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Author(s): Bruce K. Murray

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THE POLITICS OF THE 'PEOPLE'S BUDGET'

By BRUCE K. MURRAY

University of the Witwatersrand, Johannesburg

THE view that Lloyd George designed his 'People's Budget' of 1909-10 so as to invite its rejection by the House of Lords has fallen very largely out of favour with scholars, and it is now generally accepted that he devised his Budget as an alternative to rather than as a means to a battle with the Lords. As argued by Roy Jenkins and others, Lloyd George assumed that the peers would not dare tamper with a finance bill, and he consequently looked to his Budget as a way around the veto of the Lords: by means of it he hoped to attain some radical objectives against the wishes of the Lords.¹

There is, in fact, no substantial evidence that Lloyd George contrived his Budget as a trap for the Lords, and there is considerable evidence that he did see in finance a potential means for circumventing the veto of the Lords on the questions of land valuation and public-house licensing. Nonetheless, when preparing his 'People's Budget', Lloyd George was fully aware that the peers might refuse to allow themselves to be outflanked by a finance bill and that they might throw his Budget out. Moreover, as he saw, there was also the possibility that the peers might be pushed into rejecting his Budget by the Tariff Reformers in the Unionist party. Without question the Budget Lloyd George had in mind was designed to undermine the revenue argument for tariffs and to give a new popularity to free trade finance,² and from the outset he realized that the Tariff Reformers could only regard such a Budget as a challenge, to which they might respond by seeking to block his proposals in the one place they could: the House of Lords. That was a prospect which he said he welcomed, and was prepared for. The evidence is, in other words, that Lloyd George devised his Budget as something of a 'catch all' that would serve to promote the Liberal cause irrespective of what happened to his proposals in the Lords.

Perhaps more than any other British politician of this century, Lloyd George knew how to get advantage from a given situation, and this was an asset that

¹ For the view that Lloyd George designed his Budget for rejection by the Lords see Philip Cambray, *The Game of Politics* (London, 1932), pp. 42-4; George Dangerfield, *The Strange Death of Liberal England* (London, 1936), pp. 19-20; Malcolm Thomson, *David Lloyd George* (London, 1948), pp. 178-83. For the view that the Budget was intended as an alternative to a battle with the Lords see Roy Jenkins, *Mr. Balfour's Poodle* (London, 1954), pp. 40-2; Colin Cross, *The Liberals in Power 1905-1914* (London, 1963), pp. 101-2; Peter Rowland, *The Last Liberal Governments: The Promised Land 1905-1910* (London, 1968), pp. 215-21.

² See Jenkins, *Mr Balfour's Poodle*, pp. 63-4; and Alfred M. Gollin, *The Observer and J. L. Garvin 1908-1914* (London, 1960), pp. 94-7.

stood him in good stead when he came to prepare his Budget for 1909–10. As almost all observers at the time were agreed, the situation that confronted the Asquith Government at the end of the 1908 parliamentary session was a particularly challenging and difficult one.

To begin with, the continued harassment of the Government by the House of Lords had given rise to a widespread frustration in the Liberal ranks. In the three parliamentary sessions since the Liberals had assumed office and won their notable triumph in the general election of January 1906, the Unionist peers had used the veto and revisionary powers of the Lords to thwart and obstruct a number of controversial Liberal bills, and there was little the Government had done about it, a fact which proved terribly damaging to party morale. When the Lords rejected the licensing bill in late November 1908 the impatience of the Liberal rank-and-file had threatened to explode, and the *Manchester Guardian*, which no Liberal leadership could afford to ignore, strongly suggested it was not inclined to accept another round of ‘mere disorganized demonstrations in verbal force’ from the Government.³ The Government, however, as the *Manchester Guardian* itself recognized, was hardly in a position to appeal to the country against the Lords. To the consternation of all Liberals, the by-elections of 1908 had given evidence of a marked swing away from the Government in the constituencies and had certainly warned against a sudden general election. The warning was not lost on the cabinet, and in early December 1908 Asquith and his colleagues unanimously rejected the idea of an immediate dissolution.⁴ Resignation, John Burns noted in his diary, meant ‘defeat inevitable and crushing’.⁵

In addition to the problems occasioned by the Lords, and a concern over the by-election trend, the Government had also to contend with the prospect of an unprecedentedly large peacetime deficit in 1909–10. An anticipated decline in the returns from existing taxes, the financing of old age pensions, and the demands of the Admiralty for increased naval construction were all combining to produce what Lloyd George was to call a ‘financial emergency’. What made this emergency particularly challenging to the Government was the widely held view that the whole future of free trade could well depend on how they reacted to it. If free trade were to be preserved, so it was argued, the onus was upon the Government to prove that the financial burdens of the modern state could be carried without recourse to tariff reform.⁶

For the Liberals the issue of free trade was absolutely vital; the fortunes of the party could not be separated from it. Since 1903, when Joseph Chamberlain had launched his crusade for tariff reform, and divided the Unionist party in the process, the defence of free trade had served the Liberals well. It had given them

³ *Manchester Guardian*, 25 November 1908, p. 6.

⁴ Asquith to the king, 9 December 1908, Asquith Papers 5, fos. 71–4.

⁵ Burns’ Diary, 11 December 1908, B.M. Add. MS 46326.

