

# REPORTS

## 'Taxes that will bring forth fruit' – the centenary of the People's Budget of 1909

Evening meeting, 12 January 2009, with Lord Kenneth O.

Morgan and Vince Cable MP; chair: Lord William Wallace

Report by **David Cloke**

**T**HE HISTORY Group's meeting on the People's Budget of 1909, which followed the Group's AGM on Monday 12 January, was a lively and well-attended affair and, as Kenneth Morgan wryly remarked, featured two of 'the body of 500 men chosen at random from among the ranks of the unemployed' that had reacted so virulently to Lloyd George's first Budget.

The discussions were led by Professor Morgan, the historian and biographer of Lloyd George, and by Liberal Democrat deputy Leader Vince Cable MP, with the Group's President, Lord Wallace of Saltaire, in the chair. It was, as Lord Wallace remarked, one of the happier anniversaries of 1909, and he expressed the hope that Lords reform, one of the consequences of the Budget, would indeed be completed by 2011.

Vince Cable opened the discussion by admitting that he was no historian but said that he hoped to provide a relevant perspective to consideration of the 1909 Budget. He would endeavour to provide some of the economic context and compare the Budget, and the 1906 Liberal government more generally, with its New Labour counterpart. Comparisons were useful and relevant because the 1906 Liberal government and the 1997 Blair government had been two of the three great governments of the left of the twentieth century. Indeed, it was

further illuminating because Blair and many of those around him had frequently referred to the 1906 government as their model. Lord Wallace later pointed out that Alison Holmes's work on comparing Blair's 'Third Way' with the Liberals at the end of the nineteenth century had been very illuminating, teaching him things he did not know, such as the existence of the Rainbow Circle.<sup>1</sup>

Despite the attractiveness of seeking similarities between the two periods, there were significant differences, and Dr Cable outlined those he felt were relevant to consideration of the 1909 Budget. There had been no arguments in the Edwardian era about macro-economic policy as there are today; the 1906 government simply did not concern itself with such issues. Operating as it did under the Gold Standard, the government did not involve itself in monetary policy and, as budgets were always balanced, it had no need to 'manage' the budget as governments did today. Hence, the normal economic tests of a successful government today did not apply in 1909.

Despite this, the boom and bust of the economic cycle still did apply. In 1908 there had been quite a serious recession, with unemployment reaching 8 per cent, though admittedly this was of quite a small proportion of the known workforce, as large numbers of people were not counted. However, it was

not something that the government concerned itself about – possibly with good reason, as Dr Cable reported that the unemployment rate had fallen to 2 per cent by 1912.

Dr Cable then turned to the political context. The Liberal Party had been elected with a huge majority in 1906, in part on the back of a pact with the Labour Representation Committee. In some ways, therefore, Cable felt that there was a parallel with the 1997 election. He also noted that the government had proceeded in two stages. In the first two to three years it had been cautious in its approach to budgetary policy, though he acknowledged that there had been some social reform such as in the divorce laws and the introduction of school meals. A major change of gear followed Asquith becoming Prime Minister with Lloyd George as Chancellor of the Exchequer and – in Cable's view arguably more important even than that – with Churchill at the Board of Trade.

A key focus at the start of this second period was the Budget. Even so, Cable argued that it was important to remember that comparatively small sums of money were involved, and also that the budget had to be balanced. Two problems had arisen with regard to achieving that objective: the decision to go for naval rearmament, and the introduction of old age pensions. The latter would seem very timid by today's standard, at £20 a year for those over 70, but, Cable argued, it was revolutionary for the time. It was Lloyd George's task to find the money, around £12 million in all.

The largest sources of revenue at the time were a number of regressive indirect taxes on expenditure, notably on tobacco and spirits, and stamp duty. By the standards of the time, Lloyd George proposed a big increase in income tax, from the equivalent of five pence in the pound

**Comparisons were useful and relevant because the 1906 Liberal government and the 1997 Blair government had been two of the three great governments of the left of the twentieth century.**

to six pence. This brought in £5 million. To make up the remainder were some proposals specifically aimed at attacking wealth and privilege: a surtax of about two and a half pence in the pound on high earners; a capital gains style tax on the sale of land; and a tax on land values of about a quarter of a penny in the pound, levied annually. Some of these measures were not really money-raising which, Cable pointed out, rather begged the question as to why the government was proposing them. Arguments at the time as to the reason for the proposals continue amongst historians. One answer was that the members of the government were being good liberal radicals and seeking to redistribute wealth and income. Another, more Machiavellian, one was that the government wanted a confrontation with the House of Lords as it had been blocking legislation.

