

Gladstone as Chancellor

The Exchequer brought fame to Gladstone but in return Gladstone raised the office to the forefront of politics. *John Maloney* explains.

Gladstone was Chancellor of the Exchequer from 1853–55 and again from 1859–66, first as a Peelite and then as a Liberal. (In 1873–74 and again in 1880–82, as Prime Minister, he would be his own Chancellor.) He first arrived at 11 Downing Street after destroying Disraeli's budget of 1852 on the floor of the House of Commons, bringing down the government, and thus earning the right and even the duty to bring in a budget of his own. It turned out to be the opening act not just of the most famous of all Chancellorships but of the Exchequer's ascent to one of the three great offices of state, ranking only behind the premiership and the Foreign Office. And Gladstone's accession also initiated a public finance where necessary taxes no longer had to be cajoled out of a grudging Parliament muttering ceaselessly about executive extravagance. For this, as we shall see, Gladstone must take much of the credit.

It was the style as much as the content of a Gladstone budget which marked him out from the first. However austere the message, its delivery yielded an intense and invariable pleasure to Gladstone and almost everyone else. So, when things went right, did the results: John Morley, in his *Life of Gladstone*, attributed 'a carnal satisfaction' to his chief when 'the public revenue advanced by leaps and bounds. Deploring expenditure with all his soul, he still rubs his hands with professional pride at the elasticity of the revenue under his management.'¹

Popular appreciation reassured Gladstone that his delight was a legitimate one. Morley's biography is full of the 'enchaining' and 'delighting'² of audiences on the subject, dull in anyone else's hands, of public finance.

Just as Macaulay made thousands read history who before had turned from it as dry and repulsive, so Mr Gladstone made thousands eager to follow the public balance sheet, and the whole nation became his audience, inter-

ested in him and his themes and in the House where his dazzling wonders were performed.³

Earmarking public expenditure

If you cut government spending, you cut the budget deficit. Since the converse does not necessarily apply, the level of public spending must, logically, take precedence over the balance of the budget. Such was Gladstone's attitude: except in wartime, when, typically, a degree of resignation over the level of public spending was compensated by an extra degree of determination to avoid borrowing, if at all possible.

Gladstone had the bad luck to begin and end his first Chancellorship in tandem with the Crimean War. In his 1854 budget he ruled out (for the time being) borrowing to cover the expenses of war, quoting Mill's *Principles* to the effect that: 'if capital taken in loans is abstracted from funds either engaged in production or destined to be employed in it, their diversion from that purpose is equivalent to taking the amount from the wages of the working classes'.⁴

Gladstone went further: unless they were sent the bill here and now, 'the community' would continue to extol the 'pomp and circumstance, glory and excitement' of war at the expense of its miseries. His actual response was to double income tax for a period of six months only, arguing that after six months the war would either be over or, in all probability, no longer supportable without borrowing. He proved himself wrong: with higher income tax, plus higher duties on spirits, sugar and malt, he was able to run a surplus throughout the Crimean War. But he continued to eschew the dogma that all war spending must always be financed by tax increases or spending cuts elsewhere: and when in 1862 Stafford Northcote attributed the doctrine to him, Gladstone was swift with a letter of rebuke.

More than one Chancellor has toyed with the idea of earmarked taxation, where specific

tax levies finance specific types of spending. Gladstone, by contrast, at times came close to earmarked public spending, under which the bill for particular projects was to be sent to those who had made the most noise on their behalf. The poor, he said, had demonstrated the largest appetite for the Crimean War. He therefore refused to let the whole burden fall on the better-off.⁵ However, when in 1860 he came to look back on the increased spending of the last few years, he judged it to be mainly the fault of the more prosperous classes, and so had no compunction in raising income tax from 9d to 10d to make them pay.⁶

There was no equivalent of the Crimean War in Gladstone's second Chancellorship (1859–66), so his focus switched from containing the consequences of public spending to bringing it down. (Within two days of resuming office in 1859 he was proposing a reduction in British forces in the Pacific.) Gladstone's attitude to defence spending pleased Cobden and Bright, but Palmerston had few problems in carrying the bulk of the Liberal Party with him. Previous Parliaments' grudging attitude to almost any military spending had left Britain with outdated and inadequate defences – apparent enough even before the Crimean War revealed the full poverty of equipment and organisation alike. Now Palmerston demanded more ships, better fortifications against France and, in 1864, better living conditions for soldiers and armoured ships – provoking another resignation threat from Gladstone.