⁶ ‘The Approach of the Budget’ in *The Economist*, 23 January 1909, pp. 150–1.

a new, and badly needed, sense of unity, and it had contributed enormously to the Liberal success in the 1906 general election. During 1908, however, with trade in the doldrums and unemployment high, free trade appeared to lose its electoral appeal. The tariff reform cause, by contrast, was beginning to benefit from the growing measure of Unionist solidarity on the question of fiscal change. In fact, by late 1908 the Tariff Reformers were in a highly optimistic mood, and what had contributed to their optimism was the word they had received that the Government was in an 'awful mess' and at their 'wits' end' over the finances for 1909–10.⁷ The Chamberlainites had always maintained that tariff reform could alone provide effectively and equitably for the country's finances, and many Unionists now felt encouraged to proclaim that the question of finance would ensure the triumph of tariff reform. As Lord Lansdowne, the Unionist leader in the House of Lords, told the annual meeting of the Liberal Unionist Council on 20 November 1908: 'We shall be driven to it [tariff reform] by the exigencies of the financial situation'.⁸

This development was stressed by Lord Cromer, the president of the Unionist Free Trade Club, in a memorandum he circulated to members of the club in December. The fate of the Government and of free trade, Cromer intimated, would depend on the Government's response to the financial challenge of the times. There was no escaping the challenge. 'I constantly see estimates', he asserted, 'varying from 10 to 20 millions, of the increased liabilities which will have to be met in 1909–10. These figures are, in themselves, serious enough. But the matter becomes still more serious when it is remembered that the real financial stress will not be felt till later'.

In these circumstances the Budget for the next year took on unusual importance, and his own opinion was 'that the next Budget, far from improving, will still further damage the cause of Free Trade'. If, as would almost certainly be the case, the Government proposed a heavy increase in direct taxation, he was convinced that a large number of waverers would be converted to tariff reform, that the fate of the Government would be sealed, and that the whole cause of free trade would be dealt a very heavy blow.⁹

Many Liberals themselves shared Cromer's belief that the fate of the Government could well hinge on the next Budget. On Christmas Day Sir Edward Grey wrote to James Bryce, ambassador to the United States: 'At home we prepare for the Budget. What will happen in the course of that or after it is passed I cannot say. We draw nearer to a dissolution, but it is not yet within sight'.¹⁰ Much of the future, clearly, would depend on the Budget and the reception it received.

⁷ Austen Chamberlain to Mrs Joseph Chamberlain, quoted in Austen Chamberlain, *Politics from Inside* (London, 1936), pp. 126–7.

⁸ *The Times*, 21 November 1908, p. 9.

⁹ Memorandum by Lord Cromer on the position of the Unionist Free Traders, December 1908, Cromer Papers, Public Record Office F.O. 633/18.

¹⁰ Grey to Bryce, 25 December 1908, Bryce Papers U.S.A. 28, fos. 191–2.

It was with the immediate political future of the Liberals firmly in mind that Lloyd George drew up his financial proposals for 1909–10. The fate of the Government, he wrote to his brother William, ‘depends on this Budget entirely’.¹¹ By means of the Budget he intended to revive and secure the fortunes of the Government, and towards this end he planned on taxes which would serve to undermine, and perhaps help ultimately destroy, the position of the Lords and that of the Tariff Reformers.

To advance the Liberal cause against the Lords, Lloyd George adopted what he described to his brother as ‘exquisite plans’ for outwitting the peers.¹² Theoretically, the peers were not supposed to interfere with a finance bill and this, in the view of many Liberals, meant the Government could employ the next Budget to by-pass the veto of the Lords on two issues of considerable concern to the party faithful: land valuation and public house licensing. During 1908 the Lords, in addition to rejecting the Government’s licensing bill, had also mangled the Government’s land valuation bill for Scotland, and both the temperance reformers and the land values group in Parliament had subsequently urged that the Government should resort to the next year’s Budget as a way around the obstruction of the Lords.¹³ The idea certainly appealed to Lloyd George and, in consultation with Sir Courtenay Ilbert, Asquith’s constitutional adviser, he proceeded to work into his projected Budget taxes that would help give effect to the objectives of the land valuation and licensing bills. ‘Of course’, Ilbert later explained to Bryce in America, ‘the political reason for both the land duties and the licence duties is to circumvent the House of Lords. And I am inclined to think that, as a bold and ingenious political manoeuvre, this will succeed’.¹⁴

Lloyd George wanted the land value duties for another political purpose: that of assisting the Liberals against the Tariff Reformers. Joseph Chamberlain’s programme for tariff reform, the Liberals always emphasized, required a tax on the people’s bread; and it was by means of such ‘undemocratic’ taxes, they claimed, that the Tariff Reformers intended to provide for the country’s finances. Lloyd George was determined that his Budget should appear much more ‘democratic’ by contrast. His would be a ‘People’s Budget’, not only in the sense that it would raise the money for old age pensions and other social welfare schemes, but also in the sense that it would tap the required new sources of revenue in a democratic way. Rather than resort to a ‘stomach-tax’, he would introduce land value taxes and a super-tax. The whole controversy between free trade and tariff reform, he hoped, could then be reduced to the beautifully simple issue of taxing

¹¹ Lloyd George to William George, 17 March 1909, quoted in William George, *My Brother and I* (London, 1958), p. 223.

¹² Lloyd George to William George, 25 November 1908, *ibid.* p. 222.

¹³ *Manchester Guardian*, 28 November 1908, p. 8; Josiah C. Wedgwood, *Memoirs of a Fighting Life* (London, 1940), pp. 66–9.

¹⁴ Ilbert to Bryce, 4 July 1909, Bryce Papers 13, fos. 160–3.

the land of parasitic landlords and the incomes of the rich as against taxing the food of the people.

