

## CHAPTER XIX

1853

### GLADSTONE'S BUDGET

To return to the political world, it so happened, by the purest accident, that I had to bring before the Cabinet the determining consideration in an important question. That was whether the subject of the relations of the East India Company to the Crown in the government of India should be immediately dealt with, or postponed to another year. The periodical time for which those relations had been settled came round again in 1854, and they had to be reconsidered. This was a subject on which I was well grounded by a thorough knowledge of the principles involved in the great struggle between Pitt and Fox in 1784. That knowledge had brought home to me, what few people seemed to understand, that under Pitt's ingenious scheme, which Parliament adopted, and which had lasted then for seventy-four years, the government of India, properly so called, was entirely in the hands of the Crown, and that the name and machinery of the Company were kept up for one purpose only—that of keeping out of the hands of Ministers at home the power of jobbing the immense patronage and the lucrative trade which were the incidents of administration. The Court of Directors had been kept up for this and for no other purpose. Nearly all the political orders of that body were absolutely subject to the Ministers of the Crown. The Crown, through the Board of Control, could not only alter and amend any despatch, but could cancel it, and substitute another

in its stead. The only thing they could not do was to use the revenues of India or the patronage of India for the purposes of political corruption.

Knowing all this, I always looked upon the cry that the government of India ought to be transferred from the Company to the Crown as to a large extent nonsense, inasmuch as it asked for that which had been already done. One great political power had been indeed left in the hands of the Court of Directors—that of recalling the Governor-General appointed by the Crown. But this was a power clearly meant to meet extreme cases. It had been very lately exercised, when the directors recalled Lord Ellenborough, the nominee of the strong Government of Sir Robert Peel. But this exercise of a power usually dormant had been very widely approved by the country. On the whole, therefore, I saw no good reason for change, and was disposed to regard any proposed modifications as matters of small importance. There was no public agitation on the subject. No great interest in the country was aggrieved by the Company, since it had been deprived of its old monopolies of trade to China and to India. Still, there always is in the House of Commons some jealousy of outside bodies like the Court of Directors, with large powers over which it has no right of interference. A Committee had been sitting for some time on the subject, but had not yet reported. The members of the new Government had paid little attention to the matter, and had no definite views upon it. Under these circumstances, there was a great temptation to postpone the question to another session, and to pass an interim continuance Act in the meantime. This, I think, would certainly have been the conclusion come to, but for the accidental information which I brought to the Cabinet.

During the early months of 1853 my wife and I were residing with the Sutherlands at the beautiful villa of Cliveden, near Taplow, which the Duke had lately bought. I delighted in it, not only for the loveliness

of the position, but for the wealth of birds in its woods and shrubberies. I used to go into London for Cabinet meetings by rail, returning in the evening to Cliveden. I did so for a Cabinet at which it had been settled that the question about the East India Company should be decided. At Paddington Station an office-messenger brought to me my letters, and the first one I opened was a long one from Dalhousie, the Governor-General of India. I had been in occasional correspondence with him ever since he had left home. He had been pleased by my speech at his farewell banquet in Edinburgh, and I had watched his brilliant career in India with the pleasure of a kinsman and a friend. On reading his letter, I found that, whilst he felt he had no right to volunteer his opinion on any changes which the Cabinet might desire to make on the framework of the government of India, as between the Crown and the organs of the Company, he did feel free to express his anxious hope that there would be no postponement, since such a course might give rise to speculations and agitations not without risk to the authority of the Imperial Government. Of course, I took that letter at once to the Cabinet, and it decided the matter. I recollect Graham solemnly shaking his Olympian head, and saying: 'We can't go against so decided an opinion from the Governor-General.' Strange to say, Dalhousie himself was rather cross with me for reading to my colleagues a letter which was private. But I defended myself vigorously, and told him that I held it to be my absolute duty to inform my colleagues of his opinion, and I heard no more of the matter. Aberdeen and Charles Wood between them cooked up a Bill, resettling the government of India practically on the same basis, and it passed through both Houses with no difficulty.

