

THE 'PEOPLE'S BUDGET'



RICH FARE.

GET' A CENTURY ON

Bruce Murray, author of *The People's Budget 1909/10: Lloyd George and Liberal Politics* (Oxford: Clarendon Press, 1980), examines the genesis, content and impact of Lloyd George's famous Budget of one hundred years ago.

A CENTURY AGO David Lloyd George's Budget for 1909/10, his celebrated 'People's Budget', dominated British politics, and has since left its mark on both the country's taxation and its constitution. It is a landmark in the making of British progressive, redistributive taxation, particularly the modern graduated income tax, as the main instrument of taxation.¹ But it is probably fair to say that the 'People's Budget' owes its lasting fame more to the fact that it was rejected in the first instance by the House of Lords, thereby precipitating the constitutional crisis that culminated in the Parliament Act of 1911, and with it the abolition of the absolute veto of the Lords. A century on, the issue of the place of the Lords in a democratic Britain is still very much part of the political agenda. Also alive, although not as intense as it once was, is the debate among historians as to whether the advent of the Labour Party, and with it the emergence of class-based politics, spelled the inevitable demise of the Liberal Party as a party of government in a democratic Britain.² The 'People's Budget' suggested otherwise.

RICH FARE
The Giant Lloyd-Gorgibuster:
'Fee, fi, fo, fat,
I smell the blood
of a plutocrat;
Be he alive or be
he dead;
I'll grind his
bones to make
my bread.'
(*Punch*, 28 April
1909)

The dilemma confronting the Edwardian Liberal Party was how to hold itself together as a party of both the middle and the working classes in an era when class issues were moving to the forefront of politics; the 'People's Budget' represented Liberal fiscal strategy to harness the two in a 'progressive' alliance to promote social reform.

The challenge

While the notion that Lloyd George deliberately devised the 'People's Budget' as a trap for the Lords carries little weight, what is nonetheless evident is that he had the Lords firmly in mind while drafting his Budget. In late 1908, when Lloyd George set about preparing his first Budget as Chancellor of the Exchequer in the Liberal government of H. H. Asquith, the situation regarding the Lords was becoming dire. Despite the 'landslide' nature of the Liberal victory in the general election of January 1906, a month after Asquith's predecessor, Sir Henry Campbell-Bannerman, had formed the first Liberal government in a decade, the Unionist-dominated House of Lords had employed their veto and revisionary powers to thwart important parts

of the Liberal legislative programme, and apart from fulminate and threaten there was nothing the government had been able to do about it. The Lords used their powers selectively. Measures like the Trades Disputes Act of 1906, with a strong working-class identification, were allowed through, even though many peers thought that the non-contributory old age pensions enacted in 1908 were dangerously 'socialist', but measures like the 1906 Education Bill, which catered for more traditional Liberal minority 'sections', notably Nonconformist, were mangled by amendments or rejected outright. None was sufficiently popular to enable the government to appeal to the country against the Lords, with the result that the Liberals, still haunted by memories of how the Lords had humiliated the last Liberal government of 1892–95, were left feeling impotent. As Lloyd George warned his Cabinet colleagues when presenting his Budget proposals to them, the government were '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'.³

It was to regain the initiative against the Lords that Lloyd George looked to his Budget for 1909/10, not as a trap for their lordships but as a means around their veto. Theoretically, the Lords were not supposed to interfere with a finance bill and this, in the view of many Liberals, meant that the government could employ the next Budget to bypass the veto of the Lords on two issues of considerable concern to the party faithful: public house licensing and land valuation as a basis for site value rating. During 1908 the Lords rejected the government's Licensing Bill, designed to reduce the number of public house licences, and butchered the government's Land Valuation Bill for Scotland; the response of both the temperance reformers and the land value group in the Commons was to urge the government to resort to the next Budget as a way around the obstruction of the Lords. Heavy licence duties might be used to tax marginal public houses out of existence, and land value duties would require a land valuation, not only for Scotland but for the entire kingdom. The idea certainly appealed to Lloyd George – as he told his brother, he was developing some 'exquisite plans' for outwitting the peers⁴ – and he proceeded to work into his projected Budget taxes that would help give effect to the objectives of the licensing and land valuation bills. 'Short of dissolution', he was to advise the Cabinet, '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.'⁵

The need to respond to the Lords dictated the inclusion of the land value duties in the Budget. But Lloyd George also wanted them to assist with the wider purposes of the Budget,

On all sides it was recognised that the means by which Lloyd George raised his vast new sums would be crucial for determining the future of free trade finance.

not so much for the money they would raise, as that would be minimal to begin with, but more to help give a democratic appeal to what was otherwise a potentially burdensome Budget.

The deficit Lloyd George had to provide for in the Budget, in the order of £16 million, was unprecedented in peacetime, and represented unparalleled spending by a Liberal government, more traditionally associated with a policy of retrenchment. The two major items of new expenditure were old age pensions at £8.75 million, considerably higher than Asquith's original estimate of £6 million, and nearly £3 million for new naval construction. In January/February 1909 Lloyd George was to wage a tenacious campaign against the Admiralty's demands for the laying down of eight new Dreadnoughts in 1909/10 to counter Germany's acceleration in shipbuilding; in the compromise finally reached, the Cabinet agreed to lay down four new Dreadnoughts in 1909, and another four no later than 1 April 1910 if the necessity for them was proven. The main costs for the latter would consequently be the liability of Lloyd George's second Budget, but the clear challenge before him was to provide the money for both guns and butter, for both the naval arms race and social reform.

