

# Imperial Fiscal Reform

Vincent Henry Caillard

The Ideals of Empire:  
Political and Economic Thought 1903–1913

Edited by Ewen Green

Volume II



THE IDEALS OF EMPIRE  
Political and Economic Thought  
1903–1913

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Ewen Green  
University of Oxford

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Political and Economic Thought, 1903–1913**

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Vincent Henry Caillard

With a new Introduction by  
Ewen Green  
University of Oxford

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The Publisher has gone to great lengths to ensure the quality of this reprint but points out that some imperfections in the original book may be apparent.

## INTRODUCTION

Sir Vincent Caillard (1856–1930) was one of the most prominent businessmen of his day. Educated at Eton and Woolwich he was commissioned in the Royal Engineers in 1875 and later acted as an overseas representative on the Public Debt Council of the Ottoman Empire, from which position he retired in 1898. On giving up public service Caillard became a director of several banks and also joined the board of the armaments firm Vickers. He had been born into a Conservative family (his mother was a cousin of Benjamin Disraeli), and had really just started out on his business career when he published *Imperial Fiscal Reform* in October 1903. The book was based upon three articles Caillard had written for the *National Review* in February, March and April of that year, which in itself is important insofar as Caillard's ideas predated Joseph Chamberlain's 'opening' of the tariff reform campaign in May 1903. *Imperial Fiscal Reform* was one of the most detailed statements of the case for tariff reform that was published. As with so many constructive imperialists, the difficulties of the Boer War clearly provided the initial impetus for Caillard's work, and his warnings about 'complacency' and avoiding 'muddling through' expressed the lingua franca of 'efficiency' that developed in imperialist and indeed other circles in the period 1900–1902. But his detailed discussion of the revenue aspects of the tariff question and his discussion of the Empire's trading prospects, which drew upon his public finance and business experience, gave his book a weight that few constructive imperialists were able to match. Indeed the length of his book, over 250 pages, and its strong statistical basis made it one of the most substantial contributions to the tariff reform debate. This combination of expertise and commitment made him Joseph Chamberlain's choice as chairman of the Tariff Commission, a role he was to continue in until 1920, when he became the Commission's honorary president. His involvement in the constructive imperialist cause was further cemented by his membership of the Compatriots' Club, and he contributed an

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essay to the *Compatriots' Club Lectures*. He also stood as Conservative candidate for Bradford Central in the 1906 general election, but was defeated. Caillard was not a prominent public face of the constructive imperialist and tariff cause, but behind the scenes he was one of the most important, committed and well informed of those engaged in the campaign for imperial unity.

Ewen Green  
*Magdalen College*  
*Oxford, 1998*

# IMPERIAL FISCAL REFORM



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IMPERIAL FISCAL  
REFORM

BY  
SIR VINCENT H. P. CAILLARD

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## PREFACE

THE first thirteen chapters of the following volume are based upon a series of three articles which appeared in the February, March, and April numbers of the *National Review* last year; my cordial thanks are due to the editor of that Review for his courtesy in granting me unrestricted permission to make use of those articles as I pleased.

As a matter of fact, I had no idea of reproducing them—at any rate, in a form which adheres so closely to that in which they originally appeared; I had planned a work of wider and more ambitious scope, of the completion of which I have by no means abandoned the hope. But the announcement in May last by Mr. Chamberlain of his intention to submit the whole question of our fiscal policy to a general national inquiry, on lines which resemble those recommended in the three articles mentioned, and which he has for some years past foreshadowed, led me to believe that I should be rendering greater service to those who wish to take part in the inquiry by inquiring for themselves—the best and most effective way, indeed, in which they can so take part—if I reproduced immediately the figures and arguments by which I was led to my conclusions, instead of waiting in order to publish them in a more detailed and voluminous, perhaps in a more scientific, form. I have, however, considerably enlarged them, especially by adding to them at points where, owing to the exigencies of the space available for Review articles, the arguments seemed to lose clearness owing to compression, and where, for the same

reason, important elements in the discussion—such, for instance, as food-supply in time of war—had been almost entirely omitted.