I now come to one great experience of my official life which gave me a more lively pleasure than any other, and which even now often fills me with astonishment and admiration. We all knew that our fate as a

Government would depend on Gladstone's proposals on finance. This was not a usual condition of affairs. At all times, indeed, the defeat of any Government on its Budget would be serious or fatal. But it is not very often that Governments are compelled to make very highly critical proposals of a purely financial kind. In war, or in times of immediately apprehended war, the advisers of the Crown enjoy an authority derived from their position which discourages any attack on their plans for meeting the necessary cost. But this was not our case, so far as any of us then knew. On the contrary, it was a time of profound peace. And yet a variety of circumstances compelled us to devise some new scheme of public income and expenditure, and the whole attention of the people was set upon our plans—and that, too, in a highly critical spirit. It was upon the Budget that we had defeated the late Government. If any debate ever turns a division, that vote of the House of Commons had been determined by Gladstone's splendid dissection of Disraeli's pretentious Budget. And, besides this necessity arising out of universal public expectation, a still more definite necessity arose out of the fact that the period for which the income-tax had been established was just about to terminate. There was, moreover, a fierce agitation against its renewal, unless it was to be reconstructed on vague principles, which had never yet been tested in the light of any close reasoning, or of any clear exposition of the consequences such a reconstruction must involve. Without the income-tax, we could not get on. The question therefore had to be faced, and it was a question which of necessity involved our whole financial system.

On taking office as Chancellor of the Exchequer, Gladstone had set himself to his work with powers of intellect and of will which had never yet been gauged by any of us, still less by the world in general. I have already mentioned that, at his instance, a small Committee of the Cabinet had been appointed, of which I

was a member, to consider the particular question of a reconstructed income-tax, on the principle of what was called 'differentiating' between incomes which were 'precarious' and incomes which were 'permanent.' The Cabinet never dealt with it as an abstract question, and, practically, so much depended on the financial measures accompanying any interference in the income-tax, that it could hardly do so. We therefore all waited till Gladstone had matured his plans. This was not until far on in the month of April. We did not at that time meet in the large and comparatively commodious room in No. 10, Downing Street, in which Cabinets were always held at a somewhat later date, and in which, I believe, the Cabinets of Mr. Pitt had been held. We met in a small and rather shabby room looking into the street. There at last a Cabinet was summoned to hear and consider the critical proposals of the Chancellor of the Exchequer. He came into the room with a large, flat, and shallow official box, very old and shabby, covered with drab-coloured leather. He sat on a chair nearly fronting the window, whilst we all sat in a kind of loop around him. Opening the box on his knee so that its lid stood upright and afforded a rest for any paper placed upon its edge, he began a conversational exposition, which endured, without a moment's interruption, for more than three hours. Not a word of it was read, except when he had to refer to exact figures, which were accurately put down on pages of full-sized letter-paper which just fitted the box. The flow of language was uninterrupted, with just enough inflection of voice to mark the passages from mere statements of arithmetical bent to reflections upon them, or to consequent arguments and conclusions. The order was perfect in its lucidity, and the sentences as faultless as they were absolutely unhesitating. Never for a moment did he overrun himself on any point, or require to hark back in order to recover some forgotten or omitted matter. It was like the flow of some crystal stream—passing

sometimes through narrows, and elsewhere spreading itself over broader channels, but everywhere glancing with light, full of lively movement. Not one of us could think for a moment of interrupting him, even to ask a question. It seemed not only to leave nothing obscure or incomplete, but to raise and to settle, as it went along, a thousand questions which had not occurred to any of us before.

I look back upon it as by far the most wonderful intellectual effort that I have ever listened to from the lips of man. Perhaps those who have not had themselves some experience of different kinds of public speaking can hardly appreciate how great the effort was. On a much smaller scale, and on subjects comparatively simple, I have myself tried to state a case conversationally, and yet formally, to a group of colleagues or to a committee. I know that the strain of such an effort is far greater than in making a regular speech to a public assembly, in which case the speaker can, and generally does, seek some relief in digressions and excursions round his subject, which may amuse his audience; or he may indulge in illustrations which may enliven them and recover wandering attention. Nothing of this kind is possible with a dozen colleagues sitting round one and listening with all their ears, in a critical spirit, to proposals in which they must share a full responsibility. There is absolutely no room for oratory, in the sense in which the word is generally used. There is not even room for gesture, which is of itself a great relief in public speaking.