1862's budget statement dissected the trend. First, said Gladstone, there was the 'growth of real permanent wants of the country: wants which it is desirable to supply, and to which if you were to deny fitting supply, you would be doing current public mischief.'⁷ Fears about national security had contributed their share, as had the desire to keep up with other countries' military expenditure. Palmerston could hardly have objected to any of this: the current placard seen around Manchester was

another matter:

TAXPAYERS! Read Mr Cobden's new pamphlet, the 'THREE PANICS', and judge for yourselves. How long will you suffer yourselves to be humbugged by PALMERSTONIANISM and Robbed by the 'Services', and others interested in a War Expenditure, even in times of Peace? ...THE CHANCELLOR OF THE EXCHEQUER APPEALS TO YOU TO HELP HIM. You have the power in your own hands if you will only exert it. Reform the House of Commons, AND DO IT THOROUGHLY THIS TIME.⁸

Gladstone's position was not an altogether easy one. Unwilling to embrace the thoroughgoing anti-colonialism of the Manchester School, and on his own admission increasingly inexpert in the technical arguments on which the Admiralty based its demands, he could do no better than an intermittent guerrilla campaign against the majority Liberal view as led by Palmerston. But it was Gladstone and Palmerston's complementarity, not any episode of

antagonism, which set the seal on mid-Victorian public finance. The Prime Minister's case for expenditure, combined with the Chancellor's eye for anything that could be construed as unnecessary spending, convinced Liberals and Conservatives alike, not just that any remaining taxes were necessary, but also that governments must be allowed to plan the fiscal future reasonably uninterrupted by the accidents of Par-

liamentary whim. Gladstone had persuaded even the radicals, in Professor Parry's words, that: 'the fight for economy no longer had to be conducted against the state.'⁹

Putting employment first

There were two kinds of Gladstone budget: those with and without an extended lecture on the principles of taxation. Some of the lecturing, as in the 1853 budget, was little more than an engaging historical canter through the precedents. Full-scale sermons tended to attach themselves to the budgets of other Chancellors: notably Disraeli in 1852 and Sir George Cornewall Lewis in 1857. Lewis had drawn on the authority of Arthur Young to argue that efficiency and fairness alike demanded a multiplicity of taxes. 'If I were to define a good system of taxation, it should be that of bearing lightly on an infinite number of points, heavily on none.' The reader, John Morley commented in his *Life of Gladstone*,



would have no difficulty in believing how speedily 'this terrible heresy' would have 'kindled volcanic flame in Mr Gladstone's breast'.¹⁰

Gladstone's first reaction was to note in his diary, *contra* Lewis, the necessity of simplifying the fiscal system 'by concentrating its pressure on a few well-chosen articles of extended consumption.'¹¹ To charges that his own measures had lacked the finesse of a Cornwall Lewis, instead now benefiting one class, now penalising another, with large changes in simple taxes, Gladstone replied that the benefits of lower taxes and tariffs extended, not just to the consumers of the goods concerned, but to almost everyone. In particular, the working class ought to realise that more employment should take precedence over cheaper necessities. One man's tax cut was another man's job opportunity. In his own budget speech of 1862 he went back to 1820 for the beginnings of fiscal enlightenment. In that year Sydney Smith had written of:

'taxes upon every article which enters into the mouth, or covers the back, or is placed under the foot ... taxes on everything on the earth and the waters under the earth – on everything that comes from abroad or is grown at home – taxes on the raw material – taxes on every fresh value that is added to it by the industry of man – taxes on the sauce which pampers man's appetite, and the drug that restores him to health – on the ermine which decorates the judge and the rope that hangs the criminal – on the poor man's salt and the rich man's spice – on the brass nails of the coffin, and the ribands of the bride.'¹²