On all sides it was recognised that the means by which Lloyd George raised his vast new sums would be crucial for determining the future of free trade finance. In the opinion of *The Economist*, the Unionist free trader, Lord Cromer, put the challenge before Lloyd George 'very fairly' when he said at Leeds on 18 January 1909 that: 'What Mr Lloyd George has to show is how he can meet the very heavy liabilities he has incurred and yet preserve intact the system of Free-trade.'⁶

For the Liberals, the issue of free trade was central. It was an

article of faith, and the defence of it against Joseph Chamberlain's campaign for tariff reform, launched in 1903, had helped to unify an otherwise fractious party and to rally popular support to them in the 1906 general election. In so far as Chamberlain's programme for tariff reform was designed to establish a system of imperial preference, it required tariffs on foreign foodstuffs, and this was a weakness the Liberals thoroughly exploited by holding up the 'large loaf' of free trade as against the 'small loaf' offered by tariff reform. But since the onset of economic recession in 1907, and the consequent increase in unemployment, tariff reform gained in popularity, and the Liberals started losing a series of by-elections, sapping party morale. The protective aspect of tariffs promised to help save British jobs. Furthermore, the Unionists, initially badly divided by tariff reform, were beginning to unite behind it, with A. J. Balfour, the Unionist leader, announcing in November 1907 his 'conversion' to the idea of a general tariff. Key to his conversion was the argument that free trade finance was reaching the limits of its resources, and that any substantial increase in existing taxes, notably the already burdensome income tax, would prove politically unacceptable. Tariffs, by contrast, offered a 'broadening of the basis of taxation'. The increased revenue from tariffs would supposedly provide an equitable and efficient alternative to the 'predatory' new direct taxes advocated by the proponents of the New Liberalism of social reform and redistributive taxation. As Alan Sykes has demonstrated in his book, *Tariff Reform in British Politics 1903–1913*, as major increases in taxation became inevitable, so tariff reform was twisted away from its radical imperialist origins and into the defence of limited class interests.⁷

In Cromer's view Asquith's non-contributory scheme for old age pensions dealt a 'heavy blow' to 'the Free Trade cause', and according to the historian Bentley Gilbert, Lloyd George, who as Chancellor of the Exchequer had the responsibility for carrying the scheme through the Commons, came to agree with him: 'Well before pensions went into effect he came to feel that the tax-supported measure was a mistake: that it was carelessly drawn, that it would complicate Liberal financial problems to the point of imperilling free trade and that the pension provision was so narrow that its extension was inevitable.'⁸ The word put out in mid-1908 was that Lloyd George was at his 'wits' end' over the finances for 1909/10.

At the same time as the Liberals were under pressure from the Tariff Reformers on the right, they sensed a challenge from the new Labour Party on the left. For the 1906 general election, a secret pact had ensured cooperation rather than competition between the two parties, with Labour given an 'open field' in thirty seats in England and Wales. In all, Labour won 29 seats, to 401 for the Liberals and 157 for the Unionists. In July 1907, the Liberals were startled by the loss of two seats to Labour in by-elections. On 4 July Labour won a four-cornered contest at Jarrow, and two weeks later Victor Grayson, an independent Socialist, won a sensational victory in a three-cornered contest for Colne Valley. These Labour advances at the Liberals' expense caused both resentment and alarm in Liberal circles, highlighting for many the need for positive action to safeguard the Liberal hold over the working-class vote against inroads from Labour as well as from the Tariff Reformers.

The challenges confronting Lloyd George, both political and financial, in his first Budget were certainly daunting, but

for him challenge represented opportunity. Once he gathered his wits, he determined that his Budget, far from being a make-shift response to an immediate deficit, would prove once and for all the resources of free trade finance and give free trade a new popularity as against tariff reform. It would provide the fiscal underpinnings for the ongoing programme of social reform that he and Winston Churchill were preparing, and it would offer a way around the veto of the Lords on land valuation and, following the rejection of the Licensing Bill, on licensing as well. When the Lords threw out the Licensing Bill on 27 November, Lloyd George organised a 'thanksgiving service' in the Treasury and said he was 'looking forward to taxing the trade'.⁹ As Charles Hobhouse, the Financial Secretary to the Treasury, detected, Lloyd George became determined in the autumn of 1908 that his Budget should include a wide range of new taxes, even if not all of them were absolutely essential to meet his immediate deficit, so that he might cater for all foreseeable future liabilities on a free trade basis. 'L.G.', Hobhouse remarked in his diary on 17 November, 'is now on a new tack, he encourages ministers to spend, so that he may have justification for the extra millions he proposes to ask for next year'.¹⁰

The Budget that Lloyd George had in mind by November would, in brief, be a 'People's Budget' in that it would provide the money for old age pensions and other social reforms, yet it would do so not by taxing the people's food, which he would leave to the Tariff Reformers, but rather by taxing the land of parasitic landlords and the incomes and inheritances of the super-rich. His Budget would be an effective rejoinder both to the Tariff Reformers, with their claims that free trade finance had exhausted its resources, and