In short, the Budget Lloyd George wanted to present to Parliament was designed to assist the Liberals against both the Lords and the Tariff Reformers, and its passage through Parliament would promise a great political triumph for the Government. Its rejection by the Lords would promise something even more – the opportunity to engage in decisive battle with the Lords and the Tariff Reformers on terms that held out excellent prospects of a Liberal victory. This was a possibility Lloyd George did not dismiss. At the end of 1908, as attention began to focus on the finances for the next year, there was a fair amount of talk as to whether the Lords would ever go so far as to reject a finance bill,¹⁵ and Lloyd George did his best to encourage the talk. In the course of a provocative speech delivered in the Sun Hall, Liverpool, on 21 December 1908 he more or less challenged the Government's opponents to a fight over the Budget.

The Liberals, Lloyd George told his packed audience, were engaged in war. War required generalship, and 'generalship means choosing the best method and the best moment to win'. There was no escaping the fact that the Liberals had to fight, not in order to show they were unafraid but in order to win: 'The first is pure foolhardiness, the second is business, and it is business that we want'. The question then was: 'What is our first operation?'. The answer Lloyd George provided was that: 'The needs of the country render it absolutely necessary that you should challenge a great issue on the question of finance'. Means had to be found to finance old age pensions and to ensure the security of the country. Earlier in the month George Wyndham, the former Unionist cabinet minister, had informed Liverpool that this could be achieved only through tariff reform. Here then, Lloyd George intimated, was the probable point of conflict:

You have got to raise the money, and Mr. Wyndham has raised the issue which I am perfectly prepared, and so are my colleagues, to fight upon. (Hear, hear.) And the Lords I am told mean to stake their existence upon it. Let them do it. ("Hear, hear," and cheers). Mr. Wyndham says, "I will raise the money by taxing the bread of the poor" ("Shame") – their bread and their meat. He is going to interfere with this enormously important international trade and commerce. That is what he is going to do. We mean to raise the taxes of the – now I am not going to tell any secrets. (Laughter and cheers.) Yes I will. (Laughter and cheers.) I will take you into my confidence. . . I mean to raise those taxes in a way that will not interfere with any productive industry in this country (loud cheers), and I am not going to butter anybody's bread with taxes . . . They are going to tax your bread, they are going to tax meat – (A voice: "They won't have a chance.") – they are going to tax timber . . . and other foreign commodities. That is surely a straight issue, and that is the issue, and if the Lords want to stake their privileges upon it by all means let them do it. We shall give

¹⁵ On 26 December 1908 Winston Churchill wrote to Asquith: 'I learn that Lansdowne in private utterly scouts the suggestion that the Lords will reject the Budget Bill, and this confirms Beach's interesting speech in Gloucestershire ten days ago.' Asquith Papers 11, fos. 239–41.

them the chance. (A voice: "When?") Whenever they take it. The Budget has got to go on some time next year, and if they want to put the alternative of taxing bread, by all means let them do it. I shall be perfectly prepared, for my part, to take the opinion of my part of the world on that proposal. (Hear, hear.)¹⁶

It was in this pugnacious spirit that Lloyd George prepared his Budget for 1909–10. While there is no real evidence that he indulged in any carefully contrived plotting to trap the peers into rejecting his Budget, he was most certainly prepared to challenge the Lords and the Tariff Reformers to a fight. In effect, his Budget would give them the choice of doing battle on his terms or of accepting a humiliating retreat. One way or the other, the Liberals would stand to regain the political initiative and advantage they had lost since the general election of 1906.

Before Lloyd George's Budget could be submitted to Parliament it required the approval of the cabinet, and between mid-March and Budget Day (29 April) some fourteen cabinet meetings were largely given over to a consideration of the chancellor's proposals. Almost all his proposals survived this scrutiny of the cabinet, but he was often obliged to argue deftly on matters of principle and detail. Afterwards he always maintained that if it had not been for the support he received from Asquith his Budget would never have progressed beyond the cabinet.¹⁷

The land value taxes were considered first, and these Lloyd George presented to the cabinet as a means around the veto of the Lords. In the outline notes of the case he urged before the cabinet, Lloyd George stressed that the Government could not afford to neglect the opportunity offered by a finance bill for legislating against the wishes of the Lords on the matter of land valuation. On education, temperance and land valuation, he reminded his colleagues, they had so far been thwarted and checkmated by the Lords. The Government, he claimed, was 'beginning to look silly'; they had menaced the peers often enough, but this had always been followed by 'inaction or rather by action on something else'.

Country sees this – produces a sense of our ineptitude and impotence.

Short of dissolution we can only walk round the Lords by means of our financial power.

Licensing – but this imperfect remedy – even if it be a remedy.

Valuation we can completely circumnavigate them.¹⁸

It had however to be borne in mind, Lloyd George pointed out in a memorandum he had prepared for the cabinet, that land valuation proposals which did not provide for the raising of revenue would probably be regarded by the speaker of the House of Commons as being outside the proper limits of a finance bill. 'I have consulted Sir Courtenay Ilbert on this subject', he informed his colleagues, 'and he is distinctly of opinion that, unless it is contemplated to raise

¹⁶ *The Times*, 22 December 1908, p. 10.

¹⁷ Richard Lloyd George, *My Father Lloyd George* (London, 1960), p. 120.