Thanks to fiscal simplification, said Gladstone, the sauces, the drugs, the ermine, the ropes, the coffin nails and the ribbons were all free. Even better, they had been freed in roughly the right order. Gladstone, then as at other times, gave priority to cutting duties not on the working man's necessities, but on those goods which gave him the most employment. Take the Corn Laws: repeal had not provided cheaper or much cheaper

bread, but rather had 'created a regular and steady trade which may be stated at £15,000,000 a year.' Demand for labour had thus risen 'and it is the price their labour thus brings, not the price of cheapened commodities, that forms the main benefit they receive.'¹³

Inevitably the *process* of scrapping tariffs and duties on this – or any other – basis brought protests about 'class legislation' from those consumers who thought they were too near the back of the queue and (in the case of tariffs) producers who thought they were too near the front. When the charge arose from Gladstone's refusal in 1865 to abolish the Malt Tax, he replied that he was well aware he had done nothing for the maltsters. That had been his aim: indeed it had been his aim, and his achievement, to do nothing for any class. Class legislation was not just 'a betrayal of our duty to the nation', it was not even an effective way of helping the intended beneficiaries, who would gain much more from 'wise legislation impartially applied and spread over the whole community.'¹⁴

But there was one tax whose strengths and weaknesses, beneficiaries and victims, pitfalls and hidden charms Gladstone enjoyed dissecting above all. This was income tax. His first and longest budget speech, the 4½ hour marathon of 1853, gave almost half its length to a history and economic analysis of income tax in Britain. Income tax was disliked for its links with the dictatorial powers of a state at war; its 'inquisitorial' method of assessment and collection; and for encouraging evasion and dishonesty. But now Gladstone was able to find as much praise as blame for the tax. It was, he said, essential to have it on hand in wartime:

'Times when the hand of violence is let loose, and when whole plains are besmeared with carnage, are the times when it is desirable that you should have the power of resort to this mighty engine, to make it again available for the defence and the salvation of the country'.¹⁵

Had income tax at its rate of 1806–15 been in place throughout the Napoleonic Wars, he continued, the conflict would have left no burden of debt. But this gave rise to parallel arguments for retaining income tax at other times, as Peel had recognised when, in 1843, he had 'called forth from repose this giant, who had once shielded us in war, to come and assist out industrious toils in peace.' The trouble began when a country dependent on indirect taxes for its main revenue then added income tax to pay for supposedly temporary emergencies. In 1861's budget speech he assured the House that:

'I should very much like to be the man who could abolish the income tax ... I think it would be a most enviable lot for any Chancellor of the Exchequer – I certainly do not entertain any hope that it will be mine – but I think that some better Chancellor of the Exchequer in some happier time may achieve that great consummation; and that some future poet may be able to sing of him, as Mr Tennyson has sung of Godiva, although I do not suppose the means employed will be the same – "He took away the tax, And built himself an everlasting name"¹⁶

For the last few months of his first Premiership (1868–74) Gladstone was also Chancellor. He used this brief opportunity to propose, for the first and last time in his career, the abolition of income tax. The proposal became to all intents and purposes an official Liberal promise in the general election campaign of 1874 – something inconceivable under the loose, decentralised and ambiguous political arrangements of earlier ages. He was saved from having to implement it by losing the election.