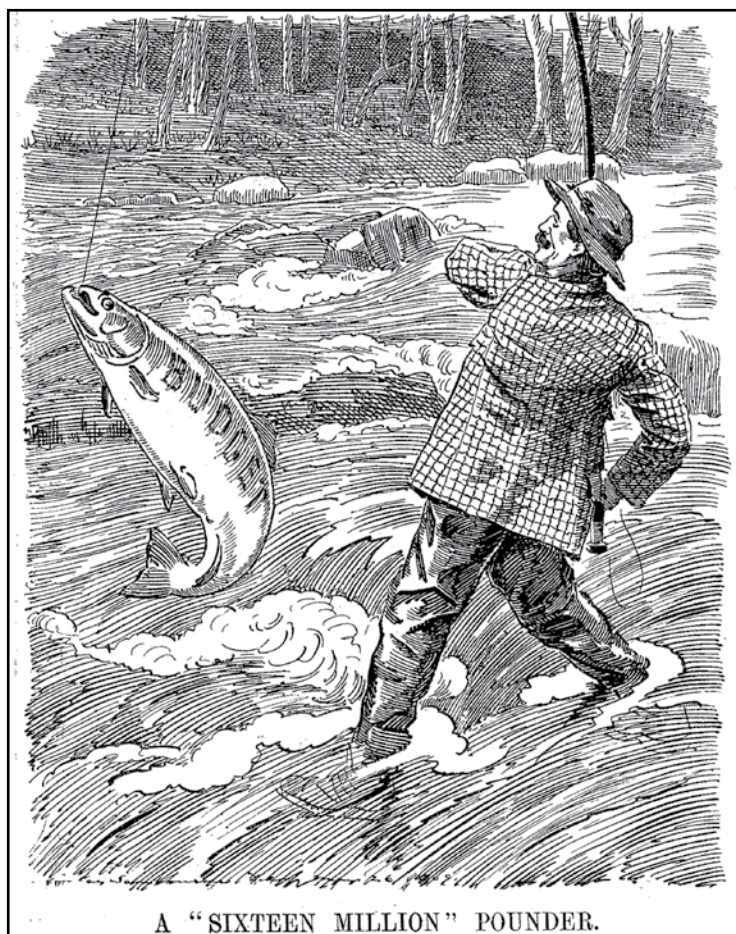


David Lloyd George as Chancellor

to the obstructionism of the Lords on the issues of land valuation and licensing. The returns he anticipated from his projected Budget were as much political as financial. Of one thing he was convinced: that 'the fate of the government depends on the Budget entirely'.¹¹

Preparation

In many respects, Lloyd George was a curious choice as Chancellor of the Exchequer. As he confessed to a banker friend, he needed to be given 'the a, b, c' of finance, his ministerial experience was limited to little over two years as President of the Board of Trade, and his temperament and work methods were alien to the traditions of the Treasury. His propensity to spend public money, his willingness to experiment, and his refusal to read papers, preferring instead to operate by interviews, certainly jarred with Sir George Murray, the Permanent Secretary and a traditional Gladstonian. In the event, Lloyd George largely ignored Murray, and worked instead with a younger generation of civil servants at the Treasury and Inland Revenue, notably John Bradbury, the principal clerk at the head of the crucial finance division



A "SIXTEEN MILLION" POUNDER.

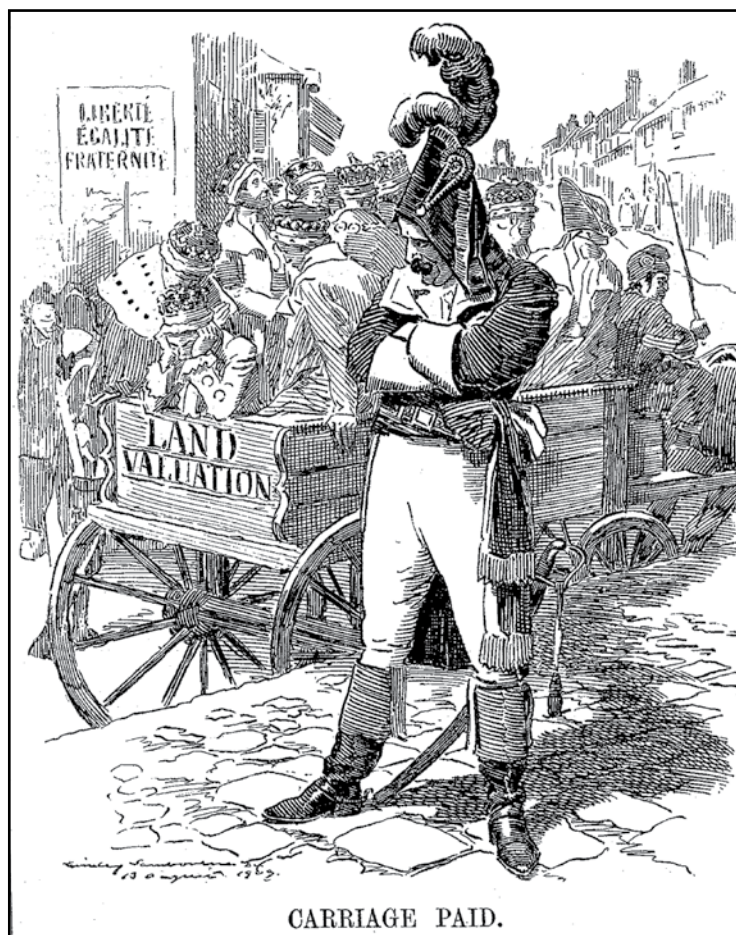
A 'SIXTEEN MILLION POUNDER' Mr Lloyd-George: 'Of course, I shall land him all right. The only question is when? The fish: 'Well, personally I'm game to play with you till well on into the autumn'. (Punch, 2 June 1909)

of the Treasury, and Sir Robert Chalmers, the Chairman of the Board of Inland Revenue, who positively welcomed innovation.