Gladstone had one physical habit when his mind was much engrossed and anxious, which was almost the only movement he made. It was the habit of twisting the feather of a quill pen into a ball, of unrolling it, and then rolling it up again. Beyond this hardly perceptible trick, and an occasional glance with his large dark eyes towards his colleagues as they sat breathless round him, there was perfect stillness and composure in his manner. And yet I never heard

a speech, even of the highest oratory, which so riveted my attention and that of all my colleagues. It is to be remembered, too, that he had some special difficulties to contend with. The financial difficulties of the country were undoubtedly the result of feeble handling by the Whig Government which had succeeded that of Sir Robert Peel. Yet he was addressing a Cabinet in which that old party was powerfully represented, and he had to deal with his retrospects in this connection, and with his proposals for the future, so as not to awaken prejudice or tread on natural and perfectly legitimate susceptibilities. All this very nice steering was done with incomparable skill. He knew also that several members of the Cabinet were more than half disposed to give way to the cry for a reconstructed income-tax. To this subject he bent all the powers of his mind—his analysis, his ingenuity of illustration, and the earnestness which comes from absolute conviction. He proved to demonstration that differentiation in the tax, according to different sources of income, must involve anomalies far worse than any which could be alleged against the existing tax, and must of necessity involve also a breach of faith with the public creditor. Having carried us, I think, all along with him, in so far that none of us could see a flaw in his reasoning, he opened to us the great principle on which his Budget was to rest—namely, not to damage and destroy a great instrument of finance, but to keep it, and even to extend it; and to restore that connection which Peel had established between the income-tax and great reforms in other parts of our financial system, which, without the income-tax, could not be afforded. Pitt had invented it for the purposes of a great war. Peel had recalled it into existence for the purposes of a great tariff reform. In both cases it had been eminently successful, how successful, he spent some time in showing. There was every reason to believe that further reforms in the same direction—reductions in taxes affecting the great

articles of consumption—would be equally successful and remunerative. His advice to the Cabinet was to frame our Budget on this principle. He showed that there were solid grounds for expecting that a policy of this kind might be framed to give what would so reinforce the revenue from other sources, that we might in no long time dispense with the income-tax altogether. He advised that this happy consummation should be distinctly held out, as the end towards which we desired to shape our course. But in the meantime it was absolutely necessary, not only to resist all attempts to break down this powerful instrument of finance, but even in some directions to extend its operation. He would propose to widen somewhat the area from which it was raised in England and Scotland, and he would propose, further, to extend it for the first time to Ireland. He pointed out how little reason or justice there was in the total exemption of that part of the United Kingdom. True, it was a poorer country. But the income-tax was not levied from the poor, but from the well-to-do, and the well-to-do in Ireland were as well off as the same class in Britain. Turning, then, to his proposed remissions of indirect taxation (on tea and soap), he expounded the reasons for his selection with the same marvellous lucidity. The total amount was very large—upwards of five millions of pounds, a sum equal to the whole produce of the income-tax at that time. Soap and tea were the largest sacrifices, but there were a number of other sensible alterations of burdens, all tending to make various classes feel that they were to get something for submitting once more, and for a time only, to the obnoxious income-tax. Finally, he pointed out the data on which he calculated that the elasticity of the revenue, under a new stimulus to trade, would probably enable us to abolish the income-tax in the course of seven years. He recommended that an Income Act should provide for that consummation by steps of reduction in the rate, until in 1860 it should altogether cease.

