must be confessed that the credit of the country stood the strain extraordinarily well. No Continental nation, we may well believe, could have raised the money without a far greater proportionate effect on its credit. At the same time, we must realise that, for the time being, we are financially weaker than we were before the war, inasmuch as we should have to pay 3 per cent. interest instead of $2\frac{1}{2}$ per cent. if we desired to raise a considerable loan at par.

ORDINARY EXPENDITURE AND WAR TAXATION.

But much the most disquieting feature of our present financial position is the alarming increase in the ordinary expenditure of the country. The ordinary estimated expenditure (exclusive of the debt charge) in 1895-6 was 71 millions. The ordinary estimated expenditure (exclusive of the debt charge) for the coming year, 1903-4, is 113 millions, an increase of no less than 42 millions a year in eight years.* 'The real difficulty' of the financial position, as Sir M. Hicks Beach said in 1901, 'is not so much the cost of the war, as the increase in our ordinary expenditure.'

The great increase in taxation in the last three years is commonly spoken of as 'war taxation.' For the most part it is nothing of the sort. The estimated revenue in 1895-6 was £96,160,000, in 1902-3 it yielded £151,500,000, an increase of over fifty-five millions a year. Between 1895 and 1900, on balance, there was a remission of taxation of about £800,000, while the additional taxation imposed in 1900, 1901, and 1902 produced, in round numbers, about thirty-four millions a year. Deducting this net additional taxation of thirty-three millions from the above-mentioned increase of revenue of fifty-five millions a year, it is evident that what may be called the normal increase or elasticity of revenue, due to increasing population and wealth, mounted up in eight years some twenty-two to twenty-three millions a year—a striking tribute to the strength of our fiscal and financial position.

If there had been no increase in the ordinary expenditure of the country, or only a slight and normal increase, this sum of 22 to 23 millions a year would, without additional taxation, have been available in 1902 for the purposes of the war. But the

* The estimated Debt Charge in 1895-6 was £25,000,000, and in 1893-4 it is £27,000,000.

whole of this ordinary increase had been swallowed up by the abnormal increase in the ordinary expenditure of the country. The estimated expenditure (exclusive of the debt charge) in 1895, as shown above, was £71,000,000. The actual expenditure on the same basis, in 1902, was £106,350,000, an increase of ordinary expenditure which had to be met, of over thirty-five millions a year. The thirty-four millions of taxation imposed in 1900, 1901, and 1902 were thus entirely absorbed by the rise in the permanent expenditure on peace purposes; and all that was left available of the produce of the revenue of the country to meet the cost of the war was that derived from the normal annual increase in the revenue. Thus, when we talk of heavy additions to the income tax, to the tea duty, to the tobacco duty, to the spirit and beer duties, and of the imposition of the corn duty, of the sugar duty and of the coal duty, and designate them as 'war taxation,' it must not be forgotten that they are not really war taxation at all. Indeed, it is no exaggeration to say that, if the ordinary expenditure had remained stationary, instead of increasing by leaps and bounds, no fresh taxation need have been imposed for the war beyond reverting to that in force in 1895.

The additional taxation imposed in the last few years amounts to thirty-four millions a year. The additional annual charge entailed by the war is now but four millions a year, namely the increase in the fixed debt charge. We were entitled to look, therefore, to a relief of some thirty millions a year in taxation when peace came. 'There is a lad here who hath five barley loaves and three small fishes, but what are they among so many?' was the text of a sermon preached before Mr. Pitt at a time of a small surplus and many claimants for remission. Mr. Ritchie was in the same plight. Tea, sugar, corn, coal, tobacco, income-tax, were all clamouring for relief; he had but a few millions at his disposal, and what were they among so many? Though the war was over, and war expenditure at an end, the utmost the Chancellor of the Exchequer was able to do was to remit ten and a half millions of taxation in the current year, and two and a half millions additional in the following year. The latter relief is, moreover, contingent on the pious but problematical supposition that the sanguine estimates of the revenue will be realised, and that the expenditure of the country—an ordinary expenditure which has steadily risen of late by five millions a year—will be largely reduced.

EXPENDITURE.