Lloyd George owed his appointment as Chancellor largely to Asquith, who sought to ensure a political balance in his Cabinet between Liberal Imperialists such as himself and the Radicals. Lloyd George was also indebted to Asquith for having cleared the way for income tax reform during his tenure as Chancellor of the Exchequer, and support from the Prime Minister was crucial in securing approval for his Budget proposals from an otherwise sceptical Cabinet. On contentious issues, Lloyd George later told his son Richard, Asquith would lean back in his chair and say: 'Well, there seems to be substantial agreement with Mr. Chancellor's proposal. Next item ...?'¹²

The commitment of Liberal finance under Asquith and Lloyd George was to raising new revenue primarily by direct taxes, sparking Lord Cromer's specific fear that it was 'almost certain that a very large number of shaky, even perhaps some rather strong Free Traders will practically combine with the Tariff Reformers rather than bear very heavy fresh burthens in the shape of direct taxation'.¹³ In class terms, the problem was that of significantly raising direct taxation without at the same time alienating the bulk of the Liberal Party's middle-class support.

To this end Asquith had embarked on income tax reform during his tenure at the Exchequer. In his Budget for 1907/08 he introduced differentiation in the income tax on earned and unearned incomes by reducing the tax on earned incomes under £2,000 from the general rate of 1s down to 9d in the £, thereby giving relief to the large mass of income-tax payers as well as marking out particular categories of income for later increases in taxation. He had



CARRIAGE PAID.

CARRIAGE PAID Citoyen George (to Condemned Aristocrats en route to Execution): 'Gentlemen, we wish to make every concession that may suit your convenience. There will, therefore, be no charge for the tumbrel.' (Punch, 18 August 1909)

also contemplated introducing a supertax. On these fronts the path forward had already been mapped out for Lloyd George, and Chalmers was well prepared with the main proposals that the Cabinet was ultimately to accept for the income tax and supertax. The general rate of income tax was to be increased to 1s 2d in the £, and a super-tax of 6d in the £ imposed on incomes in excess of £5,000, to be charged on the amount by which such incomes exceeded £3,000. All persons with earned incomes of under £2,000, representing 750,000 out of roughly 1 million income-tax payers, were excluded from any increase in income tax, and at Lloyd George's own insistence child abatements were introduced for persons with incomes under £500.

In addition Lloyd George proposed a substantial increase in death duties in the higher brackets, a massive increase in the licence duties paid by the liquor trade, a rise in stamp duties, and the introduction of two land value taxes to be paid by the landowning classes – the one a tax on capital land value, and the other a duty on the increment value to be charged whenever land was sold or leased. In sum, Lloyd George planned to raise a little over £10 million by way of new direct taxes. Under the heading of indirect taxation, he confined his increases to 'luxury' items, tobacco and spirits, raising an additional £3,400,000.¹⁴ The remainder of the deficit was to be made up by a diversion, which would become permanent, from the Sinking Fund.

In the Cabinet, Lloyd George's proposals were subjected to virtually line-by-line scrutiny. Between 15 March and Budget Day, 29 April, some fourteen Cabinet meetings were largely given over to a consideration of the Budget, and from all accounts a good many in the Cabinet thoroughly

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disliked what they saw. At least a third of the Cabinet objected to the fundamental design of the Budget, reckoning that Lloyd George was attacking too many major interests at once and fearing that the scale and nature of the proposed direct taxes would frighten off what Lord Morley described as 'the sober, sensible, middle class'. As a result, they would have preferred to see one or two of the direct taxes dropped, and to this end the education minister Walter Runciman, previously Financial Secretary to the Treasury, challenged Lloyd George's estimates, suggesting that the Chancellor had deliberately underestimated his returns from both old and new taxes in order to justify the full barrage of his proposed new taxes. In Runciman's calculation, as he wrote to Asquith on 7 April, the estimate for the new taxes alone was at least £2 million too low: 'That is in itself serious enough to justify our dropping one or part of the Direct taxes. I fancy that George anticipates pressure of this kind & will want to drop the new *Indirect* taxes, when he is run to earth.'¹⁵ Asquith promptly asked Sir George Murray to inquire into the matter, and, ironically, Murray's dislike of the Budget's innovations came to Lloyd George's rescue. Murray advised that the revenue estimates were certainly on the safe side, but that he could hardly criticise the Chancellor for this as 'the whole thing is a leap in the dark, & we have absolutely no experience to guide us'. He also advised that Chalmers had assured him there had been no 'hanky panky' over the estimates for existing death duties.¹⁶ It was to Chalmers, however, that Margot Asquith, the Prime Minister's wife, attributed the Budget's 'somewhat oriental method of asking for more than it intended to take'.¹⁷

In the reckoning of John Burns, the President of the Local Government Board,

Lloyd George presented to the Cabinet 'the most kaleidoscopic Budget ever planned, and but for revision and pruning would have made us a laughing stock of Parliament'.¹⁸ 'Revision and pruning' were the operative words, for the basic design of the Budget survived intact. Lloyd George's main loss was his tax on capital land value, but it was replaced by a tax on the capital value of undeveloped land and minerals, excluding purely agricultural land, and a reversion duty of 10 per cent on the value of any benefit accruing to a lessor by reason of the termination of a lease. His tax of 20 per cent on the future unearned increment in land values remained, ensuring the necessity for a valuation of all land. In the main, the changes made to Lloyd George's proposals in the Cabinet served to accentuate rather than to mitigate the progressive features of the Budget as a measure for raising revenue. This was particularly true of the income tax, where the relief Asquith had granted to earned incomes was extended by allowing persons with earned incomes not in excess of £3,000 to pay 9d on the first £2,000 and 1s thereafter, thereby excluding them from the increase in the general rate, at least in so far as their incomes were earned. This meant that the burden of the increase in the general rate was restricted to unearned income and to the 25,000 or so tax payers with incomes over £3,000.

