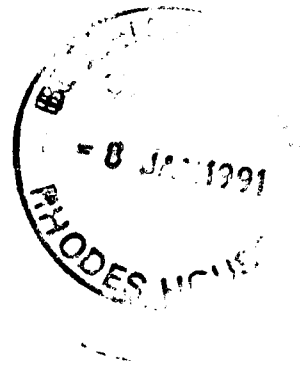
'Treasury control' and the South African War, 1899 - c.1905

Thesis submitted for the degree of
Doctor of Philosophy
at the University of Oxford





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Hilary Term 1989
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Abstract I

This thesis gives an account of the Treasury's role in preparing for, and conducting, the South African War, at a time when the orthodox Gladstonian principles of public finance were being challenged. It is a case study, in an exceptional instance, of the nature and effectiveness of Treasury control over expenditure on imperial expansion; of the Treasury's view of how a colonial war should be financed and who was to pay for it, of what cost-benefit analysis the Treasury applied to a colonial war, and of why it relied on recouping a substantial part of the war cost from an indemnity levied on a defeated Transvaal. The thesis is an attempt to define the vague concept of "Treasury control", not in constitutional theory, but as it worked in practice.

It is argued that Treasury control and the rigidity of the annual peace time budget obstructed before the war the taking of any serious

military precautions, left no reserve fund for war contingencies, and made any long-term strategic planning almost impossible. Rather than run the risk of asking money from Parliament for reinforcements to South Africa, which would be unpopular, as it might require increased taxation, and which might prove unnecessary, the Cabinet waited till the need to spend taxpayers' money had been demonstrated, although it could result in initial setbacks and in a longer and more expensive campaign. This, in conjunction with Milner's and Chamberlain's political strategy, dictated a military solution to the crisis.

It is further argued that at first the Treasury estimated the cost of the war at £10 million, while assuring Parliament that a substantial part of it would be recouped by way of indemnity from the Transvaal. But the colonial expedition turned into a war on a European scale, the final charge to the British Exchequer was £217 million, and not a penny of indemnity was exacted from the Transvaal. The Treasury's view was restricted largely to the current year's budget and the following year's estimates, and how to secure their approval in Parliament. In this case, Treasury control was as ineffective during the war, as its estimates of the cost of the war and who would pay for it, were unrealistic.

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Abstract II

The object of the thesis is to give an account of the Treasury's financial role in preparing for, and conducting the South African War, at a time when the orthodox Gladstonian principles of public finance and Treasury control were challenged by ministers who favoured a long-term increase in financial expenditure to meet the social and military needs of a modern state. The account is a case study, in an exceptional instance, of the working of "Treasury control" over expenditure on imperial expansion; in particular of the nature and effectiveness of financial control, of the Treasury's view of how a colonial war should be financed and who was to pay for it, of what cost-benefit analysis, if any, the Treasury applied to a colonial war, and of why its reliance on recouping a substantial amount of the cost from an indemnity levied on a defeated Transvaal, proved unrealistic. The thesis is an attempt to define the slippery concept of "Treasury control", not in constitutional theory, but as it worked in practice.

The sources used are chiefly the Treasury files, the 54 volume diary and over 100 volume financial papers of Sir Edward Hamilton, the assistant permanent secretary to the Treasury, and the private papers of Hicks Beach and his Cabinet colleagues, especially those of Salisbury,

Chamberlain, Lansdowne, Balfour, Brodrick and others. The records of the Colonial and War Offices have also been consulted.

At the turn of the nineteenth century, the Treasury under Hicks Beach and Hamilton was still the stronghold of the Gladstonian canons of public expenditure - a balanced budget, the lowering of taxes to an absolute minimum in peacetime, and the principle that self-governing colonies should normally be self-financing. In Britain's relatively unstructured system of government, where power was in the hands of a small ruling elite who was aware of the constraints and played by the rule, these principles were generally accepted as an ideal. Party leaders were aware from past experience of voters' prejudices against increased taxation for imperial purposes, that defiance of the rules carried high political risks in Parliament and at the next election. It was the Treasury's role, as guardian of the public purse, to remind the Cabinet of these political and financial constraints, especially when expenditure was increasing 'by leaps and bounds'.

The power of the Treasury to do so was considerable. As all public expenditure required its sanction, according to the annual budget authorized by Parliament, the Treasury had financial power over disbursement to all other departments, which in turn had to account to it, showing that the money had been spent under the heads authorised. The Treasury was the only government department whose operations were defined precisely by Parliament, giving it an over-riding authority. If the Cabinet wished to over-ride the budget for extra-ordinary expenditure, the chancellor had to be persuaded to go to Parliament for a supplementary grant of 'ways and means'. Thus, the Treasury was at once the financial executor of the budget laid down by Parliament, and the financial executor of Cabinet policy. The chancellor's powers arose from the fact that he was personally responsible for reconciling his two roles.

The account suggests that the financial considerations of the Treasury exerted the strongest influence on Cabinet decisions on the eve

of, and, towards the end of the war. Before the outbreak of war, Treasury control in line with the rigidity of the annual peace time budget with its strict allocation of current revenue and expenditure, obstructed the taking of military precautions in case of a war. By the same token, it also made any long-term strategic planning almost impossible. As a result, there were no serious financial or military preparations until the crisis had reached and war had broken out. The Cabinet was left with no reserve fund for war contingencies. Rather than run the political risk of asking Parliament to sanction money for extra-ordinary reinforcements to the garrison in South Africa, which would be unpopular, as it might require increased taxation, and which might prove unnecessary, the Cabinet waited till the crisis was upon them. Only at the last minute, when the need to make sacrifices and spend taxpayers' money had been demonstrated to public opinion represented in Parliament, did the Cabinet feel safe to ask for it. Treasury control in peace time thus tended to delay preparations for a colonial war until war broke out.

For financial reasons and for tactical reasons in South Africa, the Cabinet preferred to postpone sending reinforcements to South Africa, acknowledging the likelihood that each of them would result in initial setbacks on the battlefield if war broke out, and thereby a longer and more expensive campaign. This postponement stemmed from parliamentary allocation of money in the annual budget in peace time, of which the Treasury was the ordained executive and guardian, and which was the essence of Treasury authority and control. In this instance, it was fortified by the self-confidence that Britain could easily recover lost ground and defeat the Boers. It was by no means obvious at the time that Treasury constraints on expenditure were endangering the security of the Empire in South Africa.

The account also suggests that once reinforcements had been sent out, financial considerations encouraged the Cabinet to work up to a climax on their negotiations with Kruger through an ultimatum. The actual cost involved in the increased garrison was negligible for a country

rich as Britain, but the Government was intent on avoiding asking for a vote of extra-ordinary military expenditure, fearing that Parliament would not tolerate the cost of a large garrison in South Africa for a prolonged stay. Consequently, Hicks Beach, representing parliamentary constraints on extra-ordinary expenditure for military precautions against the probability of a war, in the end reinforced on grounds of financial economy, Milner's and Chamberlain's strategy of risking a military solution to the crisis.

The Treasury intervened in various other ways throughout the war, though its power of veto was largely reduced by the imperative of winning it. Peace time rules of accounting in detail to the Treasury for war expenditure were suspended, but the chancellor attempted on numerous occasions to influence war strategy on financial grounds, and the Treasury's interference in little things, in aggregate brought protests from ministers against obstruction to the war effort. They objected, for example, to Hicks Beach impeding the replenishment of the military stores, to his opposition to increasing the pay of the soldiers, and to increasing the size of the army during the war which, he feared, would lead to a permanent increase in the size of the regular army after the war.

From July 1900 onwards, Hicks Beach made positive demands on the Cabinet to reduce the force in South Africa, demands which required a change in war strategy, in order to put a brake on war expenditure. He believed the war was far too expensive to be left to the generals. At first, he failed to persuade the Cabinet to overrule the generals and interfere directly in war policy, but by June 1901, after further pressure from him, the Cabinet endorsed the policy of protection, and asked that the force in South Africa be drastically reduced. Treasury pressure for curtailing war expenses by way of changing war strategy seemed at long last to have succeeded; but the new policy was never pressed on Kitchener, and the strategy of total engagement continued, with relatively little success and very high cost. The Cabinet were very reluctant to impose war strategy on

the generals, despite their desire to reduce war expenditure. The lack of military preparations before the war and the early defeats inhibited them from interferring with the military once the war had to be won, thereby limiting effective Treasury influence over war expenditure.

While Hicks Beach wished to raise a substantial part of the war cost through taxation on Gladstonian principles, other ministers wanted to minimize the tax increases and pay for the war largely through loans. The outcome was inevitably a compromise - increased taxation, with a substantial part of the cost met by loans. Ministers exerted great pressure towards the end of the war against further tax increases, especially in income tax and the home duty, which would largely fall on their own party supporters. They were in favour of raising the entire war needs from loans. But the Treasury insisted on a further increase in taxation. The fact that two thirds of the war expenditure were raised in the end through borrowing, only one third by fresh taxation, indicates the strong resistance of the Unionist Government to taxation, and the limits of Treasury control, where the politics of party survival were at stake.

The Treasury, as has been suggested, had to play a dual role: as Parliament's executor controlling Government expenditure, and as the financial executor of Government policy. The problem was how to reconcile the two roles. Even an orthodox Chancellor of the Exchequer like Hicks Beach could not ignore the Government's party political needs. On one occasion, for example, he presented Parliament with an inflated war estimate, much larger than the actual estimate for the financial year 1901-1902. The large surplus was intended to see the Treasury through to peacetime and cover the continuing expenses of the war's aftermath in the first peace time budget, when Parliament would expect considerable reducion in taxation for military purpose. Hence, Hicks Beach and ministers conspired to raise in one financial year sums that would be required in subsequent peace years, a highly irregular procedure according to Gladstonian financial orthodoxy.

Another traditional doctrine of parliament and Treasury control was that so far as possible the self-governing colonies rather than the home tax payers should bear the cost of their defence, and Hicks Beach did his best to comply with it. The only explicit piece of cost-benefit analysis made by the Treasury as regards the war suggested that the gold mines of the Transvaal would eventually repay to the Treasury a substantial part of the cost of the war. Throughout the war and after it, the Treasury sweetened its demands on Parliament for money with assurances that the cost of the war would eventually be recovered substantially from an indemnity from the Transvaal. The prospective indemnity was also used as a bait to attract investors into short term war loans and to assuage public resentment against mounting taxation. The Transvaal loan of 1903 is but one example of the Treasury including the hope of indemnity in its financial demands to secure parliamentary approval. By wrapping the imperial guranteed loan of £35 million for the Transvaal's reconstruction in the promise of £30 million indemnity, which by that time the Treasury knew to be quite illusive, the imperial loan, required by Chamberlain and Milner to reconstruct the politics of collaboration in South Africa, was the more easily obtained from Parliament.

The unexpectedly large war expenditure created problems of liquidity for the Treasury, but Britain avoided a serious financial crisis. Her enormous financial resources afforded the Government a large margin for military and financial error. The Treasury had at its disposal the City's loan market which easily sustained large loans throughout the war, and a large tax capacity that could be tapped for short-term effort during the war. There was, however, as Hicks Beach told the Cabinet, a budgetary crisis, due to the failure of the tax system to exploit Britain's vast financial resources; not only to meet the short-term cost of war, but also the long-run rise in normal peace time public expenditure on social reform and defence. The war exacerbated long term problems that had been accumulating in peace time. The Empire had expanded and its defence costs had increased in proportion. Ordinary public expenditure

had increased also because of extensions of the franchise and the growing political and social awareness of the working classes, which compelled the Government to pay attention to their wishes, thereby bringing orthodox Treasury principles into question.

It is difficult to define Treasury control precisely, except in practice. Salisbury's criticism of Treasury control was an expression of the Government's frustration at the fiscal othodoxy which denied them the freedom of action they often wished, especially in time of crisis such as in 1899. By blaming the system, at the centre of which stood Treasury control, Salisbury excused the Government's military shortcomings in Parliament. Since both Treasury and Government functioned within the prevalent financial orthodoxy, the constraints were as much political as financial. Treasury control was, in effect, parliamentary control. As an instrument of Parliament's financial control over the executive, Treasury control was perhaps the most important element in the internal checks and balances within the British system of government.

But the Gladstonian Treasury in the person of Hicks Beach was not able or willing to cope with the increase in public expenditure. The chancellor, believing the Empire was expanding beyond Britain's means to defend it, made positive demands for retrenchment all over the world and a revision of imperial defence policy. But younger men, such as Brodrick, Balfour and Selborne, disputed Hicks Beach's views. They thought it was necessary to increase the defences of the Empire in view of the challenges from rival Powers. The dispute reflected a broader conflict between those who adhered to the principles of the nineteenth century Liberal State - minimum taxation or involvement of the state in public affairs, a small army and reliance on the navy for defence of the Empire, and those who blamed the Liberal State for the military defeats and wished to rectify them by various means, including the creation of an efficient and more centralized state with a large army. While Hicks Beach wished to preserve the Liberal State, and Salisbury feared it was not possible, Brodrick and others tried to utilize the opportunity the war

afforded to modernise the state and enlarge the army.

The dispute centred on public finance. There was a growing breach within the Cabinet between those who held modern views on public finance, and those who adhered to the Gladstonian orthodoxy. While Hicks Beach wished to keep down public expenditure, other ministers feared the disruptive effect of his fiscal orthodoxy, certain that the Teasury under him would deny them the necessary funds after the war. The growing rupture between Hicks Beach and ministers endangered the Government's cohesion and the future of the Unionist Party. Hicks Beach's final resignation from the Cabinet was largely due to this rift on financial matters. Ministers' objection to Hicks Beach's fiscal orthodoxy amounted, in effect, to questioning the viability of the existing fiscal system, and a direct challenge to the Treasury's conventional role in the British system of government. The Treasury tried through the annual peacetime budgets to run a war for which it was totally unprepared and return quickly to ordinary peace time finance, while these men saw an enlarged army and a reserve fund for military contingencies as essential for imperial defence. Hence, changes were possible only if they reformed Treasury control of the purse on the basis of peacetime annual budgets.

The solution to the growing budgetary crisis seemed to be in reforming the existing fiscal system. But Hicks Beach objected to a major reform of direct taxation for increasing its yield. He wished to contain direct taxation and looked instead for permanent new forms of indirect taxation. There was ample margin for expansion of both direct and indirect taxation, but a lack of consensus among the Unionists did not make it feasible and led to budgetary crisis. The war emphasized the orthodox view of the income tax as a reserve for emergencies and the sinking fund as a second financial reserve. The war had raised the national debt by £160 million, a high price for a colonial war in orthodox financial eyes. From their point of view, the maintenance of Britain's credit was as necessary for its security and power in the world as the maintenance of armed forces. The war also raised questions concerning

the taxable capacity of both individuals and the country, and whether taxation was only for revenue purposes, or should serve as an instrument of long-term social policy.

In these circumstances, Hamilton believed the Gladstonian orthodoxy was breaking down, and that the change in public attitude to expenditure was reflected in both Parliament and Government. The orthodox Gladstonians claimed that Britain's institutions were going through major changes; that as Governments with the tightening of party discipline could rely on their parliamentary majorities for any sums they thought necessary, Parliament's power to demand economy in Government expenditure had diminished. Consequently, the powers of the Treasury, Parliament's financial executive, were being reduced in proportion. Treasury control, which had ensured Britain's financial solvency and political independence, and safaguarded against military and imperial adventures and the loss of civil liberties at home, was dwindling at its source with the drift of parliamentary opinion in favour of extravagance.

The Government, however, despite their large majority, feared Parliament. The reason may partly be found in the fact that men such as Salisbury and Hicks Beach either did not perceive the political and social changes that were taking place in Britain, or were unable to bring about the adjustments required in its political institutions. Salisbury, a sick man, had neither the strength nor the inclination to change Britain's institutions. He only wished to bring the war to a satisfactory conclusion and thus postponed the difficult decisions to after the war, when he would be gone. Hicks Beach was so immersed in the old Gladstonian orthodoxy that he was unable to acknowledge the changes in the relative strength of the governing institutions, or to perceive the required changes in financial priorities.

The Treasury calculated the cost of the war in terms of its effect on the annual budget and on parliamentary opinion, not on long-term cost

benefits. It had no systematic estimate of either the cost of the war or the amount that could be expected as indemnity from the Transvaal. It saw the war expenditure as an extra-ordinary phenomenon, a question of a temporary adjustment to ordinary, pre war 'normal' levels of revenue and expenditure. The Treasury's view was restricted largely to the current year's budget and next year's estimates, and how to present them so as to secure approval in Parliament. As there was no long-term approach to the cost of the war, there was no long-term provision for war. The approach was short-term, ad hoc financial expedients, whether the resort was to the Bank of England, or the stock market, or the Transvaal indemnity.

Furthermore, the Treasury took little account of the question of the profitability of fighting a colonial war, in terms of the profits and losses to British trade, or the security of its investments in the mines and railways of South Africa. It is hard to find any explicit reference to these considerations which, to a modern economic planner might seem to be the essence of a cost-benefit balance sheet, although, no doubt, some vague notions of profit and loss on this account were implicit in the thinking of the Treasury and the Cabinet. The economic cost-benefit considerations were subsumed in terms of imperial strategy and the balance of power between Boer and Briton in South Africa. This, however, was the business of the Colonial Office. Implicit in this idea of imperial supremacy in the sub- continent was the unspecified sum of all British economic interests in South Africa and the East. But how these interests actually were affected by the war and its expense, and whether the war was economically beneficial, was never explicitly elucidated.

The Treasury did not apply cost-benefit analysis in 1899, apart for who would pay for the war, because it was thought unnecessary. It was accustomed to an annually increasing revenue from constant levels of taxation which in the past had left a margin for overseas contingencies. In the past, colonial campaigns had cost comparatively little, and some of the charge was usually transferred to colonial or to the Indian revenue.

On the same principle of transferring imperial costs to the colonists who benefited from them, the Treasury assumed a considerable contribution from the Transvaal by way of indemnity, but without taking account of the economic or political implications of charging the Transvalers for their own conquest, when it came to the test of re-establishing imperial loyalty in South Africa. Intent on its accounts, the Treasury was remarkably slow to grasp that the war had destroyed the Rand's capacity to bear the indemnity for the time being and that, before the Transvaal could recover sufficiently to pay for the war, Britain would have to invest heavily in reconstructing its administration and economy. Upon this belated discovery, the Treasury considered raising another loan to enable the Transvaal to pay the indemnity. But to lend a British colony money to be paid back to the Treasury proved the rebuttal of the Treasury's approach. It was forced to relinquish any claim to an indemnity which could only be exacted at the cost of the colony becoming a financial liability on the imperial Exchequer.

At first, the Treasury expected the war to be won quickly at an estimated cost of £10 million, while assuring Parliament that much of the cost would be recouped by way of indemnity from the defeated Transvaal. After three months of war the estimate was revised to £50 million, two months later to £68 million, almost as much as the cost of the Crimean War. A small colonial expedition had turned into a war on a European scale. By April 1901, the estimated cost had risen to £153 million. Eventually, the charge to the British Exchequer was £217 million, twenty two times the original estimate, and not a penny-worth of indemnity was exacted from the Transvaal. Treasury intervention and influence on the approach to outbreak of the war, its conduct and its aftermath, proved to be based on unrealistic short-term financial estimates that discounted the over-riding requirement of imperial strategy in South African politics. 'Treasury control' in this case was by and large as ineffective, as its estimates of the cost of the war and who would pay for it, were unrealistic.

Acknowledgements

I would like to thank the many who helped in the preparation of this thesis. I would like especially to mention Mr. Robin Harcourt Williams of Hatfield House, Mr. D. J. H. Smith, Gloucester County Archivists, Dr. Kate Fielden, curator of Bowood, and the keeper and staff of the Public Record Office, without whose help it would have been impossible to complete research on the Treasury archives. My greatest debt is to my supervisor, Professor R. E. Robinson, for his thoughtful criticism, his advice and insights into the Victorian political culture, and his warm encouragement during three most stimulating years.

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Abbreviations

(a) Private Papers

(Volume numbers in all cases refer to the British Library Additional Manuscripts)

ACP	Chamberlain, Austen
AFP	Arnold-Forster, H. O.
BP	Balfour, A. J.
DP	Devonshire, 8th Duke of
HBP	Hicks Beach, Sir Michael
EHD	Hamilton, Sir E. W. - Diary
EHFP	- Financial Papers
EHPP	- Private Papers
ESP	Selborne, 2nd Earl of
JCP	Chamberlain, Joseph
JSP	Sandars, J. S.
LP	Lansdowne, 5th Marquess of
MP	Milner, Viscount
SJBP	St John Brodrick, W.
SP	Salisbury, 3rd Marquess of

(b) Official Papers

BEA	Bank of England Archives
CAB37	Cabinet Papers - Cabinet Memoranda
CAB41	Prime Minister letters to the Monarch
COCP	Colonial Office Confidential Print
COPP	Colonial Office Parliamentary Papers
FO2	Foreign Office - Africa General Correspondence
FO64	Foreign Office - Germany
FO633	Foreign Office - Cromer Papers
FO800	Foreign Office - Private Colls.: Ministers & Off.
Hansard	Parliamentary Debates, 4th Ser.
RCWSA	Royal Commission on War in South Africa
T.1	Treasury - Correspondence
T.172	Treasury - Chancellor of the Exchequer Papers
WO32	War Office - Registered Files: General Series
WO33	War Office - Reports & Miscellaneous Papers

Introduction

I feel I am laying my hand on the sacred feature of the Constitution when I say there is the Treasury... the exercise of its power in governing every department of the Government is not for the public benefit. The Treasury has obtained a position in regard to the rest of the departments of Government that the House of Commons obtained in the time of the Stuart dynasty. It has the power of the purse, and by exercising the power of the purse it claims a voice in all decisions of administrative authority and policy. I think that much delay and many doubtful resolutions have been the result of the peculiar position which, through many generations, the Treasury has occupied. Now, in time of war, when great Powers with enormous forces are looking at us with no gentle or kindly eye on every side, it becomes us to think whether we must not to some degree modify our arrangements in order to enable ourselves to meet the dangers that any moment may arise."[1]

Though studies of imperial policy toward the South African War assume that a major aim was to minimize imperial expenditure, and that financial considerations were influential in policy calculations, the detailed study of the Treasury's influence on that policy has been entirely neglected. This is a case study of the working of 'Treasury control' over expenditure on imperial expansion. It gives an account of the Treasury's views and the Chancellor of the Exchequer's influence on Salisbury's Cabinet, in an exceptional instance, as it wrestled with the problems of preparing for, and conducting the war. The Treasury view of the cost of the war and who was to pay for it reflects on such questions as the nature and effectiveness of Treasury control in financing the expansion of the Empire. What kind of cost-benefit analysis, if any, did the Treasury apply to expenditure on a colonial war? On what principles was the cost to be

1. Salisbury in the Lords, during debate on the Queen's Address, 30 January 1900, Hansard, vol. lxxviii, cols. 30-32.

charged to the British or the South African taxpayer? How did financial constraints - of which Salisbury complained - affect the conduct of the war and the making of the peace? The thesis is an attempt to define the vague concept of 'Treasury control', not in constitutional theory, but as it worked in practice in a particular instance.

At the turn of the nineteenth century, the Treasury under Hicks Beach and Hamilton was still the stronghld of the Gladstonian canons of public expenditure - a balanced budget, the lowering of taxes to an absolute minimum in peacetime, and the principle that self-governing colonies should normally be self-financing. Increases of taxes and the national debt through loans were regarded as desperate expedients to be resorted to only in national emergencies. Wars were to be paid out of extra taxation rather than out of borrowing, except in the case of a major European war. Ordinary annual revenue and expenditure had to be balanced as authorised by Parliament; therefore any unforseen expenditure became 'extra-ordinary' and required the Government to go to Parliament for a supplementary grant; financial provision for the army was granted for one year at a time because of Parliament's traditional fear of a large standing army.

In Britain's relatively unstructured system of government, where power was in the hands of a small ruling elite who was aware of the constraints and played by the rule, these principles were generally accepted as an ideal. Party leaders were aware from past experience of voters' prejudices against increased taxation for imperial purposes, that defiance of the rules carried high political risks in Parliament and at the next election. Such expenditure was so unpopular, that twice in the last fifty years Governments either had to change their South African policy or were replaced because of its costs. It was the Treasury's role, as guardian of the public purse, to remind the Cabinet of these political and financial constraints, especially when expenditure was increasing 'by leaps and bounds'.

The Treasury's power to remind the Cabinet of the political and financial constraints was considerable. Since all public expenditure required its sanction, according to the annual budget authorized by Parliament, the Treasury had financial power over disbursement to all other departments, which in turn had to account to it, showing that the money had been spent under the heads authorised. The Treasury was the only government department whose operations were defined precisely by Parliament, which gave it an over-riding authority. And if the Government wished to over-ride the budget for extra-ordinary expenditure, the chancellor had to be persuaded to go to Parliament for a supplementary grant of 'ways and means'. Thus, the Treasury was at once the financial executor of the budget laid down by Parliament, and the financial executor of Government policy. The chancellor's powers arose from the fact that he was personally responsible for reconciling his two roles.

The Treasury in this period was in the hands of two men who saw it as their duty to insist upon the Gladstonian canons of public finance. Sir Michael Hicks Beach, Chancellor of the Exchequer from 1895 to 1902, was a somewhat narrow-minded and conscientious man with a high capacity for work and a keen attention to detail.[2] Known as "Black Michael", he was respected and feared by colleagues and officials alike.[3] His manner was blunt and his language sharp both by word and pen. In fiscal matters he was a traditionalist who believed in free trade, retrenchment and minimum Government involvement in the economic and social structure of the country as well as in the Empire. He was concerned about the capacity of the taxation system to cope with the growth in ordinary expenditure and viewed Britian's imperial ventures with reservations.

His chief official adviser, Sir Edward Hamilton, the assistant permanent secretary, had served for five years (1880-85) as one of

2. Lady Victoria Hicks Beach, Life of Sir Michael Hicks Beach, 2 vols. (1932), i, 241.
3. 8 April 1899, EHD, 48674.

Gladstone's private secretaries, specialized in finance, and became a disciple of his financial and free trade doctrine. In 1885 he rejoined the Treasury and later became Hicks Beach's financial adviser. He was, like most Treasury officials,[4] conservative in his attitude to reform in the structure of government and society, and was not easily persuaded of the necessity for innovations. Hamilton was loyal to precedents and traditions of his office, as they had developed through decades of practice and experience. An orthodox Gladstonian, he saw himself as guardian of the public purse, whose primary responsibility was to the taxpayers.

Hicks Beach rarely consulted subordinates on policy questions, apart from Hamilton, although he relied on the Treasury's permanent staff for information on questions of procedure and precedent. Hamilton corresponded with the officials of the other departments, many of whom he knew personally, and discussed their estimates for the following financial year. In the winter months he prepared the budget, which he then presented to the Chancellor of the Exchequer, often with the main arguments of his budget speech. Hicks Beach relied heavily on Hamilton for his budgets. The two had good working relations, and by and large held similar views on fiscal issues and the Treasury's role. Hamilton's warning in 1895 against expenditure increasing by 'leaps and bounds' set the tone of Treasury attitudes under Hicks Beach.[5]

Hicks Beach set out to curb the over-spending of his colleagues to such an extent that they saw him as an ex officio member of the Opposition in the Cabinet. Budgetary stability was still the primary concern of the Treasury. He was sceptical of almost any policy that entailed extra expenditure, and since nearly any proposal or policy had some financial aspect to it, his colleagues had to take his views into account. Towards the end of the nineteenth century, the British imperial system was confronted with strong economic and military challenges from the new industrial states of Europe and America, and as a result

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4. H. Roseveare, The Treasury: The Evolution of a British Institution (New York,1969), 271.

5. E. W. Hamilton, "Some Remarks on Public Finance", 24 July 1895, CAB 37/39/38.

most of the growth in public expenditure of the 1890s was due to the sharp increase in the cost of imperial defence. In the late 1890s, as pressure on Britain's resources mounted, "the importance of financial considerations was fast changing from that of background influence to that of inescapable determinant".[6] Hicks Beach, as an orthodox Chancellor of the Exchequer, believed in retrenchment, and viewed Britain's imperial ventures with reservations.

In 1848, when the Orange River Territory was annexed to the Crown, the strength of humanitarianism was ebbing, and free trade ideas were gaining force. Hence, with the outbreak of another Kaffir war in late 1850, Britain withdrew all its troops from the frontier, retaining only the Cape Peninsula, and leaving the colonists to defend themselves. When warnings that the colonists would have to bear the cost of another war were in vain, the rising cost of native wars and a parsimonious Parliament compelled the Russell Government to limit Britain's responsibility and abandon all problematic and costly areas beyond the frontiers of Natal and the Cape.[7] "At its core, agitation in Parliament and in the press was concerned with expense."[8] The Conventions of 1852 and 1854, and the grant in 1853 of responsible government to the Cape, formalized British retrenchment and withdrawal in Southern Africa. Later, the grant of self-government to colonies of predominantly European settlement was intended to make them pay for their own defence.

From the late 1870s, British Governments regarded the Cape route as invaluable both commercially and strategically, and sought therefore to ensure their control over the naval base at Simon's Bay and supremacy over the Boer republics. But since costs were a great concern, it was thought that the annexation of the Transvaal and its confederation with

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6. A. N. Porter, "Lord Salisbury, Foreign Policy and Domestic Finance, 1860-1900", in Lord Blake and Hugh Cecil (eds.), Salisbury: The Man and his Policies (1987), 176.
7. W. P. Morrell, British Colonial Policy in the mid-Victorian Age (Oxford, 1969), 129-130.
8. J. S. Galbraith, Reluctant Empire: British Policy on the South African Frontier, 1834-1854 (Berkeley, 1963), 249.

its neighbours would ensure imperial security in the region and lessen military and financial burdens. Early expansion was considered as a prerequisite to confederation and retrenchment. But the preliminary stages were both explosive and expensive. The Treasury was reluctant to sanction any large sums for the Transvaal that were not popular with Parliament.[9] When dissent grew in the Transvaal, and Wolseley warned of a large and expensive garrison there, Hicks Beach, the Colonial Secretary, doubted if Britain "would stand the permanent rule in South Africa of an unwilling people of white extraction by the force of bayonets, at a large annual cost, without any ostensible return".[10] The Transvaal rebellion created an emergency which involved unavailable expenditure.

On Hicks Beach's urging, the Treasury agreed to bear the cost of the Zulu War initially, and leave the final settlement for later, as it was difficult to apportion it with the colonies while the hostilities lasted.[11] The Treasury expected to recoup the cost of the war from Natal. It was soon realized, however, that if the colony was pressed, Britain might secure nothing. The Treasury even feared that in order to recoup the cost, Britain might have to extend first its liabilities, and it therefore seemed better to cut the losses and get whatever possible. Eventually, Natal paid £250,000 towards the expenses of the Zulu War that cost the imperial Exchequer £5 million.[12]

Carnarvon failed, because the "Treasury and the exigencies of the British budget have made as much colonial history as the Colonial Office itself".[13] Annexation of the Transvaal was seen as a costly mistake. Gladstone used the Disraeli Government's handling of the South African crisis, especially the costs involved, in his Midlothian election campaign

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9. A. M. Burton, The influence of the Treasury on the making of British Colonial policy,1868- 1880, unpublished D. Phil. Thesis, Oxford,1960,172.
10. Lady Hicks Beach, Hicks Beach, i, 168.
11. Burton, Treasury Influence, 175-9.
12. Burton, Treasury Influence, 196.
13. C. W. de Kiewiet, The Imperial Factor in South Africa (Cambridge, 1937), 9-10.

of 1879. Gladstone was determined not to extend imperial liabilities in South Africa. Financial considerations became paramount. Parliament's reluctance to sanction expenditure without seeing the immediate returns led to the desire to be relieved from the expensive occupation of the Transvaal. The memory of the experience with these particular colonies was in the minds of Hicks Beach and the Cabinet during the South African conflict of 1899-1902.

The sources used are chiefly the Treasury files, the 54-volume diary and over 100 volumes of the financial papers of Sir Edward Hamilton, the assistant permanent secretary to the Treasury, and the private papers of Hicks Beach and his Cabinet colleagues, especially those of Salisbury, Chamberlain, Lansdowne, Balfour, Brodrick, and others. The records of the Colonial and War Offices, as well as the parliamentary records, have also been consulted.

Chapter One

The Growth of the South African Crisis
From Retrenchment to Reinforcements
March-September 1899

This chapter is concerned with the Treasury's role in formulating Cabinet South African policy, from a policy of retrenchment in May to reinforcements in September 1899. Special attention will be given to such questions as why the Cabinet was reluctant to intervene in South Africa, and the extent to which it was due to expectations of low dividends of wealth and power. How far did financial considerations influence Cabinet policy, in particular the timing of reinforcements? How was Treasury "control" exercised, and how effective was it on Cabinet South African policy in this period? Lastly, what were the financial principles that prevailed at the time, and did they apply to both the Treasury and the Cabinet?

I

The despatch of a petition to the Queen in late March 1899, by 20,000 British subjects (Uitlanders) at Johannesburg, initiated a crisis between the South African Republic, and the British Government, and confronted the latter with a difficult dilemma: to ignore the petition and risk loss of influence and prestige, or threaten the Transvaal and risk escalation that might lead to war. The impasse was to preoccupy the Cabinet for the next six months, with growing intensity. Ministers were torn between two possible responses, vacillating from the one to the other, unable to find an answer to the seemingly insoluble problem. The stakes seemed to get higher at each turn of the crisis, increasing the cost of tension and, consequently, of any possible deterrent action by Britain.