Cable said that he did not feel qualified to answer the question of whether the Budget was a forerunner to the modern type of redistributive budget, or a budget for political and constitutional objectives. However, if it were the latter, then the Lords fell for it: they tried to block the Budget, which in turn paved the way for the 1911 Parliament Act and a sweeping away of many of the powers of the Lords. If the former, then it was certainly part of a pattern of very impressive social legislation creating a substantial body of achievement for the government. This in turn gave further parallels with the Blair government and its introduction of the national minimum wage and the New Deal. However, what the Blair government had not done, Cable argued, was to attack high incomes and wealth. Indeed, capital gains tax was now more favourable than it had been under the Tories.

In summing up, Cable argued that the basic moral and

**According to Morgan the Budget was very much Lloyd George's own work, and was based on political principles, not on the calculation that the Lords would throw it out.**

political challenges represented by inequalities of income and wealth were every bit as alive as they were in 1909, if not more so. Such taxation of wealth would, he added, still be controversial today. Even if the Labour government had ducked these challenges, he himself wanted to remain true to the principles represented by the 1909 Budget.

In Kenneth Morgan's view the Budget was the product of two sets of problems: financial and political. The financial problem was a budget deficit of £16.5 million (then a large sum), which was largely a consequence of the decision to commission the dreadnought battleships and the introduction of old age pensions. The latter, unusually, came directly from the Treasury rather than through local councils, and proved more expensive than Asquith had expected, partly because there appeared to have been more old people in Ireland than had been thought. Another factor was the problem with local government finance, which Lloyd George mentioned in his Budget speech. The various claims on the resources of local councils meant that they increasingly needed assistance from central government.

The second, political, set of problems was exemplified by the government's losing of by-elections, including Winston Churchill's seat in Manchester in 1908. Facing deteriorating terms of trade, the high hopes of the 1906 election were gradually dissipating. The House of Lords compounded this by throwing out measures such as the 1908 Licensing Bill, which the government, despite its big Commons majority, was seemingly powerless to do anything about. Beyond these, Morgan argued, there were the wider strategic issues, of which Lloyd George was deeply aware, of how to strike out on a course that was distinctively Liberal

and how to resist the attractions of tariff reform. The Conservatives argued that social reform could only be paid for by tariffs, on the basis that the foreigner would pay. Increasingly, the Liberal response was that the rich should pay.

A further concern was the threat from labour. Lloyd George was aware that liberalism was in decline in France and Italy in the face of labour. He, therefore, in part, took the lead in tackling social problems as a means of resisting it.

According to Morgan the Budget was very much Lloyd George's own work, and was based on political principles, not on the calculation that the Lords would throw it out. He did not believe that there was any evidence to support that argument. The Lords had not done anything as extreme as reject a budget since the reign of Charles II. Nonetheless, Lloyd George and the government were aware that the landowners in the Lords would find the land duties particularly repellent and they were prepared in case the Lords should do anything as extraordinary as reject the Budget.

Before it reached the Lords, the Budget had had a long and somewhat difficult passage through the Cabinet. It had been criticised by some of the less radical members, such as Loulou Harcourt and Runciman, but got through largely because of the unstinting support Lloyd George received from the Prime Minister. Morgan argued that Asquith and Lloyd George were a powerful partnership down to 1915, and noted that Asquith gave loyal support to Lloyd George, not least because the Budget had followed on from his two years earlier.

In Morgan's view, the speech Lloyd George gave the House of Commons in introducing the Budget was one of the worst he ever gave. Nonetheless, despite his rambling performance, it

had a great impact.<sup>2</sup> Morgan agreed with Cable that it was the land duties that generated most excitement – in particular the 20 per cent tax on unearned increment from land, and the levy on the capital of undeveloped land. Both these measures required the valuation of land.