For Lloyd George the passage of his Budget through a generally sceptical Cabinet represented a considerable political triumph. In the final analysis, the Cabinet appreciated that they lacked any effective alternative; in the prevailing political circumstances, a tame Budget was simply out of the question. One who thoroughly approved of the design of the Budget was Lord Carrington, the President of the Board of Agriculture. As he noted with satisfaction in his

diary, 'The chief burden is laid on the shoulders of people who have between 5 and 50 thousand a year but the working classes are only taxed on their luxuries drink, & tobacco: while the middle classes earning under £2,000 are not hit at all. Agricultural land escapes very easily and is hardly taxed at all.'¹⁹ Meticulous care had been taken not to add to the tax burden of the mass of middle-class tax payers and voters, with those earning between £160, the starting point for income tax, and £500 positively benefiting from the child abatements.

The contest

Lloyd George introduced his historic Budget in the House of Commons on 29 April 1909, in a speech that went on for four and a half hours. By all accounts he spoke badly, stumbling over his sentences, but his message was clear. Far from being a mere 'temporary shift' to carry the country's finances over to the next year, his was a 'social reform' Budget that would provide the ongoing finance required for an advanced programme of change, and it also represented nothing less than the free trade solution to the 'financial emergency' brought on by the pressing demands of both defence and social reform. *The Times* of the next day complained that his Budget struck 'almost exclusively' at the wealthy and fairly well-to-do – hitting them through the income tax, the death duties, the stamp duties upon their investments, land and royalties, their brewing dividends, and, with the special petrol tax of 3d a gallon for road development, even their motor cars.

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Among Liberal MPs the Budget speech generated a nervous excitement. Their general reaction was described by Herbert Samuel, the Home Undersecretary, as one of 'frightened satisfaction, the kind of feeling one has on being launched down an exhilarating, but steep and unknown toboggan run'.

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: 'Some think we could never have anything better to fight the Lords on.'²⁰ Within the Liberal ranks, however, there was some hostility to the land taxes, with a 'cave' of about 30 MPs being formed to combat them. With the Unionists making a dead set against the land taxes in the Commons, Lloyd George came under intense pressure to abandon them, but he declined to contemplate retreat.

From the outset, Unionists in the Commons reacted with hostility to the Budget, denouncing it as vindictive, inequitable, a socialist war against property, and unconstitutional in so far as it served as a vehicle to carry through Parliament a mass of controversial legislation which had nothing to do with meeting the deficit for the year. The Tariff Reformers instantly perceived the Budget to be a direct challenge to them, in so far as it was designed to destroy the revenue motive for tariffs, and they responded accordingly. As Austen Chamberlain, the leader of the Tariff Reformers since his father's stroke in 1906, put their position when the Finance Bill received its second reading in the Commons: 'We are told that it [the Budget] 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.'²¹

The Unionist strategy in the Commons was to fight the Budget every inch of the way. As a consequence, it was not until 4 November that the Budget was finally approved by the Commons, its passage having occupied seventy parliamentary days, with frequent recourse to late-night and all-night sittings. By

then the Unionist leaders had already decided that the Budget would be rejected in the Lords.