Milner's 'Helot telegram' of May 4 added further pressure upon an already confused and worried Cabinet, who nevertheless would not be pushed. They preferred diplomacy and mediation to action that could have dangerous repercussions, and therefore instructed Milner to enter into negotiations with Kruger at Bloemfontein.[1] The Conference was not a success; and afterwards Milner advised a diplomatic offensive backed by a strong show of force.[2] Wolseley concurred, estimating that a war with the Boers would require only 50,000 men, and last three to four months. He advised a show of force at Salisbury Plain, secret preparations, and early operations.[3] But Lansdowne turned down his advice, and the Cabinet rejected any initiative, political or military.[4] War was not considered practical politics, though the Cabinet agreed to quiet preparations on a very small scale.[5] Hamilton believed public opinion was not ready for more extreme measures.[6]

Although a show of force was not imminent, and actual war only a remote possibility, the Chancellor of the Exchequer started probing the possible Treasury implications of any military action. At that time he was concerned not so much with the actual cost of a demonstration, although he expected it to be "a good deal of money", even less with the cost of a possible war, but rather with questions of procedure and precedent.[7] Such questions were very important to the Treasury. With its budget of ordinary expenditure rigidly defined by Parliament under specific heads, it was difficult to provide for any extra expenditure in the middle of a financial year. It was necessary to ask Parliament to vote any extraordinary expenditure for the defence of British colonies. Hamilton,

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1. Salisbury to Queen, 9 May 1899, CAB 41/25/10.
2. C. Headlam (ed.), The Milner Papers, South Africa 1897-1905, 2 vols. (1931-3), i, 427-430.
3. Wolseley to Lansdowne, Memorandum, 8 June 1899, CAB 37/50/38.
4. Wolseley Minute, 16 & 17 June 1899, WO 32/7846/8676; Salisbury to Queen, 13 June 1899, CAB 41/25/12.
5. Salisbury to Queen, 20 June 1899, CAB 41/25/13.
6. 7 June 1899, EHD, 48674.
7. 14 June 1899, EHD, 48675.

familiar with Treasury practice, assured Hicks Beach that in the event of war, it would be possible to ask Parliament for a vote of credit or for supplementary estimates. The Public Accounts Committee, which had considered the matter in 1880, preferred the former course, and allowed resort to the latter only when the nature of the service made it difficult to give fair estimates of the sum required.[8]

There was no distinctive Treasury contribution to Cabinet policy at this stage of the crisis. Wary of escalation, the Cabinet did its best not to aggravate the situation by new initiatives, least of all military. Besides, since Lansdowne was containing the military, Hicks Beach had no cause to intervene on the financial side, though both he and Hamilton feared war. Hicks Beach felt that the crisis would turn out to be "an exact reproduction of the state of affairs with Bartle Frere in 1879"; but did not believe he could prevent it even if he were to resign.[9] The chancellor was worried that the affair seemed to have a momentum all of its own, similar to that of the occupation of the Transvaal and the Zulu War in 1879-1880, when he was himself Colonial Secretary, and when despite all his efforts to avoid open hostilities, the man on the spot provoked them in spite of the imperial Government's objection. Consequently, Hicks Beach tended to sympathise with Chamberlain in the later crisis.

Edward Hamilton, the chief financial adviser at the Treasury, was not as fatalistic as Hicks Beach, although no less anxious. He believed that a solution would be found eventually, because it was inconceivable that Kruger would not realize that it was absurd to take on the British Empire. He begged George Buckle, editor of The Times, a friend of Milner and advocate of a tough stand against the Boers, not to take "too strong a line on the matter".[10] At the same time, he also understood and therefore feared the forces that seemed to direct the crisis, and over which there was little control. They were drifting into a position in which neither side could make "any concession except at loss of dignity &

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8. Hamilton to Hicks Beach & Notes by S. B., 19 June 1899, EHFP, T.168/46.
9. A. G. Gardiner, The Life of Sir William Harcourt, 2 vols. (1923), ii, 497-8.
10. 7 June 1899, EHD, 48674.

prestige". He was also the more realistic regarding the kind of war to expect, should the attempts at preventing it fail. "We should have to conduct war on a scale far beyond the requirements of the situation, because we should have to make absolute certainty of success."[11] The latter stages of the war would prove his early insight.

II

War Office preparations started in early July, upon Lansdowne's request to look into the possibility of despatching 10,000 men to South Africa.[12] Sir John Ardagh, Director of Military Intelligence, estimated the fighting strength of the Boer states at 54,000, and believed that after a serious defeat they "would be too deficient in discipline and organization to make any further real stand".[13] Wolseley was more cautious, and urged the immediate despatch of 10,000 men, three months supply of stores, ammunition and horses for 50,000 men, besides a show of force at Salisbury Plain, at an estimated cost of £500,000.[14] The Admiralty estimated the cost of hiring ships for four and half months, and transporting 10,000 men and their animals to South Africa and back at £675,000.[15] The civilians in the War Office were not aware of what the military were planning. While Frank Marzials, the Accountant General, assumed "the force would remain in S. Africa for about 2 months", at a charge of not less than £1,500,000, Sir H. Evelyn Wood, Adjutant-General, thought it unlikely that "these 12,000 men would be able to leave South Africa in 41/2 months".[16] Regardless of the confusion in the War Office, Lansdowne considered the estimate unnecessary, and brushed aside the warnings from the military, because there was an "agreement that if there is to be a serious demonstration it should take a different shape. This proposal [the reinforcement] need not be further pursued."[17]

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11. 20 June 1899, EHD, 48675.
12. Lansdowne to Wolseley, 4 July 1899, WO 32/7847/8698.
13. 'Military Notes on the Dutch Republics', secret, 1899, unpublished, quoted in Thomas Packenham, The Boer War (1982), 77.
14. Wolseley on Buller Memorandum of 6 July, 7 July 1899, CAB 37/50/43.
15. 8 July 1899, WO 32/7847/8698.
16. Marzials Report & Evelyn Wood to C-in-C, 11 July 1899, WO 32/7847/8698.

Lansdowne did not elaborate, but in view of the "more pacific tone of the Cabinet", he may have been thinking in terms of a demonstration at Salisbury Plain.[18]

Lansdowne thus terminated the debate which had been confined to the Services. The Treasury was informed about the War Office estimates only after it asked for them five weeks later, such was the departmentalism in the British administration. The independent line pursued by the Services, the fact that the War Office did not inform the Treasury about the estimated cost of a possible expeditionary force to South Africa was not so unusual as it may seem. The policy of 'decision by crisis', which arose from the inflexibility of a system of Parliament and Treasury control of the purse, whereby difficult financial decisions were postponed by the Cabinet, meant that the issue of reinforcements was not confronted until the very last moment. For the time being, the War Office estimates were shelved, and not even brought to Treasury attention.

The Cabinet held out against reinforcements throughout July, hoping that the Boers would eventually yield to diplomatic pressure. When the Transvaal granted a seven year retrospective franchise to the Uitlanders, it seemed that the Boers had capitulated, and the policy of diplomatic pressure had succeeded.[19] With this illusory victory, a despatch demanded from Kruger a joint enquiry to verify the new franchise, after a debate in Parliament. Chamberlain pointed out the limits of moral pressure, implying the possibility of more forceful means.[20] But the Cabinet refrained from any radical decision; not wanting to prejudice the negotiations, they rejected Wolseley's proposals, although a majority decided to continue applying pressure. The despatch to Kruger and the tough speeches in Parliament were thus followed by a Cabinet decision to strengthen the defence of Natal by 2,000 men, as

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17. Lansdowne Minute, 12 July 1899, WO 32/7847/8698.
18. Salisbury to the Queen, 11 July 1899, CAB 41/25/16.
19. Salisbury to Chamberlain, 19 July 1899, JCP, JC 11/30/161.
20. 28 July-4 August 1899, Hansard, vol. lxxv, cols. 699-711.

recommended by Lansdowne.[21]

This compromise was in large measure in deference to Hicks Beach, who did not want to incur the extraordinary expenditure on reinforcement unnecessarily.[22] Salisbury wished the "reinforcements of 2000 had been 5000".[23] It was the first distinctive stand by the Treasury against the rising cost of the crisis. The chancellor, although unable to prevent the despatch of men altogether, yet by his traditional criticism of expenditure, beyond the budget limits, managed to limit the size of the force to be despatched. However, to the extent that the compromise was due to Treasury control, it was due less to direct pressure, and more to the financial limitations on expenditure, equally known to all ministers. The direct pressure came from Lansdowne, not the Treasury. It was he who restrained the military and convinced his colleagues that 2,000 men would be sufficient for the task. That is not to say that Treasury control was ineffective. Its preventative powers, whereby ministers were aware of the limitations on expenditure, were often as powerful, if not more, than its objection in any specific case. Nor was there a uniform Treasury view on the issue. While Hicks Beach refused to sanction any substantial sum, Hamilton accepted the need for some kind of military demonstration to match the despatch to Kruger and the strong words in Parliament.[24]

On 12 August, Lansdowne presented to the Cabinet a memorandum on the size, mobilization time, and cost of a force that might be needed for a war in South Africa. According to the estimates, to mobilize and despatch 50,000 men to Natal without prior preparations would take four months, and with advance preparations, at a cost of just over a £1 million, three months. However, if no money was spent, the delay would not "involve any risk of military reverse". On the other hand, should the expense be incurred, and the force sent, "the money will merely have

21. Lansdowne Minute, 2 August 1899, RCWSA, [Cd.1789.], 266-7.
22. Salisbury to the Queen, 1 August 1899, CAB 41/25/17.
23. Salisbury to Lansdowne, 13 August 1899, LP, L(5)49.
24. 30 July 1899, EHD, 48675.

been spent in advance instead of after mobilization", and if war was avoided, part of the expenditure would be recovered, though the loss would be heavy.[25] Why did Lansdowne merely present the alternatives, and not recommend one, as might be expected from the Secretary of State for War? The complex relations between the Treasury and the War Office, and between Hicks Beach and Lansdowne, may throw some light on these questions.

The Marquess of Lansdowne was generally considered a weak Secretary of State for War. Many ministers and officials, quite apart from their traditional contempt for the War Office, had little respect for him personally.[26] His relations with Hicks Beach had been strained for some time, and were related to some extent to the vast difference in their personalities. Born into one of the great aristocratic families of Britain, Lansdowne had at the age of 21 inherited his marquisate. In 1880, when under-secretary for India, he left Gladstone's ministry. He was Governor-General of Canada (1883 to 1888), and Viceroy of India (1888 to 1894), before becoming Secretary of State for War in 1895. His gentle personality did not make him a natural leader. A lack of confidence inhibited him from taking initiatives, though he could act with force and determination when backed by his colleagues. These characteristics were noticed by his house master at Eton.[27]

Sir Michael Hicks Beach, 9th Baronet (bestowed upon his family by James I), was on the other hand, confident, authoritative; and had no high regard for Lansdowne. The attitude of the Cabinet, and Hicks Beach in particular, to Lansdowne are best described by the latter himself.

> The Ch. of Ex. did not and never has concealed his distrust of the W.O. scheme. He intimated plainly that he would not defend my proposals. He has on two occasions attacked me on the platform, and is capable, judging from his recent language in the Cabinet, of doing so again. Mr. Chamberlain is also hostile and expressed his utter disbelief in the policy,

25. Lansdowne Memorandum, 12 August 1899, CAB 37/50/49.
26. 2 March 1899, EHD, 48674.
27. Lord Newton, Lord Lansdowne, (1929), 5.

> which he described as an attempt to prop up a rickety and useless system. Lord James, Long, Akers-Douglas, Ritchie and others expressed similar views.[28]

And yet, "I admire Beach in spite of his atrocious treatment of me".[29] The above goes some way towards explaining Lansdowne's inhibitions, especially with regard to Hicks Beach. Hamilton believed that "all his colleagues funk Beach",[30] but Lansdowne feared him most. Sir George White, Quartermaster General, was certain that "it was the Chancellor of the Exchequer who put so heavy a check upon the Secretary of State for War, that it became practically almost impossible for him to get what he wanted".[31]

In analysing Lansdowne's relations with the Treasury, with Hicks Beach in particular, one more factor requires attention. Both were part of the old aristocracy, conservative, and firmly in the landed interest. In view of Lansdowne's Gladstonian past, their views regarding public expenditure were rather similar. When allowances are made for one as head of a big spending department, and the other as the Chancellor of the Exchequer, Lansdowne's parsimonious attitude to military demands, and his seemingly ready acceptance of the limitations on expenditure, are better understood. Nor is it possible totally to separate Lansdowne the man from the War Office, which was not popular, but with which he was nevertheless identified. Government and public sympathies were with the navy, not the army. The Admiralty and the India Office had tradionally represented imperial interests. At the end of the nineteenth century, the War Office and the Colonial Office became more directly involved with imperial questions, but the political establishment was slow in recognizing this fact. The traditional contempt for the War Office was therefore still strong, and thus was reflected, to some degree, on the Secretary of State. This partly explains Hicks Beach's attitude to Lansdowne. In a study such as this, where much revolves around the

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28. Lansdowne to Salisbury, 2 February 1898, LP, L(5)49.
29. Lansdowne to Balfour, 5 October 1899, BP, 49727.
30. 8 April 1899, EHD, 48674.
31. RCWSA, [Cd.1791.], 143.

interplay of personalities, this factor can easily be underrated. It is necessary, however, not to exaggerate its importance. The source of the conflict was Treasury control of the War Office.[32]

The relations between the Treasury and the War Office were complex. The lack of communication between politicians and the military, and between civilians and military within the War Office itself, was reflected also in the relations between the Treasury and the War Office. Before submitting its estimates to the Cabinet, the War Office discussed them with the Treasury, mostly by personal interview - the important matters between the Chancellor of the Exchequer and the Secretary of State, smaller ones between the permanent officials - and tried to reach an agreement in principle. If they failed, it would be referred to the Cabinet, the final arbiter. The Treasury did not normally reduce estimates en bloc, but discussed the items on their merits. Only the civilians at the War Office discussed financial matters with the Treasury; the military were not brought in. In anticipation of cuts by either the Treasury or the civilians in the War Office, the military often put demands in excess of what was ultimately granted.[33]

The internal situation within the War Office in 1899 weakened Lansdowne's standing in the Cabinet even further, especially vis-a-vis the Treasury. The War Office was plagued by many conflicts: between Wolseley's 'Africans' and Roberts' 'Indians', between military and civilians, especially between Wolseley, the Commander in Chief, and Lansdowne.[34] In such circumstances, with Lansdowne's fears over the political effects of military actions, it is easier to understand why he often contained the military, moderated their demands, recommended caution, and more often, inaction, and why he seemed to accommodate Hicks Beach rather than the military. Hence, from a financial point of

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32. See Introduction.

33. Evidence of F. T. Marzials, Sir R. H. Knox, General Sir C. M. Clarke, General Sir Evelyn Wood, Marquis of Lansdowne, & St. John Brodrick, RCWSA [Cd.1900.], 64-5, 117, 332-8; [Cd.1791.], 535-6, 551-2.

34. W. S. Hamer, The British Army: Civil-Military Relations,1885-1905 (Oxford, 1970), 162; see also Introduction.

view, Cabinet policy regarding war preparations and reinforcements for South Africa was influenced directly as much by an inhibited Secretary of State for War as by a parsimonious Chancellor of the Exchequer.

III

Lansdowne's revelations and Wolseley's warnings shocked the Cabinet and ended the prevailing complacency. Ministers found the length of time required for the mobilization and disembarkation of the force very difficult to accept, and criticised the military ineptitude. "They are hopeless & it will be a mercy if they do not land us in a catastrophe", wrote Chamberlain.[35] The Cabinet now realized that if Britain went to war with the Boers, and disaster was to be avoided, they had to incur the necessary expenditure for the preparations, but two other factors had to be also considered, a financial and a political. Since they were all aware of the financial limitations on expenditure, not all ministers were therefore willing to spend the money requested, especially if it was unnecessary. The other factor that inhibited any decision on war preparations was the constant fear that any military action might provoke the Boers, and thus precipitate a war.

The arguments of Hicks Beach on this issue were not materially different from that of the rest of the Cabinet, and his opposition to expenditure for war preparations was not on financial grounds alone. As an orthodox Chancellor of the Exchequer, he objected, naturally (but not unlike Salisbury), to any expenditure which was out of the ordinary, and which might turn out to be unnecessary. He thus performed zealously his perennial role as a brake on the demands of the military. But the question of cost was not the sole factor, perhaps not even the dominant one, to his objection to sanctioning the money. His pessimistic view of the crisis, and his fear that any warlike move might escalate the crisis and lead to war, were important factors in his cautious approach to expenditure related to the crisis.[36] The political implications of such expenditure seemed to

35. Chamberlain to Selborne, 14 August 1899, ESP, 9/63.

concern him as much as the expenditure itself.

Hicks Beach was not alone in his resistance to expenditure on war preparations. It is therefore not surprising that the question of war preparations is not mentioned a single time in any correspondence of Hicks Beach during August, though together with reinforcements, it was the most critical problem that faced the Cabinet, as attested by the numerous times it was raised in other ministers' correspondence, especially those of Chamberlain and Lansdowne. This seeming lack of interest in costs was largely due to the fact that Cabinet policy on reinforcements and war preparations was not determined primarily by the cost factor, and thus did not require Hicks Beach' special attention. Since the political factor was more crucial than the financial, Treasury involvement was minimal at this stage. Since the Treasury was not in any serious dispute with either the War Office or the Cabinet on these issues, the chancellor's direct involvement was not required.

What has been said above does not mean that the question of cost was irrelevant. On the contrary, ministers were fully conscious of this factor and related to it. Some pressed for the expenditure, but the ministers most involved refrained from demanding it. On the whole, the call for expenditure was rather muted, and as such, it came from an unexpected quarter. Balfour and Goschen were the only ministers who urged Hicks Beach to agree to the expenditure that was required for war preparations, by impressing upon him the urgency of the situation, and the importance of presenting a united Cabinet - hardly a financial argument.[37] But neither Chamberlain, who had all along urged a policy of continuous pressure, nor Salisbury, who was critical of the army's state of preparedness, asked for the expenditure. The first "did not wish to press for the expenditure of a million which we cannot recover if we do not go to war", and the latter objected to war preparations on financial as well as on political grounds. Any reduction in mobilization time was not worth "the expenditure of a million, which may possibly not be wanted at

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36. Lady Hicks Beach, Hicks Beach, ii, 106.

37. Goschen to Salisbury, 18 August 1899, SP.

all", and "the wiser plan is not to incur any serious expenditure, until it is quite clear that we are going to war".[38] And the slight delay in operations would not "increase materially the scandal which will certainly be created by the condition of our military preparations". Salisbury preferred the delay both because of the cost and the political criticism that the state of the army would raise, as "the evil of the delay will be more political than strategical".[39]

At this juncture in the crisis, the key to Cabinet indecision was not the Chancellor of the Exchequer but the Secretary of State for War. Lansdowne presented problems to the Cabinet, but no solutions. After the war, he tried to justify this attitude by claiming that he had not wished to dissociate himself from the Cabinet.[40] In reality, however, Lansdowne's attitude must have strongly influenced Cabinet decision, even if that was not intended, because it would have been inconceivable for the Cabinet, the Prime Minister in particular, not to have listened to the advice of the Secretary of State for War. Consequently, of the six prominent Cabinet ministers, only Balfour and Goschen were in favour of expenditure, while Lansdowne, Salisbury and Chamberlain, refrained from demanding it, and Hicks Beach objected. As there was no Cabinet consensus in favour of immediate expenditure on war preparations, no money was sanctioned, and no preparations started. The desire to avoid expenditure that might not be necessary added weight to the political argument against immediate military preparations.

That is why the Treasury was quiescent, and the matter was not pursued by either the War Office or the Treasury before the next phase of the crisis, towards the end of August. The unspoken financial limits on expenditure were sufficiently strong to inhibit four key ministers from demanding any expenditure that might be unnecessary, especially if such expenditure could provoke the Boers and endanger the delicate

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38. Chamberlain to Selborne, 14 August 1899, ESP, 9/63; Salisbury to Chamberlain, 16 August 1899, JCP, JC 5/67/115.

39. Salisbury to Lansdowne, 13 August 1899, LP, L(5)49.

40. Lansdowne evidence, RCWSA, [Cd.1791.], 508.

political situation in South Africa. The ministers feared the political and strategic implications of their decision on the crisis on the Boers, and the reaction of Parliament at home.

A day after Lansdowne's disturbing memorandum was presented, new and more liberal proposals arrived from the Transvaal. It seemed like "another climb-down on the part of Kruger", and "justification for the course" the Cabinet had taken.[41] But before they had time to digest the 'Smuts proposals', Wolseley presented a new memorandum to the Cabinet, in which he recommended the immediate increase of the South African garrison by 10,000 men, at an estimated cost of £500,000. He now warned the Cabinet that by not reinforcing the garrison they were saving neither the situation nor money, because only the despatch of a strong force would convince Kruger that Britain was earnest, thereby prevent war and save a much larger sum.[42] Wolseley was saying that only an overwhelming force could either prevent a war, or failing that, assure that it would be a short war, and consequently the cheapest war. Lansdowne would argue in similar terms in the future, but for the time the Cabinet had to consider also other factors, beside that of cost.

By now, the questions of war preparations and reinforcements got entangled, adding more difficulties to the contradictory messages that Smuts and Wolseley seemed to be conveying to the Cabinet. But the Cabinet's basic problem had not changed, it had merely been magnified. The confused Cabinet still had to choose between courses, all of them problematic. Should they accept the new proposals at their face value, or rather listen to Wolseley, strengthen the garrison in South Africa, and risk escalation that could lead to war, which they dreaded, and for which they were not prepared, either politically or militarily?

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41. Chamberlain to Salisbury, 16 August 1899, SP.

42. Wolseley Memorandum, 17 August 1899, CAB 37/50/52. Inaccurately dated as 18 August in RCWSA, [Cd.1790.], 20.

Cabinet response was not uniform. Chamberlain thought the new Boer proposals justified some delay in preparations that entailed heavy expenditure. But if they turned out to be insincere, then Britain should take drastic measures - send an ultimatum, despatch 10,000 men from India, and prepare the home army.[43] Most ministers favoured deferring the reinforcements, mainly because of the state of the army, and partly because of the new proposals.[44] The main consideration was strategic. Ministers feared, like Salisbury, that the army was not ready for any hostilities that might be precipitated by the reinforcements. However, it was Lansdowne's stand which substantially affected Cabinet decision. He rejected Wolseley's proposals because, he claimed, he feared neither a Dutch rising in the Cape nor a Boer invasion of Natal. But he did regret the memorandum had not been submitted sooner, because he could have then brought it to the attention of his colleagues.[45] Lansdowne would not be hurried by the military, especially on reinforcements. Since it was the summer season, Parliament was in recess, and most ministers were dispersed in their country houses, Lansdowne preferred inaction to sole responsibility, without the full backing of the Cabinet.

From the day Wolseley presented his memorandum, until almost the end of August, Lansdowne spoke against reinforcements, using military, political and financial arguments. The situation, he claimed, did not justify sending large additional forces. But since the question of war preparations and reinforcements was as much a political as a military matter, they required political answers, implying that the responsibility ought to be not only his but the Cabinet's. The Boers had gone a long way since Bloemfontein, and Britain should "help build the bridge". Nothing was to be done before the diplomatic efforts had run their course, therefore no reinforcements should either be sent or announced, until it was absolutely certain that the Boer proposals were in bad faith, and only then should the Indian contingent be sent.[46]

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43. Chamberlain to Salisbury, 18 August 1899, JCP, JC 5/51/63.

44. Lord George Hamilton to Salisbury, 20 August, & Goschen to Salisbury, 23 August 1899, SP.

45. Lansdowne to Chamberlain, 21 August 1899, JCP, JC 5/51/67; Lansdowne to Wolseley, 20 August 1899, CAB 37/50/53, respectively.

Lansdowne was more sensitive to questions of cost than most ministers, except perhaps Chamberlain and, of course, Hicks Beach. Inhibited by his own bitter experience with Hicks Beach, Lansdowne was economical in his department, moderated the demands of the military, and tried to save all expenditure related to South Africa, unless he judged it absolutely necessary.[47] He was cautious regarding reinforcements, since "an ill-timed turn of the screw" might provoke the Boers and precipitate a war which would cost a large sum of money, and require the summoning of Parliament.[48] He was cautious because of the Treasury limits on expenditure, and his fears over the political effects of military action, reflected through the control of Parliament.

Although Treasury influence was not particularly visible during the Cabinet's discussions on reinforcements, its shadow was felt and effective. Cabinet decisions on war preparations and reinforcements were considerably affected by the financial limitations on expenditure, especially in view of the budget difficulties claimed by Hicks Beach. Treasury influence was exercised either by the chancellor on ministers, or through its control of War Office expenditure, and anticipation of that control by the Secretary of State. It is of course not claimed that Treasury influence was the sole factor that determined Cabinet policy. The political considerations were just as important. But the influence of the one did not necessarily negate the effect of the other. They ran parallel, and on the whole inhibited the Cabinet from taking decisive action regarding war preparations and reinforcements.

IV

As an experienced Chancellor of the Exchequer, Hicks Beach was

46. Lansdowne to Salisbury, 26 August 1899, LP, L(5)49.

47. Lord Ampthill to Chamberlain, 11 August 1899, JC 5/51/59; Lansdowne to Chamberlain, 15 August 1899, JCP, JC 5/51/61.

48. Lansdowne to Wolseley, 27 August 1899, CAB 37/50/57; Lansdowne to Salisbury, 26 August 1899, LP, L(5)49.

far from sanguine throughout this period, and did not have much faith in either ministerial rhetoric or in Cabinet decisions. He knew all too well from past experience that the situation was volatile, and could easily deteriorate to war. Political considerations seemed to lead towards a more active policy, and perhaps war, both of which required financial answers by the Treasury. As the crisis grew in August, therefore, and the Cabinet vacillated from hope to end-of-hope, Hicks Beach started a thorough examination at the Treasury of the financial implications of the forthcoming conflict.

Ever since the Wolseley Report of 7 July, Hicks Beach had begun to study the financial implications of the growing crisis. Though in July he considered Wolseley's estimate that 50,000 men would be required for a war with the Boers to be "altogether excessive", he did not pursue the matter, because it seemed so remote.[49] By the middle of August, however, his pessimism grew, despite Smuts' proposals, and he feared that they "may have to prepare for the worst", and despatch 50,000.[50] But since Hicks Beach did not have "a notion whether they [War Office] would ask for 2 millions or 10 millions", he instructed his staff to ask whether the War Office had an estimate of cost for the transportation and maintenance of 40,000 to 50,000 men in South Africa.[51]

Despite the constant change in the situation, and "the growing snowball" in military estimates of expenditure which might be required in South Africa, the cost of mobilizing and transporting 50,000 men to South Africa was estimated by the War Office at £5 million, and the monthly charge at £600,000.[52] The War Office had pepared a similar estimate in mid-July, but since the matter was not pursued then by Lansdowne, it was shelved, and not brought to Treasury attention.[53] Lansdowne, who at the time brushed aside the other estimates that were prepared at his request, was most likely unaware of this estimate before

49. Hicks Beach to Lansdowne, 14 July 1899, LP, L(5)46.
50. 16 August 1899, EHD, 48675.
51. Hicks Beach to Hamilton,15 August 1899, EHPP, 48614.
52. Marzials to Hamilton, 16 and 17 August 1899, EHFP, T.168/46.
53. July 15 1899, HBP, PC/PP/73. (Ironically, the only place to be found). See page 26.

the subject was pursued by Hicks Beach. It would be otherwise very difficult, if not impossible, to explain why he did not refer to this sensitive, and very crucial set of figures, in his memorandum of August 12, when he expounded extensively on the cost of war preparations. This interpretation affirms not only the independent line pursued by the War Office, and the lack of communication between it and the Treasury, but also its want within the War Office itself.[54]

The chancellor also asked his staff for information on precedents for raising funds for a military campaign undertaken in the middle of a financial year, but excluded the Pendjeh case, and both the Afghan and the Zulu Wars, as irrelevant.[55] Although the chancellor was sensitive to norms of precedent and parliamentary procedure, his primary motive seems to have been financial. The precedents were seen as basis for comparison, as indicators that would help him evaluate the cost of the war, should it come to that and, perhaps, also its allocation. But why did he exclude the possibility of certain campaigns as precedents? It is perhaps easy to understand why he excluded campaigns which involved India, and the Indian army. But why exclude the Zulu War, when it might have been the most appropriate precedent? Any possible conflict with the Boers would have erupted in the same area, a conflict which Hicks Beach considered as just another colonial war, although the potential enemy was European, and not native. This assumption is confirmed also by the fact that he considered the Egyptian Campaign of 1882 as the most relevant to the current crisis. So why did he discard the Zulu War, and choose the Egyptian Campaign of 1882? A number of interpretations are possible, and it is doubtful if a conclusive answer can be reached.

Part of the reason why Hicks Beach refused to consider the Zulu

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54. In the British system of Government, with its high degree of independence, the lack of interdepartmental cooperation was not so unusual. There was a similar lack of cooperation within the Admiralty, and between it and the other departments. The naval authorities often kept their schemes to themselves, and refused to discuss them with either the military or even the politicians. Hamer, The British Army, 74-5.

55. Hicks Beach to Hamilton, 15 August 1899, EHPP, 48614.

War as an appropriate precedent for a possible conflict with the Boers in South Africa may be related to his own personal, and not altogether pleasant, experience with that war as Colonial Secretary. Because the annexation of the Transvaal in 1877, and all that followed, especially the Zulu War, were seen as an expensive mistake, it is understandable if Hicks Beach did not wish to be associated any further with that episode. Apart from the blot on his name, the Zulu War was both costly and unprofitable. The War Office estimated the cost of a war with the Boers at £5 million - the same as the cost of the Zulu War - another reason for the Treasury to consider it as an appropriate precedent.[56] But the financial problem was more complicated than mere sums; it was concerned also with who would bear that cost, the colonial or the imperial Exchequer.

Although "the cost-benefit principles of Victorian imperialism aimed at Empire on the cheap", and "the Gladstonian Treasury inevitably applied cost-benefit analysis to the question of imperial intervention", South Africa was throughout the exception that proved the rule.[57] The ordinary assumptions must have been to calculate how much of the cost would be borne by Britain and how much by the colony, as in India. And if India came the closest to the ideal of self-financing, the South African colonies stood at the other end of the spectrum of expenditure to the imperial Exchequer. In that sense, the Zulu War was no exception. If, therefore, the Treasury was to rely on its long experience with the South African colonies, it should have assumed that it stood to spend a great deal of money, without expecting much, if any, return. In the past, the Treasury had been called upon to make substantial initial outlays in the many emergencies that frequented this region, such as the Kaffir Wars on the frontiers, but failed to pass them on to the colonies, as was its habit elsewhere.

Why were the Afghan Wars not considered as precedents by the

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56. WO reply to Hicks Beach criticism, 15 September 1899, HBP, PC/PP/73.

57. R. E. Robinson, "Cost-Benefits of Victorian Imperialism - 1914", unpublished Seminar Paper, Harvard (1986), 2-7.

Treasury? Under the British system, military expenditure was subject to the Mutiny Act, which Parliament scrupulously controlled through the Treasury, acting as its financial executive agent. The use of the Indian army was rather different. As 'an English barrack in the Oriental seas', over which Parliament exercised little control, it afforded the Governments great freedom of action, as summed up by Hartington:

> The Indian Army is not limited in numbers by an annual Vote of Parliament. It is not voted by Parliament at all; its numbers are not enumerated in the Mutiny Act; and the native portion of the Indian Army is not even subject to the Mutiny Act. In fact, it may be described as a non-Parliamentary Army, as compared with the Army which is maintained at home and in the other Dependencies of the Crown.[58]

Moreover, since the Indian Exchequer bore the entire cost of the Indian army, thus also almost half the cost of the British army, "so the Raj, with its relative freedom from Parliamentary scrutiny and Treasury control, provided a formidable expansive power, which was all the more so for being unfettered."[59] However, since it was agreed by all policy-makers in London that native units of the Indian army could not be used against whites in South Africa - because of the very complex race relations there - it could not be considered as a precedent.

Since the ordinary Treasury principles for imperial intervention were known to all, they did not require discussion. That is perhaps one reason why the question of precedents was not discussed within the Treasury; it was not necessary. Besides, Hicks Beach did not habitually discuss matters of policy with Treasury staff, except for Hamilton, and even that was by and large limited to his asking his professional advice on a particular fiscal matter. Otherwise, he would ask his staff to look into some precedent, or furnish some figures, but without elaborating his reasons for the request. But reliance on precedents, and interest in procedure, were very typically the Treasury way of looking at things, and

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58. Salisbury in Commons, 28 November 1867, Hansard, vol. cxc, col. 406; Hartington in Commons, 20 May 1878, Hansard, vol. ccxl, col. 272, both quoted in Ronald Robinson and John Gallagher with Alice Denny, Africa and the Victorians (1961), 12-13.

59. Robinson and Gallagher, Africa and the Victorians, 13.

Hicks Beach was no exception. The financial year, expressed by the budgets, was a principal element of these procedures.

It can thus be argued that the Treasury was only concerned with initial outlays, and their immediate ramifications; that the Treasury was interested only in expenditure that affected its yearly budget, but not in its future implications. That might perhaps explain Hicks Beach's initial reaction to War Office estimate regarding the cost of a possible war with the Boers. When told that 31,000 men were sent in 1882 to Egypt, and £2.3 million was voted, he was certain that if that war had not cost more than the initial outlay, then "the present estimates, even if allowing for much greater distance, seem excessive".[60] It fits well with the Treasury's permanent concern with the balancing of the annual budget, one of its cardinal orthodox principles, since peacetime budgets made no on-going provision for imperial involvement, and very little imperial money was regularly subscribed for the defence of the British colonies. The chancellor may have realized that the Egyptian precedent was unrealistic, but nevertheless wished to go to Parliament with a minimum request. It may have been a tactical move, which does not imply he believed the whole war would be covered by the initial outlay.

But would it be safe to assume, just because the Treasury was so concerned with balancing the annual budget, that it had no interest in the long-term implications of imperial intervention? That, in this case at least, the Treasury made no long-term cost-benefit calculations? It seems that Hicks Beach was unaware of the total cost of the Egyptian Campaign - £3,230,000 according to one source, £4,588,000 according to another - but he must have known that it was not much more than the initial outlay.[61] It would have thus compared well with a possible war with the Boers, estimated to cost some £5 million. But it would be wrong to deduce from

60. WO reply to Hicks Beach criticism, 15 September 1899, HBP, PC/PP/73; Hicks Beach to Hamilton, 20 August 1899, EHPP, 48614, respectively.