¹⁸ Lloyd George Papers Series C 26/1/2.

substantial revenue during the year, valuation clauses would be regarded by the authorities of the House as being a fit subject for a separate Bill, and not for a Finance Bill'.¹⁹ He therefore planned to raise £500,000 on the basis of his proposed land valuation clauses, a sum, he argued further, which would enable him to avoid excessively heavy increases of taxation in other areas. The finances of the country, he claimed, were 'just in that position when an extra £500,000 makes all [the] difference between screwing estate duties or income tax up to [a] point where they will appear oppressive'.²⁰

After considerable debate the cabinet finally agreed to a series of land taxes which would necessitate valuation and which would produce an estimated revenue of £500,000 during 1909–10. In the main Lloyd George got what he wanted, except for a tax on the ground rents of land already built upon. In the opinion of the majority in the cabinet, such a tax would have involved an unwarranted interference with existing contracts.²¹

Once the land taxes had been disposed of, the cabinet proceeded to approve Lloyd George's plans for revising and increasing the licence duties, for revising the stamp duties upwards and for increasing the general rate of the income tax from 1s. to 1s. 2d. in the pound. Where Lloyd George met opposition was over his proposal to introduce a super-tax of 6d. in the pound on incomes in excess of £5,000, to be charged on the amount by which such incomes exceeded £3,000. Lewis Harcourt, the first commissioner of works, supported the principle of a super-tax but contended in a memorandum to the cabinet that any charge on the first £5,000 'would be so violently assailed by one of the largest classes of income taxpayers as to make the passage of such a project almost impossible'. The scheme Harcourt preferred was the one contemplated in 1894 by his father, Sir William Harcourt, for a super-tax which proceeded by graduated steps from £5,000.²² In the event, the cabinet decided to accept the chancellor's formula for the super-tax. Harcourt, who disliked Lloyd George, also protested against the 'savagery' of the chancellor's suggested new rate for the settlement duty when the estate and legacy duties were discussed at the beginning of April.²³ Because of this objection the cabinet decided to reduce the rate.

Lloyd George's estate and legacy duty proposals were his last under the head of direct taxation. On 7 April he introduced his recommendations for indirect taxation, and these were accepted by the cabinet. It was agreed to increase the tobacco and spirit duties so as to raise an additional £3,400,000. From there the cabinet proceeded to review the overall plan of the Budget in the light of the estimates for expenditure and revenue Lloyd George presented to them.

The question of the estimates was a potentially explosive one for Lloyd George.

¹⁹ 'The Taxation of Land Values', 13 March 1909, P.R.O. Cab. 37/98/44.

²⁰ Lloyd George Papers Series C 26/1/2.

²¹ Asquith to the king, 19 March 1909, Asquith Papers 5, fos. 92–4.

²² 'Income Super-Tax', 25 March 1909, P.R.O. Cab. 37/98/49.

²³ Harcourt to Asquith, 12 April 1909, Asquith Papers 22, fos. 136–8.

His preliminary indications of the extent of the deficit he had to make up had already caused considerable controversy in the cabinet, and at least one of his colleagues, Walter Runciman, the president of the board of education, suspected Lloyd George was deliberately manipulating the estimates in the effort to justify the full barrage of his new taxes.

The matter of the estimates was first raised at the end of March when Lloyd George intimated that his deficit on the basis of existing taxation was likely to run to £17 millions. The extraordinary size of the expected deficit, he explained, was due not only to new items of expenditure (including £8 millions for old age pensions and over £3 millions for the navy) but also to an anticipated shrinkage in the revenue from existing sources.²⁴ The reaction of several members of the cabinet to the figure of £17 millions was one of amazed disbelief, and on 1 April, when the preliminary figures for the now completed 1908–9 fiscal year became available, they proceeded to query Lloyd George's calculations. As John Burns recorded it in his diary, the cabinet meeting of that day saw Lloyd George 'deftly fighting for his view [with] nearly all against him for good and sound reasons'. According to Burns, Lloyd George had been proved quite wrong on his prediction of the realized deficit for 1908–9, which was 'only £700,000 as against his prediction of 5 or 6 millions', and his estimate of trade for the forthcoming year was 'just as wrong'.²⁵ Most of the members of the cabinet, it seems, anticipated better trade during 1909–10 than did Lloyd George, and were consequently more sanguine about the revenue to be obtained from dutiable commodities. 'There is no doubt', Asquith wrote to the king in his report on the cabinet meeting of early April, 'that there is a distinct and growing improvement in the trade of the country which ought before long to show its effects in increased consumption of dutiable commodities, and a consequent rise in the normal revenue'.²⁶

At the cabinet meeting of 7 April Lloyd George estimated his prospective deficit at about £16 millions.²⁷ The new direct taxes the cabinet had approved in principle would bring in an estimated £10,200,000, and the indirect taxes an estimated £3,400,000. The balance would be made up by a diversion, which was to become a permanent reduction, of £2,500,000 from the Sinking Fund.

As it stood on 7 April, the overall balance sheet, on the basis of existing taxation, was²⁸:

Expenditure	£164,552,000
Revenue	£148,900,000
Actual Deficit	£ 15,652,000
Deficit to be provided for	£ 16,000,000

²⁴ Asquith to the king, 31 March 1909, Asquith Papers 5, fos. 100–1.

²⁵ Burns' Diary, 1 April 1909, B.M. Add. MS 46327.

²⁶ Asquith to the king, 6 April 1909, Asquith Papers 5, fos. 102–3.

²⁷ Asquith to the king, 7 April 1909, Asquith Papers 5, fos. 104–5.