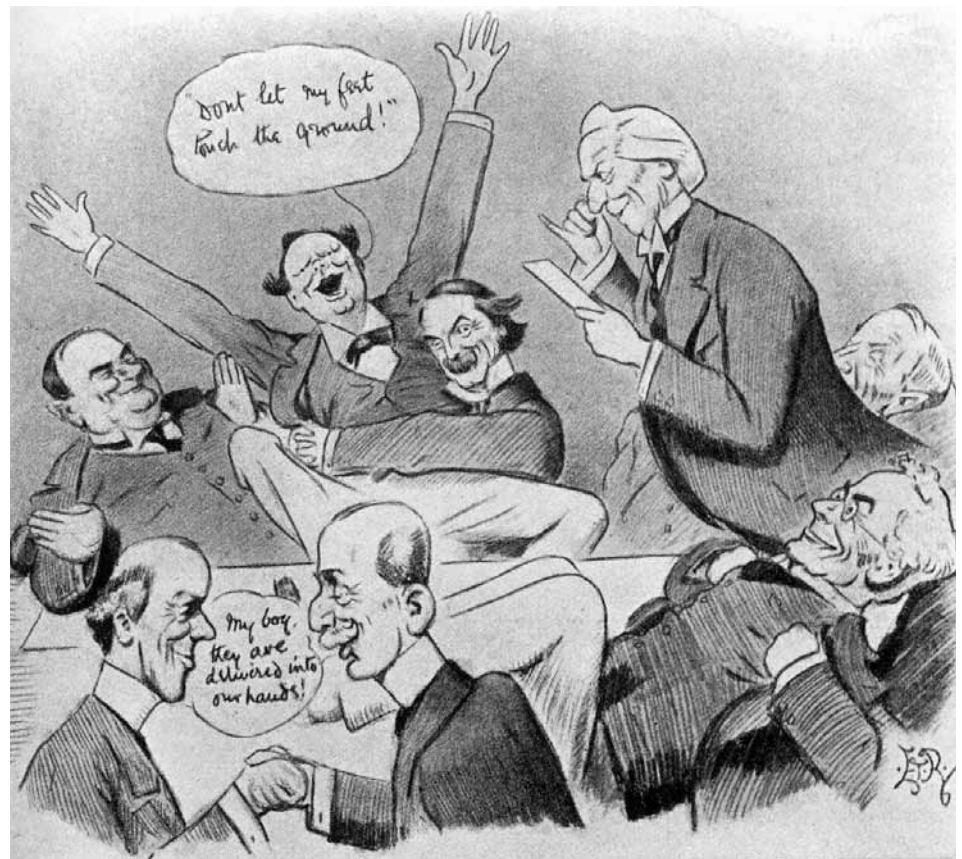
The decision by Balfour and Lord Lansdowne, the Unionist leaders in the Commons and the Lords respectively, to secure the rejection of the Budget in the Lords represented a change of mind. After the Budget had been unveiled, Balfour advised in private that they would only consider rejection if a great popular movement in favour of such a course developed in the country. Yet it was at the very moment when the opposite was happening, and the Budget was reaching the height of its popularity in the country, that Balfour decided on rejection. Lloyd George's attitude to the possibility of rejection likewise changed. His initial attitude was that rejection was a contingency to be guarded against as it would likely be a consequence of the government's weakness and the Budget's unpopularity, but in the late summer he began to change his tune and suggest that he might welcome rejection. It was Lloyd George's speech before a packed audience at Limehouse in London's East End on 30 July, perhaps the most famous in his career, that helped change minds and attitudes.²²

Throughout July the Liberals, through the auspices of the Budget League, formed to counteract the Budget Protest League, sought to galvanise popular support for the Budget, culminating in Lloyd George's Limehouse performance. With the Unionists engaged in a prolonged opposition to the land taxes in the Commons, Lloyd George launched a sustained attack on the landlords, their means of wealth, and their determination to avoid their rightful share of taxation by resisting the land taxes. The rich generally, Lloyd George charged, refused to pay for the Dreadnoughts they had clamoured for. When the government sent the hat round to workmen to pay

for the Dreadnoughts, they all dropped in their coppers, but then: 'We went round Belgravia, and there has been such a howl ever since that it has well-nigh deafened us.' Limehouse had a remarkable impact on the political atmosphere, leaving many Unionists severely shaken. 'The cold fit will no doubt pass off,' Lansdowne sought to reassure Jack Sandars, Balfour's private secretary, on 9 August, 'but the fall of temperature was extraordinary.'²³

Balfour's latest biographer, R. J. Q. Adams, insists that Limehouse did not cause Balfour's decision for rejection – it simply made it easier. A week earlier Balfour had told Lord Esher, confidant to King Edward VII, that he thought it 'not unlikely' that the Lords might reject the Budget; after Limehouse it became very likely indeed.²⁴ On 13 August J. L. Garvin, the editor of *The Observer*, learnt from Sandars that the Budget was doomed, that the general election was expected to come in January, and that the policy of the party was to be 'Tariff reform – full speed ahead!'²⁵

For Balfour the Budget constituted an illegitimate and socialist assault on all the propertied interests represented by his party, notably land, and he seems to have convinced himself that its passage would reduce the Lords to near impotence and inflict such a setback on his own party that he had little option but to make a fight of it. His decision for rejection was taken before any group in the party sought to force him into it, but he no doubt foresaw that when the time came there would be overwhelming pressure for rejection from both the ardent Tariff Reformers, who feared that the enactment of the Budget would undercut their cause, and the peers themselves, who were paranoid over the land taxes.²⁶ In the event, he ensured an almost universal consensus for



rejection within the party, apart from a handful of Unionist Free Traders.

In the assessment of Adams, 'Balfour and his colleagues gambled that the electorate would endorse rejection by the Lords and reward the Unionists with an electoral victory'. The gamble was very much greater than that, for all the evidence suggests that Balfour and the party agents did not reckon that the Unionists would win a general election precipitated by the rejection of the Budget. They calculated on defeat by a fairly narrow margin, reducing the Liberals to dependence on the Irish Nationalists for their retention of office, thereby preparing the way for the return of the Unionists to office in the near future.²⁷ The January 1910 general election would deal with the Budget and tariff reform, but the Liberals would require a second general election to deal with the future of the Lords, and in that election the Unionists could hope to win outright, especially if the Irish Nationalists forced a revival of the Home Rule issue.

Asquith's Cabinet reacts to the Lords' rejection of the Budget – a satirical cartoon, 1909 (Asquith makes the announcement while David Lloyd George holds down a jubilant Winston Churchill)

The decision for rejection was a huge gamble in so far as it risked everything the Unionists supposedly held dear: the composition and formal powers of the House of Lords; the preservation of the full Union with Ireland; the place of the Church in education; and, what was dearest of all to some, tariff reform. As Lord St Aldwyn, the Unionist Free Trader, put it to Balfour on 20 September, the stakes would be so high, and the risk of losing so great, as to make rejection 'the worst gamble' he had ever known in politics.²⁸

This was Lloyd George's supreme achievement in 1909: his Budget, and the furious opposition it aroused, ultimately led the Unionists to force a general election that most of them knew they could not win, and when a loss would jeopardise the whole future position of the House of Lords.