61. WO reply to Hicks Beach criticism, 15 September 1899, HBP, PC/PP/73; "Cost of Principal British Wars, 1857-1899", 23 December 1902, WO 33/256(A767), respectively. (Except for the two occasions mentioned above, there is not a single reference in the correspondence of Hicks Beach to the cost of any other colonial war.)

the Treasury's concern with the balancing of the annual budgets that it was only interested in the implications of the expenditure on its annual budget.

Salisbury believed the Treasury was "more actuated by the fear of future demands...than by the actual outlay involved".[62] Indeed, one of the Treasury's greatest concerns was to know - when expenditure that spread over more than one financial year was involved, invariably for defence purposes, very often for shipbuilding - not only the initial outlay, but also the total sum required. It was also not in character for Hicks Beach to evaluate the cost of the forthcoming conflict - or for that matter any other outlay, to be shown throughout this study - on the foundation of an initial outlay. But there need not necessarily be any discrepancy between the Treasury's interest in expenditure that could affect the annual budget, and its concern for the total cost of a venture that spread over a number of financial years. When confronted with a large expenditure, the Treasury usually evaluated it against both its short and long term obligations, and apportioned it accordingly.

It may therefore be assumed that Hicks Beach did not expect a war with the Boers to cost much more than the Egyptian Campaign, a "brilliant little campaign, achieved with as great a success and as small a loss".[63] Moreover, the search of a suitable precedent, through probing into past colonial campaigns - when the principle of the War Office had been the provision of relatively small expeditionary forces to operate against unorganised and ill-armed people - may have been the source of Treasury miscalculations regarding the war. The Treasury considered the forthcoming conflict with the Boers - like the rest of the British establishment - as another colonial campaign, that would be won quickly and cheaply. But since the Treasury was a prisoner of its own misconceptions, it failed to anticipate the big war it turned out to be. As

62. Salisbury to Cromer, 24 April 1896, FO 633/7.

63. Quoted in D. W. R. Bahlman (ed.), The Diary of Sir Edward Hamilton, 1880-1885, 2 vols. (Oxford, 1972), i, 15 September 1882.

long as it seemed as another colonial campaign, the implications of this false assumption were not realized. When the colonial campaign turned into a large war, the precedent, which was expected to serve as a yardstick, misled both the Treasury and the Cabinet. This Treasury misconception, with far-reaching consequences, was shared, in varying degrees, by most policy-makers, both in Whitehall and in Westminster.

The Egyptian Campaign of 1882 was seen not only as a precedent for evaluating the cost of the forthcoming conflict with the Boers, but may have been seen also as a model for determining who would pay for the war. One cannot be certain if the Treasury expected at this stage to recover the war costs by an indemnity from the Transvaal. Chamberlain and Salisbury discussed in August whether it was necessary to warn the Transvaal that it would bear the cost of Britain's war preparations, and the war itself, should there be a war. But there is no evidence that Hicks Beach was aware of their discussions.[64] Because of the summer recess, ministers were dispersed in their country houses, and met each other even less frequently than during the session. Since the subject is not mentioned at this time even once in Hicks Beach's correspondence, one may assume, therefore, that he was not aware of the discussion between Chamberlain and Salisbury.

Nevertheless, Hicks Beach might have been expecting to recover the costs of the war from the Transvaal. The payment of indemnity by a defeated enemy - like the Treasury limitations on expenditure - was another unspoken assumption, implicit in the system of international conflict and warfare, that did not require discussion.[65] Salisbury was, of course, aware of it. "We shall ask for the repayment of our expenses as a matter of course. It is always the necessary consequence of a victory."[66] There can be little doubt that Hicks Beach was also versed in 'the necessary consequences of a victory'. One may therefore assume that he

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64. In relation to another matter. See Chapter II.

65. See Michael Hurst (ed.), Key Treaties of the Great Powers, 1814-1914, vol. ii, 1871-1914 (Newton Abbot,1972), 462-540; & H. Lauterpacht (ed.), Oppenheim's International Law, vol. ii, Disputes, War and Neutrality (1962), 594-5.

66. Salisbury to Chamberlain, 16 August 1899, JCP, JC 5/67/115.

expected already at this stage of the conflict to extract all or a substantial part of the cost of a war from the Transvaal, either by way of a direct indemnity, or by passing the war cost on to its Exchequer.

From all the colonial wars of the second half of the nineteenth century, the Egyptian Campaign of 1882 seemed to serve best as model for the Treasury's calculations regarding both the cost of the war, and who would pay for it. In its cost-benefit calculations, the Treasury had to consider how much the war would cost, and whether the territory that was to be taken over by Britain had the capacity to bear that cost. Since the British Exchequer bore the entire cost of the Abyssinian War (£9 million), and 95% of the Zulu War (£5 million), neither war could, therefore, be regarded as precedent.[67] Poor Abyssinia could hardly pay anything towards the war, and Britain could exact very little from the small 'white' colony of Natal. The Egyptian case was, however, entirely different. Not only the declared reason for the invasion and occupation of Egypt was to ensure the payment of its hugh international debt, but it also paid the cost of the occupation force (though not the cost of the war itself), not to mention the £4,130,000 which were extracted from her as indemnities for private losses. If Egypt could bear all that, then Britain could surely exact the cost of a 'little' colonial war with the Boers from the much richer Transvaal. Furthermore, 7,400 troops from India served in Egypt, and despite strong objections from the Viceroy and the Opposition, and much unease within the Cabinet itself, India was charged with £500,000 towards the cost of its troops.[68]

V

But while probing into procedures and precedents, the Treasury never neglected its perennial role as a brake on War Office demands. On the contrary, it seems that the mere fear of a possible rise in military

67. "Cost of Principal British Wars, 1857-1899", 23 December 1902, WO 33/256(A767).

68. Bahlman, Hamilton Diary, i, 15 September & 19 November 1882; Holland, Bernard The Life of Spencer Compton, eight Duke of Devonshire, 2nd. ed., 2 vols. (New York, 1911), i, 324-6.

expenditure due to the tension made the Treasury more vigilant about any expenditure that might have seemed unnecessary. The deterioration in the situation in August, which consequently increased Hicks Beach's pessimism, was translated into a more exacting Treasury control over military expenditure that was connected to the South African crisis. A number of examples would suffice for getting a picture of the manner in which the Treasury exercised its supervisory powers, and the effect of its control over war preparations, both at home and in South Africa.

The Treasury examined in detail War Office estimates that were connected to the crisis, and tried to make cuts on every item possible, either large (sea transport), or small (mules and wagons). Its first target was the costs for sea transport, the largest item on the War Office list of expenditures for the despatch of an army corps to South Africa. Hicks Beach thought that item - calculated to cost initially half the estimated £5 million, and half the £650,000 monthly expenditure, to be too high, and asked for their reconsideration.[69] He criticised the hiring of ships for three months as "a relic of barbarism". Instead, he suggested using Britain's enormous fleet by chartering ships whenever required at five weeks notice.[70] The War Office replied that they had to hire ships for three or more months because ships could not be engaged for less than that; that a complete journey took sixty six days; that the venture depended on the duration of the war, and since ships were especially fitted for transport of men and animals, it would be very costly to hire new ships every time they were needed; and that it did not consider the sum of £50 per man to be too high, as it included transportation of 20,000 animals, which were much more costly than men.[71] Ironically, as it was thought that the war would be short, ships were not engaged for long periods. "If a longer engagement could have been promised the ships would have been obtained at less cost."[72]

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69. Hicks Beach to Salisbury, 24 August 1899, HBP, PCC/34.
70. Hicks Beach to Hamilton, 20 August 1899, EHPP, 48614.
71. WO reply to Hicks Beach criticism, 15 September 1899, HBP, PC/PP/73.
72. RCWSA [Cd.1789.], 127.

The Treasury tried to influence in a similar manner War Office request for the purchase of horses. Hicks Beach conceded that horses were needed for the cavalry and the artillery, "but surely that ought not to require 10,000".[73] But unlike transportation costs, the War Office assured the Treasury that it had no intention of buying immediately all 10,000 horses; it had merely estimated the war requirement![74] Later, when the shortage of horses became acute, and all concerned started to appreciate the immense importance of cavalry and mounted men, Hicks Beach, having forgotten perhaps his earlier criticism, maintained that he had from the very start favoured more cavalry and less infantry.[75] Future events proved early estimates for land transportation, horses in particular, to be perhaps the single biggest miscalculation on the part of the War Office regarding the war. As the imperial forces used nearly 700,000 horses and mules during the war, it seems unbelievable that the Treasury quibbled whether all 10,000 horses would be required.[76]

The above examples indicate that the Treasury tried to control each and every War Office expenditure, large as small, that related to the South African crisis. From a Treasury point of view, it could have been merely fulfilling its perennial role as a check to expenditure that could otherwise, in view of the escalation in the crisis, get out of hand. Treasury demand for very detailed approval of any expenditure inhibited the War Office and obstructed the development of war preparations, and consequently, of war strategy. The cumulative effect of the Treasury's obstructions and delays could be enormous. The mere knowledge that one had to account to the Treasury was effective. It was immaterial whether war preparations were prevented by Treasury obstruction and outright refusal to approve expenditure that was considered essential by the military, or by an inhibited Secretary of State for War, who, in anticipation of Treasury control, minimized his requests or suspended them altogether. Major General Sir J. C. Ardagh, Director of Military

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73. Hicks Beach to Hamilton, 20 August 1899, EHPP, 48614.
74. WO reply to Hicks Beach criticism, 15 September 1899, HBP, PC/PP/73.
75. Hicks Beach to Lansdowne, 8 December 1899, LP, L(5)46.
76. RCWSA, [Cd.1789.], 97.

Intelligence, did not dare ask for £20,000 needed for topographical surveys, since he "had a feeling that if we were to ask for it, it would be scoffed at in the War Office before it ever got to the Treasury".[77]

Another interesting feature of Treasury control is revealed here - the inflexibility of the financial system in peacetime. The rigidity of peacetime budgets, when coupled with the Treasury's strict observance of these procedures, further obstructed war preparations, consequently also the development of war strategy. The Treasury's inability - within the accepted norms of public finance, whereby expenditure, especially for military purposes, was strictly limited to one financial year - to accommodate the War Office even in urgent matters, greatly inhibited the military, and denied them the right for, and consequently precluded the possibility of, any long-term strategic planning. The inflexibility of the system is noticed in yet another matter. Besides its very orthodox adherence to its rigid procedures and principles, the Treasury demanded that its power of control be both recognized and acknowledged by the other departments. Characteristically, it was Hamilton, the official, who was most conscientious in protecting Treasury principles, and the Chancellor of the Exchequer, who followed his advice.

VI

While the Treasury was actively controlling the rise in military expenditure related to the crisis, things were anything but static at the political level. Towards the end of August, when it was learnt that the 'Smuts' proposals were qualified by conditions that Britain would not accept, tensions rose again in London, and created a chain reaction that culminated in a Cabinet decision to despatch a force of10,000 men to South Africa. The Cabinet decision was not reached immediately. But that was soon rectified by Chamberlain, who warned that negotiations could not drift on indefinitely, and suggested that if settlement was not reached within 10 days, Britain should despatch 10,000 men, to be

77. RCWSA [Cd.1789.], 132.

followed by an army corps.[78] Chamberlain then publicly warned Kruger that "the sands are running down in the glass". A comprehensive solution was required, and soon, because Britain could not afford to keep a large garrison in South Africa indefinitely, thus incurring heavy expenditure, and also disrupting the three battalion system.[79]

Nevertheless, the chancellor tried to impress upon Salisbury the dangers of escalation, hoping that the situation could be saved, if only "Milner & the Uitlanders will not be allowed to drag us into War".[80] But neither Hicks Beach's personal resentment at Milner and the Uitlanders, nor the general fear of many ministers at the prospect of a war, prevented the strong British reply of 28 August to the Transvaal. The new phase of the crisis seemed to require up-to-date answers - in the form of reinforcements. The Cabinet was nearing a consensus, but without Hicks Beach.

The despatch of 28 August to Kruger was drafted by Chamberlain, but unlike the despatches of 10 May and 27 July, was not discussed by the Cabinet, due to difficulties of consultation in the summer recess. It was based largely on an earlier telegram by Chamberlain to Milner, with which the ministers were acquainted. "Only Hicks Beach, when he saw it shortly afterwards, was disturbed by certain phrases in which it differed from the earlier despatch and which, he felt, made it less conciliatory particularly on the issue of suzerainty".[81] In his opinion, it had merited a Cabinet, despite the difficulties of convening one in the summer recess. He also questioned the decision-making process of the Cabinet and its lack of consultation on important issues, and asked for "a Cabinet before any decision" was taken on reinforcements.[82] But Hicks Beach knew he could not prevent the despatch of reinforcements, since it enjoyed a wide

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78. Chamberlain to Lansdowne, 24 August 1899, JCP, JC 5/51/69.

79. J. L. Garvin, The Life of Joseph Chamberlain, 3 vols. (1932-4), iii, 438-9; Chamberlain to Salisbury, 27 August 1899, SP.

80. Hicks Beach to Salisbury, 24 August 1899, HBP, PCC/34.

81. A. N. Porter, The Origins of the South African War: Joseph Chamberlain and the diplomacy of Imperialism, 1895-99 (Manchester,1980), 238-9.

82. Hicks Beach to Salisbury, 31 August 1899, SP.

Cabinet consensus, including Salisbury, who had only the previous day written to him about its necessity.[83]

The Cabinet's decision on reinforcements was reached primarily on political considerations, and to a lesser degree because of strategic reasons, though the question of cost was not totally disregarded. The financial constraints which had all along been present but not often discussed, now surfaced, drawing the attention of the ministers, whose concern was expressed in various forms. Goschen tried to reduce the Admiralty estimates; Salisbury preferred fortifying Natal's frontier to maintaining a large garrison there, and sympathised with Hicks Beach that "something must be done to cut their monstrous estimates", thus expressing both concern over expenditure, and a shared contempt for the War Office.[84] Chamberlain, who inspired the idea, was alert to the financial and political price that it might exact from the Government. He thus wondered if Hicks Beach could "spare this without asking for the meeting of Parliament".[85] And Lansdowne's fears over the cost of a large garrison in Natal did not subside even after he resigned himself to reinforcements.[86] They were all concerned with expenses, as they were all equally conscious of the financil constraints on expenditure. However, it was not mere figures that concerned them, but rather the political implications of the expenditure.

But how was Cabinet policy formulated, what was the decision-making process in this instance? Chamberlain was the first person to draw Cabinet attention to the new developments. In the unstructured British system of Government, where power was concentrated in the hands of a comparatively small ruling elite, who were conscious of all the assumptions implicit in the system, and played by the rules, there was no need for much discussion over financial principles. Since the meeting of

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83. Salisbury to Hicks Beach, 30 August 1899, HBP, PCC/69.

84. Goschen to Chamberlain, 31 August 1899, JCP, JC 5/35/20; Salisbury to Chamberlain, 29 August 1899, JCP, JC 5/67/117; Salisbury to Hicks Beach, 30 August 1899, HBP, PCC/69.

85. Chamberlain to Lansdowne, 24 August 1899, JCP, J C 5/51/69.

86. Lansdowne to Salisbury, 1 September 1899, SP.

Cabinet ministers in an informal and friendly atmosphere was crucial to consensus, efforts were directed less at Hicks Beach and more at Salisbury, who was essential for any consensus, and who in turn tried to influence Hicks Beach. The other target was Lansdowne, who may have been the key to the whole question.[87]

Ever since the subject of war preparations and reinforcements had arisen, it was Lansdowne who actually checked the military, and prevented a more forward policy. It was thus necessary to encourage him on the question of costs, and dispel his fears from the Treasury. Besides, it was easier to bring Lansdowne into the required consensus than Hicks Beach, whose consent was not easily gained. Once Salisbury, Balfour, and Goschen accepted Chamberlain's reasoning, Lansdowne bowed to the inevitable, though he still worried about the cost. By the end of August, therefore, the Cabinet reached a consensus. Chamberlain now asked for official Cabinet sanction to that consensus. The formal consent of Hicks Beach was necessary, because he went to Parliament to ask for the money. Under these circumstances, when political and strategic considerations required Cabinet action, the chancellor, like Lansdowne before him, had no choice but to follow the inevitable, and only hope to act as a brake, and pare down expenditure. But the decision was a compromise with the chancellor - use of the army in India, and very little of the home army.

VII

In the first week of September, from the time Cabinet consensus on reinforcements was reached, until it was formally sanctioned, there were new, and unexpected developments that affected the Government. The Transvaal withdrew its new proposals, and the military, who had been for a long time pressing for reinforcements, now warned against moving too fast towards war, since they were ill-prepared. Buller was against an ultimatum before "the military should be in a position to enforce it", and

87. Salisbury to Hicks Beach, 30 August 1899, HBP, PCC/69.

Wolseley feared that the Cabinet "under a false idea of the rapidity with which we can act, may bring matters to a crisis too soon."[88] The tables seemed to have turned. In actual fact, the military were consistent. They all along claimed that the military requirements were lagging behind the politcal events. Now they wanted the political developments stopped in order to let the military catch up with them.

However, Chamberlain thought (and not only he), that the military were exaggerating Boer strength, and pressed for reinforcements, even though he was not less worried about expenses than anyone else in the Cabinet.[89] He based his argument for reinforcements and a final show of force on financial considerations. In the first place, he argued, the expected large surplus revenue could cover the cost of reinforcements, and thus not require the calling of Parliament. However, both reserves and Parliament should be called regardless of political considerations. Britain could not afford to wait indefinitely, because it would be too expensive, especially after the despatch of reinforcements.[90] Whereas a 3,000 men expedition had been sufficient in 1884 to secure British demands, "it is now considered that 50,000 men are required to enforce our claims at the present time. The result is that unless a complete change of policy is secured we shall have to maintain permanently in South Africa a very large garrison, at a great expense to the British taxpayer."[91] Chamberlain was implying that the cost of tension, and consequently of any deterrent action by Britain, was rising steadily, therefore making it essential that Britain should act swiftly, before it would be seen to be beyond her financial means and political reach.

The above does not necessarily imply that Chamberlain himself feared - despite his very genuine concern with expense - that it would be beyond Britain's means and political will to act. Chamberlain was

88. Buller to Salisbury, Memorandum, 5 September 1899, CAB 37/50/62; Wolseley to Salisbury, Memorandum, 5 September 1899, CAB 37/50/69.
89. Chamberlain Memorandum, 5 September 1899, CAB 37/50/63.
90. Chamberlain Memorandum, 5 September 1899, CAB 37/50/63.
91. Chamberlain Memorandum, 6 September 1899, CAB 37/50/70.

willing to pay a high price for preserving the imperial interests as he perceived them. But he was far less certain about the readiness of the public and other policy-makers, above all Parliament and the Treasury, to incur heavy expenses for causes which might be perceived by them as not justifying the effort and the price. "The public could never see that the things we were contending for were worth a big war", Milner was told, and one may add, expense, its corollary.[92] But since the war estimates were low, it can be argued that the Cabinet would not have been deterred from a military action merely on account of costs, and would have been ready, therefore, despite the expenditure, to assure a vital imperial interest at a cost of five to ten millions. Consequently, Chamberlain need not have feared the Cabinet. This could have been the case, if the situation remained static, and if Chamberlain was actually thinking only in financial terms. In fact, the situation was very fluid, and the stakes seemed to grow with each new phase of the crisis. And although Chamberlain chose to speak in financial terms, his primary considerations were political.

Chamberlain, who followed the crisis more closely than anyone else in the Cabinet, was fully aware of its dynamics, and tried to draw the attention of his colleagues to precisely that. The rising cost of the tension was reflected in actual War Office expenditure because of the crisis, and in the continuous upgrading of estimates for future military requirements. The continuous rise in actual and estimated expenditure was known to Hicks Beach, and very likely also to the other ministers. Astute politician that he was, Chamberlain tried - by claiming that the Intelligence Department and Milner exaggerated Boer strength, and that a war could be won with a smaller force than feared by some - to allay the fears of his colleagues on this score. However, since he knew his Cabinet colleagues, Parliament, and the volatility of public opinion, and feared all three, he wished to get the job done before the opportunity would be missed. The situation then seemed opportune on both counts, financial and political, about neither of which could he be certain in the future.

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92. Chamberlain to Milner, 6 December 1899, JCP, JC 10/9/74.

Chamberlain's anxiety over the rising cost of deterrent action by Britain should be seen against this volatile background, with its uncertainties over the mood of the public and politicians alike.[93]

Time did not seem to favour intervention. It was feared that in future budgetary constraints, combined with considerations of party politics, might tip the scale against expansion. Treasury control that discouraged the preparations and reinforcements, also forced the Cabinet to work up to a climax in the negotiations with Kruger, once reinforcements were eventually committed. The actual cost involved was negligible for Britain, but Parliament could consider the cost of a large garrison in South Africa too high for a prolonged stay. Treasury control, in the form of financial constraints on extra-ordinary military expenditure, in the end dictated, along with Chamberlain's and Milner's political strategy, a military solution to the crisis.

The question of reinforcements was brought to a very definite conclusion in the informal discussions which were conducted between ministers in the last days of August and the first week of September, by which time Hicks Beach was resigned to the inevitable. Hamilton saw the actual summoning of the Cabinet as proof of the consensus.[94] Cabinet's decision of 8 September to despatch 10,000 men from India and the Mediterranean to Natal was, therefore, a mere formality. Moreover, Hicks Beach made his Treasury arrangements in anticipation of Cabinet decision. "I think it not improbable that the Cabinet on Friday may want to take some steps in the way of sending more troops to South Africa", he told Hamilton two days before the Cabinet, and wondered if he could agree to an extra £500,000 expenditure, without risking a deficit.[95]

The despatch of 10,000 men to South Africa was sanctioned by the Cabinet on 8 September. However, for a number of reasons, they decided

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93. For a comprehensive background to the interplay between public opinion & policy-making before the war, see Porter, Origins, especially Preface & Chs. I & II, passim.

94. 5 September 1899, EHD, 48675.

95. Hicks Beach to Hamilton, 6 September 1899, EHPP, 48614.

against sending the ultimatum they had contemplated, and preferred instead to approach the crisis more slowly.[96] One important reason was the delays in military preparations, and the wish to allow the reinforcements to arrive in South Africa.[97] The other reason was the hope - despite the withdrawal of the five year franchise by the Transvaal - that the negotiations might resume, and peace be saved.[98] Another reason why the Government played for time was their wish, in particular Salisbury's, to get away from the franchise issue and blame the Boers with breaches of the 1884 Convention.[99]

Just as in the past political considerations prevented a forward policy in South Africa, now they forced the despatch of reinforcements. Hicks Beach could console himself that the reinforcements would "be much short of the 50,000 men talked of, & therefore not necessitate an application to Parliament".[100] Treasury influence on the formulation of Cabinet policy was not negligible. Although resigned to the despatch of reinforcements, Hicks Beach was instrumental, together with Salisbury and Lansdowne, in the delay of the ultimatum, and the dispatch instead of a conciliatory note to Kruger. It is not surprising, therefore, that he was "fairly well pleased with the Cabinet proceedings".[101] Hamilton's impression was happily confirmed by Lansdowne, who appreciated the chancellor's moods. "Beach has been here and so far as I can see will not cause any difficulties."[102] Imperial considerations were more compelling than budgetary constraint or the primacy of party survival.

VIII

During the months before the war, one of the questions facing the Cabinet was whether to send reinforcements to South Africa from India

96. Salisbury to Queen, 8 September 1899, CAB 41/25/18.
97. Porter, Origins, 250.
98. Lansdowne evidence, RCWSA, [Cd.1791], 514-522.
99. Salisbury to Chamberlain, 19 September 1899, JCP, JC 11/30/183.
100. Hicks Beach to Hamilton, 6 September 1899, EHPP, 48614.
101. 8 September 1899, EHD, 48675.
102. Lansdowne to Chamberlain, 8 September 1899, JCP, J C 5/51/79.

or from home. As the question involved interrelated political, military, and financial constraints, a comprehensive solution was required. The subject was discussed throughout August, amid disputes between the military and the civilian authorities in the War Office, and within the Cabinet itself, on the size of the force and its composition. Hicks Beach strongly affected the formulation of that policy. The arguments for and against the use of the army in India were not on the whole new, but had been used in the past, whenever the imperial Government deployed it.

After Bloemfontein, when the crisis reached new dimensions, the question of reinforcements, and consequently also of their composition and source, was never out of Cabinet agenda. Two questions were raised regarding the use of troops from India: whether they should be used at all, and if so, how many. Whereas it was almost a certainty that troops from India would be deployed in an emergency, there was room for dispute about their numbers. The first dispute was largely resolved by Lansdowne, who informed both Wolseley, who objected in principle, and Chamberlain, who favoured it, of his decision on the Indian option.[103] At the end of August, when the despatch of reinforcements became imminent, and Salisbury declared his preference for troops from India, a consensus was reached. The decision in principle to send 10,000 men to South Africa (5,700 from India and the rest from the Mediterranean) was taken on 1 September, and the operative decision a week later.[104]

From the very beginning, the Cabinet's preference for troops from India was influenced by political and financial considerations.[105] Their reluctance to reinforce the garrison in South Africa, particularly with troops from home, stemmed to a large extent from their wish to ensure that "the operation can be effected without previous Parliamentary sanction".[106] One way to avoid the political and financial inconvenience of

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103. Lansdowne to Wolseley, 20 August 1899, CAB 37/50/53; Lansdowne to Chamberlain, 21 August 1899, JCP, J C 5/51/67.

104. Salisbury to Hicks Beach, 30 August 1899, HBP, PCC/69; Lansdowne to Chamberlain, 1 September 1899, JCP, JC 5/51/73; Salisbury to Queen, 8 September 1899, CAB 41/25/18, respectively.

105. Lansdowne to C-in-C, 16 June 1899, WO 32/7846/8676.

parliamentary discussion and scrutiny was to deploy troops from India, as "they are less hampered by Parliamentary regulations".[107]

But the Government could not be totally free from parliamentary scrutiny. By 1899, it was accepted that the imperial Exchequer would bear all charges for troops from India, both ordinary and extraordinary, that were to be despatched to South Africa. But because the financial constraints were entangled with the need for parliamentary approval, the Treasury sought a comprehensive solution. By coincidence, the two factors converged, and enabled the Treasury to circumvent Parliament and facilitate the use of troops from India. Revenue was "coming by heaps & bounds", just when home establishment was short by 15,000 men.[108] The opportunity was seized, and the Government was relieved from an uncomfortable situation in Parliament. Ordinarily, any further denuding of the home establishment would have required the calling out of the reserves, and consequently the summoning of Parliament. Now, however, it was possible to use a certain number of troops from India, by charging their expenses to home establishment, without having to ask Parliament for a special vote.

Although the Cabinet finally decided how many troops would go from India, there was much room for manoeuvre by the departments. The main dispute was between the Treasury and the military. While the Treasury wished to maximize the number of troops that would go from India, the military wished to minimise it, and if possible, to prevent their deployment altogether.[109] Since the cost of troops from India is much less than the cost of troops from home, why not send 10,000 men instead of 6,500 from India, suggested Hicks Beach, and therefore only 40,000 from home, if and when the situation required an entire army corps.[110] Hicks Beach rejected military claims that Mediterranean and home troops

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106. Chamberlain to Lansdowne, 2 September 1899, JCP, J C 5/51/74.
107. Salisbury to Lansdowne, 30 August 1899, quoted in Newton, Lansdowne, 156.
108. 7 September 1899, EHD, 48675.
109. WO to Treasury, 19 August 1899, HBP, PC/PP/73.
110. Hicks Beach to Salisbury, 24 August 1899, HBP, PCC/34.

made a better fighting force than troops for India, "sodden with fevers, drink, and venereal".[111] He would not let the military "waste money merely because they have a fancy to a complete Army Corps being mobilized here".[112]

The decision to deploy troops from India despite War Office objections reflects on the importance the Government attached to both political and financial considerations. Treasury influence over War Office policy was effective, because it had a united Cabinet behind it, but there were limits to its power. Other factors, beside the Treasury, had to be considered. Despite the very considerable Treasury influence on the matter, the policy was formulated collectively by the ministers most involved. Early estimates of 10,000 troops from India were thus gradually reduced to 6,500, and finally trimmed down to 5,700. Hicks Beach could not - despite the strong backing from Chamberlain on this issue, and the moral, though less committed support of Salisbury, who would not act against the advice of the Viceroy and Lansdowne, who in turn had to give some consideration to the military - induce the Cabinet to endorse the original figure.

Parliamentary regulations and scrutiny were applied whether they used troops from home or from India. But since the use of troops from India was less costly, and it did not come under the Mutiny Act, Governments understandably preferred to deploy them rather than home troops. On the other hand, since the views of both the War Office and the India Office had to be considered, there were also limits to what extent the Indian army could be used. When all factors were considered in the cost-benefit analysis that was applied by the Cabinet - Treasury

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111. Wolseley to Lansdowne, 24 August 1899, CAB 37/50/56; Lansdowne to Salisbury, 26 August 1899, LP, L(5)49.

112. Hicks Beach to Salisbury, 24 August 1899, HBP, PCC/34. Hicks Beach was not altogether wrong about the military. The strong objection of the War Office to the use of troops from India was not based entirely on reasons of military efficiency and rationale. The senior generals of the Army were split into two 'Rings' - Wolseley's 'Africans' and Roberts' 'Indians'. Lansdowne prefered Roberts, who was his C-in-C in India when he was Viceroy. Thus, much of Wolseley's objections to the use of the Indian Army stemmed from his alienation from Lansdowne, and his rivalry with Roberts and his 'Indians'.

constraints on expenditure, parliamentary control, the War Office, and the India Office - the result was a compromise. At the same time, the Treasury had sufficient manipulative powers to seize an opportunity, circumvent Parliament, and facilitate the use of the Indian army.

Chapter Two

From Reinforcements to Full Mobilization
September-October 1899

Part One

The Treasury, Political Constraints and Drift to War

The first part of this chapter analyses the Treasury's role in formulating Cabinet policy during the last crucial weeks of September and October 1899, before the outbreak of war. It addresses the issues of what cost-benefit principles, if any, were applied in considering imperial intervention, and how that intervention was to be financed. How far did financial considerations influence the timing of military preparations before the start of the war? What was the nature and the effectiveness of Treasury "control" or influence on Cabinet policy in this period? And were the ordinary peacetime rules of accounting to the Treasury suspended for the duration of the coming war, or did they continue in force?

I

The Cabinet's decision on 8 September to despatch 10,000 men did not resolve the dilemma, it merely gave them a respite. Lansdowne still objected to serious war preparations, advised by Wolseley, who was willing to "stake his reputation" that the only result of not making early war preparations would be that "we shall have to remain on the defensive rather longer than might be desired".[1] However, the Cabinet was not so

sure, and when the British demands were rejected on 18 September, war seemed inevitable. Salisbury, the "genuine lover of peace", and despite his "diplomatic tradition of 'appeasement'", insisted that the defence of the Empire was the most important task facing British statesmen.[2] Britain had to ensure its paramountcy in South Africa, and as a result, considerations of imperial interests seemed more compelling than those of cost. Almost the entire Cabinet agreed that they had to prepare for war as the most probable outcome, but the question was how, to what extent, and when?

The generals advised caution. Wolseley wanted the hostilities postponed for five or six weeks until the necessary preparations could be made, and an army corps was in South Africa.[3] While patience and diplomacy had been expected to solve the crisis and save the peace, the Cabinet had scarcely consulted the military, but they could no longer be ignored. Nor could the Cabinet easily reach a consensus on mobilization and war preparations. Balfour, Salisbury, and Goschen were concerned with the lack of military preparations, and concurred with Wolseley that the final showdown should be postponed.[4] But Chamberlain, who was certain the War Office exaggerated Boer strength, favoured taking the initiative, without waiting for the reserves to be called up, or for a whole army corps to reach South Africa, and called for a Cabinet.[5]

But Lansdowne counselled delay. The mobilization of an army corps, he feared, would provoke the Boers during the vulnerable period, and take away reserves from their peace time employment. He did, however, call upon the Cabinet to sanction money for transport and supplies urgently required in South Africa, but suggested that the call-up

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1. Lansdowne to Chamberlain, 9 September 1899, JCP, JC 5/51/80.
2. Hicks Beach on Lord Salisbury, 16 December 1913, HBP, PCC/69; Porter, Salisbury, 151; J. A. S. Grenville, Lord Salisbury and Foreign Policy: The Close of the Nineteenth Century (1964), 19, respectively.
3. Wolseley to Lansdowne, 5 September 1899, CAB 37/50/69.
4. Salisbury to Chamberlain, 18 September 1899, JCP, JC 5/67/122.
5. Chamberlain to Salisbury, 18 September 1899, JCP, JC 11/30/180.

of reserves be postponed for a fortnight later, believing that the delay would not be important.[6] These were the first signs of a shift in Lansdowne's attitude. Although still very cautious, he was gradually moving towards a more forward policy. He was still against immediate mobilization, but now requested money for war preparations. The Cabinet took his suggestions seriously.

They were in a dilemma. Because of military unpreparedness, they were anxious to postpone the outbreak of war; at the same time, they could not sanction the preparations, asked by the military, because they might provoke the Boers to declare war, for which the British were ill prepared. They had to decide how to make the best of a bad situation. Whether to go for "all out" war preparations and mobilization, as suggested by Chamberlain, or defer mobilization, play for time, but start preparations, as suggested by Lansdowne.[7] On 22 September, the Cabinet endorsed the second course: they decided to play for time on the political front, but start war preparations, quietly and on a limited scale, to avoid precipitating the war.[8] They unanimously sanctioned £700,000 for war preparations, but refrained from either publicly announcing the preparations, calling the reserves, summoning Parliament, or sending an ultimatum.[9] The Cabinet wished to remove all suspicion of acting precipitatedly.