To put these proposals into context, Morgan pointed out that land was a central theme for the Liberals and for the British left generally at the time. It was seen as an undeveloped resource which had the potential to be used for great social purposes. The Liberals made frequent mention of the land owned by figures such as the Duke of Marlborough which they saw as being parasitically frittered away rather than being used for productive purposes such as housing. In addition, land was seen as beneficial, even wholesome; social, almost patriotic. Expanding communities in the countryside would enable people to lead healthier lives than they did living in the slums, and so it would tackle the perceived problem of the physical deterioration of the people; the national stock would be enhanced.

Despite the priority given to land policy, Morgan noted that it had often been pointed out that the land aspects of the Budget were a failure. It proved difficult to devise a satisfactory method of valuing land, and in the event the land duties yielded little; they were abolished in 1920 when Lloyd George himself was Prime Minister. Cable added later that all attempts to tax land values (and there had been five) had met with little success. He suggested that this was as a result of a confusion of purpose: was it to tax wealth or to develop appreciation?

Other aspects of the Budget, Morgan noted, were a great success. The higher taxes on income and the supertax were distinctly redistributive, which he felt was the most important

**In conclusion, Morgan declared that the Budget had proved a great success: it provided surplus after surplus and represented the triumph of the New Liberalism over the old. Faced with both financial and political problems, a progressive government had chosen a progressive path.**

feature in the long term. There were also one or two novelties, such as the road fund.

Morgan also added that the politics of the Budget were important. The Liberals were attacking their familiar targets of parasitical landowners and the drink trade, both long-term themes of Lloyd George. His stint at the Board of Trade had made him more admiring of business. In addition, Lloyd George had worked out the tax bands very carefully, ensuring that the measures in the Budget did not hurt the party's natural supporters. The professionals in law and the public services did not pay more tax, while the rich were particularly affected, as were the poor because of the regressive effect of the indirect taxes.

There was nonetheless, a wider vision. Lloyd George at the end of his 'bad' speech concluded by saying that 'this is a war Budget. It is for raising money to wage implacable warfare against poverty and squalidness.' Morgan argued that it provided a visionary platform for social reform and national development, which continued down to the First World War – in Morgan's view, largely at the behest of Lloyd George and those close to him. Indeed, Lloyd George's 1914 Budget speech was essentially a retrospective on the previous five years, highlighting the benefits of the national investment.

The immediate effect of all this, Morgan declared, was enormously successful. It enthused the Liberals, with a Budget League up and down the country, and it caused outrage amongst the Tories. *Punch* depicted Lloyd George as John Knox railing against golfers, motorists and anybody who owned anything.<sup>3</sup> Cable noted in response to a question that the Tories' response highlighted their nature at this stage: whilst they had often been 'right-wing', their response reflected

nationalism and protectionism and was often overtly racist and concerned about the immigration of east European Jews. Morgan argued that the Budget turned the political tide and provided a sustained surge through to 1914. The Liberals won the next two elections (although, as Cable pointed out, they did lose 100 seats and had to govern with the support of the Irish Nationalists), passed the Parliament Act and maintained their momentum until 1914. Morgan even felt that it would have been enough to have brought the Liberals victory in the election due in 1915. In response to a question, Morgan later added that the by elections of 1914–15 did not support the 'Strange Death of Liberal England' argument.

In conclusion, Morgan declared that the Budget had proved a great success: it provided surplus after surplus and represented the triumph of the New Liberalism over the old. Faced with both financial and political problems, a progressive government had chosen a progressive path. It was, as Vince Cable had suggested earlier, a model for our times. Whilst it was not Keynesian, it reflected a belief in national investment when times were hard. Gordon Brown, Morgan believed, should look back to this period rather than Roosevelt's New Deal for his inspiration, and to the legacy of the greatest ever Chancellor, David Lloyd George.

Lord Wallace, in thanking both speakers for their contributions, declared that there were times in Kenneth Morgan's address when he felt moved to signal to the audience to sing the Land Song!