On 30 November 1909, the Lords duly refused to consent to the Budget by a vote of 350 to 75, effectively forcing a general election. In the subsequent

campaign both Liberals and Unionists made the Lords, the Budget and tariff reform the dominant issues of the election, with the Liberals seeking to rouse 'the people' against the peers, the tariff reform food-taxers, and the various special interests lurking behind the rejection of the 'People's Budget', notably the landlords and the brewers. 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.

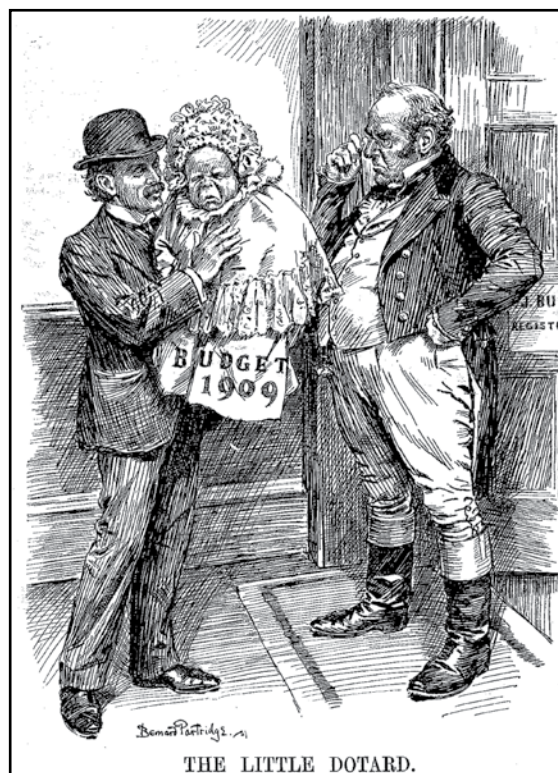
The result of the January 1910 general election gave the Liberals 275 seats in the new House of Commons, the Unionists 273, Labour 40, and the Irish Nationalists 82. The net Unionist gain was 105, fewer than most Unionists had anticipated, but enough to place the Liberal government in a position of dependence on the Irish Nationalists. While the Liberals had essentially held on to their working-class support, as well as much of their Non-conformist middle-class voters, they lost substantially among the middle classes and rural labourers of the South of England. 'It is the abiding problem of Liberal statesmanship to rouse the enthusiasm of the working-classes without frightening the middle-classes', Herbert Samuel commented to Herbert Gladstone on 22 January 1910. 'It can be done, but it has not been done this time.'²⁹ Technically, as some Liberals saw it, they should have retained the vote of the agricultural labourers, largely because of old age pensions, but, in the view of the Liberal journalist J. A. Spender, tariff reform 'got an unexpected hold of agricultural labourers' by promising 'to help agriculture and restore much prosperity by keeping out foreign foodstuffs'.³⁰

The January 1910 general election was by no means the end of the Budget saga. The Irish Nationalists, who were intent on removing the absolute veto of the Lords as an obstacle to Home Rule and who had all along been opposed to the whiskey duties of the Budget, had first to be squared. This was finally achieved on 14 April when Asquith introduced the Parliament Bill in the Commons and intimated that, if the Bill was rejected by the Lords, the government would go to the King for a dissolution on condition that, in the event of the Liberals being returned to power, he would guarantee to create enough new peers to overcome the opposition of the Lords. On 19 April the Budget was reintroduced in the Commons, and finally passed its third reading on 27 April, with the main body of the Irish Nationalists voting for it even though the whiskey duties remained intact. On Thursday 28 April, the Lords passed the Budget through all its stages in a single sitting, and the next day the Budget received the royal assent. Exactly one year after Lloyd George had introduced his proposals in the Commons, the 'People's Budget' had finally become law.

Legacy

It is nigh on impossible to think of another Budget that has had as many ramifications as the 'People's Budget'. Much that was to be of long-term importance flowed from it: the modernisation of the British system of taxation, the financing of the formative social welfare state, the defeat of Chamberlain's crusade for tariff reform, the destruction of the absolute veto of the House of Lords, and the plunge towards civil war in Ireland.

As a revenue-raising measure the 'People's Budget' proved an enormous success, apart from the land value taxes. In the



THE LITTLE DOTARD
Registrar John Bull (to bearer of venerable infant): 'Well, what I can do for it - birth certificate or old-age pension?' (Punch, 20 April 1910)

opinion of *The Economist* in 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.' Once he had resolved on a 'taxing' Budget, Lloyd George's design had been to cater for several years ahead, in particular to provide the financial basis for further social reform, and in this enterprise he was richly rewarded. Despite considerable increases in expenditure, including the state's contribution to national health and unemployment insurance, introduced in 1911, Lloyd George realised a succession of surpluses, and no new taxation was required until 1914. By 1912/13 the amount raised by direct taxes had reached 57.6 per cent of total tax revenue, up from 52.6 per cent in 1908/9 and 50.3 per cent in 1905/6.

The great exception to this record of success in raising new revenue were the land value taxes, which cost more to implement than they collected in revenue. In 1920 they were repealed

by Lloyd George's own coalition government, and the revenue collected was returned to those who had contributed to it.