During the three hours of this wonderful performance we had all sat on our chairs as still as mice, spellbound under the hands of the magician. For a moment we remained so, as if our minds were full of an intense intellectual enjoyment, and our ears were filled by the tones of that persuasive voice. But in another moment we were all on our feet, in a state of suppressed excitement—some of us grouped round Gladstone himself, others round some special friend or old colleague, and talking in half-suppressed voices of admiration, or of astonishment, or doubt. There was no particle of doubt in my mind, and on looking round the Cabinet, I felt pretty confident that the Budget was safe. Lord John Russell looked so deeply impressed that I felt sure he was all right. Graham, who had been an old colleague of Gladstone in the Government of Sir Robert Peel, looked proud and pleased by this fulfilment of a splendid promise. There was no question, of course, of any decision then and there. The scheme was so large, so new, so bold, that some time was needed to understand it in all its bearings. I do not believe that Gladstone had confided in any one of his colleagues, except, perhaps, in Aberdeen. His grave face showed no emotion, except just a little of a satisfied smile. No one had been more impressed than he had with the necessity of meeting the nearly universal cry for a differentiation of the income-tax. Yet it was in the face of this condition of things that Gladstone was now proposing to us, not only that no concession should be made on this subject, but that the income-tax just as it was, with all its sins upon its head, should not only be renewed, but should be extended to lower incomes than now paid it, and for the first time to the whole of Ireland.

The absolute secrecy which is observed, or ought to be observed, in all Cabinets is, of course, specially important in the case of Budgets, because the innumerable commercial interests, always more or less affected, would render any secret knowledge a dan-

gerous source of speculative tricks. But on this occasion, absolute secrecy was doubly important, seeing that success or failure entirely depended, not only on the astounding proposals we contemplated remaining unknown till announced in Parliament, but especially on that announcement being made by Gladstone himself, in the forms of statement and of reasoning of which he was so great a master, and to which alone he was in possession of the clues. As we were deeply impressed with this consideration, the time of our incubation was faithfully used by all of us in the secret councils of our own minds. There were one or two exceptions made by Gladstone himself in the way of confidence, but these were only in favour of colleagues and intimate friends who, though not in the Cabinet, were members of the Administration. One of these was Cardwell, a man of very considerable ability, afterwards in high office. He was simply scared by the audacity of the proposed Budget. He came to me one day with a face quite pale with alarm, and told me that he regarded it as combining so many points of attack from so many quarters, including, of course, the whole strength of the Irish Members, that success seemed to him an absolute impossibility. I told him what I felt from the first—that the only chance of success lay in the magnitude and weight of the scheme as a whole, and that it would be impossible to tear off little portions of it here and there without impairing that magnitude and weight from which its momentum was derived. This was the feeling which prevailed.

Lord Stanmore, in his excellent but too short memoir of his father, has stated that Lord Aberdeen had threats of resignation from some of his colleagues on the question of the Budget, and that the assent of the Cabinet was largely due to his support. I do not recollect having heard of any such threats at the time. But I have since heard of one case, highly honourable to the Minister concerned, in which the

difficulties of assent were great. That was the case of Sir Charles Wood, who had been Lord John's Chancellor of the Exchequer. He had committed himself more or less, in some speech to a deputation, to the effect that he would not propose a renewal of the income-tax without some concession on the principles of differentiation. At first Wood felt that he could not be a party to a new Budget in which this pledge was violated. He did, therefore, for a time feel that he must resign. But, on reconsideration, he saw that, as the new proposal contemplated the abolition of the income-tax at a definite and not distant date, the whole question was thereby put on a new footing, to say nothing of the tariff reforms which were part of the plan. Wood therefore wrote a frank and manly note to Lord Aberdeen, explaining his change of view, and consenting to stand by his colleagues on the proposed Budget. Lord Aberdeen sent him a warm reply of acknowledgment and thanks, which, under the circumstances, he well deserved. The result was inevitable. Neither the individual support of the Prime Minister, nor that of any of us, would have carried the day had it not been for the overpowering general impression made by the strength and boldness of the proposals as a whole. There was no one who was capable, or had the means, of making any amended Budget, or even of suggesting a substitute for any of its parts. Its new taxation was so bound up with, and so balanced by, great remissions, both immediate and prospective, that it was impossible for any of us to pick it to pieces and to attack it in detail. It was clear, too, that what was impossible for us would be still more impossible for the House of Commons.