But as the political pressure mounted, the Cabinet realized they could not postpone mobilization much longer. They accordingly decided in principle on 29 September to mobilize an army corps, call up the reserves in ten days, and summon Parliament on 17 October, though the dates were to be kept secret, and no ultimatum was to be delivered as yet.[10] The Cabinet thus took the final plunge towards war. By deciding

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6. Lansdowne to Chamberlain, 21 September 1899, JCP, JC 5/51/84; Lansdowne to Salisbury, 21 September 1899, SP.
7. Chamberlain Circular to Cabinet, 22 September 1899, CAB 37/50/72.
8. Chamberlain to Milner, telegram, 22 September 1899, Headlam, Milner Papers, i, 545.
9. Salisbury to Chamberlain, 18 September 1899, JCP, JC 5/67/122.
10. Salisbury to Queen, 29 September 1899, CAB 41/25/20; Chamberlain to Milner, telegram, 29 September 1899, JCP, JC 10/9/67.

when to call up the reserves, they actually timed also the outbreak of war, since it was certain to provoke the Boers. They thus accelerated the pace of military preparations, but declined Chamberlain's suggestion that Britain consider an immediate ultimatum. They continued instead to play for time, as advised by Milner, until military preparations were in an advanced stage.[11]

II

In analysing Cabinet policy on war preparations and mobilization, three major questions need be answered: why did the Cabinet take those decisions then, and not before? Why did it sanction only £700,000 for military preparations? And to what extent were the previous decisions influenced by financial considerations? What cost-benefit analysis was applied by the Cabinet to the question of imperial intervention? Were they budgetary constraints, considerations of party politics, political and strategic reasons, or a combination of all these put together? The answers to all three questions are neither simple nor conclusive. It is difficult, if not impossible, to identify precisely all the reasons behind each and every Cabinet decision.

The Government had to move cautiously throughout. The strategic situation required that the outbreak of war be postponed until an army corps was in or on its way to South Africa. Another reason related to the Government's image. The memory of the Jameson Raid inhibited the Cabinet from prematurely increasing the garrison in South Africa, as it could be seen, at home and abroad, as a move against the independence of the republics. "Our hands were tied and our mouths were closed at the time by the Raid," explained Balfour.[12] The dispute with the Boers had centred until recently largely on the franchise issue. But when war became a certainty, Salisbury wished "to get away from that issue, which

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11. Chamberlain to Hicks Beach, 27 September 1899, HBP, PCC/86; Milner to Chamberlain, telegram, 28 September 1899, JCP, JC 10/9/68.

12. Balfour speech in Manchester, 9 January 1900, quoted in "British Statesmanship and South Africa,1895-1900", Westminster Gazette Popular, No.17, September 1900.

will be troublesome in debate", and instead make the break with the Boers on alleged breaches of the 1884 Convention.[13] It was more plausible. Parliament and public opinion were more likely to accept a war in defence of imperial interests in South Africa, as pronounced in the Convention, than a war for setting right some individual and much disputed grievances.

Political considerations were related of course to financial. In the British party system, defence decisions which involved increased spending, and hence, taxation, were unpopular, and were therefore only made when the Government were certain that the country was fully aware of the danger, and would back their decisions. After decades of talking peace, it was hard for the Government to convince Parliament of the dangers to Britain's vital interests, consequently for money and increased taxes. The Cabinet faced particular difficulty in view of the public's objection to additional taxation for military purposes, and its general indifference to the army as a fighting force.[14] They therefore hesitated to commit themselves unless they were certain they had the backing of a majority of the people. Salisbury preferred to have a slight delay in war preparations, risk some military disadvantages - even if it meant losing "in a few weeks what it might take months to recover" - rather than act before public opinion was aroused to the gravity of the crisis, accepted the necessity of war, and was ready to pay for it.[15]

The tendency to decisions by crisis was ingrained in the system, and the military were aware of it too. "In the army and navy affairs, no great measure is ever taken up by any government until public opinion forces its consideration upon the ministers in a way that to neglect it would injure the party then in power".[16] Sir F. Maurice, official war historian, had no doubt after the war - when he had thoroughly checked the

13. Salisbury to Chamberlain, 19 September 1899, JCP, JC 11/30/183.
14. K. Young, Arthur James Balfour (1963),185; Hamer, The British Army, 216-7.
15. Salisbury to Chamberlain, 16 August 1899, Milner telegram to Chamberlain, 9 October 1899, JCP, JC 5/67/115 & JC 10/9/71.
16. Wolseley to St. John Brodrick, 1890, quoted in Hamer, The British Army, 219.

archives of the major newspapers on the eve of the war - that if the Cabinet had "mobilized the Army Corps at the time Lord Wolseley asked for it, the country would have believed that you were trying to bring about a war and that probably the Colonies would have shared that view."[17] Chamberlain, who was aware of these political and financial limitations, could therefore ask in Parliament if the Government "had proposed a month ago to send an Army Corps to South Africa, if we had come here with proposals to spend a million & a half on animals & eight & a half millions more on the necessary preparations, would the party opposite [the Liberals], as a whole, have supported us."[18] Since public opinion was slow to rally in time of crisis, it forced the Government to shape their acts accordingly, with the result that when they did, from a military point of view, it was rather late.

It is impossible in fact to separate the strategic unpreparedness from the diplomatic inexpediency of an early war, and these two from financial and party political considerations, and consequently from parliamentary control of the purse. They were all interconnected and, therefore, concluded Hamilton: "They could not have better prepared for War without money; money required an application to Parliament; an application to Parliament would have inevitably been deemed to be a direct provocation of War."[19] The same constraints prevented the Cabinet from acting precipitately throughout the crisis, and when war became inevitable, they were forced to call Parliament. There was nothing the Cabinet could do about it. Did Britain pay a very high price because of the delay in war preparations? Sir Fredrick Maurice thought it was "better for us to incur some losses and have the whole nation heartily with us than to save the losses and have a seriously divided nation and hesitating colonies, but I think we had to pay the price."[20]

The psychological reasons for the delays in war preparation and

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17. Sir F. Maurice to Chamberlain, 24 September 1904, JCP, JC 19/4/3.

18. 19 October 1899, Hansard, vol., lxxvii, cols. 275-299.

19. 30 August 1903, EHD, 48681.

20. Sir F. Maurice to Chamberlain, 24 September 1904, JCP, JC 19/4/3.

mobilization are equally revealing. A self-confidence, deeply engrained in the political establishment, strengthened the policy-makers' belief that Britain could easily defeat the Boers, despite an early military disadvantage. Britain's standing as the world's foremost power was taken for granted, and policy-makers could not easily accept (any more than could the public at large), Britain's relative economic and military decline; they acted "on ideas and assumptions formulated twenty or thirty years before", when Britain had indeed been supreme.[21] It may also explain why no special feeling of crisis was felt in the country in the summer of 1899, and why there was no war fever.

This confidence in the absolute superiority of the British Empire over all other powers, especially when taken with the racial prejudices against a small nation in South Africa, led the policy-makers in Britain to believe that a war with the Boers would be a very short one, should it ever come to that. Common sense suggested that the Boers would not dare challenge the British Empire, and should they be stupid enough to do so, so much the worse for them. The fighting was predicted to be easy and, according to the military when war broke out, practically a 'walk over'.[22] Lord Roberts admitted after the war that the Boers had been under-estimated.[23] However, when the Boer ultimatum reached London, Hamilton was shocked. "One would think they had gone mad".[24]

III

Once war was a probability, the Cabinet's most difficult decision in September was the timing of the mobilization, which was connected to the ultimatum problem. The number of times Lansdowne changed his mind over this issue is perhaps an indication of the difficulty. At first, just after

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21. James Joll, "1914: The Unspoken Assumptions", in H. W. Koch (ed.), The Origins of the First World War (1972), 320.

22. 13 October 1899, EHD, 48675.

23. RCWSA, [Cd.1789.], 24.

24. 11 October 1899, EHD, 48675.

the Cabinet decided in principle to mobilize an army corps, he did not think Britain would "lose anything" if the reserves were not called until 13 October.[25] But the next day, after having discussed the matter with Wolseley and Buller, he changed his mind, and thought the reserves should, after all, be called on the 7th, as agreed in Cabinet.[26] The gradual way in which the army corps was mobilized is testimony to the Government's hesitation, and their fear of precipitating hostilities too early. On 29 September, the Cabinet decided only in principle that an army corps would be mobilized. The actual approval was given on 2 October, and still not made public, while official Cabinet sanction for the mobilization of the army corps, and the calling up of the reserves was given only on 7 October.

As late as the middle of September, the Secretary of State for War was still confused about the size of the force intended for South Africa. He wondered whether the despatch of a whole army corps was in addition to the 23,000 already there or on their way, or included them - whether the force in South Africa would eventually be 48,000 or 71,000 men.[27] Such was the lack of communication between civilians and military in the War Office, and such was Lansdowne's reservations about the thinking and requirements of the military.[28] But Wolseley left no doubt as to what was required. He urged the Cabinet to despatch as soon as possible a whole army corps and cavalry division to South Africa. It would, he wrote,

> bring the campaign to an end with less expenditure of time, lives & money than the despatch of a smaller force... As regards expense, the saving in time will compensate & more than compensate for the increased initial cost. Let us therefore send them & end the war quickly & thoroughly... Under any circumstances let us now mobilize the whole force at home as originally intended. We can always retain in England a Brigade or Division, if the future course of events shows we can do so with safety. We should thus have at home a reserve force ready for immediate use, which might under some contingencies prove of incalculable value.[29]

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25. Lansdowne to Salisbury, Secret Memorandum, 29 September 1899, SP.
26. Lansdowne to Salisbury, 30 September 1899, SP.
27. Lansdowne to Wolseley, 13 September 1899, WO 32/7854/9018.
28. The Royal Commission reached similar conclusions. See RCWSA [Cd.1789.], 144.
29. Wolseley Report to Lansdowne, 16 September 1899, WO 32/7854/9018.

Lansdowne's haverings added to the Cabinet's confusion on all issues related to mobilization, and consequently neither they nor the Treasury could accurately estimate the cost of the war. The question was, of course, strongly related to how they saw the forthcoming war. The Cabinet relied, quite naturally, on the advice of the military. But the military estimates were accepted readily, because they fitted so well with their own expectations of the war. The Cabinet therefore accepted the advice of Wolseley and Lansdowne, and agreed to mobilize an army corps and a cavalry division. But not so Hicks Beach, who right up to the start of the hostilities and even after, disputed the necessity to despatch 50,000 more men to South Africa.

IV

Meanwhile, the Treasury continued its efforts at reducing the military expenditure connected with the crisis, whether by influencing Cabinet policy, or by detailed administration of peacetime rules of accountability by the War Office, especially as expenditure related to the crisis mounted rapidly in September. Early in the month, the cost of troops from India was estimated at £375,000.[30] But by the middle of the month the estimate mounted to nearly £1 million (though including the Mediterranean contingent), and fresh demands were rising so fast, that the War Office could not always submit them for prior Treasury sanction.[31] The rise in expenditure concerned Lansdowne, who in anticipation of Treasury criticism, assured Hicks Beach that he would try to control the costs. He "resisted all demands which seemed to me to be founded upon the assumption that the force in Natal, or on its way there, was to be used for offensive purposes", and refused ammunition columns for the field artillery.[32]

Lansdowne claimed that the expenditure was heavy because of the

30. Viceroy to WO, 3 September 1899, JCP, JC 10/3/111.

31. WO to Treasury, 13 September & Treasury to WO, 18 September 1899, T.1/9461B/14940.

32. Lansdowne to Hicks Beach, 13 September 1899, LP, L(5)46; see also his explanation after the war. Lansdowne evidence, RCWSA, [Cd.1791], 522.

afterthoughts, implying that they were due to the requests of the military not having been sanctioned sooner. But he could have pointed the finger at himself as much as at the Treasury. He had in the past curtailed military demands, and by his own admission, was continuing to do so. He may have been admitting that the heavy expenditure was due to his own inhibitions, which resulted from anticipating Treasury objections and criticism, and that they were merely paying now instead of in the past. But Lansdowne could press for an issue if he thought it was sufficiently important, militarily or politically. He asked, for example, for immediate Treasury sanction for two hospital ships.[33] The lack of hospital ships in the Sudan campaign had been severely criticized. Since both Lansdowne and Hicks Beach were aware of the possible political dangers of a repetition, the first insisted, and the other, not surprisingly, promptly sanctioned the request.[34]

The Chancellor of the Exchequer was, on the one hand, becoming resigned to war as being inevitable, because "we all feel that it has to be done", but at the same time lamented that "war preparations go on, and any amount of money is being spent".[35] He was confused - like so many other policy-makers - over the size of force necessary, the time the war would last, and of course its cost. Like most, if not all, policy-makers, he expected a short war. "Could a campaign be over by the end of December? Or the end of January," he wondered.[36] Hamilton had, it seems, a better understanding of the issue involved than many policy-makers. War expenditure, he estimated, "will be very heavy", because the Government could not afford a loss of dignity or prestige in South Africa, and would therefore make certain of a complete success.[37]

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33. Lansdowne to Hicks Beach, 13 September 1899, LP, L(5)46.
34. WO to Treasury, received on 18 September, Treasury to WO, 22 September 1899, T.1/9422/15075.
35. Hicks Beach to Lady Londonderry, 30 September 1899, & to his wife a few days later, both quoted in Lady Hicks Beach, Hicks Beach, ii, 108-9.
36. Hicks Beach to Lansdowne, 4 October 1899, LP, L(5)46.
37. 20 June & 5 October 1899, EHD, 48675.

V

The second phase of Treasury efforts at checking the cost of the war started on 2 October, when Lansdowne authorized the expenditure of some £4.4 million, bringing the total expenditure sanctioned until then to £7 million.[38] Lansdowne now warned Salisbury that "we should make a grievous mistake if, from motives of economy, we were to reduce the number of troops for which we are asked to provide."[39] The War Office estimated the total cost of the expedition till the end of the financial year at £10 million.[40] But Hicks Beach rejected the estimates because, he claimed, they did not match the figures given him earlier, according to which estimated total cost was less than £9 million. He therefore saw "no reason why we should ask Parliament for more than 9 millions". He criticised War Office contingencies and margins, because "to make great allowances for them beforehand is only to encourage waste." He used very strong language with Lansdowne. "In answering my financial criticism, I think it would be well if you would send me a full statement that would be composed of the details already authorized - and go on to others with which we are now dealing."[41]

But the War Ofice was not apologetic. In fact, it replied, the £10 million estimate was the minimum required.[42] If anything, Lansdowne added, "our margin is rather too small than too large". Furthermore, the estimated prime charge did not include either the return sea transport for the troops, or the mobilization of the militia.[43] Regarding colonial railways and stores, the War Office suggested that the 'hire of camping grounds' and 'railway stores', be left for future consideration.[44] This

38. 4 October 1899, WO 32/7864/9291.

39. Lansdowne to Salisbury, Memorandum, 3 October 1899, CAB 37/51/76.

40. "WO estimate of Military Expenditure to 31 March 1900", 5 October 1899, HBP, PC/PP/73.

41. Hicks Beach to Lansdowne, 6 October 1899, WO 32/7864/9291.

42. WO Memorandum on Beach letter of 6 Ocober 1899, on "War Office Estimates for Cost of Expedition", 10 October 1899, HBP, PC/PP/73.

43. Lansdowne to Hicks Beach, 11 October 1899, LP, L(5)46.

44. WO to Treasury, 12 October 1899, WO 32/7864/9291.

was the first time in this war (by no means the last), that the Treasury was asked to bear costs that were ancillary to the war, but related to the South African colonies, with the promise that they would be settled after the war. The Treasury was not encouraged.

Lansdowne put the War Office case to the Cabinet, because it is "desirable that Cabinet should have some idea of the probable cost up to the end of the financial year". The new estimate was for £11 million, including the cost of mobilizing the militia and the replacement of stores, but not the return transport. He did not expect a reduction in the total. "Should there be prolonged military operations, it may be largely exceeded."[45] This was the first indication by the War Office that early war estimates might be largely exceeded, and that the final cost would depend on the character and length of the war they were to encounter.

The War Office raised another issue which engaged the Cabinet and the Treasury throughout the war and after. Wolseley cautioned the Cabinet that after the despatch of the expedition to South Africa, the force that would remain in Britain would be "altogether inadequate for the maintenance of our position as a military power".[46] Lansdowne took up Wolseley's warning on the inadequacy of the force remaining in Britain, and suggested mobilizing one militia battalion in each of the 33 territorial regiments, at an estimated cost of under £1 million. He estimated at a further £1 million the cost of replacing the stores and clothing of the 1st and 2nd Army Corps, since they would not be worth bringing back after the war.[47] The Treasury was thus asked to resolve two problems concurrently - current war expenditure, and expenditure necessary for replenishing the military stores during or after the war.

Sick and unable to attend the Cabinet, Hicks Beach battled with the War Office from his bedside. He had strong reservations regarding the sum for return transport, and mobilization of the militia, estimated to

45. Lansdowne Memorandum, 12 October 1899, CAB 37/51/78.
46. Wolseley Minute, 30 September 1899, to Cabinet, 12 October 1899, CAB 37/51/78.
47. Lansdowne Memorandum, 12 October 1899, HBP, PC/PP/73.

cost £1 million. "No - you can't tell what may be wanted - and your reserves next year can't be that down", he told Lansdowne.[48] Hicks Beach wrote a more significant letter to Salisbury. He maintained that the mobilization of the militia might be necessary only if Britain met a reverse, if there was a Dutch rising in the Cape, or if Salisbury really expected foreign trouble. Otherwise, he saw no reason for it at all.

> The Boers would be much demoralized by a reverse: and then the whole matter might be finished before Xmas, and before all the Army Corps have got there.
> At any rate, I hope the Cabinet will not agree to embody the Militia to-morrow. I am aware it is part of the 'system' to do so: but I see no necessity for rigidly carrying out in this case a system which was, I believe, invented for a war with a great continental Power: or why we should spend a large sum merely to enable the soldiers to show that their system will work.[49]

The Treasury started its two pronged battle against the rising cost of the war and its after-effects - the growth of military stores, and an increase in the size of the army after the war. Regarding current war expenditure, Hicks Beach still expected to contain it within £10 million. He seemed to say that it was possible if only Lansdowne would limit himself to a fixed sum and better calculate the return cost of the troops. He saw no reason at present to embody the militia, and expected there would be none in the future, since the Boers would be demoralized and give in. He blamed the military (who wished to "test their system"), for the high estimates. Their games were costly. Knowing Salisbury's personal distaste for the military and for high taxation, Hicks Beach warned him that if he gave the War Office a free hand, he should expect an increase of the latter. The Chancellor of the Exchequer tried from his sickbed to influence the formulation of military policy. His trump card was the threat of increased taxation.

In the absence of Hicks Beach, Lansdowne hoped to receive the necessary approval for his scheme in the Cabinet of 13 October. But the issue was deferred till the next Cabinet, which Hicks Beach attended. Lansdowne's militia scheme was approved in principle, despite strong

48. Hicks Beach Minute on Lansdowne Memorandum, 12 October 1899, HBP, PCPP/73.
49. Hicks Beach to Salisbury, 12 October 1899, HBP, PCC/34.

opposition from Hicks Beach, but only half of the £1 million requested was sanctioned. The Cabinet maintained that the War Office could not possibly spend the whole amount during that financial year.[50] But one important reason for not sanctioning the entire request was the belief that the war would be soon over, and therefore not necessitate all the militia battalions. Hicks Beach's objections were therefore not in vain. He managed to delay part of the extra expenditure in the hope that it might not be necessary. Treasury control succeeded, and the Cabinet compromised. The Treasury could still hope to finish the financial year with a balanced budget, thanks to surplus revenue, and only £8 million of short term loans.

Shortly after hostilities started on 11 October, the War Office changed its forecast regarding the rate of war expenditure a number of times. Until 26 October, it expected the sum of £10 million to last till the end of the financial year.[51] But the forecast changed the next day. The War Office claimed that the old estimate left little margin for contingencies, and that the new and higher forecast was due to the despatch of 60,000 instead of 50,000 men estimated earlier. The new estimates included the sum of £500,000 for military stores, and a further £500,000 for the mobilization of the militia, recently approved by the Cabinet. Of the £10 million original estimate, only £600,000 were therefore expected to be left for the very heavy local expenditure in South Africa, which had been incurred but not yet reported.[52] It was the second indication in two weeks by the War Office that the sum of £10 million would not be sufficient; that early war estimates might be largely exceeded, and that the final cost would depend on the character and length of the war they would encounter. It is amazing that both the Treasury and the War Office still expected war expenditure to be more or less within the terms of the first £10 million war estimate.

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50. Lansdowne Minute to Wolseley, 18 October 1899, in RCWSA, [Cd.1789.], 273.

51. 26 October 1899, WO 32/7864/9164.

52. WO to Treasury, 27 October 1899, T.1/9461B/17002.

Treasury attitudes to the problems raised by the crisis, and later by the war, were not monolithic. In particular, there was a significant disparity between the views of Hamilton and Hicks Beach on questions of war expenditure. While Hicks Beach invariably tried to reduce War Office estimates, and often delayed or obstructed in small matters, however reasonable or minute, Hamilton tended to trust the War Office, and neither questioned every detail of expenditure nor believed that in a war it was possible to avoid waste. "Beach is very down on the War Office with its Estimates; and I have no doubt there is plenty of waste going on, but wasteful expenditure is inseparable from War. War neither can nor should be waged on the cheap."[53] Although Hicks Beach and Hamilton were equally Gladstonian in fiscal matters, and held by and large similar views on the role of the Treasury regarding the other departments, the orthodox convention regarding the Treasury staff does not seem to hold, especially in the case of Hamilton. He seemed to have a more flexibile and pragmatic approach to problems than Hicks Beach. The disparity between the attitudes of Hicks Beach and Hamilton to War Office requirements may very well have been related to their different conceptions regarding the role of the army within the state. Hamilton believed in the necessity of a strong army for preserving the Empire, but Hicks Beach believed in the principles of a liberal state, the taxpayers' state, with as small an army as possible, and with minimum government involvement in the affairs of the nation.

Chalmers, the clerk responsible for the War Office, was the first man at the Treasury to warn against war expenditure rising beyond the estimated £10 million. According to the War Office, "the three months of January-March will be left with only £541,000 for expenditure", a sum he did not believe would be sufficient. Chalmers' views or expenditure were closer to Hicks Beach's than to Hamilton's. He fitted far more than Hamilton, the convention regarding the orthodox Treasury official, the unyielding guardian of the public purse, who questioned and criticised all expenditure. Chalmers (like his chief), questioned whether it was right, when British troops had come to defend the colony from Boer

53. 17 October 1899, EHD, 48675.

invasion, that the imperial Exchequer should pay for the use of colonial railways. Chalmers also warned that no juggling of the accounts would diminish the final cost of the war. "It must be borne in mind that stores must be re-pleted, & that any under-expenditure this year must over-expenditure next." This unyielding guardian of the public purse set the tone for Treasury criticism of the War Office over war expenditure.[54]

Part Two

The Treasury, War Estimates and Taxation

The financial implications of the imminent war will be examined in this part. How did the Treasury intend raising the money necessary for the war? Did the Treasury apply the customary norms for raising funds for war? Did the anticipation of an indemnity from the Transvaal affect the Treasury's decisions regarding the raising of funds for the war? Lastly, was the Transvaal's gold taken into consideration as a potential source for recovering the cost of the war?

I

In early October, when war was a certainty, the Treasury started considering ways for raising the funds necessary for war expenditure. Hamilton considered the sum of £10 million (the estimated cost of the war), so large "that notwithstanding the buoyancy of the revenue there ought to be put on a certain amount of fresh taxation: the country ought not to make war without feeling the pinch of it".[55] Hamilton expressed the conventional Treasury view, shared by Hicks Beach, and in line with the Gladstonian gospel, that the people should pay for their wars at the

54. Memorandum by R. Chalmers, 30 October & Treasury to WO, 11 November 1899, T.1/9461B/17002. Chalmers went on to became Chairman of the Board of Inland Revenue (1907), & Permanent Secretary at the Treasury, (1911-13, jointly 1916-19).

55. 5 October 1899, EHD, 48675.

time they were waged. Hamilton thus urged Hicks Beach not to suspend the sinking fund, and "face the odium of increasing taxation", by adding a penny on the income tax, and by making further additions to beer and spirit duties.[56] This was the beginning of the debate that was to ensue, as to whether the cost of the war should be met by loans or by taxation, and if taxation, whether direct or indirect.

Since peacetime budgets did not normally appropriate any extra money for military emergencies beyond the annual estimates for the War Office and the Admiralty, Hicks Beach now worried over how to provide for an unexpected war expenditure in the middle of a financial year. He could secure the funds needed either by temporary borrowing or by a supplementary estimate.[57] The Treasury characteristically was much concerned with precedent and procedure and so, Hicks Beach asked Hamilton to look into the precedents for going to Parliament for an extraordinary war vote in the middle of a financial year. It had been the policy of Governments to have a broad consensus before engaging the country in a war, and as seen above, this one was no exception. Despite the Government's substantial majority, Parliament would not sanction the sum requested unless it was appropriated precisely.[58] The system of parliamentary appropriation of moneys under fixed heads was another reason why Parliament could be approached only at the last minute, when the Government were likely to have a reliably definable estimate of their requirements.

Treasury officials found the precedent of 5 December 1878 - which sanctioned the charge for the Afghan Expedition on the Indian revenue - the most convenient to cite, although that was an entirely different kind of war finance. When Parliament convened again on 13 February 1879,

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56. 6 October 1899, EHD, 48675.

57. See chapter I.

58. When on 26 August 1914, Lloyd George introduced a bill which empowered the Treasury to borrow during that financial year an unspecified sum "in such manner as they think fit", Hicks Beach was furious. "What would he [Lloyd George] have said (or Harcourt) if I had introduced such a Bill at the time of the Boer war?", he asked. Quoted in Lady Hicks Beach, Hicks Beach, ii, 310.

Disraeli had told the Lords that "it would not have been prudent - even if it had been possible - to indicate in December the measures contemplated for the main part of the Session."[59] This precedent could be used to fortify the Treasury's adoption of similar procedure in October, when Parliament would be asked to sanction a vote of credit for war expenditure in South Africa. The chancellor assured the Commons that the Treasury could pay for war expenditure out of surplus revenue (expected at three to five million), and "meet any excess by increased taxation (if necessary) next year".[60]

The South African Republic's ultimatum expired on the 11th, and war commenced. The Cabinet met on 13 October (without Hicks Beach who was ill), to discuss two urgent matters: the financial question and the necessary defence measures in anticipation of denuding Britain of its troops. Lansdowne, elated by Hicks Beach's absence, hoped for a sympathetic Cabinet to War Office requests. "Beach is ill & won't be at the Cabinet tomorrow!"[61] Lansdowne feared both the chancellor, who was likely to object to his requests, and his Cabinet colleagues, who had an aversion for expenditure that was likely to be unpopular. In the absence of Hicks Beach the Cabinet postponed the issues to the17th.[62] Salisbury could not proceed without the chancellor with matters that entailed substantial financial implications. Hicks Beach was far too powerful to be ignored. Besides, he had the previous day asked for an increase of "a 2d income tax, 1/- extra on beer, and 6d on spirits."[63] By threat of fresh taxes, Hicks Beach acquired the Cabinet's attention.

Lansdowne's memorandum, which warned that £11 million were needed (excluding any increases that might be necessary should the war be prolonged), made Hicks Beach "all the more uneasy about the War

59. W. Blain [Treasury Clerk] to Hamilton, 22 September 1899, EHFP, T.168/46.

60. Bernard Mallet, British Budgets: 1887-88 to 1912-13 (1913), 147; 16 August 1899, EHD, 48675.

61. Lansdowne to Chamberlain, 12 October 1899, JCP, JC 5/51/90.

62. Salisbury to Queen, 13 October 1899, CAB 41/25/22.

63. Hicks Beach to Salisbury, 12 October 1899, HBP, PCC/34.

Office expenditure".[64] The Cabinet of the 17th discussed two issues: what provisions to make for Britain's defence in the absence of the force in South Africa, and to what extent the cost of the war should be met by new taxes. Hicks Beach did "his best to persuade his colleagues to agree to putting on taxation now", but they thought that "public opinion is against any heroic step or else is unprepared for it."[65] Thus most Cabinet ministers strongly objected to an immediate increase of taxes. It is claimed that they feared that fresh taxation would arouse debate in Parliament and increase dissent, just when its unanimous support was needed.[66] The argument was no doubt sincere, but there were other important considerations, as shown below.

It was a stormy Cabinet, in which sharp words were exchanged between Hicks Beach and some ministers regarding another issue to be discussed below. On the two urgent questions of taxation and militia, the Cabinet decided to defer the first until the19th, but overruled Hicks Beach on the second, and approved the call up of the militia.[67] Hicks Beach used his trump card. "I am led to believe", he told Salisbury afterwards, "by what passed at the Cabinet today, that it might be more agreeable to my colleagues that someone with different ideas of his duty in that Office should take my place as Chancellor of the Exchequer. If so, the Office is at your disposal whenever you desire it."[68] It was the first, though by no means the last time during the war, that Hicks Beach threatened resignation. But this time he had no desire to resign, or, having made his own position clear, to press the point further.[69] He could neither impose his views on an entire Cabinet, nor resign just then. He was too responsible and loyal to leave at that time. Nor did his colleagues desire his resignation.

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64. Hicks Beach to Salisbury, 14 October 1899, HBP, PCC/34.
65. 17 October 1899, EHD, 48675.
66. Lady Hicks Beach, Hicks Beach, ii, 111.
67. Salisbury to Queen, 17 October 1899, CAB 41/25/23.
68. Hicks Beach to Salisbury, 17 October 1899, HBP, PCC/34.
69. Lady Hicks Beach, Hicks Beach, ii, 110-111.

II

The debate in Cabinet and Hicks Beach's letter provoked a very lengthy reply from Salisbury. It was a mixture of appeals to Hicks Beach's better self, concessions to the Treasury in the form of cutting costs in the proposed Old Age Pension Bill, and criticism of excessive Treasury control. By appealing to his patriotism and party loyalty, Salisbury tried to soothe his angry Chancellor of the Exchequer. "I am quite sure that my colleagues would heartily join me in replying to it that your retirement from your office at any time, and especially at the present time, would be a most serious injury to our Government, and Party, but also to the country." He hoped Hicks Beach would "do nothing rash - especially at a time when the Party system is in a rickety condition - and any serious political convulsion might make it difficult to get the Queen's Government carried on at all."[70]

Salisbury knew, however, that something more substantial would be required to placate Hicks Beach. The Government were considering - within their general ideas on social reform - a comprehensive old age pensions bill, to replace the existing poor relief scheme. But the bill was objected to by an unanimous Treasury. Hamilton, who considered the bill "bad & demoralising from every point of view - financial, economic, & political", asked Hicks Beach to remove it altogether from Government agenda. Hicks Beach had in the past threatened to resign rather than agree to an extensive old age pension bill, though Hamilton doubted he would carry his threat out.[71] Hamilton's objection to the proposed bill reflected his orthodox views on public finance, and his conservative views on social issues. He was too orthodox a Gladstonian in fiscal matters to be open to the new liberal ideas on social reform. Thus, although he often drew the attention of Hicks Beach and other policy-makers to the political dangers of additional taxation, he rarely noticed its political and social advantages to a Government. "His fiscal advice was bad politics" for the

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70. Salisbury to Hicks Beach, 18 October 1899, HBP, PCC/69.

71. 1 August 1899, EHD, 48675.

Government.[72]

Hicks Beach did not press the issue in early August, as Hamilton suggested, because he considered it untimely. But he did not have long to wait. The opportunity came in October, when for various reasons, he considered deferring the increases in taxation until the budget. He was willing to defer the tax increases, but in return he asked that the old age pension bill, "an element in my reasons for writing as above", also be deferred. He was ready to make some reforms in the poor law relief, but he would not consent to pensions outside that system, especially since "this question does not press at the moment".[73] Hicks Beach had often - as an orthodox and Tory chancellor - expressed his concern with the ever growing demands for expenditure, either for military purposes or for social services. But unlike Hamilton, he could neither entirely ignore the political advantages of such a bill, nor its advocates within the Government and the Party. Hicks Beach adopted a shrewd tactic. As all policy debates on the desirability of social reform were dominated by financial considerations, he questioned the timing of the proposed bill, not its desirability. Salisbury agreed that the issue was indeed not pressing.[74] Hicks Beach used the opportunity to put aside a matter not related to the war, but to which he had objected all along. Although his views on the issue clashed with "those of the majority of the Cabinet", the customary Treasury tactic of delay paid off.[75]

The subject that triggered off the dispute in the Cabinet, and consequently the above exchange of letters, was not one of the two for which it was convened, though had a direct bearing on Treasury control over other government departments. The Treasury had recently refused the Colonial Office certain sums for subsidising a steamer mail and information service between Delagoa Bay, Beira, Natal, and Cape Town. The latest telegram had reached the Colonial Office just prior to the

72. Avner Offer, Property and Politics,1870-1914: Landowners, Law, Ideology and Urban Development in England (Cambridge,1981), 212.

73. Hicks Beach to Salisbury, 17 October 1899, HBP, PCC/34.

74. Salisbury to Hicks Beach, 18 October 1899, HBP, PCC/69.

75. Hicks Beach to Salisbury, 17 October 1899, HBP, PCC/34.

Cabinet of 17 October, urging the approval of such a ship at a cost of £500 a month. Chamberlain, who felt frustrated, attacked in Cabinet the system of 'Treasury control'. He was supported by Salisbury and by the heads of other spending departments.[76] The Cabinet approved the use of the ship, and subsequently Hicks Beach and Chamberlain reached an understanding, whereby the Colonial Office could spend small sums for services in South Africa without previous Treasury sanction.[77]

Besides appealing to Hicks Beach, and making concessions to the Treasury, Salisbury explained the resentment of ministers at excessive Treasury control.