²⁸ 'Balance Sheet 1909–10' sent by Sir George Murray to Asquith, 7 April 1909. Asquith Papers 22, fos. 127–31.

The detailed estimates for the existing taxes were as follows²⁹:

	<i>Estimate</i> 1909-10	<i>Receipts</i> 1908-9
	£	£
Customs	28,100,000	29,200,000
Excise	32,560,000	33,650,000
Estate Duties	18,600,000	18,370,000
Stamps	7,600,000	7,770,000
Land Tax	750,000	730,000
House Duty	1,900,000	1,900,000
Income Tax	33,900,000	33,930,000
Post Office	22,400,000	22,300,000
Crown Lands	530,000	530,000
Suez Canal Shares etc.	1,166,000	1,171,466
Miscellaneous	1,394,000	2,026,829
	<hr/>	<hr/>
Total	148,900,000	151,578,295

The estimates for the new taxes, as given by Sir George Murray, permanent secretary of the treasury, to Asquith on 7 April, were as follows³⁰:

	£
Estate Duties	3,200,000
Income Tax	3,000,000
Super Tax	500,000
Stamps	750,000
Licenses	2,250,000
Land	500,000
Indirect	3,400,000
	<hr/>
	13,600,000

This gave a total estimated revenue of £162,500,000.

Following the cabinet meeting on the morning of 7 April, Runciman wrote to Asquith challenging the validity of Lloyd George's revenue estimates and suggesting that the chancellor had manipulated them in order to justify the inclusion of all his new taxes in a single Budget. With regard to the existing taxes, Runciman intimated (although he did not specifically state) that Lloyd George had created an artificially large prospective deficit for himself by underestimating their yields. In particular, Runciman queried the estimates for the income tax and the estate duties. In 1907-8 the estate duties had produced some £19,070,000, yet the figure for 1908-9 was only £18,370,000, and it was this figure which provided the basis for Lloyd George's estimate for 1909-10. 'The estate duties', Runciman asserted, 'are based on this year's figures and I strongly suspect that Chalmers had been manipulating this year's takings'. Then as regards the chancellor's new taxes, Runciman believed the estimates to be at least £2 millions too low. The estimate for the super-tax, he claimed, 'seems to have £1,500,000

²⁹ 'Inland Revenue Account 1908-9' with estimates for 1909-10 added, Asquith Papers 22, fos. 139-41.

³⁰ Murray to Asquith, 7 April 1909, Asquith Papers 22, fos. 127-31.

at least deducted for evasions, machinery and incomplete collection out of less than twice that amount of tax'.

Runciman's purpose in thus questioning Lloyd George's revenue estimates was to establish a case for dropping one or other of the proposed new direct taxes. 'I fancy', he told Asquith, 'that George anticipates pressure of this kind and will want to drop the new *Indirect* taxes, when he is run to earth'. Rather than allow this Runciman wanted to see one of the new direct imposts removed. 'I don't like having to challenge George's estimates or contest his claim to our consent to the whole of his taxes without exception', he confided, 'but I feel that we have no justification for taking from the taxpayer more than is really necessary and that if we allow the figures presented this morning to go out untested, we (or those of us who know Treasury methods) cannot support them without serious misgiving. None of us desire the House to be misled, or more money than necessary to be exacted'.³¹

The immediate upshot of Runciman's attack on Lloyd George's revenue estimates was that Asquith, on the afternoon of 7 April, asked Sir George Murray at the treasury to inquire into the matter. Murray reported back to Asquith in a letter from home that evening.

There was no doubt, Murray stated at the outset, that the revenue estimates, both for the new and existing taxes, were very much on the safe side, and could perhaps be scaled up to the extent of £1,250,000. However, he could hardly criticize a chancellor of the exchequer who declined to do so.

There never was a Budget [he submitted] in which the uncertain elements of calculation bulked so largely – e.g. Super-tax, an entirely new system, brought into operation very late in the year, with all kinds of indirect effects; coupled with an enormous increase (33 per cent) of one of the drink duties and a murderous increase of licence duties. Then you have also to take into account (a) disturbance of this year's revenue owing to forestalling in last year, (b) a rather late Budget, giving opportunities for more tricks of the same kind, and (c) a still later date for the passing of the Finance Act – which affects Stamps more particularly.

Regarding the estimates for the existing taxes, Murray assured the prime minister that there had been no 'hanky panky' over the estate duties. The £19,070,000 received in 1907–8, he reported, was about £350,000 more than it should have been. He, certainly, did not think £18,600,000 an underestimate for the current year. In all, he believed the estimates for the existing taxes to be not 'far wrong'. As for the new taxes, Murray, who disliked Lloyd George's innovations, claimed that the experimental nature of many of the proposals rendered calculation extremely difficult. As he explained to Asquith, 'the whole thing is a leap in the dark, and we have absolutely no experience to guide us'. Nevertheless he did not think it rash to count on the new taxes yielding nearly £1 million more than the chancellor expected.³²

³¹ Runciman to Asquith, 7 April 1909, Asquith Papers 22, fos. 132–5.

³² Murray to Asquith, 7 April 1909, Asquith Papers 22, fos. 127–31.

In the event, Lloyd George's revenue estimates were revised downwards rather than upwards for the cabinet meetings of 26 and 28 April following the Easter recess and the last before his Budget was submitted to the House of Commons. The estimate for the new taxes remained at £13,600,000, but the estimate for the existing taxes, as published on 28 April, had fallen by £510,000 to £148,390,000.³³ What this meant was that, so far from removing any of Lloyd George's new taxes from the Budget, the cabinet had to decide whether they should attempt to retrench on expenditures for their social programme or authorize an additional diversion from the Sinking Fund. The latter course was adopted, and the diversion from the Sinking Fund was increased to £3 millions. 'The most kaleidoscopic Budget ever planned', as John Burns called it, was now ready for presentation to the Commons.