Gladstone had told us in his gentlest and most modest tones, at the close of his exposition to the Cabinet, that he was fully conscious of the large draft he was making on the confidence and on the convictions of his colleagues, adding that, if they could not

adopt the whole of his plan, he might be able to cut it down in some of its proportions. He intimated at the same time, in tones which changed to great solemnity, that there was one thing he could not do, or be any party to doing, and that was to adopt any plan for differentiating the income-tax according to different sources of income. That he regarded as destroying it as a great instrument of finance for all future times. This resolve on Gladstone's part governed the whole situation. Nothing but some widely-embracing scheme, large in all its proportions, and appealing to special interests and to the public mind in many ways, had the smallest chance of succeeding against the stormy current which had set in in favour of what was called concession upon this subject. To cut down the Budget to smaller proportions would be to lessen its momentum, and destroy its only chances of success. Ultimately, therefore, and very soon, all the members of the Cabinet became willing to take the leap together, although some of them, I know, thought it was a leap into the shambles.

At last, on the 23rd of April, 1853, the day came when the Budget was to be announced and explained in Parliament. The House of Commons was crammed. The whole country was on tiptoe of expectation; and was not disappointed. Gladstone excelled himself. He spoke for more than four hours, whilst through a maze of figures he threaded his way with a pellucid clearness of exposition which not only relieved all strain upon the attention, but even made close listening a positive pleasure to the mind. And yet it was in no sense a speech of rhetoric. It was an even flow of clear explanation and of the closest and most skilful reasoning. The breadth of the proposal as a whole took the House by storm, and when Gladstone sat down, amid a long pent-up tumult of applause, all who were present at that great intellectual exhibition felt sure that the Budget was safe,

and that the new Government was firmly established in power.

It was in this speech that Gladstone made a long and flying leap in his ascent to power. Hitherto he had been only a man of great promise, a brilliant debater, with a halo round his head of a wide and even an unusual expectation. He now at once stood forth as a statesman of magnificent performance, facing the unreasoning clamours of a misguided public opinion as no other man would face them, and with a splendid courage committing his colleagues and himself to a determined resistance. But this was not all—it was, indeed, less than half—of his triumph. A policy of mere resistance would never have succeeded under the conditions then existing. But his masterly analysis of the income-tax, his account of the historical effects it had produced at two great epochs of our history, his high aspirations for a farther experiment in tariff reform, the power he showed in handling various sources of revenue with a view to that reform, all combined to satisfy the reason and to dazzle the imagination of Parliament and of the people. It was said, and I believe with the strictest truth, that no such financial speech had been delivered in the House of Commons since Mr. Pitt's great speech on his first proposal of the income-tax in 1793.

It was one of those rare occasions on which a really fine speech not only decides the fate of a Government, but enlightens the mind of a people, and determines for an indefinite time to come the course of natural legislation. It is true that in all forms of government in which there is a large democratic element, oratory is, and must be, a great power. But, to a very large extent, its effects are as evanescent as its tones. In assemblies of educated men, more or less definitely divided into organized parties, mere speeches, however fine, very seldom turn a single vote. On special subjects, indeed, where no party opinions affect the question, a great speech may carry all before it. A

celebrated speech by Macaulay on the subject of copy-right is said to have been a case in point.

Gladstone could not turn to any of those legitimate resources of oratory which lie in appeals to the fancy or to the feelings. Only for one moment could he come near to these, in a few sentences in which he showed how the National Debt was largely held by widows and orphans and others under trust, whose little dividends, however small, were at least as certain in their source as any incomes, and on whom the reformers would place the higher rate of tax, whilst the great brewers and other lords of manufacturing industry would be let off with the lighter rates, because their sources of income were supposed to be precarious. A great master of flexible and subtle intonation like Gladstone did not fail to convey, in his masterly analysis of the sources of income, both the pity and the reproach with which such an unrighteous discrimination could be justly charged. But, beyond this, the whole speech was as grave and serious in its matter as it was clear in its explanations and conclusive in its reasoning. And yet I have little or no doubt that if his proposals had been made known clumsily, or even in any abbreviated form, there would have been a complete failure, instead of a splendid success. There is an enormous difference between minds brought suddenly face to face with startling or unwelcome ideas and the same minds when they are gradually led along the paths of fact and of argument, by which these ideas have been—perhaps laboriously—reached by some great intellectual leader. This is the noblest work of oratory, and perhaps, alas! sometimes the lowest also, for there is no weapon in the hands of men which offers such temptations to its possessor. And there is none which has been so terribly abused. There is no sight so odious to me as that of a man with a gift of oratory who, instead of using his powers to free the minds of others from errors and prepossessions, spends them on increasing prejudices and inflaming the passions of