This is not the place to examine the national expenditure in detail; one can only lament that economy is a lost art. The increase in expenditure embraces every branch of outlay, but the

lion's share is due to the war services. In 1895 the cost of the army and navy together was £38,184,000. The cost for 1903 (exclusive of war expenditure) will be £64,500,000. And, besides this, there is every year some five millions or so of what is called 'capital expenditure' on naval and military works. In these matters it is not the first step that costs; one programme leads to a greater, one outlay necessitates others. The worst of war is that its cost is not confined merely to its direct outlay, but it leaves in its wake increased expenditure, not to say extravagance. 'The ogre war,' as Bastiat well said, 'requires as much for its digestion as it does for its meals'

The total ordinary expenditure this year will be nearly one hundred and sixty millions. The 'hundred million' Budget of 1885 gave a shock to the nation; these latter-day Budgets leave us cold. Even before the war, laxity and extravagance had set in; and the lavish and unchecked expenditure at the time of emergency appeared totally to relax the moral and financial fibre of those who should have been our guardians and protectors. The large sums entailed by the war have demoralised us also; we have got so accustomed to think in millions, that a million or two more or less, here or there, seems now of no importance.

THE FINANCIAL OUTLOOK.

But, indeed, the financial outlook is by no means pleasant. In 1899 the taxation of the country was light and most elastic; there was a phenomenal surplus; trade was expanding. The National Debt had reached the lowest point it had touched since 1800; consols were above par. In 1903 the ordinary expenditure is thirty millions greater, and ever increasing. In spite of this year's remissions, over twenty millions a year has been added—and we may fear permanently added—to the taxation of the country. Articles of essential consumption are heavily taxed. The Debt is greater by a hundred and twenty millions; the credit of the country has fallen from 110 to 91. For the first time since the Great War we have had a Chancellor of the Exchequer commending his proposals as a 'necessary safeguard against financial ruin.'

That the crisis will be surmounted we have no doubt. But courage and resource are required in dealing with the finance of the country; and more especially a steadfast adherence to those principles of fiscal and financial policy, the adoption of which in the past has done so much to enable us now to bear the pressure of a long and costly war.

APPENDIX.
(Parliamentary Paper No. 130 of 1903.)

TABLE I.

Showing the ESTIMATED AMOUNT of WAR CHARGES in SOUTH AFRICA and CHINA, incurred up to March 31st, 1903.

	1899-1900.	1900-1.	1901-2.	1902-3.	Total.
	£	£	£	£	£
I. CONSOLIDATED FUND SERVICES.		I.—SOUTH	AFRICA.		
Interest on War debt... ..	217,000	1,383,000	3,367,000	4,282,000	9,249,000*
2. SUPPLY SERVICES.					
a. Army:					
1. Original	—	37,787,000	56,070,000	39,650,000	133,517,000
2. Supplementary	23,000,000	25,940,000	5,000,000	—	53,940,000
b. Civil	—	—	6,600,000	7,850,000*	14,450,000*
	23,000,000	63,737,000	67,670,000	47,500,000	201,907,000
TOTAL, SOUTH AFRICA ...	23,217,000	65,120,000	71,037,000	51,782,000	211,156,000
SUPPLY SERVICES.		II.—	CHINA.		
Army	—	3,500,000	2,160,000	350,000	6,010,000
GRAND TOTAL	23,217,000	68,620,000	73,197,000	52,132,000	217,166,000

* Excluding 3 millions voted as a temporary advance to the Transvaal and Orange River Colony in 1902-3, and provided out of Exchequer balance. Including grant of £100,000 to Lord Roberts in 1901-2, and £50,000 to Lord Kitchener in 1902-3.

TABLE II.

Showing how the ESTIMATED WAR CHARGES have been met to 31st March, 1903.