> I think you do not sufficiently allow for the very peculiar position given by our system to the Treasury, & which is very galling to other departments. That the Treasury should say that any expenditure is excessive, or thriftless, in regard to the objects for which it is intended, is obviously within its functions. But in practice the Treasury goes much further. It acts as a sort of Court of Appeal on other departments. Because every policy at every step requires money, the Treasury can veto everything: and can do so on proposals which have nothing financial in their nature: and form judgement upon which it has no special qualification. The line... is hard to draw: but it is natural for the head of a department to feel annoyed if, by applying the financial... the Treasury hampers a policy in which it does not concur. Of course, in war time when decisions must be taken rapidly, any such impediment to prompt action is very keenly felt. It is much more keenly felt, if the interference of the Treasury aims, not at arresting a policy which it disapproves, but at securing sufficient delay to enable it to disapprove if it wishes...
>
> I am bound to say as the result of my experience during some fifteen years of Cabinet office that I think in small matters the Treasury interferes too much. In large questions its resisting power is frequently inadequate.[78]

The question of Treasury control will be discussed in the next chapter. However, one aspect of this very complex issue requires some immediate attention, namely the extent of Treasury control in wartime. Would Hicks Beach suspend during the war the normal peacetime rules of accounting to the Treasury for expenditure, or would he demand that

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76. Milner to Chamberlain, 17 October 1899, T.1/9450B/18365; Lady Hicks Beach, Hicks Beach, ii, 109, respectively.

77. CO to Treasury, 19 October, Mowatt note, 23 November 1899, T.1/9450B/18365.

78. Salisbury to Hicks Beach, 18 October 1899, HBP, PCC/69.

they continue in force? Was the Treasury able and willing to discard its rigid peacetime requirements? Hicks Beach's answer was rather vague. "I recognize the necessities of war, and am prepared to waive the usual formalities. But I am not prepared to leave either the Colonial Office or the War Office to incur whatever expenditure they think fit, without any voice in the matter; and the right to appeal to the Defence Committee if I differ from them."[79] On the one hand, this answer seems to speak for itself. Hicks Beach had no intention of relinquishing Treasury powers of supervision and control even in wartime. However, by accepting as the final arbiter in case of dispute the Cabinet's Defence Committee, he seems to have recognized that Treasury power could not be unlimited. One can claim, however, that also in peace time the Cabinet was the final arbiter, but that Treasury control was nevertheless effective.

III

The Cabinet met again on the 19th to decide over the funding of the war. Some ministers proposed raising the funds necessary by short term borrowing through Treasury Bonds, and the deferment of the final adjustment of accounts until after the war. But Hicks Beach demanded an immediate rise of taxes, and proposed to put a penny on the income tax and 6d. on beer. "His colleagues acquiesced very reluctantly". With the new taxes and the surplus revenue, the Treasury expected to muster an extra £6 million.[80]

But the matter was not settled. The reluctant acceptance of the proposals by many ministers, and the good news from the battle front, forced Hicks Beach to have second thoughts. He asked to see Salisbury before making his final proposals to the Cabinet.

> I am much influenced by the military situation. If there are real successes in Natal and at Mafeking, it is <u>possible</u> that they may have such an effect on the Boers that the war may be over long before any one has expected - and if this amounts to a probability, I should have no right to ask now for additional taxation. Every fresh success, indeed, makes people expect fresh taxation less.

79. Hicks Beach to Salisbury, 17 October 1899, HBP, PCC/34.

80. Salisbury to Queen, 19 Otober 1899, CAB 41/25/24; 19 October 1899, EHD, 48675.

> I was told that Campbell-Bannerman had said this afternoon that we should be mad to propose it. I feel that I have no right to force my opinion on the majority of the Cabinet on this matter, unless I am absolutely certain in my own mind. And my opinion is weakened for the reason I have given.[81]

It was thus decided to postpone the raising of fresh taxation until the Budget.[82] Hamilton was very surprised with the volte face of the Cabinet, especially with that of Hicks Beach. Only three days ago they had agreed to impose fresh taxation, and now they decided against it. But Hicks Beach had a number of weighty reasons for the deferment. First, he could neither ignore the strong objections of many ministers to fresh taxation, nor be totally blind to the political damage of fresh taxation. Second, many saw the early British successes in the field as the start of a Boer collapse, which seemed to confirm the prevailing opinion that Britain was engaged in another colonial campaign that would soon be over and cost relatively little. Only a Treasury official could think of the "good though expensive beginning".[83] Third, since the war would shortly be over, Britain could soon expect to cover all (or at least a substantial part) of the cost of the war from the Transvaal as indemnities, and thus not require any fresh taxation.

Lastly, there was the Opposition. Any question of fresh taxation was bound to raise discussion in Parliament, especially by the Radical section in the Liberal Party, not to mention the Irish Nationalists. The chancellor wished to reach a tacit understanding with Campbell-Bannerman, Leader of the Opposition, on the need to present a united front in Parliament. "Beach told me that what weighed with him most was that taxation proposals would" have required discussion, and that it was "desirable to get rid of Parliament".[84] As Campbell-Bannerman considered it mad to raise taxes then, Hicks Beach rightly assumed that he had the consent of the Opposition to the deferment of fresh taxation. Both Parliament and the Opposition were therefore important factors in

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81. Hicks Beach to Salisbury, 22 October 1899, HBP, PCC/34.

82. Salisbury to Queen, 23 October 1899, CAB 41/25/25.

83. 22 October 1899, EHD, 48675.

84. 23 October 1899, EHD, 48675.

the Cabinet's decision to postpone fresh taxation. The majority of the Opposition indeed voted with the Government to postpone the debate on the budget, and Parliament approved by a majority of 336 to 27 to grant the Treasury £10 million until the end of the financial year.[85] For the time being, 'deference to the front Opposition Bench' seemed to pay off.

The Government's desire not to alienate the Opposition in a time of crisis is understandable, but why was the Opposition so acquiescent and silent? There does not seem to be a clear answer. It may be partly explained by their desire to be seen as a responsible Opposition, which in time of crisis united behind the Government. Moreover, the 'Liberal Imperialists' - an important section which included such party leaders as Rosebery, Sir Edward Grey and Asquith - agreed with Government policy.[86] And Campbell-Bannerman may have wished to keep a middle course in his polarized Party.[87] Most likely, the Opposition (like Hicks Beach), were influenced by the news from the battle front, and thought it impolitic to discredit themselves in the eyes of the public. Are there alternative explanations? Was Campbell-Bannerman, who on 6 October still saw no reason for war preparations, thinking that "the longer the day of reckoning was put off, the tighter would be the place in which he [Hicks Beach] would be"?[88] Hamilton's assumption may be far fetched, but considering his long and close grasp of the political scene, and his intimate relationship with Rosebery and other Liberals, he may have known what he was talking about.

The chancellor's unexpected change of opinion reflects upon the way both Cabinet and Treasury policy were formulated. It shows Hicks Beach's powerful influence in the Cabinet. When he pressed for fresh taxes, the Cabinet approved them, despite strong opposition, although

85. 23 October 1899, Hansard, vol. lxxvii, cols. 518-546.

86. A. M. Gollin, Proconsul in Politics : a Study of Lord Milner in Opposition and in Power (1964), 37-8.

87. Earl of Oxford and Asquith, Fifty Years of Parliament, 2 vols. (Boston,1926), i, 303.

88. 19 October 1899, Hansard, vol. lxxvii, col. 297; 23 October 1899, EHD, 48675, respectively.

reluctantly. But the belief that the war would be shortly over finally convinced him to defer the financial issues until after the war. But before he made his final proposition he asked to meet privately with Salisbury, Balfour and Goschen, but without either Chamberlain or Lansdowne. The 'conference' discussed the matter at 12.30, before it received its formal sanction in the Cabinet.[89]

But was Hicks Beach really convinced about the desirability of deferring the financial questions to the Budget, or was he driven to the conclusion, "not I feel sure by your own convictions", as suggested by Harcourt? Did he have to give in to Cabinet pressure against taxation, despite his own convictions, or was he also convinced that the right thing was to postpone the taxes? As seen above, a number of factors were taken into consideration, all of them important. What eventually tilted the balance against immediate fresh taxation was probably the feeling that the war was over, and that they could expect a substantial sum from the Transvaal. Hicks Beach may therefore have been right to reject Harcourt's notion, admitting only that "it was the wish of the Cabinet, but the decision was left to me."[90]

IV

With the development of new ideas about the desirability and efficacy of state action in the late nineteenth century, "the doctrine of retrenchment lost ground, and debate came to focus more on the notion of taxable capacity, both of the country as a whole and of particular groups of taxpayers".[91] Had Britain "reached the limits of tolerable taxation", as claimed in 1895 by Harcourt?[92] According to one source, Britain had maintained in the1860s a level of expenditure that was - in proportion to the country's wealth and individual incomes - expected for the early 1900s. Because the country's wealth had doubled since the 1860s, it could

89. 23 October 1899, EHD, 48675.

90. Harcourt to Hicks Beach, 24 October 1899, Hicks Beach note, no date, HBP, PCC/81.

91. Bruce K. Murray, The People's Budget 1909-10 : Lloyd George and Liberal Politics (Oxford, 1980), 21.

95. Quoted in Murray, The People's Budget, 21.

sustain a normal government expenditure of £160m.[93] According to another source, British taxation per head in 1902 was less than that of France or Germany (excluding local taxation), refuting the conventional wisdom that Britain was heavily taxed.[94] Hence, many sought new sources of revenue for the growing financial requirements of the state, whether for defence or for social reform.

The Liberals and the Unionists diverged on the ways for raising the extra revenue required for the enlarged expenditure. In the early nineteenth century, indirect taxes constituted the primary source of government revenue. Since Peel's budgets of the 1840s, however, the trend of taxation had been to reduce indirect taxation until, by 1899, almost an equal share of Exchequer revenue was raised from direct as from indirect taxation. The relation between direct and indirect taxation was 27 to 73 in 1871-2, 40 to 60 in 1881-2, 44 to 56 in 1891-2, and 48 to 52 in 1895-6.[95] Liberal Governments generally turned to direct taxation, and Tory Governments to indirect taxation, until the South African War, when the rule seemed to aim at equality between the two forms of taxation. But the principle that taxation was to be imposed only for revenue purposes was still strongly entrenched.

Hamilton had in 1895 warned against a major budgetary crisis unless expenditure was curtailed. In his opinion, the problem could be solved either by reduction of the sinking fund, which could be touched only in time of emergency; by raising indirect or direct taxes, both of which he regarded as positive evils, especially the latter; or by the imposition of new taxes. The 8d. income tax he considered too high for time of peace, and repeatedly warned against the fiscal and political dangers of additional taxation.[96] Hicks Beach sought to ensure that increases in direct and indirect taxation roughly balanced one another.

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93. Murray, The People's Budget, 23.

94. H. C. G. Matthew, The Liberal Imperialists : The ideas and politics of a post-Gladstonian elite (1973), 255.

95. Bernard Semmel, Imperialism and Social Reform (1969), 161.

96. E. W. Hamilton, "Some Remarks on Public Finance", 24 July 1895, CAB 37/39/38.

Had he stuck in October to his early intentions and imposed fresh taxes, he would have raised both direct and indirect taxation.[97]

Of the estimated £10 million war expenditure, Hicks Beach hoped to cover £3 million by surplus revenue due to the increase of trade and revenue, the remainder by short term borrowing. But war expenditure should not be "provided for by a permanent addition to the Debt of the country... no such permanent addition would be justifiable, except, of course, in the event... of a war with a first-class Power." He thus saw the £8 million short term Treasury Bills as a temporary measure. As such, it should have been met by temporary taxation. But he claimed that the situation did not allow him to impose either direct or indirect new taxes. New indirect taxes would disrupt trade and reduce revenue; and direct taxation, in the form of income tax - although essentially a war tax - could not be further increased, as it already stood at 8d.[98]

Hicks Beach's proposals were approved almost unanimously by Parliament, but Harcourt demanded an immediate increase in taxes.[99] Harcourt disapproved the departure from the established principles of raising funds for war, and praised Gladstone, who had in 1854, during the Crimean War, also raised money by Exchequer Bonds, but had also increased the income tax to 14d. He rejected Hicks Beach's claim that he could not raise the income tax since it already stood at 8d. In 1854, argued Harcourt, when it was raised to 14d., the country was much poorer. Gladstone had raised the income tax by 4d. in 1859, during the Chinese War. Moreover, while in the 1850s, each penny on the income tax raised £1 million, it now raised £2 million. Hicks Beach maintained that he was acting as had Gladstone in 1884, when the latter was in a similar situation, and at a similar junction of the financial year, and could not therefore apply that principle.[100]

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97. Hicks Beach to Salisbury, 12 October 1899, Hicks Beach to Harcourt, 23 October 1899, HBP, PCC/34 & 25, respectively.

98. 23 October 1899, Hansard, vol. lxxvii, cols. 511-514.

99. Lady Hicks Beach, Hicks Beach, ii,113.

100. 25 October 1899, Hansard, vol. lxxvii, cols. 699-712.

Why did Hicks Beach pay so little attention to Treasury officials during the deliberations on fresh taxation? Was it because they took a strong stand against deferment of the new taxes? Hamilton was very surprised when Hicks Beach told him that he had changed his mind. Why was Hicks Beach so unmindful of Hamilton, his financial adviser, whose views on financial matters he by and large shared, and with whom he had a very close working relation? Hamilton, the disciple of Gladstone, approved the imposition of new taxes for financial as well as political reasons. Precedents supported fresh taxation. "The country should never be allowed to go to war without having the cost immediately brought home to it." His arguments seemed to be also constructive. They went beyond a mere preaching of orthodox Treasury views. He believed it was in the political interest of the Government to impose fresh taxation.

> We are rich and prosperous now; and there is no saying when bad times may come again. People ought to be in a better humour now to stand extra taxation than in April next when either they will be sick of the War or the glory of it will be over. If an effort is made to clear off the cost of the War by April1901, then there might be a reduction of taxation at the close of the present Parliament.[101]

In Hamilton's view, the political and financial considerations were, in themselves, strong inducement for imposing fresh taxation. But Hicks Beach could not follow Hamilton's advice. "I consider unity of such vital importance at this moment, that I have waived the financial considerations which undoubtedly exist in favour of increased taxation now."[102] The immediate political compulsions, whether the country's as a whole or the Government's, with the anticipated indemnity from the Transvaal, seemed stronger than current financial constraints, or any possible future political advantage. But would the Treasury and the Cabinet "regret this volte face at the last moment"?[103]

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101. 17 October 1899, EHD, 48675.

102. Hicks Beach to Harcourt, 23 October 1899, HBP, PCC/25.

103. 23 October 1899, EHD, 48675.

V

Was the anticipation of an indemnity from the Transvaal crucial to Cabinet decision not to raise taxes? While there can be no doubt that it was a factor in their decision, and probably an important one at that, it is impossible to say whether it was crucial. Hicks Beach was quite explicit about the anticipation of an indemnity. Unlike other wars, when Britain could not be certain that their whole cost would not fall on her, now, however, he promised, the situation was different. The Transvaal would bear part of the war cost, because it was wealthy, and by good government, would be able to provide for its administrative expenses, and "a reasonable sum towards the expenses which we may incur in this war". Moreover, the anticipated payment by the Transvaal was an element in his considerations regarding the sum he should impose upon the British taxpayers for the war. Since the future was uncertain, and he did not know what indemnity to expect, the precise manner in which the sum should be raised would be postponed to the next budget.[104]

The possibility of an indemnity from the Transvaal to cover the cost of war with the Boers was not entirely new. It was raised in the middle of August by Chamberlain, when he suggested that the Transvaal be notified that it would bear the cost of British military preparations. Salisbury took for granted the payment of indemnity by the Transvaal in case of war, and therefore rejected the proposal. The chancellor's hopes were therefore not raised in a vacuum. "The general sort of belief is that the expenses ought ultimately to be repaid by the Transvaal", Hamilton noted the day the Cabinet discussed the financial issues raised by the war.[105] Since indemnity was very much in the mind of Hicks Beach and the Cabinet, one may therefore assume that they expected to extract all or a substantial part of the cost of the war from the Transvaal. It may therefore have played an important role in their decision to defer fresh taxation until after the war.

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104. 23 October 1899, Hansard, vol. lxxvii, cols. 515-7.

105. 17 October 1899, EHD, 48675.

Hamilton was less sanguine about the possibility of extracting much towards the cost of the war from a defeated Transvaal. "People forget that there will be heavy charges connected with the military occupation of the country for a considerable time, and there may be heavy indemnities to pay in respect of the destruction of private property."[106] It was the voice of the Treasury official who remembered past experiences with the South African colonies. Harcourt, with long experience at the Treasury, and with the added advantage of not being in Government, also had doubts about much indemnity.[107] At that time, however, these were but lonely voices. There seemed to be no room for pessimism. On the whole, both Government and Opposition believed that the Transvaal would pay.

But was the anticipation of any substantial indemnity from the Transvaal a factor in Cabinet decision to press for a showdown, and did the Cabinet actually use this argument to convince Hicks Beach not to press for immediate tax increases? Hicks Beach was careful not to give the impression that Britain had gone to war because of the Transvaal's riches, although he did refer to its capacity to pay towards the cost of the war. The entire Cabinet jealously preserved their reputation and refrained from either action or words that could tarnish it. Salisbury was particularly anxious to maintain Britain's good reputation at home and in Europe. In fact, his fear that Britain might be seen as though she was pressing the Transvaal for financial gains was one of his reasons for rejecting Chamberlain's proposals in August.[108] Similarly, when the Cabinet prepared the draft ultimatum, they took great pain to remove any sign of their going to war either for financial gains or on behalf of the Rand magnates.[109]

Days before the war actually started, the South African Republic seized a large quantity of gold that was on its way to Cape Town, upon

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106. 17 October 1899, EHD, 48675.

107. 25 October 1899, Hansard, vol. lxxvii, cols. 705-7.

108. Salisbury to Chamberlain, 16 August 1899, JCP, JC 5/67/115.

109. Hicks Beach to Chamberlain, 1 October and 29 September, Goschen to Chamberlain, 29 September 1899, JC 10/3/122, 121 & 123, respectively.

which Chamberlain wondered whether Britain should try and retake the gold. But Salisbury cautioned against such action, since it might give Britain's critics, especially in Europe, "grounds for asserting that we are mere tools of gold-mining speculators." A telegram followed the letter. "Remember that the one dangerous objection that is made to our policy is that we are doing work for the capitalists."[110] Salisbury was willing to go to great lengths, including the loss of a big shipment of gold, in order to prevent any accusation of having waged war either for the capitalists or for the gold of the Rand.

The Rand's gold was not, in one sense, central to either Treasury or Government thinking during the South African crisis. For a number of reasons, most of the Rand's gold was before the war shipped to London in any case. Attempts by German bankers on the eve of the war to divert part of the gold flow from the Rand towards Berlin neither threatened London's position as the world's main gold market, nor undermined the ability of the Bank of England to tap the weekly supply of gold from South Africa. Recent research shows conclusively that the Government did not regard the Rand gold as a major source for increasing Britain's gold reserves. Furthermore, "in the final analysis, the Bank did not even want to increase its reserves by purchasing more Cape bars on the open market."[111] The Government's attitude towards Kruger was therefore not motivated, even partly, by a desire to ensure that the Rand mines would continue producing gold for the London bullion market.

The above does not mean, however, that the Transvaal's riches were not taken into consideration as a potential source for recovering the cost of the war. There is little doubt that British policy-makers expected all along to exact some indemnity from the Transvaal. One should differentiate between their intention to take over the gold mines, and their

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110. Salisbury to Chamberlain, letter and telegram, 9 October 1899, JCP, JC 5/67/128 & 129, respectively.

111. J. J. Van Helten, Bitish and European Economic Investent in the Transvaal with special reference to the Witwatersrand gold fields and district,1886-1910 (London, unpublished Ph. D. Thesis, I. C. S., 1981), 72-81.

anticipation to be easily reimbursed for the cost of the war because of the Rand gold. While they certainly did not go to war to ensure for Britain the Rand gold, there can be equally no doubt that the gold of the Transvaal facilitated Cabinet decision to press for a showdown. It is, however, very unlikely that this argument was used by ministers, when they tried to convince Hicks Beach not to press for immediate tax increases. Since the payment of indemnity by a defeated enemy was implicit in the system of international warfare at the time, and therefore taken for granted, no discussion was required.

VI

'Treasury control' of ordinary expenditure appropriated by Parliament in the annual budget inhibited military preparations for a possible war until war was officially declared. Since the Government had no reserve fund for war contingencies, it had to go to Parliament for an extra-ordinary vote. Ministers were reluctant to do that until the last minute, when the crisis was upon them, and public opinion was ready to make sacrifices in the way of increased taxation. Hence, as a result of parliamentary and Treasury control, major war preparations were institutionally intended to be delayed until war broke out.

Chapter Three

A Large War and the First War Budget
December 1899 - March 1900

Part One

A Large War and Treasury Control

Part one of this chapter will analyse the reactions of the Cabinet and Treasury to the consequences of their early misconceptions, once they realized that the little colonial campaign they anticipated had turned into a large and costly war. What were the implications of the 'large war' for the Treasury? Were the peace time Treasury rules of accounting suspended, or did they continue in force? How did Treasury control affect war expenditure and war effort?

I

In the first weeks of the war, there was much optimism among policy-makers who believed the war would be over in a short time. It was anticipated that the despatch of a large army would ensure rapid success and terminate the campaign before the end of the year. The Treasury, which despite the sharp increase in military expenditure, still hoped to limit war costs to £10 million, requested the War Office to restrict itself to approved estimates. "They [Treasury] objected to giving the W.O. a blank cheque. But in War the unforeseen plays an all too prominent part", argued F. T. Marzials, Accountant General at the War Office. He was saying that the rigid peacetime Treasury rules of accounting were far too inflexible for emergency requirements. After that the Treasury did "not require further particulars of expenditure" which were within the £10 million allowed, except that the War Office should report "the excess at

reasonable intervals as they occur".[1] The Treasury relaxed its rigid peacetime procedures of accounting.

The siege of Ladysmith in November, and Buller's diversion of forces from the Cape to defend Natal, confronted the ministers with a new military situation requiring new answers.[2] Wolseley urged the despatch of a fresh division to the Cape to replace the force about to be sent to Natal. Lansdowne, though aware of money being spent "at an appalling rate", was certain that "nothing could be more costly in the end than an unnecessary prolongation of the war". Salisbury authorized the despatch of the division and Hicks Beach sanctioned it.[3] Wolseley urged the mobilization of a second army corps and a cavalry division, and a few days later, also that of a third army corps. But Lansdowne was confident that Ladysmith would hold out, and did not think the situation required more than one division, because the Boer troops in Natal were "poor stuff and will not 'stay' if we keep them in the field a few weeks longer".[4]

Wolseley's requests were not sanctioned, and not surprisingly, since Lansdowne did not think the time had "come for mobilizing more battalions". He excused the delay in the despatch of forces by a lack of mules and shipping, and not of reservists, whose withdrawal from civil employment caused great inconvenience. Nor did he think that Wolseley had proposed "that we should incur the very heavy expense required to reduce the delay". Consequently, he did not think that "much harm will be done if we suspend our judgement" upon Wolseley's proposals until after the attempt "to relieve Ladysmith and Kimberley."[5] It was once again Lansdowne who preferred to await developments, and deferred

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1. Marzials to Financial Secretary & Minute to Sir R. Knox, 3 November 1899, WO 32/7864/9761.
2. Lansdowne Memorandum, 10 November 1899, CAB 37/51/85.
3. Lansdowne to Hicks Beach, 7 November 1899, HBP, PCC/84; Hicks Beach to Lansdowne, 7 November 1899, LP, L(5)46.
4. Lansdowne to Hicks Beach, 7 November 1899, HBP, PCC/84; Lansdowne Memorandum, 10 November 1899, CAB 37/51/85.
5. Lansdowne to Devonshire, 15 November 1899, HBP, PC/PP/73, & CAB 37/51/86. [The two versions are not identical].

decisions which entailed heavy expenditure. Wanting to minimize the cost of military spending, he restrained military demands, and belittled Wolseley's proposal as costly and unnecessary. Confidence was still widespread, not least in Cabinet circles, that the war would be over in three months.[6] The exceptions, and it is as surprising as it is ironic, were Hicks Beach, who had little confidence in the generals, except in Buller, and Milner, who did not believe the war could be won "with less than 70,000 men in S. Africa under arms at one time on our side".[7]

Thus, on Lansdowne's advice, the mobilization of a second army corps was not sanctioned. But a fortnight later, when it finally became clear to all that Britain had underestimated the fighting strength of the Boers, Lansdowne referred the matter to the Cabinet. Upon Lansdowne's recommendations, Hicks Beach agreed to the despatch of more troops, and to militia taking their place at home; but objected to increasing home defences, as requested by Wolseley.[8] The Cabinet compromised: it agreed to mobilize the 6th Division, at a cost of £1.2 million, but not the 7th, which would mean the rest of a second army corps.[9] The Cabinet's decisions regarding mobilization and reinforcements were to a large measure influenced by the line taken by Lansdowne. Deference was paid to Hicks Beach, especially if the matter was not urgent, but when Lansdowne recommended either mobilization or reinforcements, his advice was invariably taken by the Cabinet. The manner in which Hicks Beach operated is revealing. When he realized that further troop mobilizations were unavoidable, he consented, but demanded that they be accompanied by savings in other fields, in this case in home defence.

Then came 'Black Week' in December, when the imperial forces suffered three defeats which totally changed the military appreciation. Until then, despite some setbacks in the field, confidence and optimism

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6. 11 November 1899, EHD, 48675.
7. Hicks Beach to Harcourt, 20 November 1899, HBP, PCC/25; Milner to Chamberlain, 9 November 1899, JCP, JC 10/9/72.
8. 29 November 1899, EHD, 48675; Hicks Beach to Lansdowne, 29 November 1899, LP, L(5)46.
9. Lansdowne to Hicks Beach, 30 November 1899, LP, L(5)46.

were widespread. Few policy-makers, if any, doubted Britain's ability to crush in a very short time the two little Boer republics. The triple defeats in December were a serious blow to Britain's self-confidence, and brought about a more sober outlook. The policy-makers at last realized that they were not engaged in another little colonial war, but that a much larger problem confronted them, and that it required the best resources of the Empire. "The situation is now really very grave. We must at last reckon that we have a very big job on hand. We have been living in a fool's paradise; and it is only now that our eyes are properly opened."[10] This realization caused much soul-searching and criticism at the way things were run in the field and at Cabinet level.

Cabinet reaction to 'Black Week' was swift and decisive. Balfour and Lansdowne, the only ministers in London on Friday when news of Colenso arrived, decided to supersede Buller by Roberts, and proposed Kitchener as his Chief of Staff. The next day Salisbury consented, and the Defence Committee of the Cabinet, which included Hicks Beach, confirmed it. This inner Cabinet also overruled Buller's suggestion to surrender Ladysmith, because they feared it would be a blow to British prestige throughout the world, and have adverse political and moral effects at home and in South Africa.[11]

Both Lansdowne and the War Office were much censured for the setbacks, although ministers took care not to blame the Seceretary of State personally. Salisbury may have been convinced "that defence was least as much the preserve of the Foreign Office as of the War Office and Admiralty", but because of ill-health, his wife's recent death, and "aversion to any interference with other men's departmental affairs", regarded the war with some detachment.[12] Balfour publicly defended Lansdowne, but took over the direction of war policy.[13] Hamilton and

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10. 16 December 1899, EHD, 48675.

11. Lansdowne to Balfour, 7 April & Balfour to Moberly Bell, 5 April 1902, BP, 49727 & 49854 (2nd version of Balfour letter to Moberly Bell not sent).

12. Porter, Salisbury, 161 & 154 respectively.

13. Balfour to Salisbury, 18 December 1899, BP, 49691; Young, Balfour, 189.

Chamberlain blamed the War Office, but Sir R. Knox, permanent under-secretary, who was in a position to know, attributed the deficiencies to the weak Secretary of State.[14] Chamberlain was greatly surprised. "No one - either military or civilian - ever suggested to me that more than an Army Corps would be required. It now appears that two or even three will be necessary".[15] Indeed, both Lansdowne and the military underestimated before the war the British requirements. But it was invariably Lansdowne who curtailed military demands rather than the military submitting low estimates. The decisive influence on Cabinet policy was exerted by the former, very little, if any, by the latter. The Cabinet contained no military man, and took no professional advice.

II

The triple military defeats also closed the ranks within Britain. Public opinion swung towards the Government, and the Opposition also supported them. Asquith confirmed Salisbury's claim that Britain had always suffered reverses at the start of its wars, and warned that its position as a world power was challenged. Campbell-Bannerman, who had a hard task holding the Party together, could not afford controversy and backed the Government.[16] The little difficulty the Government expected was from its own back-benchers, and there was no question of a dissolution.[17] Nevertheless, the defeats had a profound effect. The time had come "for the Cabinet to take this War in a less casual way", Selborne told Balfour.[18] The Cabinet admitted acting late before the war, but blamed the defeats on military miscalculations. Since the Cabinet were anxious to show that they were taking the war seriously, they promised to accept all future military demands, and prepare for a long war, if necessary.[19] The Government hoped to absolve itself from the charge of

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14. Chamberlain to Devonshire, 5 November 1899, DP, 340.2802; 7 & 10 January 1900, EHD, 48675, respectively.
15. Chamberlain to Milner, 1 January 1900, JCP, JC 13/1/1.
16. Packenham, The Boer War, 248.
17. 7 January 1900, EHD, 48675.
18. Selborne to Balfour, 14 December 1899, BP, 49707.
19. Brodrick to Balfour, 29 January 1900, BP, 49720.

negligence. But the 'miscalculations' cannot be attributed solely to the military. The whole establishment, including the Cabinet, shared the misconceptions regarding Britain's relative strength.

But would the Treasury accept all future military demands and give a free hand to the War Office? Public criticism of the Treasury - whose parsimony was seen as the primary cause for the inefficiency of the military and therefore the setbacks - was more vociferous than that of the military.[20] Popular jingoism secured the Government from strong public criticism, temporarily at least. The more significant criticism of the Treasury was that made by ministers who resented its power. The strongest condemnation came from Salisbury who, in an unprecedented speech in the House of Lords on the opening of the new session of Parliament in January 1900, expressed his discontent with British political institutions, claimed that the system of government was an inefficient fighting machine, and blamed the Treasury for the country's problems at the start of its wars:

> I feel I am laying my hand on the sacred feature of the Constitution when I say there is the Treasury... the exercise of its power in governing every department of the Government is not for the public benefit. The Treasury has obtained a position in regard to the rest of the Government that the House of Commons obtained in the time of the Stuart dynasty. It has the power of the purse, and by exercising the power of the purse it claims a voice in all decisions of administrative authority and policy. I think that much delay and many doubtful resolutions have been the result of the peculiar position which, throughout many generations, the Treasury has occupied.[21]

Despite his dislike of the military and for expanding armaments, Salisbury realized that both the system of government, and the navy, were inadequate to defend the Empire efficiently in times of crisis, "when great Powers with enormous forces are looking at us with no gentle or kindly eye on every side". He blamed the Treasury in particular because it was at the root of the system, and wondered whether the time had not come

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20. The Times, 23 & 27 December 1899, BP, 49717.

21. 30 January 1900, Hansard, vol. lxxviii, cols. 30-32.

for changes in that system.[22] But considering the financial limitations on expenditure, implicit in the system, one may wonder whether Salisbury's criticism was directed at Hicks Beach or the civil servants at the Treasury. It could rather be an expression of the frustration he must have felt, together with the rest of Cabinet, at the said limitations, or alternately, an attempt to make the system a scapegoat for the inadequacies of the Government and the military.

Both Treasury officials and Hicks Beach reacted strongly to Salisbury's criticism. Hamilton believed the Prime Minister's remark to be :

> entirely erroneous & misleading, and thus... very unfair upon those who do their best to serve the Government of the day in a particular Department of the State...
> In making these remarks, he is careful to except the Chancellor of the Exchequer from this implied condemnation; and consequently in alluding to this alleged usurpation of power, Lord Salisbury clearly had in his mind the permanent staff of the Treasury, and that only.
> In attributing such a power to permanent servants of the Crown, he is attributing to them a power which they simply do not possess... It is, indeed, not uncommon to see it alleged that the provision for the Army & Navy Services is inadequate, and that the tendency is due to ruthless pruning-knife of the Treasury.[23]

In Hamilton's view, the Treasury did not have the power to reduce any provision decided by the Government, which quite naturally considered the political and financial issues at stake:

> The only person who can exercise effectually the power of the purse by putting a drag or check on expenditure is the Chancellor of the Exchequer himself, and unless he is Prime Minister (as he was frequently in old days), he has no greater power than any other Minister in the Cabinet beyond what his own personality commands with his colleagues. How comparatively small is the power over the purse as now exercised by even a strong Finance Minister is perhaps best evidenced by the fact that in the last 4 years the annual provision for all kinds of services has increased by nearly 20 millions.[24]

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22. 30 January 1900, Hansard, vol. lxxviii, cols. 32-33.
23. Hamilton to Sidney Grenville, 31 January 1900, EHFP, T.168/47.
24. Hamilton to Sidney Grenville, 31 January 1900, EHFP, T.168/47. The letter was "intended to be shown to Lord Salisbury", but Hamilton was dissuaded by Rosebery from sending it. 31 January 1900, EHD, 48676.

Three interrelated issues were raised in these accusations and counter claims: Treasury powers over the departments in peacetime; Treasury control of defence expenditure in wartime; and whether one could differentiate between the responsibilities of the Chancellor of the Exchequer and those of the Treasury's permanent staff. Hicks Beach commented on all three issues.[25]

> Objections to our system of Treasury control over ordinary expenditure in ordinary times, cannot fairly be applied to anything that has occurred in connection with this war. Every matter of importance (from the sending of re-inforcements in June last, the preparations for, and the mobilization of, the Army Corps, down to the latest additions to our forces in South Africa) has been decided by the Cabinet or the Cabinet Committee.
> All the expenditure proposed by the War Office in order to carry out these decisions has been accepted. As a rule, Lord Lansdowne has had a complete free hand with regard to all the details of the military expenditure, as had Mr. Goschen with regard to the transport: and there has in no case been any greater delay than was required for a preliminary discussion of a few of the largest items between Lord Lansdowne and myself, or between the permanent heads of the two departments.
> The only official correspondence has been a simple statement, from time to time, by the War Office, of expenditure authorized by them, and a reply fom the Treasuy formally sanctioning it without question. I may safely say that Treasury control, in the sense in which I understand you to object to it, has not existed.
> I have taken on myself some responsibility in dealing with the matter in this exceptional way, feeling that it was necessary in time of war, and knowing it to be your wish...