Paying addresses to both

Given the didactic and analytical style of the typical Gladstone speech, it is rather surprising that he never

gave an extended lecture on the merits of direct and indirect taxation. Instead, in 1861, he congratulated himself on not having done so. In place of such inappropriate abstractions, Gladstone confided in the House that:

'I can never think of direct or indirect taxation except as I should think of two attractive sisters, who have been introduced into the gay world of London ... differing only as sisters may differ, as where one is of lighter and another of darker complexion, or where there is some agreeable variety of manner, the one being more free and open, and the other somewhat more shy, retiring and insinuating. I cannot conceive any reason why there should be unfriendly rivalry between the admirers of these two damsels; and ... I have always thought it not only allowable, but even an act of duty, to pay my addresses to them both'.¹⁷

Unfortunately for the indirect sister, Gladstone had preceded these

courtly compliments by a long catalogue of her vices, making her indeed sound remarkably like the sort of person he rescued at night. He hoped that 'the memorable history' of the indirect tax cuts of the last twenty years would never be forgotten. Removing the worst tax and tariff burdens had produced such 'elasticity of the revenue' that the Treasury had ended up well in pocket. Thus, in presenting the Anglo-French commercial treaty to Parliament in 1860, Gladstone drew powerful comparisons between the golden age of tariff repeal (1842–53) and what had gone before and after it. Between 1832 and 1841 duties had been remitted only to the extent of £131,000 per year; since 1853 there had been no net reduction of duties. In each of these periods, customs and excise revenue had grown by around £170,000 per annum. Compare the great years from 1842 to 1853, when the *average* annual net remission of duty had exceeded £1 million. Despite this, or rather because of it,

revenue (up by £221,000 a year) had grown faster than before or since.

Up to 1861 or thereabouts, Gladstone makes it sound as if indirect taxes are so far down the sunless side of the Laffer curve that he can reduce them and pocket the (eventual) extra revenue almost indefinitely. He was later to make it clear that he had never taken

this view. In 1864's budget speech he warned that any future tax cuts would not expand the revenue base in the agreeable fashion to which the House had become used: the taxes cut so far, very naturally, were the worst, most burdensome ones – the taxes most deadly to prosperity. He drove the point home with the malt tax. Halve this tax, he warned, and you would wait in vain for a hundred years or more for the revenue to be made up again to its old level.

A unifying figure

Gladstone's public finance fits into the rest of his economics without a single rough edge. Free trade, peace, retrenchment and a balanced budget formed a sturdy and – as long as Gladstone himself remained their champion – well-nigh impregnable quadrilateral on which the rest of mid-Victorian Liberal politics was built. Free trade served the cause of peace, which permitted low military expenditure. So far as this assisted the balance of the budget, it provided a windbreak behind which Gladstone could dismantle another batch of protective duties. Since this, Gladstone claimed with good statistical reason, typically paid for itself in a few years by its widening of the revenue base, the process was self-sustaining.

Gladstone has had, and deserved, a consistently good press for his own consistency as a Chancellor. The charge against him has rather been that 'Gladstonian finance' was a mean and unimaginative doctrine which not only dominated Treasury thinking for ninety years too long but was also a regrettable contrast with everything else Gladstone stood for. Roy Jenkins identifies J. L. Hammond with the view that the Treasury corrupted Gladstone rather than the other way round, that:

'the Treasury spirit was Gladstone's poison. Set him free from it and he became an imaginative statesman, upholding the Concert of Europe and international arbitration, sensitive to the agrarian as well as the



political wrongs of Ireland, even capable of a measure of constructive reform at home. Imprison him in its toils, and he became a penny-pinch-ing miser, elevating the reduction or abolition of particular taxes to the status of an ultimate achievement, and willing to trample on all sorts of other desiderata on the way'.¹⁸

If this is just a complaint that Gladstone was never visited by the bright idea of becoming a mid-nine-teenth-century proto-Keynesian, then it is a supreme irrelevance. Even if we remember that Hammond was writing in the 1930s, and insert that decade's wildly optimistic estimates of the value of the multiplier (3, 4 and even 5), the public sector was far too small for fiscal policy to have a significant influence on aggregate demand.