On 29 April Lloyd George introduced his proposals in the Commons. By all accounts his Budget speech was not a very good one. Burns thought it was positively awful, and 'sighed for an hour of Gladstone and 20 minutes of Asquith'.³⁴ But for all his problems in delivery, Lloyd George's recommendations nevertheless aroused much excitement among the Liberal M.P.s. Their general reaction was described by Herbert Samuel, the home under-secretary, as one of 'frightened satisfaction, the kind of feeling one has on being launched down an exhilarating, but steep and unknown toboggan run'. As he informed Herbert Gladstone, the home secretary who had missed the day's proceedings because of ear trouble: 'Some think we could never have anything better to fight the Lords on'.³⁵

On the other side of the House, Lloyd George's proposals came as something of a surprise to the Tariff Reformers. 'What a Budget it is!', Austen Chamberlain exclaimed in a letter to Mrs Joseph Chamberlain. 'All the rumours were wrong, and there is the super-tax and the land values tax and the unearned increment tax, besides countless other changes and increases'.³⁶

What Lloyd George had in fact done was to have produced a Budget which, if sanctioned by Parliament, would go far to destroy the revenue motive for tariffs. His Budget, as Lloyd George told the Commons, was not a mere 'temporary shift' to carry the country's finances over to the next year; it had been framed with future needs in mind and was designed to provide the revenue for the inevitable expansion of expenditure in the areas of national defence and social reform. His new taxes, he asserted, were 'of such an expansive character' as to grow with the growing demands of the country. They were also 'of such a character as not to inflict any injury on that trade or commerce which constitutes the sources of our wealth'.³⁷ His Budget, in short, represented nothing less than

³³ House of Commons Paper No. 115 of 1909.

³⁴ Burns' Diary, 29 April 1909, B.M. Add. MS 46327.

³⁵ Samuel to Gladstone, 29 April 1909, Viscount Gladstone Papers, B.M. Add. MS 45992.

³⁶ Austen Chamberlain to Mrs Joseph Chamberlain, 30 April 1909, quoted in Sir Austen Chamberlain, *Politics from Inside*, pp. 176-8.

³⁷ *Hansard*, 5th Series, IV, pp. 501-2.

the free trade solution to the 'financial emergency' of the times; it was a demonstration that present and future requirements could be met without recourse to tariff reform. For this very reason his Budget represented a challenge that the Tariff Reformers could hardly ignore, even if they had so desired. Confident that political opinion in the country had swung sharply in their favour, some Tariff Reformers had already voiced their eagerness to do battle with the Liberals on the question of finance, and if necessary to force such a battle by securing the rejection of the annual Budget in the House of Lords. On 23 April, a week before Lloyd George presented his proposals in the Commons, Lord Ridley, the chairman of the Tariff Reform League, had told a meeting at Newcastle that the time had come for the House of Lords to 'take its share' in the financial legislation for the country.³⁸

Watching more or less from the sidelines, Lord Cromer quickly came to suspect that Lloyd George had in fact devised his Budget as a challenge to the incautious Tariff Reformers, that he had gone out of his way to prove the resources of free trade finance. A little over two weeks after the introduction of the Budget in the Commons, Cromer wrote to St Loe Strachey, his fellow Unionist Free Trader and editor of *The Spectator*:

I am steadily studying the Budget, and a very big business it is. Of course, my main point is to ascertain whether there is really any solid foundation for what I look upon as the main argument in favour of this Budget, namely, that we have to choose between proposals of this nature and Tariff Reform. This, from our point of view, is really the crux of the whole situation. The more I look into it, the more I am inclined to think that the argument is untenable. But I have not yet got my case thoroughly up, and that is why I write to you.

The Budget is being attacked from various points of view . . . But so far as I know, nobody has yet taken up the line that it is proposed to raise eventually an amount of money far in excess of what is really needed. Yet I believe this to be the case. Many Finance Ministers have from time to time purposely underestimated their revenue. I have done so over and over again. But why did I do so? It was in the interests of economy. I always knew that I had a number of spending departments roaring at the gates of the Treasury, and I therefore took very cautious estimates of revenue in order not to allow them to point to the fact that I had an enormous surplus at my disposal, and could therefore meet all their demands. I never under-estimated the revenue with a view to making out a case for very burdensome taxation. That is what Lloyd George appears to me to have done in the present instance. He was perfectly right, within reason, to take into account the fact that his burthen in 1910-11 would be greater than during the current year. My belief is that he has run this argument to death. Indeed, I rather doubt whether the procedure he has adopted is, strictly speaking, constitutional . . .³⁹

³⁸ *The Times*, 24 April 1909, p. 8. In its summary of the situation on the eve of the Budget, the *Annual Register* said: 'It was already predicted that the House of Lords would throw out the Budget and thus endeavour to force a dissolution; and there was reason to believe that considerable progress had been made in the country by Tariff Reform'. *Annual Register 1909*, p. 78.

³⁹ Cromer to Strachey, 14 May 1909, Cromer Papers, P.R.O. F.O. 633/18.