Hicks Beach went on to remonstrate with Salisbury for having raised the matter in connection with the war:

> I have already taken an opportunity of denying in the House of Commons the charges which have been made against me for months past. But what is the use of this, when the natural reply is 'if your denial is true, why did the Prime Minister refer, <u>in connection with this war</u> to the power of the Treasury as one of the things which are 'wrong in our machinery'?
> I therefore hope that you will in some way make it clear to-night, with regard to the Treasury as well as to myself, that your objection was to a general system, and that this system has been practically suspended, so far as the war expenditure is concerned, in the manner I have described.

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25. Hicks Beach, 31 January 1900, <u>Hansard</u>, vol. lxxviii, cols. 169-180.; Hicks Beach to Salisbury, 1 February 1900, HBP, PCC/34.

Hicks Beach thus admitted that Treasury control had existed in peacetime, but denied its existence in war time. The normal peacetime rules of accounting in detail to the Treasury were suspended during the war. Neither Treasury approval in detail, nor prior Treasury sanction were required. But this ought to be qualified. First, Treasury control did apply, and very effectively, during the crisis before the war. Treasury control, in the form of financial limitations on expenditure, obstructed war preparations and a co-ordinated military planning in peacetime. Second, its control was not totally abrogated during the war. Treasury control continued to be effective, especially in the later parts of the war, but in rather different forms: increasing attempts at influencing war strategy; interference in little things when taken in aggregate obstructed the war effort; increasing pressure against any substantial replenishing of the military stores, and an even greater objection to any permanent increase in the size of the regular army.

The strong reaction from the Treasury induced Salisbury to make some amends. He told the Lords that his criticism was no reflection on Hicks Beach, who "has been singularly careful & considerate in the exercise of the powers of the Treasury during the crisis of the last few months", and had "never refused anything which the War Office or the Admiralty thought necessary for the public service." Nor did he blame the permanent officials, but rather the system as a whole, which had gradually granted the Treasury its power, and which was the result of causes which lasted a considerable time, but which was nevertheless unhealthy for the national defence.[26]

Treasury officials had little direct influence over Cabinet policy. Treasury power was in the hands of the Chancellor of the Exchequer. Since Hicks Beach was powerful, much more than most chancellors, his influence was especially felt during Salisbury's third ministry, and was resented by many ministers. But the Cabinet worked by consensus of ministers concerned, in this case Chamberlain, Lansdowne and Hicks

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26. 1 February 1900, Hansard, vol. lxxviii, cols. 237-240.

Beach. Hence, the chancellor was involved in all decisions regarding supplementary or extra-ordinary expenditure, because he had to propose it to Parliament. All major decisions involving war expenditure were taken either by the Cabinet or its Defence Committee. Treasury control continued to be effective, and it was mostly anticipatory, because the entire policy-making establishment was aware of the financial limits over expenditure. In that sense, accusations against the Treasury were therefore hardly justified.

The real problem was that "the British public always wanted to have their cake & eat it". They wanted a bigger and better army and navy, but complained of taxes and refused to pay for them.[27] However, neither the Treasury nor the Government functioned in a vacuum. They accepted the contemporary financial orthodoxy which denied them the freedom to spend whatever and whenever they deemed necessary. The limitations on spending were as much political as financial, and the Government's frustrations were primarily over the political effects of expenditure. The strong criticism of the Treasury may have therefore been more an expression of the Government's frustration at the system with a fiscal orthodoxy which denied them the freedom of action they often wished, especially in times of crises, such as during the summer and autumn of 1899. Salisbury was blaming Treasury control, in the form of the financial limitations on expenditure, for having inhibited military preparations before the war. But was Treasury control that important in reality?

Significantly, two previous chancellors came to the defence of the Treasury, and also touched upon the heart of the problem. Goschen emphasized collective Government responsibility. "We stand together. So long as the British Constitution is what it is it is necessary that the Cabinet should be treated as a whole".[28] He was implying that the Treasury functioned within the prevailing financial orthodoxy, and that

27. 31 January 1900, EHD, 48676.

28. 2 February 1900, Hansard, vol. lxxviii, col. 477.

the financial limitations on expenditure were not its sole prerogative or responsibility, but acknowledged and accepted by the entire Cabinet. If there was discontent, he seemed to argue, it ought to be with the political institutions. Harcourt was sure that if Treasury control was abolished, and the Foreign and Colonial Offices were allowed "to make war when they please without the control of Parliament, & to spend what money they please without the supervision of the Treasury, ... the result of such a policy as that will be to reduce this country into a state of finance such as exists in other nations where Treasury control is not permitted."[29] Harcourt (unlike Goschen), defended the Treasury not in order to excuse the Government, but rather because he believed it guaranteed Britain's financial solvency and political independence. One may further infer that Treasury control, together with parliamentary supervision, were the greatest safeguards against military adventures or dictatorship, and with it the loss of civil liberties at home.

III

In December, besides replacing Buller after the triple defeats, the Cabinet decided to pour troops and equipment into the war effort, inevitably resulting in a steep rise in military expenditure. Wolseley drew the attention of Lansdowne and Salisbury to the seriousness of the military crisis, and suggested a set of measures to be executed immediately.[30] The defeats also made the Cabinet aware of the great deficiencies in stores and armaments for the army, especially in view of the warnings that were coming from Europe about the dangers facing Britain due to its forces being engaged in South Africa.[31] Although the British Cabinet's unanimity impressed the European Powers, and with the Kaiser's attitude, manifest by his goodwill visit during the war, prevented any possible continental league against Britain, the state of Britain's defences, in particular the reserve of armaments and military stores, greatly worried the Cabinet.[32]

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29. 5 February 1900, Hansard, vol. lxxviii, col. 594.

30. Wolseley Memorandum to Lansdowne, 14 December 1899, WO 32/7887/356.

31. Secret letter from Colonel Douglas Dawson, Military Attache in Paris, to General Sir Henry Brackenbury, 13 October 1899, SP.

Sir H. Brackenbury, Director-General of Ordnance, considered the situation desperate; the war had exhausted the reserves and brought them to breaking-point. He suggested immediate improvements in the army's defences, stores and equipment, at a cost of £11.5 million. But since the requirements were far too large for the annual budget, which did not normally make provisions for such eventualities, he suggested that they be met by a special loan, as customary with regard to naval programmes. However, he believed that the crisis should be solved by unconventional methods only: the military should be given a free hand, and there should be no interference from outside, especially not by the Treasury, because it would be "impossible to make provision under the interminable delays and references to the Treasury".[33] He, too, seemed to say that Britain's political institutions, at the centre of which stood the system of Treasury control, did not suit the country's requirements in an emergency. The matter was referred to the Defence Committee of the Cabinet.[34]

As the Defence Committee's meetings were held in great secrecy, and no minutes kept, its deliberations are unclear. The militia's actual strength available for service did not exceed 30,000 or 40,000 men. Because the pay was very low (9d. a day), it was considered that only an annual bounty of £6 per man, at an extra cost of £500,000, would fill the ranks.[35] Wolseley warned that Britain was not safe unless it could put in the field, apart from the army in South Africa, three army corps, and thus recommended increasing the army by 42,500 men.[36] Given the antipathy to conscription, the problem was how to attract men in sufficient numbers. High rates of pay meant increased taxation in times

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32. Report from Sir F. Plunkett to Salisbury, Brussels, 26 December 1899, CAB 37/51/101; Grenville, Salisbury & Foreign Policy, 290; 21 November 1899, EHD, 48675.
33. Sir Henry Brackenbury Minute, 15 December 1899, RCWSA [Cd.1789.], Appendix E.
34. Salisbury to Devonshire, 15 December 1899, DP, 340.2808.
35. Selborne Memorandum, 23 December 1899, CAB 37/51/99.
36. Wolseley Memorandum 29 December 1899, to Cabinet 5 January 1900, CAB 37/51/105.

of peace, thereby make it unattractive to the Government, even less to the Treasury.[37] Not wanting to take a decision that was bound to have far-reaching financial and political implications, the Cabinet deferred the matter temporarily.

By mid-January, however, when more than two army corps were in South Africa, the matter could no longer be ignored. "The case for the permanent increase of the Army is strong", acknowledged Lansdowne, but he feared the question of pay. While he was not certain that even 2/6 a day would attract men settled in civil life, he feared it would cause an upward levelling up of pay. But since 2/6 a day for the entire army establishment would cost an extra £4 million a year, and £5 million if the proposed additional men were included, he suggested that the new pay be considered only as an emergency rate.[38] Most of his proposals were approved by the Cabinet, but no definite decision was taken on increasing the size of the army.[39] Since it involved large extra expenditure just when war costs were rising rapidly, and because Lansdowne refrained from demanding the increase, the matter was not settled. The Cabinet once again chose to defer a very difficult decision.

But the discussions regarding the increases in the army were not keeping pace with the Government's political requirements. The Queen's speech was impending, and ministers, especially Balfour, were anxious to demonstrate that decisions regarding home defence, recruitment and equipment would put the war on a new footing. Balfour urged Lansdowne to pay special attention to the militia. But the Army Annual Act limited it to a specified size, and the war did not dispense with Parliamentary consent, therefore any increase beyond those numbers was a breach of constitutional usage. But Balfour wished to remove the regulations regarding the recruiting of volunteers, obstacles "wholly unsuited to a time of crisis". More was to be gained politically from the measures they were about to declare, than from adhering strictly to the legal niceties

37. Wyndham Notes, 11 January 1900, CAB 37/52/4.
38. Lansdowne Note on Wolseley Memorandum, 17 January 1900, CAB 37/52/4.
39. Lansdowne Memorandum, 22 January 1900, CAB 37/52/5.

regarding the increase of the army beyond its establishment. A solution was found whereby Parliament could accept the increased army establishment.[40]

Lansdowne proposed that Britain should have three army corps for home defence.[41] A suggestion that a militia ballot be introduced was vetoed by Devonshire and Salisbury, who believed that conscription would inevitably follow the ballot, an idea so alien to the British that Hamilton believed the people would "sooner throw over Imperialism than accept the military system of foreign countries".[42] The cost of such a scheme was hardly less problematic, and far too important to be dealt with in an off-hand manner. Since Hicks Beach was busy with the budget, the Cabinet only approved £300,000 a year for the militia, but deferred the issue.[43] The budget was considered more urgent than any decision on the size of the army after the war.

But Balfour, now in charge of war policy, was not happy with the situation, and presented his own comprehensive scheme for reform of the army. He wanted a substantial increase of the militia. He argued that since the size of the regular forces, which were maintained by volunteers, had reached its limits, its power could be further increased only by strengthening the auxiliary forces, of which the militia was by far the most important, and considering its immense value, also very cheap. An increase of its strength would not entail therefore a large burden on the taxpayer.[44] But any substantial increase in the size of the army in peacetime, even of the militia, was only possible by an increase of pay, and that raised strong Treasury objections.

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40. Sir R. Knox to Treasury Solicitor, 3 January, Attorney General Opinion, 8 January, Balfour to Lansdowne, 30 January 1900, BP, 49727.

41. Lansdowne Proposals, 8 February 1900, CAB 37/52/14.

42. 20 February 1900, Hansard, vol. lxxix, cols. 504-550; 21 February 1900, EHD, 48676, respectively.

43. Salisbury to Queen, 23 February 1900, CAB 41/25/33; Hicks Beach to Lansdowne, 27 February, Lansdowne to Hicks Beach, 28 February 1900, LP, L(5)46.

44. Balfour Memorandum, 24 February 1900, CAB 37/52/27.

It is therefore not surprising that the strongest opposition to increasing the size of the army as a consequence of the war came from Hicks Beach, who raised a very fundamental question: was the militia intended for 'little' colonial campaigns or for 'great' wars. While Hicks Beach was prepared to accept the latter possibility, he totally rejected the former.[45] But how could one distinguish a 'great' from a 'small' war? Would the absence of two army corps from the country constitute a great war, or perhaps the calling out of the reserves? The Treasury's primary concern was that the militia would gradually become part of the regular force, thus increasing permanently the army establishment, and consequently, its cost.[46] It was the beginning of the Treasury's long and laborious battle, which was to be intensified throughout the war, against the permanent increase of the army after the war.

IV

The turning of a small colonial expedition into a large and costly war shocked Treasury, Cabinet, and public alike, with the inevitable accusations and recriminations directed primarily at the Treasury. Allegations that Treasury control obstructed war preparations in peace time, and thus caused the delays of reinforcements, spread freely. The Treasury had indeed asserted its overall suzerainty over the other departments, but that did not necessarily enable it to translate its supervisory powers to controlling Cabinet war policy. Hicks Beach was a powerful Chancellor of the Exchequer but he did not act independently of the Cabinet. What prevented long-term policy was not mere Treasury "control", but its acting as financial executive of Parliament's control over Government expenditure. The limitations over expenditure were implicit in the system, and known and accepted by all ministers. The Treasury's role was to remind them of these financial constraints, especially when expenditure was increasing by 'leaps and bounds'.

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45. Hicks Beach to Selborne, 6 March 1900, LP, L(5)56.
46. 17 December 1899, EHD, 48675.

Treasury control did, however, have some effect on war policy. Although the services were not asked during the war to account to the Treasury in the same manner as in peacetime, yet its influence and supervisory powers were not made obsolete. By merely fulfilling its perennial role as a brake to war expenditure, the Treasury inevitably influenced war strategy, despite promises to refrain from interfering in military policy. Treasury delays and obstructions on small matters, such as pay of colonial volunteers, and its insistence on short term service could, in aggregate, be detrimental to war effort.

The Treasury tried to extend its control on military expenditure beyond immediate war requirements. From early on in the war it was concerned about the possible buildup of the army and military stores after the war. The Treasury feared that a massive replenishing of the stores would create a chain reaction for new and more armaments and stores, which would lead to a large and expensive reserve of stores, anathema to the Treasury and to the political establishment in general. The Treasury similarly feared that unless the process of strengthening the army was arrested right at the start, the militia would gradually become part of the regular army, therefore increase permanently its establishment, and consequently its cost. It therefore began its battle against the permanent increase in the size of the army after the war.

Part Two

The Treasury and the First War Budget

The financial consequences of a colonial campaign becoming a great war will be analysed in this section. The main issues involved are the extent the Treasury measured up to the new situation that required unexpectedly large sums; the methods the Treasury used to finance the war, and why; the political constraints exerted on the Treasury; the political consequences of its efforts; what were the cost-benefit calculations of the Treasury and the Cabinet in respect of the imperial intervention in South Africa; and the degree to which the possibility of an indemnity from the Transvaal affected the calculations of both the Treasury and the Cabinet in respect of the war.

I

In the first weeks of the war, the Treasury expected its cost to be limited to the original forecast of £10 million. Barely a month after the war started, the cost surpassed the original estimate by over two million, and before the full scale of the December disasters was taken into account, it was exceeded by over five million.[47] Before Colenso, when it was realized that large reinforcements would be required, war expenditure was expected to double by the end of that financial year. War Office request for a further £10 million confirmed Treasury fears. "I am begining to think", foresaw Hamilton, "that we shan't get off under 50 millions!"[48] War expenditure in the current financial year was estimated at £23 million or more.[49]

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47. 15 November 1899, EHFP, T.168/45; 17 November 1899, WO 32/7864/9911; War Office, 12 December 1899, EHFP, T.168/45, respectively.

48. 14 & 21 December 1899, EHD, 48675.

49. 1 January 1900, EHD, 48675; Hicks Beach to Salisbury, 24 December 1899, HBP, PCC/34.

The Treasury's primary concern was to raise these unexpectedly large sums. The £8 million sanctioned in October, with the estimated £3 to £5 million surplus revenue, was expected at first to cover the cost of the campaign in South Africa. But war costs rose so fast that by the middle of November the Treasury expected a capital shortage of £2.5 million.[50] Four weeks later, Hamilton became uneasy about the Treasury's liquidity until the end of the financial year. The irony was that just before the war the Treasury had difficulties in investing its excess money, while now it was estimated that it might have to borrow a further £5 million before the end of the financial year. Because of the Government's increased money requirements, the local authorities, who required £7 million of loans, had, therefore, to find their money in the open market, at available rates.[51]

The decision to despatch Roberts with reinforcements meant extra war expenditure, which could be financed only through borrowing. Interest rates had gone up on 13 July 1899 from three to three and half per cent. On 3 October, when war was imminent, they climbed sharply to four and half per cent, and went up a further half a per cent two days later. By 30 November, before 'Black Week', they reached a peak of six per cent, which generated panic in the City, before declining rapidly in January.[52] The Treasury asked the Bank of England for money at four per cent, just when the interest rates were at their highest. The Bank complied, despite its claim that it had the right to demand five per cent.[53] Hamilton's efforts to persuade Hicks Beach to pay half a per cent more were fruitless.[54]

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50. Hamilton to Hicks Beach, 1 & 17 November 1899, EHFP, T.168/46.

51. Hamilton to Hicks Beach, 11 December, Hamilton Notes, 14 December 1899, EHFP, T.168/46.

52. B. R. Mitchell & Phyllis Deane, An Abstract of British Historical Statistics (Cambridge, 1962), 458; Hicks Beach to Hamilton, 19 December 1899, EHPP, 48614, respectively.

53. Bank of England to Chancellor of the Exchequer, 18 December 1899, EHFP, T.168/46.

54. Hamilton to Hicks Beach, 19 December, Treasury to Bank of England, 21 December, Bank of England to Hicks Beach, 23 Dcember, Hamilton to Hicks Beach,

II

But the temporary borrowing was no answer to the fundamental question of how to finance the large war expenditure. The war raised an old question, whether war expenditure should be met by loans or by taxation, and in what proportion. In the past, the convention had been that the extra cost should be defrayed out of taxation, and politicians, when not confronted with the actual problem, talked of avoiding loans. Pitt avoided all extra taxation in the first six years of the Napoleonic Wars, and Gladstone avoided loans before the Crimean War assumed its formidable dimensions. Neither extreme view was adopted for very long by politicians when they were in power and actually confronted with a long and costly war. In the end about half the cost of the Napoleonic and Crimean Wars was raised by loans, and half by increased taxation.[55] Despite Gladstone's utterances at the begining of the war, "the finance of the Crimean War was predominantly pragmatic".[56]

Both Hamilton and Hicks Beach understood that the extra money had to be raised by both taxation and borrowing, the question was in what proportion.[57] Hicks Beach wished to raise part of the war cost by increased taxation, part by suspension of the sinking fund, and a large part by short term loans. Most ministers, however, wished to minimize the tax increases, and pay for the war mainly from loans.[58] Hamilton objected to piling up burdens "on the shoulders of posterity", and saw an opportunity to broaden the basis of taxation. But the chancellor did not wish to make any drastic changes in the taxation system. He preferred instead, by mere additions to the existing direct and indirect taxes, to "give a temporary complexion to all the War arrangements".[59] Since he still expected quite a short war, he saw no reason not to give a 'temporary

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22 December, Hicks Beach to Bank of England, 24 December 1899, EHFP, T.168/46.

55. Hamilton Memorandum, "Taxation versus Loans for War Expenditure", 18 February 1900, EHFP, T.168/47.

56. Olive Anderson, A Liberal State at War (New York, 1967), 194.

57. 21 December 1899, EHD, 48675.

58. Hicks Beach to Salisbury, 24 December 1899, HBP, PCC/34.

59. 28 December 1899, EHD, 48675.

complexion' to the tax increases. When war estimates increased to £30 million, Hamilton favoured raising half the extra £20 million required (£30 million less £10 million sanctioned in October), by fresh taxation, the other half by borrowing, and dividing the fresh taxes evenly between direct and indirect taxation.[60]

Before 'Black Week', the Treasury's calculations regarding the cost of the current war were based on the Egyptian Campaign of 1882. After that, however, it thought that "the Crimean War constitutes the nearest analogy".[61] The switch of precedents reveals best the change in the Treasury's attitude towards the war. No longer was it seen as another little colonial expedition on the cheap, but rather a major war, comparable to a European war, and probably the biggest in terms of men and money since the Napoleonic Wars. The transformation in Treasury views regarding the scale and cost of the war had important political, social, and fiscal implications for the Government. It was a widely held belief since the Crimean War, that war expenditure should be met by taxation. But could the cost of a large war be paid by taxation alone for any length of time? The Crimean War itself proved that such an idea was not feasible, whether financially or politically, from the point of view of the Government of the day.

Treasury officials preferred to raise the expenses of the war by taxation rather than borrowing. The principle was that taxation was to be imposed as little as possible, and only for revenue purposes. Above all, officials were against increasing the national debt, believed to be at the root of all the country's evils. So if public money had to be spent at all, they preferred it to be through taxation, as they objected even more to borrowing. They hailed the policy of Governments in the past to defray the cost of their wars from taxation. They thus claimed that had it not been for the policy adopted by Pitt after 1799, the national debt would have been

60. 3 January 1900, EHD, 48675; Hamilton to Hicks Beach, 4 January 1900, EHFP, T. 168/46; Sandars to Balfour, 12 January 1900, JSP, C.731/7, respectively.

61. Hamilton Memorandum, "Taxation versus Loans for War Expenditure", 18 February 1900, EHFP, T.168/47.

so large, that its effect would have been disastrous. For example, had the entire cost of the Napoleonic Wars been met by loans, the annual charge for interest on debt would have been £51 million instead of the current £17.5 million, and if only half the actual taxes that were then actually raised, had been raised, the curent annual charge would have been 38.5 million.[62]

How did the change in the dimensions of the war, the realization by Hamilton that Britain was facing a major and costly war, relate to his views on whether the cost of the war should be met by taxation or borrowing? Had Hamilton still considered the cost of the war in terms of a few millions, it would have mattered little what part of the cost of the war was defrayed by loans and what part by taxation. The fact that he favoured fresh taxation is an indication of his growing fear that the Government might resort to borrowing rather than fresh taxation, as it could be imposed primarily upon their own voters. But since the war turned out to be a large one, it was inconceivable that its entire cost would be met by taxation. As a man with a long experience of both finance and politics, once he realized that it was going to be a long and costly struggle, he appreciated the political constraints as much as the war requirements. He thus tried to muster support for the idea that the cost of the war should be borne by fresh taxation as much as by loans.

Hamilton, aware of Hicks Beach's political difficulties, tried to encourage the chancellor and at the same time to muster backing for his proposals in the Cabinet. He tried through Sandars to ensure the assistance of the Leader of the Commons for the proposals.[63] But by stressing the necessity to impose fresh taxes, Hamilton's main efforts were directed at encouraging Hicks Beach. The Government's political constraints, so familiar to him, made it imperative that his ideas on war taxation be accepted by both chancellor and Cabinet. The episode

62. J. S. Bradbury Mamorandum, "The Financing of Naval and Military Operations, 1793-1886", 12 February 1900, T.172/954; Hamilton Memorandum, "Taxation versus Loans for War Expenditure", 18 Ferbuary 1900, EHFP, T.168/47.

63. 3 January 1900, EHD, 48675.

indicates the involvement of senior officials, such as Hamilton and Sandars, in the formulation of Cabinet policy. It also puts their powers in their proper perspective. "Eddy has no such influence or position with Beach as wd. warrant him in making the suggestion himself", observed Sandars.[64] Though one cannot accept the observation at face value, it nevertheless contains a grain of truth.

However, since the chancellor depended on his permanent staff for all historical and financial data, one cannot ignore their influence on Treasury policy. Hamilton's influence, in particular, did not end with the presentation of memoranda. His long service at the Treasury, his official standing as Hicks Beach's financial adviser, and the proximity of his fiscal ideas with those of Hicks Beach, combined with a strong mutual respect, were all important. Hamilton encouraged the chancellor before the crucial Cabinet meeting. Hamilton based his proposals as much on political as on fiscal arguments: that the people were in a mood to pay extra tax; that during the Crimean War, the best analogy to the situation then, the income tax was raised at first to 14d. and later to 16d; that during the Napoleonic Wars, when the country was not so rich, they put up for many years with 2s. income tax; that because of abatements, income tax was now much less oppressive than in the past; that income tax was the only means of taxing the rich; the more added to the income tax now, the more could be taken off before the general election; and the higher the direct taxation, the less could the Irish dwell on their grievances.[65] His tax proposals would have been more in line with the fiscal thinking of the Opposition than the Unionists, had it not been for a possibile early general election, an important factor not ignored by Hamilton. The proposals therefore made political sense for the Government, who could ill afford to alienate a substantial part of the working class who had given them its enthusiastic support for the war in South Africa.

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64. Sandars to Balfour, 12 January 1900, JSP, C.731/7.

65. 8 February 1900, EHD, 48676.

But could a Tory chancellor take Hamilton's advice and finance a substantial part of a large war exclusively through income tax? Before going into the workings of the first war budget, a few facts are required about how the burden of taxation was spread at the turn of the nineteenth century. In 1894, besides his death duties, Harcourt had - by raising the limits of total exemption to incomes up to £160, and by extending the range of abatements - relieved the majority of the middle classes from income tax, or, indeed any direct taxation at all. Some 900,000 families paid income tax in 1902, and 1 million in 1905. The number of eligible voters in the general election of January 1906, was 7.2 million.[66] A comparison of the two set of figures gives an idea about the proportion of income tax paying class to the total number of men who took part in the political game, and thus of the possible difficulties that faced the Treasury in an election year.

III

A number of factors affected the provisions of the first war budget: the duration and estimated cost of the war; the Treasury's fiscal policy; the ordinary requirements of the army, navy, and civil services; the attitude of the Irish Nationalists; the indemnity expected from the Transvaal, and the timing of the budget. Hicks Beach wanted an early budget, partly in the hope of surprising the public which, in expectation of higher taxation, would otherwise clear dutiable goods and thus cause loss of revenue to the Treasury. Hamilton, who required time to prepare the Treasury's financial forecasts, wished to postpone the budget.[67] And the Government wanted to delay the new session of Parliament till after they had some good war news.[68] But since the estimated cost of the war in the new financial year rose to £30 million, Hamilton advised that Parliament be summoned not later than 1 February.[69] The timing of the

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66. Murray, The People's Budget, 38-9.

67. 21 December 1899, EHD, 48675.

68. Hicks Beach to Salisbury, 24 December 1899, HBP, PCC/34.

69. 3 January 1900, EHD, 48675.

budget was eventually determined by pressing financial requirements.

The single most significant effect on the budget was the war expenditure. Because it was impossible to estimate precisely the cost of the war, there were great difficulties in forecasting the revenue and expenditure for the following financial year. On the assumption that the £23 million estimated war expenditure for that year were sufficient, the Treasury would have required a further £10 million - £23 million less £3 million surplus revenue and £10 million existing borrowing power.[70] But a revised war estimate upgraded the monthly rate from £3.5 million to £5 million, bringing the six month total until the end of the financial year to £30 million.[71] Since the Treasury required some estimate on which to base its budget, Hamilton accepted the latest War Office estimate that war expenditure till the end of the financial year would be £30 million.[72] On that same basis he further assumed that if the war lasted till 1 July, the extra cost would be £15 million, and if it lasted till 1 October, it would be £30 million. He chose the latter date, and on that basis, and in anticipation of £5 million surplus revenue, he expected a deficit of £25 million in the next financial year.[73]

The cost of wars has always been a bone of contention at the time of the war between politicians, and a much disputed subject by historians. The results reached depend to a large extent on the method of calculation. The Treasury adopted a rather simple process: the cost of the war was estimated on the assumption that, in the absence of war, naval and military establishment would have remained on the same scale; the annual amount of this assumed peace establishment was then deducted from the actual expenditure on the services during the war period.[74] On the basis of this system adopted in 1869, and which had a number of

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70. Hamilton Notes, 2 January 1900, Hamilton to Hicks Beach, 3 January 1900, EHFP, T.168/45 & T.168/7/145 respectively.

71. WO to Hamilton, 4 January 1900, EHFP, T.168/46.

72. 3 January 1900, EHD, 48675. Through private consultation, Hamilton knew on 3 January of WO estimates, what the formal WO letter of 4 January had to say.

73. Hamilton to Hicks Beach, 4 January 1900, EHFP, T.168/46.

74. Memorandum by J. S. Bradbury, "The Financing of Naval and Military Operations, 1793-1886", 12 February 1900, T.172/954.

flaws, but which nevertheless seemed to be as precise as possible, the Treasury calculated the cost of the Napoleonic and Crimean Wars.[75]

Besides the cost of the war, the Treasury had to consider also the increases in normal military expenditure. When it became known in January that Germany planned a large extension of its navy, Goschen presented a programme for strengthening the navy, thereby creating the possibility of a further unexpected increase in expenditure. But despite his past sympathy for naval requirements, Hicks Beach did not intend to let the new programme be adopted before it was thoroughly examined by the Cabinet. Since any expenditure entailed for a naval programme was likely to be paid by a special loan and not out of normal revenue, his primary concern was with the total cost of the scheme.[76] Normal navy estimates for 1900-01 were increased from the previous year by £1 million to just over £27.5 million, in addition £2 million were to be spent under the Naval Works Act, thus bringing the total expenditure for the navy in next financial year to nearly £30 million.[77]

The Treasury's other consideration was the possibility that the war would result in "an immense growth of Army expenditure".[78] This problem, which was to plague Hicks Beach and the Treasury later in the war, was raised already in early 1900, and therefore required Treasury attention before the budget. The other related matter was the cost of the urgent measures taken for increasing the stores and strengthening home defences. Altogether, £22 million were put aside for normal army estimates, £2 million for permanent additions to the army, and over £6 million for special temporary measures for home defence, bringing the total to over £30 million. Together with an estimated £31.5 million for war, and £30 million for the navy, total military expenditure for 1900-1901 was expected to be over £91 million.[79] A formidable sum for the

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75. How the total cost of the South African War was calculated, and what special difficulties it entailed, see Chapter Eight.

76. Hicks Beach to Salisbury, 24 January 1900, SP.

77. 26 February 1900, Hansard, vol. lxxix, col. 1112.

78. 17 December 1899, EHD, 48675.

Treasury to cope with, especially when compared with total defence expenditure of some £36 million in 1894-5 and £44 million in 1898-9, the last year before the war.[80]

On the other hand, the Treasury did not expect any substantial increase in domestic expenditure. Hicks Beach had managed at the start of the war to defer Cabinet discussion over the old age pension scheme, known as Balfour's poor law relief - a poor relation of the original old age pension scheme, and the one serious domestic legislation then contemplated by the ministry. The initial cost of the scheme was estimated at £10.5 million a year, but due to increase in the number of old people, was expected to grow to £15 million a year.[81] It was thus estimated - even before the cost of the war reached its unexpected dimensions - that "the cost of any scheme worth proposing is so great as to put it out of merit".[82] By January, when there could be no doubt about Britain being engaged in a large and costly war, the scheme was doomed. The Treasury claimed it could not fund both the extra military expenditure and social reform; the country could barely pay for the one or the other, but not for both.[83] The Bill was sacrificed.

Second to war expenditure, the anticipated war indemnity from the Transvaal seems to have had the greatest effect on the budget. But since the indemnity was an unknown quantity, the Treasury had to rely on assumptions, based on other undefined factors, such as the duration and cost of the war, the amount of damage to both private and public property in the colonies, and the cost of the army of occupation that would be required after the war. The optimistic estimates of October last had therefore to be revised and checked against the realities of the situation. Under these circumstances, the Treasury estimated that the Transvaal could bear a loan of £50 million, guaranteed by Britain, half of which

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79. Lansdowne Memorandum, 27 February 1900, Hansard, vol. lxxx, cols. i-iv.

80. Chris Cook & Brendan Keith, British Historical Facts, 1830-1900 (1984), 250.

81. 8 November 1899, EHD, 48675.

82. 26 November 1899, EHD, 48675.

83. Sandars to Balfour, quoting Hamilton, 12 January 1900, JSP, C.731/7.

would be for the colony's own requirements, and the other half would be paid towards Britain's war expenditure. An indemnity of £25 million would have a direct and serious bearing on the budget. It would reduce Britain's war burden from £60 million to £35 million - the total sum then required to be borrowed.[84]

On 10 February, the Cabinet approved Hicks Beach's entire budget proposals, which included the estimates for continuing the war till the end of September. The proposals included the suspension of the sinking fund, and meeting two thirds of the war cost, estimated at £68 million for the current and next financial years, by borrowing, and one third by taxation.[85] On 1 March, when the Cabinet met for its final approval of the budget, news reached London of Cronje's surrender and the relief of Ladysmith, the first good news since the start of the war. Upon which Hicks Beach sought to reconsider the budget and reduce the estimates. But Hamilton, who proved to be more realistic, spoke against reducing either the estimates or the military effort, because "we are not out of the wood yet". It would be wrong to suppose that "the War is nearing its end... We are now where we hoped to be 3 months ago."[86] The Cabinet took the same view, and decided to present the original budget: to increase the income tax by 4d. to 1s., and the duties on items already taxed - beer, spirits, tea and tobacco - but not to introduce an export duty on coal.[87]

IV

The Exchequer's desperate shortage of money thus forced Hicks Beach to present his first war budget on 5 March, rather earlier than customary.[88] Total war expenditure was estimated at £68 million - £30 million in the current year, the remainder in the next financial year. The

84. Hamilton Memorandum, "Taxation versus Loans for War Expenditure", 18 February 1900, EHFP, T.168/47.

85. Salisbury to Queen, 10 February 1900, CAB 41/25/31; 10 February 1900, EHD, 48676.

86. 1 & 4 March 1900, EHD, 48676.