the people. No pleasure of a political kind has ever been so great to me as Gladstone's success on this great occasion. During the time of suspense I did all I could in the Cabinet to promote and secure it. The exposure of a fallacy has always been to me the greatest of intellectual delights, and, next to that, seeing such an exposure effected by others. And, besides this, the Budget as a whole appealed to all my earliest sympathies. It was a sort of combination of Pitt and Peel, resting on the one for the income-tax, and on the other for a right understanding of its legitimate use.

During the rest of the session I took my share, in the House of Lords, of speeding the measures of the Government, and especially the Budget and the India Bill. Financial debates in the Lords are always rather half-hearted, because financial measures cannot be altered there. But Lord Derby attacked the Budget bitterly, in a speech to which I made a fairly successful reply. On the India Bill I defended our rejection of delay for another year, and pointed out that the cry against the existing system as a 'dual Government' was in great measure a delusion, inasmuch as under any possible substitute the dual element must remain. Not only must there continue to be a strong Government in India, but even in England nobody proposed that the powers of the Crown should be placed in the hands of a Minister, without the aid and the check of a separate Council.

It would be very difficult to specify the items in Gladstone's great Budget of 1853 which most determined its success, both in Parliament and in the country. That mixture which was conspicuous in it of Pitt and Peel was an element which could not recommend it to the old Whigs. And accordingly—although I did not know this at the time—the two members of the Cabinet who most distinctively represented them, Lansdowne and Palmerston, both intimated to Lord Aberdeen that, although they would

acquiesce in the proposal of the Budget, they would also acquiesce in its defeat, so that they could be no party to a dissolution on it, against the verdict of the House of Commons. On the other hand, the financial policy of Peel had already acquired an established reputation. In my speech in the Lords I was able to remind Lord Derby that no less than £11,000,000 of taxes had been remitted by Peel, of which almost the whole had then been very nearly recovered by increased consumption and the stimulus given to trade. This had been done, and it had been done under cover of the income-tax. The principle, therefore, of connecting the continuance of that tax with a continuance of the same system, was a principle which appealed to the people, as justified by indisputable results. Then there were some highly popular ingredients. The abolition of the soap duty pleased the manufacturers. The very large reduction on the tea duties pleased all who looked to the interests of the poor. Then the extension of Pitt's legacy duties to real property pleased the Radicals. All these things are to be considered in accounting for the success of a scheme which was courageous even to audacity. But I am bound to confess that I thought at the time, and still think, that one main element of success lay in that item of the Budget which was really the weakest—namely, the prospect held out of dispensing with the income-tax altogether. It was not really possible to found safe fiscal legislation on calculations of the future for seven years ahead. Not only the contingencies of foreign politics and the possibilities of war, but even the ordinary changes—often as violent as their causes are obscure—in commercial and manufacturing industry, render such forecasts impossible. But Gladstone treated this point with great dexterity. He indicated his own personal impression that the income-tax was not well fitted to be a permanent part of our financial system, moved to this opinion no doubt by the dangerous agitation which he was then encountering. But he took care

to indicate also that he only wished to place Parliament in a position enabling it to part with the income-tax if it should then be so disposed ; and he gave the figures on which this expectation was founded, on the supposition that all went well in the meantime, and that the existing revenue and his new succession duty were to continue unimpaired. But the great dexterity of his proposal, so far as it affected public feeling, was that he embodied his expectation in external legislation, providing for and specifying the successive steps of diminution by which the income-tax was to expire in 1860. I have little doubt myself that this definite proposal, giving an apparent validity to the promise, was one of the great causes of an overwhelming and immediate success. Lord Derby sneered at it, of course, and so did others. But not one of them saw, or even professed to see, the particular danger which was even at that moment beginning to appear above the Eastern horizon, and which was destined very soon to involve us in expenditure that rendered all such peaceful calculations futile.