Although, however, the present volume appears nearly a year and a half later than the *National Review* articles, I have, after careful consideration, deemed wiser not to take advantage of more recent Board of Trade returns than those on which I based my original statistics, but to leave the figures, as a general rule, as they at first appeared—to bring them up, that is to say, for matters of comparison, only to the end of 1899. My reason for this is that 1900, 1901, and the first half of 1902, were the times of the South African War, and that it is impossible in any way to estimate, even with approximate accuracy, what may have been the effect upon trade of that war. Indeed, I much doubt whether the effect has been spent even yet. It does not, on the other hand, seem probable that the war, which broke out only in October, 1899, can have produced any sensible impression on the trade of that year. My suspicions in regard to the other years are confirmed to a considerable extent by the following figures :

British (Special) Exports.	1899. ooo's omitted.	1901. ooo's omitted.	1902. ooo's omitted.
To Foreign Countries ...	£ 176,895	£ 175,234	£ 174,395
To British Possessions ...	87,597	104,788	109,029

Thus exports to foreign countries showed a constant decrease; those to British possessions, on the contrary, increased by £17,191,000 in 1901, as compared with 1899, and in 1902 by £21,432,000. Of this remarkable growth of trade Natal and Cape Colony alone accounted for nearly six million pounds in the former year, and for upwards of

thirteen millions in the latter. Again, in the years 1899 and 1901 the tonnage of British vessels entered and cleared (exclusive of coasting trade and of transports conveying troops) in the ports of the same two colonies amounted to 8,199,000 tons and 12,134,000 tons respectively, an increase of 4,000,000 tons. These differences, in so far as Natal and Cape Colony are concerned, are clearly due to the war, and it may be reasonably inferred that the great impetus which our colonial trade received during the same years—especially as regards exports, largely in payment, no doubt, of colonial produce sent to South Africa for the supply of the troops—arose from the same cause. Taken by themselves, figures such as these would afford strong additional support to the conclusions at which I arrive. But this would be an inexcusably careless and partial use of statistics by all means to be avoided.\* Although, therefore, to stop at the year 1899 may make my figures appear somewhat out of date, I prefer to labour under that disadvantage rather than to put forward others which, for the purposes of reasonable and impartial argument, might prove to be false.

The concluding chapters of the book are entirely fresh matter, and have been written with the express purpose of discussing the principal objections to preferential treatment of the colonies. To deal with all the objections raised would be a hopeless task and quite unprofitable, as a great mass of them are based either on misconception or on ignorance of the economic forces involved, or sometimes on a purely political party view of the matter, which is almost worse than either ignorance or misconception. And here I would venture to

\* I need scarcely say that I am here speaking only for myself. Others who do not consider the war to have placed our trade under abnormal conditions are, of course, quite justified in making use of the later figures, and drawing from them such conclusions as they may think proper.

call the attention of those who desire earnestly to search for the truth to two propositions, which will be maintained or referred to more than once.

The first is that—in my view, at any rate—preferential treatment of the colonies must not be looked upon as an end in itself, but only as a step towards true Free Trade within the Empire. If that could be accomplished, I believe that the objections of many to the change of fiscal system into which the nation is now called to inquire would fall to the ground, and that they would, if only as Free Traders, become its warm advocates. I do not wish to blink the difficulties in the way, the principal among them being, no doubt, the reluctance of the colonies immediately to take a step which their various electorates are not yet educated even to consider. My chief difference from such objectors as these is that they shrink from preferential treatment and the difficulties which might be found to attend it, and I do not, since it seems to me that the result of such treatment would be an object-lesson which would prove to be the best education the colonies could receive, while I believe the supposed disadvantage to the mother-country to be illusory.

The second is, that scarcely any greater error could be made than to draw hard and fast conclusions from the present conditions of the world without any regard to the future, as if all things were to be crystallized into their present state without any possibility of change for all time to come. It is on this fallacy—for, truly, fallacy it may be called—that are largely grounded such arguments as that we are ‘sacrificing’ three-fourths of our oversea trade for the other fourth; I believe, indeed, that the fear that we are ‘sacrificing’ any part of that trade worth preserving is unfounded. Let those who are inclined to adopt such arguments consider the prophecies in regard to the future position—future at the time they wrote—of the United Kingdom hazarded by such men as Professor Thorold Rogers or Lord Farrer. It