87. Salisbury to Queen, 1 March 1900, CAB 41/25/34.

88. 5 March 1900, Hansard, vol. lxxx, cols. 55-77.

chancellor maintained that the budget had been advanced primarily to show to Boers and foreign powers Britain's determination to carry on the war and meet all its financial liabilities promptly. The early budget, especially the large estimates for war were expected no doubt to impress Boers and Europeans alike of Britain's resolve to carry on the war to final victory, but the budget was advanced primarily because the Exchequer was short of funds, as admitted by Hicks Beach to Parliament in mid-February.[89]

In Parliament, Hicks Beach explained some of the reasons behind his proposals. He claimed he could neither raise the entire money by loans, because it would raise objections and disrupt the money market, nor entirely by fresh taxation, because that would cripple industry and cause a capital flight. If he were substantially to raise the national debt, as was done twice in the last century, it would lead to financial ruin. Nor could he borrow the whole sum in anticipation of an indemnity from the Transvaal, as he did last October, because the estimated war cost was already much more than any sum they could expect from there. The war was expected to cost more than the Crimean War, he was thus justified to raise a large part (£30 million) of the extra money required (£43 million) by loan.[90]

The chancellor was not expected to raise the entire cost of the war by fresh taxation. It was customary in times of great emergency to raise taxes, especially the income tax, seen even by the unyielding Gladstonian as a reservoir for such eventualities. The only question was what portion of war requirements was to be raised by fresh taxation and what portion by loans. The main reason for not raising the entire sum needed by loan had less to do with the money market as alleged by Hicks Beach (though it had some relevance), and more with other factors. Britain did not suffer a lack of financial resources. It had an enormous financial margin. The Treasury had at its disposal the City's loan market, and a large tax

89. 16 February 1900, Hansard, vol. lxxix, col. 329.

90. Mallet, British Budgets, 148-154; 5 March 1900, Hansard, vol. lxxx, cols. 55-77.

capacity that could be tapped when required for short term effort. The City could easily absorb a big loan, as indeed it did a number of times throughout the war. The reasons for not raising all the money by loans, and for the manner in which loans or taxation were raised, were the chancellor's financial orthodoxy, the conventional wisdom of the age, the City, the Government's own backbenches, the Opposition (though far less than one could anticipate), and the diminishing expectations of any indemnity from the Transvaal.

Although Hicks Beach did not preach the financing of war by taxation alone, nevertheless he would not mortgage the "industry of posterity" with loans. He called upon the taxpayers for an "immediate and substantial sacrifice". As a staunch Gladstonian in fiscal matters, Hicks Beach would never have agreed to raise the entire cost of the war by loans. He thus impressed upon his colleagues in the weeks before the budget that tax increases were unavoidable. Although it cannot be said that the Cabinet willingly accepted the tax increases, it would be wrong to think that the budget was pressed through an unwilling Cabinet. It was a widely held belief that war expenditure should be met by taxation. The compromise reached prevented raising the entire war cost by loans.

But the Treasury had to take into consideration the City and the Government's own backbenches. Since no tax increases could be contemplated without raising in the first place the income tax, any fresh taxation was bound to be resented by the groups who constituted a substantial section of the income tax paying community. Hicks Beach could be therefore somewhat justified in considering the self-interest of his own class. Furthermore, by arguing that high taxes would cause a capital flight, the chancellor defended the principle that the country's prosperity and security depended as much on the City's standing as the world's financial centre, on the viability of the country's financial institutions, and on its credit, as on its army and navy.

So the question was not whether to raise fresh taxes or not, not even

whether to raise the income tax or not, but rather what portion of the extra money required for war purposes to raise by direct taxation and what portion indirectly. On the one hand, the easiest way to raise money for short term purposes was through additions to the income tax. But any increase of taxation, especially of the income tax, was against the self-interest of the Unionists (also many Liberals), who favoured instead broadening the basis of taxation, and spreading the burden upon all classes. This line was advocated, not surprisingly, by The Times.[91] Hamilton also at first sought to use the opportunity the war accorded for broadening the bases of taxation, but that was when the war was still expected to be short and cheap. But when it turned into a costly war, and the Treasury desperately sought ways for financing it, he quickly realized the idea was not feasible. "The difficulties attending any general radical fiscal change would be enormous", he concluded.[92]

The chancellor had seemingly a simple reason for refusing to broaden the basis of taxation under a new fiscal system. "This war in its more acute and costly phase will not be a long war", he prophesized. Since the needs seemed temporary, it was therefore financially unwise to meet them by permanent fiscal charges. Temporary necessity should be met by additions to existing taxation, not by new ones.[93] In actual fact, Hicks Beach had two good reasons for not contemplating a radical fiscal change at the time. First, when a big and costly war was raging, it was no time for fiscal changes that would have entailed enormous political, social, and administrative difficulties. Fiscal change meant, inter alia, broadening the basis of taxation, and that meant lowering the threshold of income tax - a major change of policy - which would have brought a whole new class into the income tax.

Could a Unionist Chancellor of the Exchequer pursue such policy? Could the Treasury bring about a fiscal change that would affect the working class - the class primarily affected by indirect taxation, but parts

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91. The Times, 5 March 1900, EHFP, T.168/45.

92. 28 December 1899, EHD, 48675 & 6 March 1900, EHD, 48676.

93. 5 March 1900, Hansard, vol. lxxx, cols. 55-77.

of which were likely to be brought into the income tax, if the threshold of income tax were lowered? There was a steady move in the second half of the nineteenth century towards more direct and less indirect taxation, and considering the enthusiastic support given to the Government by large sections of the working class, the Treasury could not, and perhaps dared not, alienate them through excessive taxation. When these two factors are considered - the trend of taxation and the support of the working class for the war - the maximum the Unionists could expect from a fiscal reform was to preserve the existing balance between direct and indirect taxation. Even a Unionist Chancellor of the Exchequer, and as orthodox as Hicks Beach, had to pay therefore "a close attention to the social balance of taxation", at least while a large war was in progress.[94] He therefore refrained from contemplating any proposals for the reform of the fiscal system, and was glad to maintain the balance between direct and indirect taxation, something he was unable to do in the following two years, when for the first time more revenue was raised by direct than by indirect taxation.

The budget met few problems in the Commons. Harcourt praised the budget for its "soundness of financial principles". His only fear was that the extra taxation would become permanent, since it was in the nature of wars to increase the military establishment.[95] Parliament, it seems, was ready to go a long way to finance a war that was popular. The Opposition could hardly afford to speak against it. The rumours in late March of dissolution were more in anticipation of the Government increasing their majority than in their being defeated.[96]

V

Another important consideration was the anticipated indemnity from the Transvaal, since it could have affected the amount of loan the Treasury contemplated raising. The idea of a war loan was raised in the

94. H. C. G. Matthew, Gladstone, 1809-1874 (1988), 126.
95. 5 & 6 March 1900, Hansard, vol. lxxx, cols. 87-90 & 231.
96. 25 March 1900, EHD, 48676.

Treasury early in the year, when it was realized that the war would be large and costly.[97] Both Treasury and Cabinet wanted, primarily for political reasons, to interest the public at large in the loan, especially the small investor.

Hamilton's excellent relations with the Bank of England and the major banking houses were now utilised to the full. He was the master in this domain, and referred to the chancellor only under exceptional circumstances.[98] His freedom of action in this field was due to his long and intimate connections with many bankers, and to the trust of Hicks Beach. By the end of January, Hamilton had prepared a detailed plan, in consultation with the City and the Bank of England. Its main points were that there should be no Consols; that the loan should be large (£40 or £50 million); that the investing public be brought in, and therefore could not be in the form of Exchequer Bonds, since they could only attract the big institutions; and that it would be best to have a medium term Special Stock. It "would appeal to sentiment as well as pocket", and involve the whole country with the war.[99]

After Hamilton's preliminary preparations, Hicks Beach approved the loan in principle, and saw Rothschild and Cassel, two leading City bankers.[100] Whether the loan would be for short or long-term, depended on the duration of the war, and the sum of indemnity anticipated from the Transvaal. In early 1900 (when the Transvaal was still expected to

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97. Hamilton to Hicks Beach, 12 January 1900, EHFP, T.168/87.

98. Hamilton to Hicks Beach, 24 January 1900, EHFP, T.168/46.

99. Hamilton Memorandum, 30 January 1900, EHFP, T.168/87. Hamilton's consultation with the City did not mean that the latter participated in Cabinet policy. The merger of the banking group with the old aristocracy in the last third of the nineteenth century, and the renewal of an elite, "added the control of the financial centre of the world to the prestige of the old aristocracy", where the political power remained. The Treasury consulted the most prominent bankers but they were "almost exclusively about questions within the scope of bankers, such as government borrowing, money and currency". Y. Cassis, "Bankers in English Society in the late Nineteenth Century", Economic Historical Review, 2nd ser., vol. 38 (1985), 210-229, passim. Chancellors of the Exchequer did not consult bankers over questions such as budgets. There is not a single reference to any such consultation in Hamilton's diary.

100. 6 February 1900, EHD, 48676.

bear a major part of the war cost), it was unlikely that the Treasury would go for Consols, the long-term loan. Since the war was expected to last a few months at the most, at the end of which the Transvaal would start to pay indemnities, it could not be justified to raise an extremely long term loan.[101] The Treasury decided therefore to give the loan a popular and temporary complexion, a step much approved in the City. Hamilton also dissuaded Hicks Beach from either guaranteeing the loan, or giving it to a syndicate. Hamilton's exertions had their effect. On 9 March 1900, a £30 million war loan was issued.[102]

The loan was a great success. It went at once into premium, with the inevitable criticism that a higher price could have been obtained, as foreseen by Hicks Beach: "I shall doubtless be abused for fixing too low a price".[103] The chancellor should in fact be praised for fixing the price above that advised by the experts. Such a large single loan had not been placed on the market since 1815. His daughter-biographer may be right therefore in maintaining that it required some courage on his part to dispute the experts.[104] He also disclosed a profound understanding of the public mood, which he used to the full. But the real architect of the loan was Hamilton. All his recommendations were followed: it was a big issue, neither a short nor a long term loan, the price was fixed, not guaranteed, and involved the public at large. He not only prepared the ground with the Bank of England and in the City, but also successfully channelled the chancellor towards his own views.

VI

In conclusion, the magnitude of the war took the Treasury by surprise. The rapid increase in war expenditure, especially after December 1899, when large reinforcements were sent to South Africa, quickly emptied the Exchequer, and forced the Treasury to find large

101. The Times, 10 February 1900, EHFP, T.168/87.
102. Hamilton Memorandum, 7 March 1900, EHFP, T.168/87.
103. Hicks Beach to Salisbury, 12 March 1900, HBP, PCC/34.
104. Lady Hicks Beach, Hicks Beach, ii, 120.

sums for the war effort. The early reliance on temporary borrowing was no more suitable for a war which was now expected to be long and costly. Financial measures of a more permanent nature were required.

Money had to be raised therefore by either fresh taxation or by borowing that was not on a temporary basis. But neither the division of the sums required between loans and taxation, the form of the loan, nor the rationing of the latter between direct and indirect taxation, could be decided without considering a multitude of very conflicting background determinants - financial, political, military, and social. The Treasury tried to reconcile these factors against the customary norms of raising money in an emergency. In the end, however, the necessities of the war dominated the financial thinking. The determination of the Government to win the war regardless of cost seemed to justify both tax increases and heavy borrowing. Consequently, the financing of the early stage of the war was, by and large, pragmatic.

The anticipation of a war indemnity from the Transvaal greatly affected the Treasury's calculations. Although the Treasury realized that it was faced with a war that was going to be both long and much more costly than anticipated, and consequently that the Transvaal did not have the capacity to bear its entire cost, the diminished indemnity was, nevertheless, expected to cover the entire war deficit of that financial year. Consequently, the expectations of an indemnity also affected the amount and form of the war loan issued by the Treasury.

The Treasury's difficulties did not mean, however, that Britain was in a financial crisis. The budgetary difficulties of the Government should not be confused with the financial state of the country. Britain's financial resources were enormous, thus affording the Government a very large financial margin. The Treasury had at its disposal the City's loan market, which could easily sustain a very large loan, and a large tax capacity that could be tapped when required for short term effort. The military expenditure was financed with little difficulty.

Chapter Four

The Fall of Johannesburg, General Election & Special War Budgets May - December 1900

This chapter is concerned with the Treasury's role in the war from May to December 1900. After the approval of the first wartime budget, the imperial forces were fighting an all-out war until, with the fall of Johannesburg and the annexation of the republics, the Boers turned to guerilla warfare. After the "khaki election" of September-October, Salisbury's Government was restored with a substantial majority. During this period, the Treasury began to intervene directly in the conduct of the war. The question of the financial considerations behind the chancellor's intervention and its effectiveness provides further tests of Treasury control in the face of rising costs of the war.

I

In the March 1900 budget, the Treasury assumed the financial measures taken would see it through the war, then anticipated to end by October. But as war expenditure continued to rise, with no sign of the war itself abating, that assumption soon proved too optimistic. Although none of the Treasury's major problems was entirely new, they were enlarged and seemingly unending. One such issue was the reserve of military stores, which before the war had remained meagre and insufficient for a major military confrontation. It was assumed that the royal ordnance factories, together with the private manufacturers of munitions, would be able to supply the requirements if war came, but they could not. As seen above, the issue was not resolved before the budget.[1] Although a majority of Cabinet agreed with Brackenbury's recommendations which

1. See chapter III.

called for the expenditure of £11.5 million for refurbishing the military stores, Hicks Beach objected, arguing that it was wrong to embark upon a large expenditure on the report of "a single official". Whereupon two committees were set up, under Sir F. Mowatt and Sir R. Grant, to investigate Brackenbury's Report. The committees reached similar conclusions, and recommended the expenditure of £11.5 million, to ensure a sufficient reserve of stores, guns, and ammunition to keep a force of three army corps in the field for six months.[2]

The new recommendations alarmed Hicks Beach, who feared their financial and political consequences, and therefore tried to stop their implementation.[3] He considered it politically dangerous for the Government to take upon itself financial liabilities which would largely fall due in the next financial year, just when he anticipated a fall in prosperity, high taxation, and a possible general election.[4] The arguments against increased ordinary expenditure on replenishing the military stores were important to the Government, which kept one eye on the fortunes of the war and another on the possibility of a snap general election. Extra expenditure of £11 million in the midst of a costly war was no trifling matter. The committee may have been hastily set up,[5] but its recommendations were not hastily approved.

But there was another aspect to Hicks Beach's objections, even more important, and it concerned Britain's deterrent power. Hicks Beach argued that because of the rarity of great wars, the cost of keeping the stores in proper condition, and the brief period in which they remained in fashion before they were declared obsolete and had to be replaced by new stores, it was wasteful and expensive to keep a large reserve of stores in peace time. This fear of a permanent increase of stores was connected to large peace time army. This idea of a small defence expenditure policy in peace time rested on the conventional wisdom regarding the political

2. RCWSA [Cd.1791.], 518-520.
3. Sandars to Balfour, 4 April 1900, BP, 49760; EHFP, T.168/63.
4. Hicks Beach to Lansdowne, 12 May 1900, LP, L(5)46.
5. David French, British Economic and Strategic Planning: 1905-1915 (1982), 44.

economy of war, which rested on the assumption that "the ability to conduct a successful war depended not just on the army and navy but on the ability of the economy to support them, and that in turn rested on the lowest possible level of government spending in peacetime".[6] Technological changes not only made modern weapons rapidly obsolete, but also their replacements more costly. It was further believed that since wars were but an extension of the normal economic system, they did not require early large scale preparations.[7] The chancellor objected to an extensive reserve of stores and a large standing army not only because of their financial implications, but also in principle. His dislike of a large standing army was matched only by Salisbury's.

The objection in principle to a large reserve of stores, and the fear of its financial implications fitted also with the manner in which the Treasury functioned. The Treasury thought and functioned in annual terms, as expressed in the budget, with some rare exceptions, such as the naval construction programmes, which entailed the spreading of costs, often raised not by normal revenue but by loan, over a number of budget years. The Treasury ideal was that of annually balanced budgets, and that the money voted under specific heads should be spent in that year. The result of this traditinal system, resulting from Parliament's control, was long term financial and political rigidity. Any departure from that system was therefore deprecated, certainly not entertained in the midst of a costly war. According to this Treasury convention, the chancellor objected to the enlarging of military stores, and wished to postpone it "until the war was over and the experienced officers came back from the war".[8] If, in peacetime, the Treasury thought in annual terms, it was even more rigid in time of war, when its hands were full with urgent requirements, despite the fact that wars did not conform to financial years. Hicks Beach thus did all in his power to postpone the implementation of the proposals which entailed a substantial outlay in a short time: he pleaded with Lansdowne, threatened resignation, and

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6. French, British Planning, 9-10.

7. W. K. Hancock & M. M. Gowing, British War Economy (1949), 3.

8. Hicks Beach to Lansdowne, 12 May 1900, LP, L(5)46.

resorted to the Treasury's chief weapon for controlling departmental policy, the tactic of delay.[9]

Hicks Beach's efforts at postponing the proposals continued even after they had gone through various committee stages and came before the Cabinet. He offered Lansdowne something "on account", and asked him to leave the rest of the matter until after the war, to be dealt "by fresh soldiers". But Lansdowne refused, and referred the matter to the Cabinet.[10] He demanded that the whole sum be sanctioned and paid within three years.[11] Lansdowne accepted the Treasury's compromised offer of £10.5 million.[12] The chancellor's efforts were therefore not in vain: he managed through much haggling to cut £1 million from the recommendation. The episode also shows the limits of Treasury control. Considering the traditional dislike of both Treasury and Governments for large reserves of stores, in particular when large sums were required for the war, the decision to spend £10.5 million in three years for replenishing the stores - the most valuable order for the army placed before 1914 - is remarkable in itself.[13]

II

The question of war indemnity from the Transvaal continued to concern ministers.[14] The issue had been raised officially for the first time by Chamberlain in January 1900. He claimed that Natal, which had made great sacrifices, deserved a reward in the form of an addition to her territory, and proposed that part of the Transvaal up to the Vaal river, and a section of the railway from Laurenco Marques, be annexed to her. He also suggested that a large indemnity "ought to be demanded from the

9. Hicks Beach to Lansdowne, 10 May 1900, LP, L(5)46.

10. Hicks Beach to Lansdowne, 17 May, Lansdowne to Balfour, 18 May 1900, LP, L(5)13.

11. Lansdowne Memorandum, 21 May 1900, CAB 37/53/51.

12. Lansdowne to Hicks Beach, 29 May 1900, HBP, PCC/84.

13. Clive Trebilcock, "War and the failure of industrial mobilization: 1899 and 1914", in J. M. Winter (ed.), War and economic development: Essays in memory of David Joslin (Cambridge,1975), 145.

14. Hicks Beach to Harcourt, 15 December 1900, HBP, PCC/25.

two republics at the close of the war", to compensate private individuals for war losses, pay towards the cost of the war to the imperial Exchequer, and cover the cost of the military garrison that would remain there after the war, just as in Egypt and India.[15]

Chamberlain's idea was to transfer a substantial portion of the war cost and consequential expenditures on to the Boer states - by direct payment to the British Exchequer, by upkeep of a garrison, or in the form of a reward in kind to Natal. Furthermore, the extraction of territories from the Boer republics, and their annexation to Natal, was intended to strengthen the British colonies against the republics. Balfour verified the wider implications of Chamberlain's statement of intent, and proposed ways for its implementation.[16] The questions raised by the two concerned the future of the Boer colonies - the sum of indemnity to be exacted, their constitutional future, the size and cost of the future garrison, the colonies own financial requirements, and the complex interrelation between them all - questions which were to puzzle the Cabinet throughout the war and after.

Events in South Africa forced the Treasury to consider other issues indirectly involved with the question of indemnity. Since the loyalists suffered losses in the war, Milner was authorized in March to set commissioners to evaluate their losses, which the Cape and Natal ministries were asked to meet, in expectations of low interest loans and preferential claims on the indemnity to be exacted from the two Boer republics after the war.[17] But the colonial ministries refused to advance compensation money without a British guarantee. This stand raised two interrelated questions of some importance: whether the war was by nature imperial or merely a war in defence of the colonies; and its corollary, who should bear the cost of the war, the imperial or the colonial Exchequers? The second question should be seen also in its wider context - the dispute between the Treasury and the South African ministries

15. Chamberlain Memorandum, 10 January 1900, CAB 37/52/3.
16. Balfour Memorandum, 24 January 1900, CAB 37/52/6.
17. Chamberlain to Milner, 10 March 1900, JCP, JC 14/4/2/13.

regarding the apportionment of costs ancillary to the war between their respective Exchequers.

The Colonial Office concluded that as Natal approved of the war but not the Cape (because of the complex relations between the British and the Dutch in the colony), it was the responsibility of the imperial Government. Consequently if Britain did not guarantee the payment, it would be a breach of faith. Besides, Natal could not possibly pay claims that might amount to £500,000, equivalent to a quarter of its revenue, or "to a sum of 25 to 30 millions in the eyes of Sir Michael Hicks Beach".[18] The Colonial Office also pointed to the complexity of the issues involved. It was not a case where a definite indemnity could be demanded from an enemy as a condition of peace. Once the enemy territories were annexed to the Crown, they could no longer be treated as mere enemies, therefore the amount of indemnity to be exacted from them had to be related to Britain's responsibility for the future of the territories. Since the resources of the Boer states were too meagre to cover the entire cost of the war and its incidents, the sum exacted for compensation purposes would automatically diminish the amount of indemnity to be paid to Britain, thus throw the burden of compensation indirectly back on to the imperial Exchequer. Since the issues were so complicated, the Colonial Office suggested that they be considered by an interdepartmental committee.[19]

The Treasury was being told that the financial capacity of the Boer states was limited, and since the total sum available could not be enlarged, a large expenditure for one form of indemnity would mean less available for another. But it could also be warning the Treasury that once the Boer states were annexed to the Crown, as they surely would be, then Britain would become responsible for financing their administration. Consequently, the heavier the war indemnity imposed on the ex-republics, the heavier their administrative deficit would become, which

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18. Memorandum by H. W. Just, 27 March 1900, CO. 879/62/620.

19. CO to Treasury, 28 March, Treasury to CO, 2 April, CO to Treasury, 6 April 1900, T.1/9626/21437.

would fall on the British taxpayers. It was a first sign that it could be dangerous to raise expectations for an indemnity from the Boer states to high.

Meanwhile, the Treasury discussed Chamberlain's proposal for compensating Natal for war damages at the expense of the Transvaal. Hamilton was willing to let Natal assume responsibility for the claim to compensation of individuals, on the understanding that the sum paid out would constitute a first charge on the revenues of the Transvaal, and failing that, it would be divided between the imperial and colonial Exchequers.[20] But Hicks Beach rejected the idea. He protested against leaving the question of compensation to be decided by a departmental committee of the Colonial Office, which would undoubtedly "attack the Exchequer". In any case, he argued, the subject was "far too important to place it before a Department Committee without some guidance from the Cabinet as to the principles on which they ought to work".[21] Thus, Hicks Beach rejected what amounted to a direct challenge to Treasury control. He insisted on the Treasury's financial control over the other departments of government. The Treasury's objection in principle to paying compensation was equally important. It was constitutionally opposed to unlimited liabilities where expenditure was concerned, and nothing was more of an unlimited liability than setting dangerous precedents over compensation for war damages.

Under further pressure from the Colonial Office, the Treasury finally agreed to the proposed committee, but on two conditions: that its findings be confidential, and not bind the Government.[22] Because of the resentment against the Treasury after the early military defeats, Hicks Beach feared public opinion as much as the Cabinet. But these conditions at least gave the Treasury a veto over the committee's findings. In May, the Cabinet discussed the matter, but decided that since it was both complicated and involved a very large expenditure, it was better not to be

20. 8 April 1900, EHD, 48676.

21. Hicks Beach to Chamberlain, 12 April 1900, JCP, JC 16/5/29.

22. Treasury to CO, 30 April 1900, T.1/9626/21437.

pledged until it had a clearer idea of the colonial and imperial liabilities.[23] The immediate question of compensation to loyalists in Natal and the Cape was resolved, when the two colonial ministries undertook to pay 75 per cent of the assessed value of the damage, on the understanding that compensation would ultimately be paid out of the indemnity to be exacted from the Boer colonies.[24] The bill of damages for the time being was, therefore, neither to be paid nor guaranteed by the imperial Exchequer. It was assumed that the two colonies would be reimbursed out of the indemnity to be exacted from the Boers. As we shall see, this assumption was to prove false but, for a time, the Treasury's delaying tactics seemed to have succeeded.

But initial Treasury consent was of paramount significance for similar settlements in the future. When a similar claim was raised for Bechuanaland, the Treasury had no choice but to concur. And later, when Chamberlain did not think it right to distinguish between damages done by imperial and enemy troops, the Treasury had to follow, despite the fact that the estimated amount of compensation for Natal and the Cape was expected to be not less than £3 million.[25] In the final analysis, therefore, the Treasury's delaying tactics backfired. Although most of the compensation money was paid in the first instance by the colonial Exchequers, the Treasury did not escape the one trap it feared most, precedents imposing open-ended liabilities.

A similar dispute over the apportionment of costs arose between the imperial and colonial Exchequers when Roberts urgently requested 25 engines and 300 wagons for the Orange Free State railways, at an estimated cost of £220,000, with the assurance that it would be easy to dispose of them after the war. Chamberlain and Lansdowne favoured the request, but the Treasury refused to sanction the expenditure. It argued that since the engines would be delivered some six to twelve months after

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23. Salisbury to Queen, 11 May 1900, CAB 41/25/39.

24. 17 July 1900, Hansard, vol. lxxxvi, 220.

25. CO to Treasury, 18 August, Treasury to CO, 20 August, CO to Treasury, 13 September, Treasury to CO, 18 September, CO to Treasury, 3 October, 17 & 22 November, Treasury to WO, 15 December 1900, T.1/9626/21437.

they were ordered, they could have "nothing to do with the conduct of the hostilities", but were intended for "the development and the prosperity of the New States after the war", and therefore would not be sanctioned by the Treasury as war expenditure.[26]

Despite Milner's promise that none of the expenditure "need ultimately fall on Imperial Government", the Treasury did not yield until the issue was reported in The Times, and subsequently raised in Parliament. It was then announced that the expenditure had been sanctioned. In fact, the Treasury had not sanctioned it, but Hicks Beach had told Lansdowne that he might agree, if Roberts continued to press for the engines on military grounds.[27] However, once the matter was raised in Parliament, where it was announced that the matter had been settled, the Treasury was forced to sanction the expenditure.[28] This was another case of the Treasury using its chief weapon, delaying tactics, in the hope that a request would not be required.

The public debt of the Boer states was another disputed issue between the Treasury and the colonial ministries. Who was to bear the liabilities once the states were annexed to the Crown, and should they include also their past liabilities, or only those incurred from the date of annexation? We have seen that part of the British plan for the future of the Boer states was to appropriate the Transvaal's railways, which belonged to the Government, and which constituted the bulk of its public debt. Since they were mortgaged to private persons at 5 per cent interest, this raised another question: should Britain pay such high rates of interest, which, needless to say, the Treasury refused. The alternative solution was to buy the bonds, but that required applying to Parliament for the money. Since Hicks Beach was preoccupied with the budget, he considered the idea to be "absurd at the present time".[29]

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26. Roberts to Lansdowne, 20 March, WO to Treasury, 28 March, Mowatt to Hicks Beach, 28 March, Hicks Beach to Mowatt, 28 March 1900, T.1/9521/5826.
27. Milner to Chamberlain, 29 March, Mowatt to Hicks Beach, 27 April, Hicks Beach to Mowatt, 28 April 1900, T.1/9521/6090.
28. Treasury to WO, 17 May 1900, T.1/9521/8414.
29. Hicks Beach to Salisbury, 12 March 1900, HBP, PCC/34.

But when in June Milner pressed for the payment of interest on the public debt of the Orange River State, Chamberlain felt Britain could no longer evade the question of liability for the debt of the Boer states. He proposed to take the advice of the Law Officers on the problem of assuming the responsibility. The Treasury refused to prejudice its position on assuming the debt itself. Hicks Beach rejected any liability that dated prior to the annexation of the republics to the Crown. "It is one thing to assume liabilities of the Gov. of the O.F.S. after we have annexed the country - but quite another, to pay debts due from them before the annexation. We could not do this... without risking other claims."[30] In any case, he could not "justify spending money in the purchase of what belongs to us by right of conquest".[31]

The Law Officers' view was that Britain was bound to take over the public debts of the ex-republics, though she could charge them to their revenues, and alter the conditions of the debt, by making them more equitable to the new situation. Wherupon the Colonial Office suggested reducing the rate of interest on the bonds, or by the bonds at a fixed price.[32] But the Treasury preferred to solve this and similar problems by the issue of a large Transvaal guaranteed loan. As Britain would not let the new colonies default, argued Hamilton, the sooner the high interest loans of the old republics were got rid of the better. Mowatt also thought that Britain had no choice but to assume the debts of the ex-republics, but she was not obliged to pay the interest on the Bonds, unless the revenue of the new colonies could bear the interest. But Hicks Beach was still not satisfied. While he agreed that if Britain assumed liability for the public debts of the Boer states, it should be limited to the ability of the new colonies' revenues to pay the interest, he wanted the question to be further considered before any payment was made on the interest.[33]

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30. CO to Treasury, 22 June, Treasury to CO, 23 June, Hicks Beach Minute, 19 August 1900, T.1/9618/20658.

31. Hicks Beach to Chamberlain, 30 November 1900, JCP, JC 16/5/32.

32. CO to Treasury, 15 December 1900, T.1/9618/20658.

33. Hamilton to Hicks Beach, 19 December, Mowatt & Hicks Beach Minutes, 21 December 1900, T.1/9618/20658.

Hicks Beach's refusal to grasp this nettle was in contrast to the line taken by Milner, the Colonial Office, Hamilton, and the leading bankers in the City. Chamberlain insisted they could and should reach an arrangement with the bondholders. Since the administrative costs of the colonies in any case took priority over interest on debt, Britain had the right to refuse any payment of interest on debt, if no revenue was available for that purpose. In that case there were likely to be protests from foreign Governments. Although there were differences between debts of the old republics and those of Crown colonies, the bondholders would consider them as secondary. The issue was not therefore just legal or financial, but one of policy.[34] Hamilton also disagreed with Hicks Beach, and considered it wrong not to assume liability for the Bonds, even from a practical point of view. He had little doubt that in the long run Britain would pay for them, so it might just as well get the credit for it now. Moreover, he told Lord Rothschild - who thought that the decision not to recognize the liability for the Bonds, would "produce a very unfortunate impression" - to protest to Balfour.[35]

Hamilton rarely disagreed with the chancellor, and even more rarely sought to change a line advocated by him. The fact that he did both in this case, is an indication of his strong convictions that the line adopted by Hicks Beach was wrong, whether from a mere financial point of view, as he was certain that Britain would eventually assume the liabilities, or from a moral standpoint, concerning its relations with the City, and the correct norms of public finance. The incident also shows the immense power of both the Chancellor of the Exchequer and the Treasury. Hicks Beach managed to stand single-handed against the combined opposition of the Colonial Office, his own private and trusted financial adviser, and the City. It also shows how effective the tactics of delay could be, when the Treasury seriously dug in its heels.

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34. CO to Treasury, 3 January 1901, C.O.879/70/664.

35. 13 January 1901, EHD, 48677.

The above cases exemplify the disputes between the Treasury and the South African colonies regarding the apportionment of costs arising from the war. In all three cases Treasury control was exercised to avoid financial liability and to transfer costs on to the colonial Exchequers, and failing that, to postpone a decision. Delaying tactics were used in all cases, and although the end result was similar, the immediate effect of the Treasury's tactics was somewhat different. In the case of compensation, the Treasury fell into the trap of precedent, and consequently had to relinquish the difference between war damages done by imperial, enemy and colonial troops. The delaying succeeded in the case of the rolling stock, until the matter was brought into the open, when in fear of being charged with obstructing the war effort, the Treasury quickly sanctioned the money. The delaying tactics were wholly successful in the third case. Treasury control was effective in the first instance in all cases. But in the long run, because of the war and the colonies' financial crises, it was forced to relinquish its stand, and managed only to defer the final settlement of the issues in dispute until after the war, in the hope that an indemnity would reimburse all or part of the expenditure. In the final analysis, the delaying tactics failed, except for niggling at small matters, causing delays which in some cases tended to obstruct the war effort, and in others generate tension between mother country and colonies.

III

The Treasury's main preoccupation remained, however, the ever increasing war expenditure, and its efforts at stemming the tide ranged from diminishing the pay of volunteers, militia and colonials, to calling for actual troop reductions in South Africa. Regarding pay, the Treasury quickly lost its battle with the imperial yeomanry and militia. While the first contingent of yeomanry raised early in the new year had cost the Treasury very little, it was forced towards the end of 1900, when the initial patriotism had died out, to be more generous. Once 5s. a day was paid to some forces, especially to colonials, it became necessary, if the army was

to raise more men, to increase the pay of yeomanry to a similar level.[36] There was much confusion over the proper rate of pay for colonial volunteers, and it had been decided to postpone the issue until after the war. At first, colonials were paid by the imperial Exchequer at imperial rates, and the difference up to standard colonial levels was covered by their respective Governments. Subsequently, all colonial troops were paid 5s. a day and, excepting Natal volunteers, by the imperial Exchequer.[37]

The Treasury's more important concern was, however, the size of the force in the field. By June 1900, 223,000 troops had been sent to South Africa - four times the number originally estimated as necessary by the generals. The Treasury considered it imperative, therefore, that all units which were not absolutely necessary for victory should be released as quickly as possible. It thus pressed for the reduction of the rate of pay of some special contingents, and better still, to disband them altogether. Already in May, therefore, when it seemed that the war would soon be over, the Treasury asked for immediate cuts in the number of troops in South Africa. Its first targets were the local forces raised hurriedly in the early stages of the war at very high rates of pay. It wished to dismantle them now just as quickly. It drew War Office attention to "the extravagant rate of pay given to local Cape and Natal forces out of the Exchequer". When they were raised, it had been "necessary to obtain them at whatever cost", but since the emergency no longer existed, it asked that the extra charge be discontinued.[38]

The Treasury raised the question of troop withdrawal again one day after Pretoria was occupied, but Lansdowne refused to consider it before a clear picture of the situation in the field had emerged.[39] In any case, he argued, if the military situation permitted, the War Office would prefer to return to India its troops, and bring back some for home defence, rather then release colonial troops; upon which Hicks Beach did "not think it

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36. WO to Treasury, 12 April 1900, T.1/9584A/17011/6913; RCWSA, [Cd.1789.], 67-72, [CD.1790.], 227-281.