*David Cloke is a member of the Liberal Democrat History Group's executive.*

1 See: <http://www3.interscience.wiley.com/>

journal/118532038/abstract?CRETRY=1&SRETRY=0.

- 2 It can be read at: <http://hansard.millbanksystems.com/commons/1909/apr/29/budget-statement>.
- 3 <http://cgi.ebay.pl/>

Original-Cartoon-1910-Lloyd-George-As-John-Knox\_WoQQite mZ290286652386QQihZo19QQca tegoryZ367QQcmdZViewItem#ebayphotohosting.

## The Rt Hon. Sir Henry Campbell-Bannerman (1836–1908)

Further centenary commemorations in Scotland

Report by Dr Alexander (Sandy) S. Waugh

**T**HE LIBERAL leader and Prime Minister Sir Henry Campbell-Bannerman died in 1908. Earlier commemorations were reported in *Journal of Liberal History* 59 (summer 2008); this report focuses on later events in the autumn of 2008.

The High School of Glasgow – which Sir Henry attended between 1845 and 1850 – had its own Centenary Commemoration on the morning of Tuesday 16 September 2008. The audience in the Assembly Hall included members and former members of staff, all the sixth formers, history scholars from the fifth form and from two other Glasgow schools, past and present school governors and trustees and office-bearers of the School Club (former pupils) including the President, the Rt Hon. Lord Philip, and other invited guests.

After introductory welcomes by Colin Mair (Rector), Leona Duff, Girls' Captain of Bannerman House (named for Sir Henry in 1917) outlined Sir Henry's career at the High School. The programme then centred on a lecture by Dr Ewen A. Cameron, now Reader in Scottish History in Edinburgh University, who offered answers to the question 'Why study Campbell-Bannerman?', following much the same approach as

in his article on Sir Henry in the *Journal* (issue 54, Spring 2007) and his talk on Sir Henry at Meikle on 22 April 2008 (*Journal*, issue 59, Summer 2008). After a presentation on Bannerman House's current charitable fundraising project in Sir Henry's memory, Thomas Nicoll, Boys' House Captain, concluded the proceedings in the Assembly Hall by expressing the thanks of all present to Dr Cameron.

During the morning the guests also had the opportunity to see the bronze plaque commemorating Sir Henry (by Benno Schotz, RSA) and a picture of John M. Bannerman (1901–69), Lord Bannerman of Kildonan, another former pupil, who played rugby for Scotland on thirty-seven occasions and who, when Chairman of the Scottish Liberal Party (1955–65), came within 966 votes of winning Inverness in 1955 and within 1,658 votes of winning Paisley in 1961. Three months later, it was intimated that, with Bannerman House having raised £5,900 in support of Scottish International Relief's Mary's Meals projects, a plaque in the name of Sir Henry Campbell-Bannerman is to be put up at the 1,200-pupil Cobbe Barracks Primary School in Zomba, Malawi.

The final Scottish Centenary event was the unveiling of a

Top: Glasgow High School, 16 September 2008: Colin Mair (Rector), Leona Duff and Thomas Nicoll (Bannerman House Captains) and Dr Ewen Cameron in front of the School's bronze plaque commemorating CB.

Bottom: 5 December 2008: Lord Steel unveils the bronze plaque at 129 Bath Street, Glasgow.

Photos: Neil Mackie (neilmackiephotography.com)

bronze plaque at 129 Bath Street, Glasgow (Sir Henry's family home from 1836 to 1860 and now the Abode Glasgow Hotel) by the Rt Hon. Lord Steel of Aikwood on the afternoon of Friday, 5 December 2008, the 103rd anniversary of Sir Henry's appointment as prime minister on 5 December 1905.

SIR HENRY  
CAMPBELL-BANNERMAN  
1836–1908  
LIBERAL PRIME MINISTER  
BORN IN GLASGOW AND  
LIVED  
HERE UNTIL 1860  
A RADICAL • A PEACE-  
MAKER  
A GOOD MAN

Those present also included the Rt Hon. Charles Kennedy MP, representatives of the Lord Provost and the High School, a number of Liberal Democrat MSPs and councillors and other Liberal Democrats from many parts of Scotland.