would be difficult for any prophesies to fail more completely than have these—made only fifteen and twenty years ago. If those prophets were living now they would probably repeat their errors in foretelling the future importance in the commercial world of the colonial portions of the British Empire. One of our great national faults is want of foresight—a kind of mistaken conservatism which leads us to be so supremely satisfied with the present, and so absolutely convinced that our methods are superior to those of all the rest of the civilized world, that we need take no thought for the future, and that, should any great crisis come upon us, we are sure to ‘muddle through’ somehow or other. How perilously near disaster this spirit may bring us we have recently seen in the South African War; and it is strange that those who most vigorously attacked that very attitude of the national mind in the case mentioned are in the fore-front of the support of the *laissez-faire* policy (applied now to our commercial affairs) which it embodies. But in commercial war—and I fancy that there are but few Free Traders, however ‘convinced’ they may be, who will deny that commercial war rages always and everywhere in these times—the nation which is once decisively beaten must go under finally and completely: there can be no muddling through. History proves this conclusively: the Italian Republics, Spain, Holland, what is their commercial position now? We must therefore continually review our methods, to make sure that they are such as to ensure victory at any time. If, on review, we find those which we have in use to be the best, then most assuredly so much the better, for change is always difficult. If, on the other hand, we find them to be defective, then we must face the necessary change courageously and without an instant’s loss of time, for in such matters ‘he who hesitates is lost.’

In conclusion, I wish to express my grateful acknowledgments to Mr. R. F. Crawford for his kindness in allowing

me freely to make use of his excellent notes in the *Saturday Review* on the food supply of the Empire, as I have done in Chapter XI. ; and to the eminent firms of auditors, Messrs. W. B. Peat and Co. and Messrs. Trenow and Heisch, for their invaluable assistance in the preparation of figures and tables.

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## CHAPTER I

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In his striking and singularly able Budget speech of April 19, 1901, Sir Michael Hicks-Beach committed himself to the following observations:

‘ We all hoped and expected that at the end of the war it [additional taxation] could be remitted; but since then our ordinary expenditure, apart from the war, has enormously increased, and looking at the way in which the increase is going on . . . our ordinary expenditure would not permit us to remit the additional taxation imposed for war purposes last year, which, let me remind the Committee, included an income tax of no less than 1s. in the £. . . . To my mind, the great difficulty with which we have to deal now is not the war expenditure, but the ordinary expenditure of the country, and, therefore, in imposing such additional taxation as we may have provided to meet the additional expenditure of the present year, I think we are bound to make some endeavour to put our financial system on a broader basis so as to enable us to bear the additional expenditure.’

The House of Commons greeted these observations with cheers.

Now, expenditure, as not only the modern history of England, but of every other great civilized country, shows too clearly, has a melancholy tendency to increase. That, for instance, of Russia was in 1893 £104,410,000, in 1900 £199,417,000; of Germany in 1895 £65,359,000, in 1901 (officially estimated) £117,229,000; of France in 1895 £137,361,000, in 1900 (officially estimated) £152,232,000; of the United States in 1895 £90,245,000, and in 1901 £129,500,000.

In our own case the total expenditure, including payments to local taxation accounts, was in 1894-95 £100,932,000, and in 1901-02 £205,236,200. Of this figure it may be assumed that about £62,000,000 were absorbed in expenses consequent on the South African War, the expenditure on normal accounts having thus amounted to about £143,000,000.

For the current year the Chancellor of the Exchequer, in his recent Budget speech, estimated the expenditure at £143,954,000; if to this be added the payments to local taxation accounts, the total expenditure for the year 1903-04 will amount to about £153,720,000. No doubt a considerable sum is here still included for expenditure resulting from the South African War; on the other hand, we have the authority of Sir Michael Hicks-Beach for assuming that our expenditure must be maintained at a normal level of something like £140,000,000 per annum.

Seeing the 'waking up' of the old country which is now—as I think most happily—going on, and the general recognition by all of us, except a negligible minority, of the essential necessity of maintaining our military strength on land, and our naval strength at such a pitch that to lose command of the seas is a contingency so remote as scarcely to be possible, we should be wise not only to

face that huge annual bill, but to be prepared to meet its increase. If—to paraphrase an observation made by Mr. Gladstone in his Budget speech of 1861—‘it is the pleasure of the country to be governed at a cost of between’ £130,000,000 and £140,000,000, it must be so governed with the aid of a considerable taxation.