The wisdom of the classical political economists was less prominent in Gladstone's speeches than in those of almost any other major politician of his time. There was a particularly stark contrast with the school of thought, preeminently represented by Robert Lowe and the Duke of Argyll, which did battle against the twin-headed monster of state activism and historical or geographical relativism. Lowe, as Gladstone's Chancellor, fought a rearguard action against the Irish Land Act of 1870, which compensated Irish tenants for improvements they carried out on their land, and for any eviction not caused by default on the rent. To Lowe, governing Britain and Ireland on opposing economic principles was little more than a confession of economic ignorance. Argyll in turn was to resign from the Cabinet in 1881 over another Irish land act, which among other things set up judicial machinery to fix 'fair rents'.

But Lowe and Argyll were increasingly isolated within a Liberal Party which had never much cared for doctrinaire political economy. And Gladstone himself, in sharp contrast to many of his initiatives on foreign policy, defence and above all

Irish home rule, was in economic matters a unifying figure in the party he led. Indeed in the light of recent revisionist histories which raise 'the Gladstone effect' to new heights of impulsive disruptiveness, Gladstone's soothing influence on economic questions stands out all the more sharply. To present himself as the guardian of state against extravagant use of the people's money was a life-long preoccupation, whatever else changed in his outlook: it was also the solvent that did most to hold the diverse Liberal coalition of interests together. By the time its magic ceased to work, the party had already split over Irish home rule, ushering in a period of 110 years in which the Tories would be out of office for only thirty-two.

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Notes

- 1 Quoted in F.W. Hirst, *Gladstone as Financier and Economist* (1931), p. 229.
- 2 John Morley, *Life of Gladstone* (1903), ii, p. 201 and i, p. 686.
- 3 *Ibid.*, i, p. 689.
- 4 *Hansard*, 131, col. 375 (6 March 1854).
- 5 E. J. Feuchtwanger, *Gladstone* (1975), p. 89.
- 6 Roy Jenkins, *Gladstone* (1995), p. 225.
- 7 *Hansard* 166, col. 482 (3 April 1862).
- 8 Morley (1903), i, pp. 692–93.
- 9 Jonathan Parry, *The Rise and Fall of Liberal Government in Victorian Britain* (1993), pp. 185–86.
- 10 Morley (1903), i, p. 559.
- 11 H. C. G. Matthew (ed.), *Gladstone Diaries* (1978), vol. 5, p. 197 (14 February 1857).
- 12 *Hansard* 166, cols. 488–89 (3 April 1862).
- 13 A. T. Bassett (ed.), *Gladstone's Speeches* (1916), p. 273.
- 14 *Hansard* 178, col. 1107 (27 April 1865).
- 15 *Hansard* 125, col. 1363 (16 April 1863).
- 16 *Hansard* 162, col. 586 (15 April 1861).
- 17 *Hansard*, 162, col. 586 (15 April 1861).
- 18 Jenkins (1995), p. 375.

In This Month...

3 September 1841

Gladstone accepted office in Peel's government. Reluctantly, as one 'having no general knowledge of trade whatever', he became Vice-President of the Board of Trade. In 1843, he was promoted to President of the Board of Trade, with a seat in the Cabinet.

18 September 1842

Gladstone lost the top joint of a finger of his left hand in a shooting accident. Thereafter he generally wore a finger stall or a glove to cover the damage.

6 September 1876

The publication of Gladstone's *The Bulgarian Horrors and the Question of the East*. 200,000 copies were sold in the first month. Turkish atrocities against rebellious Christian subjects in Bosnia and Herzegovina were at first played down by Disraeli's Government, anxious to preserve the Turkish empire as a bulwark against Russian expansion.

Gladstone's moral indignation brought him out of retirement, helping to revitalise the Liberal grass roots, and led eventually to the Midlothian campaign of 1879. This laid the foundations for victory in the 1880 general election which swept away the cynical Tory government and made Gladstone prime minister for the second time.

8 September 1893

The second Home Rule Bill, designed to devolve Irish government to a parliament in Dublin, passed the Commons after 82 sittings on 1 September. The House of Lords rejected the Bill on 8 September after one short debate with a vote of 419 to 41. With it, Gladstone's last government lost its *raison d'être*.

24 September 1896

Gladstone made his last public speech, in his home town of Liverpool, protesting against the massacre of Armenians in Turkey.