Tenable or not, the argument that the only real choice before Parliament and the country was between the proposals of Lloyd George on the one hand and the finance of tariff reform on the other was accepted by both the Liberals and the Tariff Reformers. The Tariff Reformers soon recognized the Budget for what it in part was – a challenge to them – and it was without much hesitation that they took this up. 'We are told', Austen Chamberlain said of the Budget at the beginning of the second reading debate in the Commons, 'that it is the final triumph of Free Trade and the death blow to the policy of Fiscal Reform. Sir, in the spirit in which it is offered, I accept the challenge, and am ready to go to the country at any moment upon it'.⁴⁰ As finally crystallized, the attitude of the Tariff Reformers to the Budget and its fate in the Lords was summed up by Joseph Chamberlain in an open letter he sent to the Unionist rally in Birmingham on 22 September 1909. The Budget, he declared, was the last effort of free trade finance to find a substitute for tariff reform, and it was avowedly intended to destroy the tariff reform movement. His hope was that the House of Lords would 'see their way' to force a general election on the issue.⁴¹

Without much question, a concern to satisfy the Tariff Reformers helped persuade Arthur James Balfour, the Unionist party leader, to authorize the Unionist peers to reject the Budget when it reached the House of Lords. For years Balfour had managed to resist the more extreme demands of the Tariff Reformers, but in the late summer of 1909 he seems to have realized that if he was to continue to hold his party together, and remain its leader, it was necessary for him to grant the demand of the Tariff Reformers that the Budget should be rejected.⁴² This was not, however, the only consideration that influenced him. The passage of the Budget, and with it the circumvention of the veto of the Lords, promised to be so humiliating a setback for the Unionist party that Balfour came to convince himself that he had little alternative but to make a fight of it.⁴³ The evidence is that he did not believe the Unionists could win a general election precipitated by the rejection of the Budget, but all things considered he decided that the best interests of his party demanded that the House of Lords throw the Budget out.⁴⁴

This was Lloyd George's supreme achievement of 1909: his Budget, and the furious opposition it aroused, ultimately led the Unionists to force a general

⁴⁰ *Hansard*, 5th Series, vi, p. 41.

⁴¹ *The Times*, 23 September 1909, p. 7.

⁴² Alfred M. Gollin, *The Observer and J. L. Garvin*, pp. 112–5.

⁴³ Kenneth Young, *Arthur James Balfour* (London, 1963), pp. 287–8.

⁴⁴ In late September 1909 Jack Sandars, Balfour's private secretary, told Lord Esher that the general election would 'practically' destroy the Liberal majority. 'The whole thing', Lord Esher noted in his journal, 'is a political gamble'. Reginald Brett, Viscount Esher, *Journals and Letters of Reginald Viscount Esher* (4 vols., London, 1934–8), II, 410. The Conservative Party Central Office, it seems, never firmly predicted a Unionist victory in the general election. On 31 December 1909 J. L. Garvin, the editor of *The Observer*, wrote to Sandars that the memorandum on the general election prepared by J. Percival Hughes, principal agent of the Central Office, was of 'no use' for circulation among newspaper offices as 'H guards himself so completely every way that fear of compromising himself or the Central Office by risking an estimate suggests fear of the result – that is the impression made by the document as it stands'. Balfour Papers, B.M. Add. MS 49795.

election that most of them knew they could not win, and in the full realization that their defeat in these circumstances would seriously jeopardize the whole future of the House of Lords as an effective parliamentary chamber. Not even Joseph Chamberlain thought the Unionists would win a general election provoked by the refusal of the Lords to accept the Budget. 'Joe', according to Mrs Chamberlain, was 'more optimistic of the result than most people', but even so he did not expect a Unionist victory.⁴⁵ He believed that after the election the Unionists would be 'in a very different position in the House', and that was the main hope of all but the most sanguine of Unionists. 'We have been outmanoeuvred', A. V. Dicey, the Unionist constitutional expert, confessed to Strachey, 'but we are in not for a battle but for a campaign. If all the Unionists will act on this conviction we may win through . . .'⁴⁶

On 30 November 1909 the House of Lords duly rejected the Budget, and on 3 December Parliament was prorogued, to be dissolved a month later. In the election campaign that followed the Liberals, and Asquith and Lloyd George particularly, made considerable play of the link between the Tariff Reformers and the rejection of the Budget by the Lords. What they did was to seek to 'unmask' the 'reactionary alliance' between the food-taxers and the peers against the people and their Budget. As Asquith put the matter when officially opening the Liberal election campaign at the Albert Hall on 10 December, the revolutionary interference of the Lords in finance was made all the more sinister by the fact that it had been brought about at the practical instigation and through the ceaseless pressure of those who for years past had been trying to effect a revolution in the nation's fiscal system. The Budget, Asquith declared, had been ordered destroyed because it constituted an effective substitute – 'I will go further and say a destructive substitute' – for what was called tariff reform. Whereas the Tariff Reformers planned to tax the necessities of life, the Budget proposed to provide for the nation's finances by taxing the accumulations of the rich, the luxuries of the less well-to-do and monopoly values created by the community as a whole, and it was the fear of the Tariff Reformers that if this Budget took its place on the statute book their cause would become 'a forlorn hope'. 'It is that fear which has provoked and engineered this crisis.'⁴⁷

Lloyd George likewise stressed the whole connection between tariff reform and the rejection of the Budget. Behind the decision of the Lords to reject the Budget he detected the pressure of the Tariff Reformers, the machinations of the ground landlord and the compelling fist of the brewer: these were the people, he claimed, who wanted to see the Budget destroyed and who would offer instead taxation of the people's food.⁴⁸ What they were after ultimately, Lloyd George

⁴⁵ Mrs Chamberlain to Mrs Endicott, 17 November 1909, quoted in Peter Fraser, *Joseph Chamberlain* (London, 1966), p. 293.