Let it not be understood that economy is hereby deprecated. On the contrary, it is clearly of the highest necessity that the accounts of our administrative departments should be continually and severely overhauled and criticised, that all waste, extravagance, and carelessness should be stopped, and that we should get the utmost return for every penny that we spend—that the management of our imperial finances should, in a word, be carried on on the strictest business principles.

That not inconsiderable saving would thus be effected is, at least, highly probable. But that such saving would reduce our expenditure to anything like the level at which it stood, say, seven years ago is not to be hoped. The pressure of rivalry is too great; the calls upon us to maintain our position in face of the increasing jealousy of many other great nations too imperative and too large. We must, *volens volens*, please to be governed with the aid of a considerable taxation.

Having regard to the inevitable calls upon the national purse for national insurance, to the large item for the military occupation of South Africa which must inevitably appear in our accounts for some time to come, to the Debt and Consolidated Fund Charges, and to the expenditure on the Civil Services, which must be looked upon as irreducible, it would not be an exaggerated estimate to place our future normal level of expenditure at nearer £150,000,000.

Assuming the revenue from existing sources to fulfil the Chancellor of the Exchequer’s estimate of £144,270,000, a

deficit, in round figures, of £6,000,000 would thus have to be made good.

The financial problem which calls for solution is, however, of considerably more importance than this. It is, perhaps, a pretty generally forgotten fact that, in its origin and for long afterwards, the income tax was regarded only as a temporary expedient, to be got rid of as soon as circumstances would permit.\* It was first imposed by Pitt in 1799, and, after being maintained during virtually the whole subsequent period covered by the French wars, was repealed in 1816.

It was not revived until 1842, and then for three years only; from time to time thereafter it was renewed for varying periods, but with the object of its ultimate extinction always held in view. But that object was never reached, and, in spite of Mr. Gladstone's insistence, in 1864, that it was very undesirable to dispose of the question 'in an indirect or equivocal manner, or that the income tax should creep unawares into perpetuity,' it has, as Mr. Sydney Buxton remarks,† done that very thing, and is with us now permanently with all the faults so severely criticised by Mr. Gladstone in 1853 still permeating its system.

'It was not,' he declared, 'adapted for a permanent portion of the fiscal system, unless you can by reconstruction remove its inequalities. Even if you could . . . there would still remain in my mind objections to it of the gravest character.' 'The objectionable principle of self-assessment can never be satisfactory to the country.' His general view, in fact, was that while it was an engine of gigantic power for great national purposes, it was to be deprecated as a per-

\* For an excellent summary history of this tax, see Mr. Sydney Buxton's 'Finance and Politics.' John Murray, 1888.

† 'Finance and Politics,' vol. i., p. 331.

manency on account of the public feeling of its inequality, the inquisition which it necessitated, and the frauds to which it must lead.\* There were 'circumstances attending its operation which make it difficult, perhaps impossible, or at any rate not desirable, to maintain it as a portion of the permanent and ordinary finance of the country.'

Although admitting its unfairness in its bearing upon different classes of income, he considered that it was impossible to readjust it without 'breaking up the basis of the tax,' which would throw the whole finance of the Empire into confusion. It had, in fact, to be maintained as it was, or to be abolished; and in time he hoped to abolish it. He clung to this hope as late as 1874, when, after the dissolution of Parliament, he promised to the electorate, if they returned him to power, the 'advantage and the relief' of the total repeal of the income tax.

The opportunity was not afforded him, and that was, I believe, the last occasion on which the repeal of the income tax has been seriously put forward as feasible.

Other Chancellors of the Exchequer, on other grounds, have wished to see it done away with.

'If we maintain the income tax,' said Sir Stafford Northcote, 'as a permanent engine of taxation, we are tempted to spend whatever it is pleasant to spend, and to take off whatever it is pleasant to take off. The income tax is always at command to be raised to 4d. or to 6d., [how one envies those happy days when a rise to 4d. could be spoken of!], 'as occasion requires, and you have not that pressure put upon you to study economy which you would otherwise have.

'You may, in fact, go as far as you please in any direction which is pleasant, because you would always be able to get

\* The corollary of this is another formidable objection to the tax—namely, that, as Mr. J. S. Mill said, 'It is in practice unequal in one of the worst ways, falling heaviest on the most conscientious.'