	1899-1900.	1900-1.	1901-2.	1902-3.	Total.
	£	£	£	£	£
Ordinary expenditure (exclusive of interest on war debt)*	110,506,000	119,519,000	127,006,000	129,352,000	486,383,000
Ordinary revenue (exclusive of yield of taxation imposed since 1899-1900)	119,840,000	116,330,000	115,201,000	118,318,000	469,689,000
Surplus (+) or deficit (-) on ordinary basis	+9,334,000	-3,189,000	-11,805,000	-11,034,000	-16,694,000
Proceeds of new taxation according to best computation †	Nil	14,055,000	27,856,000	33,239,000	75,150,000
Balance of revenue available for war charges	9,334,000	10,866,000	16,051,000	22,205,000	58,456,000
Revenue set free by suspension of Sinking Fund	—	4,547,000	4,681,000	—	9,228,000
	9,334,000	15,413,000	20,732,000	22,205,000	67,684,000
Balance of war expenditure charged to Capital Account	13,883,000	53,207,000	52,465,000	29,927,000	149,482,000
TOTAL estimated war charges (as in Table I.)	23,217,000	68,620,000	73,197,000	52,132,000	217,166,000

* The figures of assumed ordinary expenditure are arrived at as follows:—

	1899-1900.	1900-1.	1901-2.	1902-3.
	£	£	£	£
Total Exchequer issues	133,723,000	183,592,000	195,522,000	181,484,000†
Deduct estimated war charges (as in Table I.)...	23,217,000	68,620,000	73,197,000	52,132,000
	110,506,000	114,972,000	122,325,000	129,352,000
Add Sinking Fund suspended	—	4,547,000	4,681,000	—
Ordinary expenditure (as above)	110,506,000	119,519,000	127,006,000	129,352,000

† Excluding the temporary advance of £3,000,000 to the Transvaal and Orange River Colony.

† This computation is given in detail in the following statement:—

Article.	Additional Duty.	1900-1.	1901-2.	1902-3.‡	Total.§
		£	£	£	£
I.—CUSTOMS.					
1. Tea	2d. per lb.	2,091,000	1,931,000	1,992,000	6,014,000
2. Tobacco	4d. per lb.	1,411,000	1,174,000	1,382,000	3,967,000
3. Spirits	6d. per gallon	217,000	210,000	217,000	644,000
4. Sugar	4s. 2d. per cwt.	—	6,399,000	4,477,000	10,876,000
5. Coal	1s. per ton exported	—	1,312,000	1,992,000	3,304,000
6. Corn and flour	{ 3d. and 5d. per cwt. re- spectively }	—	—	2,347,000	2,347,000
Total Customs		3,719,000	11,026,000	12,407,000	27,152,000
II.—INLAND REVENUE.					
7. Beer	1s. per barrel	1,778,000	1,773,000	1,773,000	5,324,000
8. Spirits	6d. per gallon	917,000	857,000	862,000	2,636,000
9. Income tax	{ 4d. in 1900-1; 2d. more in 1901-2; 1d. more in 1902-3 }	7,641,000	14,136,000	18,107,000	39,884,000
10. Glucose		—	64,000	90,000	154,000
Total Inland Revenue		£ 10,338,000	16,830,000	20,832,000	47,998,000
GRAND TOTAL		£ 14,055,000	27,856,000	33,239,000	75,150,000

§ Revised provisionally on 1st April, 1903.

TABLE III.

Showing how the MONEY BORROWED has been raised.

Nature of Debt.	Authority.	Amount of Debt.	Cash Proceeds.	Date of Maturity.
		£	£	
Treasury Bills ...	Treasury Bills Act, 1899 (63 Vict. c. 2, Sess. 1899) ...	8,000,000	8,000,000	1903-4.
	War Loan Act, 1900 (63 Vict. c. 2, Sess. 1900)	5,000,000	5,000,000	
Exchequer Bonds ...	Supplemental War Loan Act, { 1900 (63 & 64 Vict. c. 61) }	10,000,000	9,790,000	7th August, 1903.
	Supplemental War Loan (No. 2) Act, 1900 (64 Vict. c. 1)	3,000,000	2,944,000	
War Loan (Stock and Bonds) 2½ per cent.	War Loan Act, 1900 (63 Vict. c. 2, Sess. 1900)	11,000,000	10,689,000	7th December, 1905.
	War Loan Act, 1901 (1 Edward VII. c. 12)	30,000,000	29,519,000	
Consols	Loan Act, 1901 (1 Edward VII. c. 12)	60,000,000	56,553,000	Redeemable after 5th April, 1923.
	Loan Act, 1902 (2 Edward VII. c. 4)	32,000,000	29,875,000	
TOTAL		159,000,000	152,370,000	