⁴⁶ Dicey to Strachey, 1 October 1909, Strachey Papers 1909.

⁴⁷ *The Times*, 11 December 1909, p. 8.

⁴⁸ See, for example, Lloyd George's speech in the Queen's Hall, London, on 31 December 1909. *The Times*, 1 January 1910, p. 6.

alleged, was to escape paying their fair share of taxation. The Lords, he told an audience at Reading on 2 January, said the Budget was not fair as it placed burdens too heavy to bear on the rich men of the country. The Lords said: 'Tax bread, tax meat'. The Government's opponents, he reminded his listeners, had demanded the construction of eight new Dreadnoughts and the Government had agreed to give them eight, but when the bill was sent it was thrown out by the House of Lords, who said: 'If you want payment you pawn the workman's loaf.'⁴⁹

By playing on the theme that through the tariff reform movement and the rejection of the Budget the rich and certain great interests were seeking to transfer their tax burden to the people's food, Lloyd George found perhaps his most effective means of arousing democratic anger against both the Lords and the Tariff Reformers. Those inveterate 'enemies' of the people, the peers and the food-taxers, now stood exposed as being in a sinister alliance against the people.

Beatrice Webb was one contemporary observer who had had some inkling of what the rejection of the 'People's Budget' by the Lords would do to both the peers and the Tariff Reformers. On 27 September she had commented in her diary:

In forcing the Lords to fight on a budget, and a budget which taxes land and great accumulations of capital, the Liberals have chosen the only position from which they may win a victory. And, even if they were to lose, they have a splendid question upon which to work up democratic fanaticism against a *tax-the-food-of-the-people* Government.⁵⁰

The Liberals and their allies did not lose the general election of January 1910. To be sure, they lost a hundred seats, but they won the battle and it was the battle that counted. The Liberals retained office, and on 28 April 1910 the Lords duly accepted the 'People's Budget' after only three hours of debate. More than that, although the Liberals had not presented to the electorate anything approaching a coherent plan for the future of the House of Lords, and although the cabinet was to come near to disintegrating in the process of working out such a plan, the first step towards abolishing the absolute veto of the Lords had in fact been taken. The second general election of 1910, contested in December, was effectively to seal the fate of the Lords. The Tariff Reformers, for their part, had received a decisive setback in the January election; for the December election Balfour more or less jettisoned their programme by announcing that he would stage a special referendum on the tariff issue in the event of a Unionist victory. The Tariff Reformers had had their opportunity to prove they could outwit Lloyd George and they had failed; they were not to get a second chance. Armed with the 'People's Budget', Lloyd George had in fact saved the system of free trade.

⁴⁹ *The Times*, 3 January 1910, p. 10.

⁵⁰ Beatrice Webb, *Our Partnership* (London, 1948), pp. 433-5.

As it proved, Lloyd George's Budget did not raise more revenue in 1909–10 than he had estimated, though he would probably have been about £1 million over his estimate had the Budget not been rejected by the Lords. According to the figures Lloyd George presented to the Commons when he re-introduced the Budget on 19 April 1910, receipts and arrears still to be collected were £857,000 below the overall estimate he had given in his Budget speech of the previous April, but an estimated £950,000 from stamps and the income tax had been lost as a consequence of the failure to pass the Budget during the 1909–10 fiscal year, and he claimed that the 'uncertainty' caused by the action of the Lords had cost him £1,250,000 in revenue for the year from the spirit duties.⁵¹

In the next financial year, and again in 1911–12, the taxes of the 'People's Budget' did bring in very much more revenue than Lloyd George required or anticipated. Revenue in 1910–11 exceeded his estimate by £4,060,000, and in 1911–12 it exceeded his estimate by £3,469,000. His realized surplus in 1910–11 was £5,607,000, and in 1911–12 it was £6,545,000, the greatest on record. The surplus on the revenue side, Lloyd George explained to the Commons in his Budget speech of 2 April 1912, was primarily due to good trade, and was also partly due to the fact that, with the exception of the land value duties, the new taxes he had introduced in 1909 'have not merely come up to the expectation of the Government in their yield; but have actually exceeded it'.⁵² As *The Economist* commented on 20 May 1911: 'Mr. Lloyd George may stand on record as the author of the most successful Budget, from the revenue-producing point of view, which the financial historian of this, or, perhaps, any other, country can recall in times of peace.'⁵³ Only the land value duties of the 'People's Budget' never proved very productive of revenue, and in 1920 they were repealed. Lloyd George was prime minister at the time, and Austen Chamberlain was his chancellor of the exchequer.

⁵¹ In his Budget Speech of 29 April 1909, Lloyd George had estimated that his Budget would bring in a total of £162,590,000 – £148,390,000 from existing taxes, £13,600,000 from his proposed new taxes, and £600,000 from a new duty on petrol and a new graduated scale for motor car licences to go not to the regular revenue but to a special fund for the improvement of roads. By 19 April 1910 receipts totalled £131,697,000 and arrears to be collected £30,036,000, giving an overall total of £161,733,000. *Hansard*, 5th Series, xvi, 1906–16.

⁵² *Hansard*, 5th Series, xxxvi, 1056–69.

⁵³ *The Economist*, 20 May 1911, pp. 1054–6.