The failure of the land value taxes aside, the 'People's Budget' was a hugely important milestone in the history of British taxation. Together with Sir William Harcourt's reform of the death duties in 1894, and Asquith's differentiation between earned and unearned income for income tax purposes, it helped to establish the basic structure for progressive direct taxation in Britain for much of the twentieth century. Founded on the new principle that taxation should serve as a major instrument of long-term social policy, the 'People's Budget' constituted a distinct break from the previously entrenched principle that taxation was to be imposed for revenue purposes only. Asquith and Lloyd George's reforms firmly established the income tax, previously still formally regarded as a temporary expedient, together with the new supertax (later surtax), as the main engine of progressive direct taxation, with Lloyd George providing for a more fully graduated income tax in his Budget for 1914/15. In the assessment of Martin Daunton, 'the revision of the income tax meant that Britain, unlike France and Germany, entered the First World War with an effective national tax regime'.³¹ It also helped ensure that Britain would become 'the quintessential high income tax country among the major nations of Europe'.³²

For the House of Lords, their rejection of the 'People's Budget' was the key event that made possible the Parliament Act of 1911, which placed statutory limits on the powers of the upper house. Following their return to office in the general election of January 1910, the Liberal government found themselves divided as to whether to focus on the reform of the composition of the Lords or on the veto, finally

deciding on the latter as a consequence of pressure from both the Radicals in their own party and the Irish Nationalists. The Parliament Act, finally passed by the Lords after a second general election in December 1910 and the threatened creation of new peers, replaced the absolute veto with a two-year suspensory veto, while the preamble asserted that 'it is intended to substitute for the House of Lords as it at present exists a Second Chamber constituted on a popular instead of hereditary basis'. The question of the composition of the upper chamber that the Liberals dodged in the wake of the 'People's Budget' remains a contentious part of the political agenda a century later.

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- 1 For the place of the 'People's Budget' in the history of British taxation see Martin Daunton, *Trusting Leviathan: The Politics of Taxation in Britain 1799–1914* (Cambridge University Press, 2001), chapter 11.
- 2 For an overview of the debate see G. R. Searle, *The Liberal Party: Triumph and Disintegration, 1886–1929* (New York: St. Martin's Press, 1992).
- 3 Lloyd George outline notes, n.d., Lloyd George Papers, House of Lords Library, C/26/1/2.
- 4 Lloyd George to William George, 25 November 1908, William George, *My Brother and I* (London: Faber and Faber, 1958), p. 222.
- 5 Ibid.
- 6 *The Economist*, 23 January 1909.
- 7 A. Sykes, *Tariff Reform in British Politics 1903–1913* (Oxford: Clarendon Press, 1979), p. 144.
- 8 B. B. Gilbert, *David Lloyd George A Political Life: The Architect of Change 1863–1912* (Columbus: Ohio State University Press, 1987), p. 338.
- 9 George Riddell, *More Pages From My Diary* (London, Country Life, 1934), p. 10.
- 10 E. David (ed.), *Inside Asquith's Cabinet: From the Diaries of Charles*

Hobhouse (London: Murray, 1977), pp. 73–74.

- 11 Lloyd George to William George, 17 March 1909, George, *Brother*, p. 223.
- 12 Richard Lloyd George, *My Father Lloyd George* (London: Frederick Muller, 1960), p. 120.
- 13 Memorandum by Lord Cromer on the position of the Unionist Free Traders, December 1908, The National Archive F.O. 633/18.
- 14 Murray to Asquith, 7 April 1909, Asquith Papers, Bodleian Library (Bod. Lib.), vol. 22, fos. 127–31.
- 15 Runciman to Asquith, 7 April 1909, Asquith Papers 22, fos. 132–5.
- 16 Murray to Asquith, 7 April 1909, Asquith Papers 22, fos. 127–31.
- 17 Margot Asquith, *Autobiography* (London: Eyre and Spottiswoode, 1962 edition, ed. Mark Bonham Carter), p. 259.
- 18 Burns' Diary, 29 April 1909, British Library (BL) Add. MS. 46327.
- 19 Carrington Diary, 29 April 1909, Bod. Lib. MSS. Films 1106.
- 20 Samuel to Gladstone, 29 April 1909, Viscount Gladstone Papers, BL Add. MS. 45992.
- 21 *Hansard*, 5th Series, VI, p. 41.
- 22 The speech is reprinted in Duncan Brack and Tony Little (eds.), *Great Liberal Speeches* (London: Politico's, 2001).
- 23 Bod. Lib. MSS. Eng. Hist. c. 759, fos. 138–40.
- 24 R. J. Q. Adams, *Balfour: The Last Grandee* (London: John Murray, 2007), p. 241.
- 25 Alfred M. Gollin, *The Observer and J.L. Garvin* (Oxford University Press, 1960), p. 117.
- 26 For the peers see A. Adonis, *Making Aristocracy Work: The Peerage and the Political System in Britain, 1884–1914* (Oxford University Press, 1993), chapter 6.
- 27 See Bruce Murray, *The People's Budget 1909/10: Lloyd George and Liberal Politics* (Oxford: Clarendon Press, 1980), pp. 217–220.
- 28 Balfour Papers, B.L. Add. MS. 49695.
- 29 B.L. Add. MS. 45992.
- 30 Spender to James Bryce, 3 February 1910, Bryce Papers, Bodleian Library, UB 22.
- 31 Daunton, *Trusting Leviathan*, p. 373.
- 32 Gilbert, *Lloyd George*, p. 370.

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