37. RCWSA, [Cd.1789.], 79; WO to Treasury, 24 April 1899, T.1/9569B/15029/7459.

38. Hicks Beach to Mowatt, 3 May, Treasury to WO, 10 May 1900, T.1/9569B/15029/7459.

39. Lansdowne to Salisbury, 6 June 1900, SP.

would be of any use to press the point".[40] In July, when war expenditure showed no signs of abating, and the Treasury was short of money, Hicks Beach renewed his demand for reduction of the force in South Africa, but without success.[41] Treasury pressure was not successful in this instance, but it was an indication of what could be expected in the future. From then on it never ceased demanding troop reductions, demands which often threatened to impede the war effort.

In its financial anxieties, the Treasury sought to cut military expenditure wherever possible. When in the Boxer rising, the Pekin legations of Britain and other Powers were besieged, 10,000 Indian troops were despatched, at a cost of more than £1 million, but without achieving their relief. Thereupon Japan was ready, at Britain's request, to send 20,000 men to China, but demanded payment for the service. Hicks Beach suggested offering Japan £500,000, but Japan demanded more. And when the Foreign Office offered Japan £1 million, Hicks Beach suggested that Japan be excluded from a share in any indemnity from China - the maximum concession he could expect in a matter decided by the Prime Minister.[42] At the end of July, more troops were needed there, but the India Office objected to further denuding India of its white troops, the War Office refused to send troops from Britain, and there was no question of sending troops from South Africa. The Cabinet decided to send another brigade of native troops from India, overruling the India Office.[43] In view of the financial and military limitations, the Cabinet took the easiest and cheapest way out.

IV

By July 1900, the Treasury believed the financial situation to be desperate. It estimated that if the current rate of war expenditure continued, its provisions would suffice only till the end of November. In so

40. WO to Treasury, 11 June, Hicks Beach Minute, 18 June 1900, T.1/9569B/15029/10482.
41. 7 July 1900, EHD, 48676.
42. Brodrick to Salisbury, 12 & 20 July 1900, SJBP, PRO 30/67/5.
43. Salisbury to Queen, 31 July & 4 August 1900, CAB 41/25/47 & 48.

far as it was possible to estimate the course of the war and its cost, war expenditure was not expected to slacken before October. The only way to forecast war expenditure, Hamilton mused, was "to make a very wild estimate and then multiply it by about 2".[44] He nevertheless estimated the extra war expenditure in the current financial year at £9.2 million, and if military contingencies not related to the war were to be included - military stores, special naval expenditure, the Ashanti expedition, and the Boxer rising, which had already cost £3 million - the total additional requirements were estimated at £11 million.[45]

The shortage of funds caused the Treasury grave concern in the summer. Anxious not to run short of money later in the year, Hamilton sought to increase the supply, either by further borrowing from the Bank of England, or by a special supplementary estimate, with neither alternative particularly attractive. By his estimate, it was better to take a supplementary estimate in the current parliamentary session than summon it especially for that purpose later in the year. But Hicks Beach was reluctant to go to Parliament in the summer, when a general election was in sight.[46] Hence, the Treasury decided to seek the help of the Bank of England and avoid Parliament. Winning the election seemed more important than the danger of financial insolvency. But the Bank of England turned down the Treasury's request. The current and three former Governors of the Bank agreed that no more money should be lent to the Treasury, and that it should, despite its reluctance just before a general election, bring out a supplementary war loan.[47]

The tight money supply caused difficulties also to the financing of local loans. Just when Government borrowing requirements had increased, especially on account of the war, the money available for investment had decreased. The 1897 Act, which reduced the interest rate,

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44. 19 July 1900, EHD, 48676.

45. Hamilton Memorandum & Letter to Hicks Beach, 5 July 1900, EHFP, T.168/48.

46. Hamilton to Hicks Beac & Hicks Beach to Hamilton, 12 July 1900, EHFP, T.168/48.

47. S. S. Gladstone (Bank of England) to Hamilton, 16 July, Hamilton Memorandum, 17 July 1900, EHFP, T.168/48.

made public loans very attractive. The Treasury had sought ways just before the war of investing Savings Banks monies, consequently very large commitments were made. The local authorities now drew the loans for which they contracted, thereby competing with the Treasury for the same limited resources, thus increasing Treasury anxiety over finding the extra money necessary in that financial year.[48]

There was another edge to the problem, unpleasant politically to the Government. At the start of the war, the interest rate had shot up to 6 per cent. Early in the new year, however, it fell steadily, and by 16 June it had reached 3 per cent, the lowest since the previous July.[49] Till then, in order to encourage the small depositors, the Savings Banks paid them the market rate of interest, slightly supplemented by the Exchequer. In the middle of 1900, however, when interest rates were at their lowest, but when the Treasury itself was squeezed for funds, it suggested abolishing the subsidy to small depositors. But because of the political consequences of such an unpopular measure just before a general election, the Cabinet declined the proposition.[50]

When the Bank of England refused to lend any more money to the Treasury, and it was so very difficult to estimate war requirements accurately, Hamilton hoped to make the Treasury reasonably safe by assuring it sufficient borrowing powers. Relying on recent War Office estimates, and assuming that war expenditure would diminish by £300,000 a week from September onwards - an assumption neither he nor Hicks Beach had great faith in - he upgraded by £2 million his previous estimate, and now anticipated a deficit of £13 million till the end of 1900. He suggested asking Parliament for £10 million, because sooner or later "we shall have to issue some more War Stock".[51] He pressed the chancellor to announce his borrowing intentions. But the latter, although resigned to the necessity to go to Parliament again, would not do so a day

48. Hamilton to Hicks Beach, 21 May 1900, EHFP, T.168/92.

49. Mitchel & Deane, British Historical Statistics, 458.

50. Salisbury to Queen, 16 June 1900, CAB 41/25/42.

51. Hamilton Memorandum, Hamilton to Hicks Beach & Hicks Beach Minute, 20 July 1900, EHFP, T.168/48.

too soon. He postponed his final decision as long as possible, hoping that the situation in South Africa or China would change and consequently require less money, or allow him to dispense with the supplementary estimate altogether.[52]

There was, in fact, a last minute change in the situation, but not the one Hicks Beach hoped for. On the contrary, just before the Treasury presented the supplementary estimate, the War Office increased its war estimate by £3 million to £12 million.[53] With £1.5 million more needed for the navy, total extra requirements were £13 million.[54] On 30 July, the chancellor presented to Parliament a special £13 million budget. He claimed that only £7 million was for war purposes, and that the rest was required as a margin for liquidity reasons, since most of the year's revenue was expected in the last quarter of the year. He declared that the form of the loan would depend on the cost of the war and the indemnity exacted from the Transvaal.[55] He failed to mention that there was nothing unusual about the bulk of the revenue coming in at the end of the financial year.

Hicks Beach was neither for long-term Consols nor for short-term Treasury Bills. He wished to avoid enlarging Britain's permanent debt, and there was little sense in resorting to very short-term loans. So he decided on Exchequer Bonds - £10 million for three years, and £3 million for five years - a reasonable time in which to expect not only the end of the war, but also the payment of indemnity. Before setting the loan issue, the Treasury enquired confidentially - because of some anxiety in the City that the loan was but a first instalment, and that the Treasury would be requiring much more before the end of the year - whether its terms would attract subscribers. The response from the City was, indeed, far from

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52. 20 July 1900, EHD, 48676.

53. WO to Treasury, 20 July, Gibson to Chalmers & Hamilton to Hicks Beach, 21 July, Hicks Beach Minute, 22 July, Treasury to WO, 20 July [back dated] 1900, T.1/9610/19924/12783.

54. Hamilton Memorandum, 25 July 1900, EHFP, T.168/48.

55. 30 July 1900, Hansard, vol. lxxxvii, 54-7.

encouraging. When J. P. Morgan, the leading Anglo-American banker in London, offered to place half the issue in the United States on Treasury terms, Hamilton wished to accept the offer, because it would be "killing two birds at [sic] one stone".[56] Hamilton was referring to the fact that the reserves of the Bank of England stood then at their lowest point since 1893.[57] By placing half the loan issue outside Britain, the Treasury would circumvent the fears in the City, and enlarge its gold reserves from a new source. To further allay the City's fears, Hicks Beach announced, on Hamilton's suggestion, that the Treasury had, in fact, provided for all war contingencies.

Hamilton was not keen to approach Morgan, as it might seem a confession that Britain had reached the end of its borrowing power, and "had to go cap in hand to America to enable us to carry on the War".[58] But it would be wrong to think that Britain had reached the end of its borrowing power. There is no denying that the Treasury was short of money in 1900, and had for the second time that year to look abroad for funds, something she had not done since the middle of the eighteenth century.[59] But London was the world's major international financial centre, and Britain was far from reaching the end of its borrowing power. The Treasury also had other reasons for approaching an outside bank. Besides wanting to play safe, since such large loans were rare, by placing part of the loan in a foreign country, not through the customary banking houses, who dictated their own terms, the Treasury could play the one off against the other, and thus gain better terms. The fact that all the war loans were oversubscribed many times over, indicates that funds were available in abundance locally. Placing part of the war loans in the United States was largely tactical.

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56. Hamilton to Hicks Beach & Hicks Beach Minute, 27 July 1900, EHFP, T.168/48.

57. Hicks Beach Explanation, August 1900, in "The War Loans", by L. C. B., 1905, EHFP, T.168/55.

58. 31 July 1900, EHD, 48676.

59. Kathleen Burk, "Finance, Foreign Policy and the Anglo-American Bank: the House of Morgan, 1900-32", Historical Research, vol. 61, No.145 (June 1988),199.

V

The July budget gave the Treasury a respite, but did not resolve its major difficulties - the growing financial requirements of all four South African colonies, insolvent because of the war, and looking to the imperial Exchequer for relief; the rise in ordinary military expenditure; and, above all, war expenditure, which remained at a very high level throughout the year. These requirements brought great pressure on the chancellor, who had to take into consideration the political constraints involved in the forthcoming general election. But the political needs did not prevent the Treasury from demanding the reduction of war expenditure; they only made its task that much more difficult.

As the war dragged on during the summer, Hicks Beach tried to set a deadline for the reduction of the forces in South Africa. At first, he asked Lansdowne only to consider measures for reducing the war expenditure. In September, however, when there were no signs of any reduction, he demanded that some preliminary steps actually be taken towards achieving that goal. He did not restrict himself to asking for troop reductions, but had some operative suggestions of his own: the gradual demoblization of the militia, and the immediate dismissal of the very costly irregular South African forces. He warned Lansdowne that he would not "be responsible for the finances if the present rate of expenditure is allowed, in my opinion quite unnecessarily, to continue much longer". The "time for 'kid gloves' has lasted too long already."[60]

In an effort to reduce military expenditure, Hicks Beach appealed also to Chamberlain and the Prime Minister, on issues related to their offices. Britain's financial situation was so bleak, he told Salisbury, that he was "reluctant to embark on extensive financial or military operations" in China, and asked Chamberlain if he thought it "worth while, in these times", to send men to the Australian Commonwealth celebrations. He would like "to save even £30,000 in these days".[61] Hicks

60. Hicks Beach to Lansdowne, 6 September 1900, LP, L(5)46.

Beach impressed his financial difficulties on his colleagues, by asking them to save on military expenditure, however small. The start of his general offensive for the reduction of war expenditure, was his first positive demand on his colleagues to reduce the military force in South Africa. By digging in his heels and exercising Treasury control in an effort to put a brake on war expenditure, he no longer asked whether reductions were possible, but demanded them. The form which Treasury control took for this object will be seen below.

But Lansdowne could not accommodate Hicks Beach, claiming the troops were fully employed, so he could make no reductions. Moreover, argued Lansdowne, some districts had to be abandoned because of troop shortages. He assured Hicks Beach, however, that Roberts' recent offensive and drastic measures (the concentration camps), would bring the war to an early end. As for home defence, he had a warning. If he were to start demobilize militia, when the military were pressing for more men, Wolseley would protest, and receive Cabinet support. There was a line, he seemed to say, beyond which the Cabinet could not risk reducing the home forces. That did not imply that he or his colleagues were unaware of the need of reducing expenditure as soon as possible. Lansdowne had warned Roberts weeks ago that he would have to send back the Indian contingent and some home troops the moment enemy pressure on him had diminished, as "no one is keener than I am for a drawing in of our horns all over the world".[62]

But Hicks Beach was not to be put off with assurances that troop reductions were in sight; he wanted them instantly. Why, he asked, were the imperial troops being used to defend Natal and the Cape? Once the invaders had been ousted from the colonies, they must provide for their own defence. Concerning the size of the home force, he believed Lansdowne was attaching "far too much importance to the advisers opinions on this matter, which is a question of policy", especially as there

61. Hicks Beach to Salisbury, 2 September 1900, SP; Hicks Beach to Chamberlain, 6 September 1900, JCP, JC 16/5/30.

62. Lansdowne to Hicks Beach, 7 September 1900, HBP, PCC/84.

was no danger from Europe, as admitted by Salisbury. Hence, unless "you are able to give me a more satisfactory reply" in two weeks,"I must ask Salisbury for a Cabinet to consider it".[63]

It was an ultimatum. By the end of September, Hicks Beach was demanding that the Cabinet reduce the military force in South Africa immediately. Moreover, the Treasury demand incorporated concrete propositions for changes in war strategy, which it believed would reduce costs. It was a striking case of Treasury intereference in war policy, and a direct challenge to the generals - for whom Hicks Beach had nothing but scorn - regarding their war strategy in the battle field, and their defence policy in general. His anxiety over war costs was reinforced by his continued suspicion that if he did not stem the tide of military expenditure now, it would lead to a permanent increase in the size of the regular army in peace time -"something I shall always be opposed to".[64] He seemed to say that the Empire was expanding beyond Britain's military means to defend it, and it was therefore imperative that they drew in their horns all over the world. The implications of his argument were not only that Britain had to adopt a new war strategy in South Africa, but what was perhaps more critical, that it had to revise its imperial defence policy.

While insisting on immediate troop reductions, the chancellor asked his staff to check the rate of war expenditure, and the financial prospects for the year, with a view to impress on his colleagues the need for an immediate reduction of war expenditure, in order to contain it within the estimates.[65] Hamilton calculated that even if war costs were not reduced by £300,000 a week, the target he had set himself, the Treasury would have sufficient borrowing powers in reserve.[66] What is more significant, perhaps, for the Treasury's attitude to war expenditure in the future, was that Hamilton now for the first time concurred with

63. Hicks Beach to Lansdowne, 10 September 1900, LP, L(5)46.
64. Hicks Beach to Lansdowne, 10 September 1900, LP, L(5)46.
65. Hicks Beach to Hamilton, 9 September 1900, EHPP, 48614.
66. Hamilton to Hicks Beach, 10 September 1900, EHFP, T.168/48.

the chancellor in thinking that a reduction of forces was feasible, without damaging the war effort.[67]

Hicks Beach did not reduce his pressure for troop reductions as one might have expected. On the contrary, he pressed harder against war expenditure throughout the general election campaign, which lasted from 28 September to 24 October.[68], True to his early warnings, he now asked Salisbury to intervene with his colleagues to reduce the number of troops. Although "the South African war is over", none of Roberts' promises had materialized and, consequently, war expenditure was running at a much greater rate than anticipated. "I am obliged, in these circumstances, to warn you that the financial outlook is becoming very grave, & to ask you to take the matter in hand yourself." He repeated his contention that most, if not all, the men in Natal and the Cape were not needed there, and could therefore be transferred to the front line. He urged Salisbury to stop the waste of manpower in South Africa.[69] Hicks Beach sought to exploit Salisbury's dislike of the military in order to win him over to his views regarding war expenditure. But could the Prime Minister interfere in military policy? Would he dare override the military, no matter what he thought of them personally? Had he not publicly promised to give a free hand to the military and let them run the war? So far, he and his colleagues had kept their promise and refrained from dictating war strategy.

Lansdowne's reaction was mixed: he told Hicks Beach that the War Office was actually releasing the colonials, the most expensive force in the field, that they had started with the release of the militia, and that some artillery would be returned to Britain shortly.[70] Though he had asked Roberts to return to Britain, as soon as possible, some of the regular troops, the Commander-in-Chief was was unable to go beyond

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67. 10 September 1900, EHD, 48677.

68. David Butler & Jennie Freeman, British Political Facts, 1900-1967 , 2nd. ed. (1968), 141.

69. Hicks Beach to Salisbury, 1 October 1900, HBP, PCC/34.

70. Lansdowne to Hicks Beach, [not dated, but in reply to Hicks Beach to Lansdowne, 5 October 1900] , LP, L(5)46.

disbanding the volunteers and the overseas colonials. He assured the Cabinet, however, that pressure was being exerted on Roberts, that drafts had practically ceased, that he expected shortly to reduce the number of reservists, and that the release of the colonials would have an immediate effect on war expenditure. He also maintained that army votes were based on the assumption that reductions would start in October, implying that war expenditure was within the estimates.[71]

VI

The duration and cost of the war, finances, and the elections, were all interrelated, and their common denominator was finance. In the summer of 1900, it seemed that finance, far more than the war, would be the major electoral handicap for the Unionist Government. In June, after Pretoria had been captured, the war seemed to be all but won, thus making an early dissolution likely.[72] The chancellor, who feared a financial crisis after the election even more than his wartime difficulties, was therefore not certain he wished to remain in office. "I feel myself becoming every year less in harmony with many opinions, especially on financial questions, which are spreading in our party; but which I must fight, because I think them wrong, if I remain in active political life."[73] Others, Hamilton among them, also doubted Hicks Beach would remain at the Treasury after the elections, because of the constant conflict between him and a growing number of ministers over fiscal issues.[74] It is impossible to know if Hicks Beach seriously considered leaving the Treasury after the elections, particularly in view of his many threats in the past. But the possibility was not discounted by others, as attested by Hamilton's concern over his replacement. "Arthur Balfour would have the character, but has he the power? Chamberlain would have the power, but has he the character?"[75]

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71. Lansdowne Memorandum, 15 October 1900, CAB 37/53/70.

72. 29 May & 5 June 1900, EHD, 48676.

73. Hicks Beach to Lady Londonderry, June 1900, in V. Hicks Beach, Hicks Beach, ii, 127.

74. 19 June 1900, EHD, 48676.

Finances played a significant role in the political fortunes of the Unionist Government in 1900. They not only affected the timing of the elections, but were also of paramount importance in the construction of the new Cabinet, above all in the choice of the next Chancellor of the Exchequer. A dissolution was twice discussed in Cabinet before the summer recess, but regardless of their decision in principle in favour, the majority, mostly ministers in the Commons, waited for a Boer surrender which seemed imminent, before going to the country in an election.[76] First sign of a dissolution was given at the end of August with Botha's defeat, when the war was thought to be over. Lansdowne believed Boer peace proposals were imminent, and asked Salisbury to replace him at the War Office.[77] Others saw Kruger's departure from South Africa on 11 September as "the real beginning of the real end of the war".[78] On 18 September, the dissolution was announced; the Pekin legations had been relieved; the Transvaal had been annexed; the war was believed to be virtually over.[79] It was time for elections.

The war was not a decisive issue in the election.[80] If anything, it was an electoral asset, which very likely assured the Government their majority. Hicks Beach doubted if the Unionists would have won without the war.[81] The course of the war certainly decided the timing of the election. In that sense, it was indeed a 'khaki' election. Moreover, since the war was anything but unpopular, its expense did not become a major issue in the election. The Opposition, which cautiously refrained from seriously challenging the Government over war expenditure in the special war budget in July, was less likely to challenge them on that score now that the war seemed to be over, and victory within sight. At that time, all serious criticism of war expenditure originated from the

75. 25 June 1900, EHD, 48676.
76. Salisbury to Queen, 24 July & 4 August 1900, CAB 41/25/46 & 48.
77. Lansdowne to Salisbury, 31 & 27 August 1900, respectively, SP.
78. 13 September 1900, EHD, 48677.
79. 8 August 1900, EHD, 48676.
80. Matthew, The Liberal Imperialists, 55.
81. Hicks Beach to Balfour, 20 September 1909, BP, 49695.

Treasury, very little, if any, from the Opposition.

From a Treasury point of view, however, the general election was a mixed blessing. The mere idea that a general election was in sight had a restraining effect on Government expenditure. Ministers were quite reluctant to present yet another supplementary estimate, just when the war seemed to be drawing to a close. Any further supplementary estimate would be taken as a sign that the end of the war was not in sight, pointing to tax increases in the near future. But the general election could be double edged: while it helped the Treasury to check the ministers's urge for expenditure in the short term, it also raised Treasury anxiety over the danger of accelerated expenditure after the election, when the one restraining factor over the Cabinet's desire for spending would be behind them.

Treasury staff expressed their fears over Government spending after the general election through the question of the Chancellor of the Exchequer. Hamilton's fears mounted lest Hicks Beach refuse to remain at the Treasury, because there was no one to replace him, except for Balfour, since "the first qualifications of a Chancellor of the Exchequer are character and being a gentleman. Then come influence & financial aptitude."[82] Hamilton believed, however, that Hicks Beach would yield to pressure, and continue, and took the extraordinary step of asking Balfour through Sandars, either to take the post of chancellor himself, or make certain that Hicks Beach remained at the Treasury.[83] Meanwhile, Hamilton tried to talk Hicks Beach into remaining at his post, by telling him of the great financial difficulties ahead, which required his personal treatment, as there was nobody else to continue his orthodox fiscal policy. He was urged to stay at least till he had reestablished the sinking fund and reduced taxation. Hamilton believed that whether or not Hicks Beach remained at the Treasury depended in large measure on Salisbury; he was equally certain that even if he did stay, it would only be for a limited

82. 6 September 1900, EHD, 48677.

83. 18 & 26 September 1900, EHD, 48677.

period.[84]

Salisbury had, indeed, great difficulties in constructing his new Cabinet. Besides Hicks Beach, who was out of sympathy with a growing number of Cabinet ministers over fiscal matters, and had on more than one occasion intimated his desire to retire from the Treasury, both the War Office and the Admiralty were vacant.[85] But the one big problem was the Treasury. Many in the parliamentary party, as well as most of his colleagues, including Salisbury, Chamberlain, and Balfour, looked forward to Hicks Beach's departure from the Treasury. Not so much because they feared he would cripple the war effort, though that could not be entirely discounted, but because they dreaded the disruptive effect of his fiscal orthodoxy after the war. Both Treasury and Cabinet were anxious about the future, but while the Treasury feared the sharp rise in public expenditure, ministers were certain that the Treasury under Hicks Beach would deny them the funds necessary after the war which had built up expectations that had to be satisfied.

Chamberlain warned Salisbury that if Hicks Beach was to remain, the majority of the Cabinet would not let the Treasury "control national policy".[86] Chamberlain urged Balfour to give the Admiralty to Hicks Beach, something the latter had himself contemplated.[87] Balfour was equally eager to see Hicks Beach leave, and when he decided to stay on, he was greatly disappointed, "for he will certainly go on dropping little grains of sand into the wheels of any department in turn. If, as I fear, we have to spend large sums of money on army reorganization and Naval construction, he will describe our policy as 'Jingo' and resign."[88] His fears were not limited to Hicks Beach's disruptive effect on Cabinet policy if he remained at the Treasury. He, like Chamberlain, feared also the consequences of that conflict on the cohesion of the Government itself in

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84. 5 October 1900, EHD, 48677.

85. Sandars to Balfour, 21 October 1900, BP, 49760.

86. Chamberlain to Salisbury, 3 October 1900, JCP, JC 11/30/199.

87. Chamberlain to Balfour, 21 October 1900, SP; Douglas Akers to Balfour, 18 October 1900, JSP, C.713.

88. Balfour to Salisbury, 20 October 1900, SP.

the future, especially after Salisbury's retirement. Events of the summer of 1902 were to show that these fears were well-founded.

The opposition to Hicks Beach remaining at the Treasury was great also amongst the parliamentary party. Sandars, whose job it was to feel the political pulse, conveyed his impressions to Balfour, whom he urged to talk it over with Salisbury, and remove Hicks Beach from the Treasury, because people in the parliamentary party "were filled with dismay about Beach. He has been very difficult, as you know, in the past: he will be more so in the future, as our financial prospects in view of expenditure are not very bright. With two new men at the spending departments, both of them fresh to high office, friction is only too likely, to be followed in all probability by Beach's resignation. Really if Beach is in this mood, it wd. seem far better to let him go now than later." He further suggested, together with Wilfrid Short, Balfour's other private secretary, that Austen Chamberlain should replace him at the Treasury, an idea contemplated also by Salisbury.[89]

Sandars, with his intimate knowlege of the political scene, had reached very similar conclusions to his master. By drawing Balfour's attention to possibile friction in the future between Hicks Beach and the two new service secretaries, Sandars warned about the political consequences of Hicks Beach's orthodox fiscal policy on necessary changes in defence policy and in social legislation after the war. Even before he was sworn in as Secretary of State for War, Brodrick gave a preview of what was in store for the Cabinet in the future if Hicks Beach remained at the Treasury. He warned Salisbury of his intension to take a tough stand at the War Office against the Treasury.[90] Selborne, the First Lord of the Admiralty, was determined to fight the Treasury over the navy's minimum requirements.[91] A Cabinet that included Hicks Beach at the Teasury, and the two new defence ministers, was likely to have in

89. Sandars to Balfour, 21 & 23 October 1900, BP, 49760.

90. Brodrick to Salisbury, 28 October 1900, SJBP, PRO 30/67/6 & SP.

91. 13 November 1900, EHD, 48677.

store a great explosive potential.

No one, it seems, was more aware of this danger than Balfour, Leader of the Commons, and the man who would replace Salisbury as Prime Minister. His displeasure at Hicks Beach remaining at his post was great. Hicks Beach, he argued, had not been fair to Salisbury by not telling him that he intended to stay on only for a limited period at the Treasury.[92] "Beach's retirement would have been a relief to scores of his colleagues", including Salisbury, who had expected Hicks Beach to say that he was willing to remain at his post, but only for a limited period, whereby Salisbury would have said that he could not face in the near future another reconstruction of his Cabinet, and the latter had therefore to retire. But Hicks Beach did not allude to his desire not to continue at the Treasury during the entire new Parliament, so Salisbury's strategem did not work. The general desire to remove Hicks Beach from the Treasury must have been very strong for Hamilton to think they would "try & squeeze Beach out of the Cabinet by making unreasonable demands upon him."[93] It is difficult, therefore, to accept the claim that Salisbury was unwilling to lose Hicks Beach.[94]

VII

When the new Cabinet met for the first time on 17 November, the Treasury's problems were substantially the same as they had been before the election, or for that matter throughout the year: high war expenditure; a growing demand for money from the four South African colonies; the omnipresent fear of a steep rise in defence expenditure in peace time, in itself related to the war; and lastly, the need to secure the funds for these increases in ordinary expenditure, whether through further taxation or loans.

The Treasury's immediate task, however, was war expenditure,

92. 2 November 1900, EHD, 48677.
93. 12 November 1900, EHD, 48677.
94. Lady Hicks Beach, Hicks Beach, ii, 129.

which refused to shrink, despite all the forecasts and promises by the military. Although the estimates of war requirements in this financial year were not materially different at the end of September from what they had been in July, Hamilton, who in general had a high regard for the accuracy of War Office estimates, considered their latest figures to be an under-estimate. Out of a total grant of £78.5 million for the war in 1900-1901, £46 million had been spent in six months, thus leaving only £32.5 million for the remaining six months of the financial year, a reduction of 30 per cent on the previous six months, something he did not think plausible. However, as Treasury assessments were in excess of requirements, he did not think fresh estimates were required.[95]

But the next War Office estimate was less sanguine. If it put off paying its bills and war gratutity, if it was paid early by the Admiralty and the India Office, but made no further payments to them in respect of China, the War Office vote might last till the end of January, and, perhaps, stretch to the end of February, although extra and unexpected expenditure was springing up daily, thereby altering the estimates.[96] The War Office was saying, in fact, that unless it juggled its books, it would run short of funds by the end of December.

A month later, when the War Office revised its estimates of costs for the financial year, showing a requirement of an additional £14 to £15 million, the Treasury became seriously concerned. Hamilton did not think the War Office had made a mistake in its original estimate, but rather, that the earlier estimate had been based on a false assumption. It had been assumed that by this time troops would be coming home at a fast rate; instead, some 230,000 men were still in South Africa, facing a Boer guerilla army that did not exceed 20,000 men.[97] All the same, the latest war estimates convinced Hicks Beach that drastic steps were necessary for an immediate and substantial withdrawal of troops from

95. WO to Hamilton, 28 September, Hamilton Memoranda, 1 & 6 October 1900, EHFP, T.168/48.

96. WO to Hamilton, 16 October 1900, EHFP, T.168/48.

97. 16 November 1900, EHD, 48677.

South Africa, and what is just as important, that he ought to ensure that the war was not made the excuse for a permanent increase in the size of the army.[98]

The latest estimates on war expenditure disturbed not only the chancellor but also Brodrick, the new Secretary of State for War, who thus tried to tackle the problem. One way of reducing the number of troops in the field, and consequently the costs, seemed to be to raise a constabulary force in South Africa. Not long before Milner had proposed to raise a 5,000 man constabulary, as a permanent police force for the two Boer colonies, at the rate of 5s. a day. The Treasury favoured the proposal, estimated to cost the colonies £750,000 a year. But Roberts suggested raising 10,000 men, and paying the men 7s. a day. Roberts' proposal for a larger constabulary appealed to Hicks Beach even more, as it would have released more imperial troops, though he considered 5s. a day to be sufficient.[99] But Milner objected to the new proposals, considering that their expenses were to be borne by the colonies.

Brodrick agreed to follow Roberts' advice and raise a force of 10,000 men, but before implementing it he sounded out Hicks Beach. The cost of the force would be borne by both the two new colonies (for 6,000 men), and by Britain (4,000 men). This War Office initiative was not on its own, but set within a wider context of war policy in general. Brodrick seemed to follow a Treasury line of thinking, and suggest a possible change in war strategy. His idea was that the constabulary force should be raised on condition that Roberts whould inform them before the start of the next parliamentary session on 3 December 1900, whether he contemplated any changes in tactics in order to meet the guerilla warfare, and also the number of troops he expected to release. In order to gain Treasury approval, and also because he was himself genuinely alarmed by the high war expenditure, Brodrick suggested two further stipulations: that the British liability be for three years only, and that when this force

98. 22 November 1900, EHD, 48677.

99. CO to WO, 15 September, Chalmers Minute, 17 September, Hicks Beach Minute, 27 September, Mowatt to Hicks Beach, 10 November, Hicks Beach Minute, 11 November 1900, T.1/9622/21233.

became effective, 10,000 infantry would be relieved, apart from any other reductions that may be the outcome of developments in the field.[100]

Hicks Beach welcomed Brodrick's proposals in general, but sought to release more imperial troops. In view of the new war estimates, and the Treasury's fear that it might therefore have to ask Parliament for yet another supplementary estimate before the end of that year, the chancellor was happy with any step that could effectively reduce the number of men in active service and, consequently the cost of the war. He therefore welcomed the possibility of raising a 10,000 strong police force, because it would mean the release of imperial troops. But surely "that number of police should be at least as effective for the present purpose as 20,000 infantry, & probably more".[101]

This rare understanding between the Treasury and the War Office on war expenditure was not entirely due to the two ministers genuinely seeing eye to eye on all aspects of the issue. It seems that both men were willing to accommodate each other on an issue which neither considered very significant, when taken in the wider context of total war expenditure. When this issue was raised, neither man anticipated the war would continue for more than a few months at most. And since the raising of a constabulary force would have taken months, and its effective use even more, that force was not expected to release any substantial number of imperial troops from the battlefield. The two men had, in fact, set their eyes on a more significant issue, namely the size of the army after the war. Although the chancellor continued his relentless efforts at reducing the number of troops in the field, he nevertheless was by then resigned to war expenditure, and "quite prepared to keep on the War taxation & even increase it if necessary". But "what he was still more strong about was that the regular Army should undergo no material increase. In this he had [he said], committed himself... Nor did he think

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100. Brodrick to Hicks Beach, 22 November 1900, SJBP, PRO 30/67/6.

101. Hicks Beach to Brodrick & Minute on Brodrick letter, 23 November 1900, SJBP, PRO 30/67/6.

he would be pressed by his colleagues; for the fact was they could not & therefore woud not get the men - recruiting would fail & the country would not stand conscription."[102] Brodrick was thinking in similar terms, though from the opposite side.

VIII

Despite all Treasury efforts at reducing war expenditure, by November it became clear that a supplementary estimate before next year's budget was unavoidable. Hamilton had warned Sandars and Hicks Beach some weeks before that the War Office might run short of funds by the end of January. Yet, when the possibility became a certainty, and there seemed to be a need for a further supplementary estimate, Balfour was shocked. The chancellor asked Hamilton to look into the Treasury's borrowing powers.[103] The Bank of England suggested 5 year Exchequer Bond, but since both Hamilton and Hicks Beach were anxious not to increase the unfunded debt indefinitely, the Treasury considered issuing Consols, although it was politically undesirable.[104] The Treasury's situation seemed impossible: it had to raise more funds for the war, but because of political reasons it was reluctant to do so, and tried to delay, as long as possible, the odium of applying yet again to Parliament for extraordinary expenditure.

The only hope of getting out of the difficulty seemed through a Transvaal indemnity. As seen above, both Cabinet and Treasury had all along anticipated an indemnity from the Transvaal, only the sum and the manner of payment were in question. Moreover, these expectations had directly affected the March budget and the form of the war loans raised then by the Treasury. But whereas until then the calculations regarding indemnity had been speculative, and seen more as something that could be had after the war, now, in November, for the first time, when the

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102. 22 November 1900, EHD, 48677.

103. 11 November 1900, EHD, 48677 & Hicks Beach to Hamilton, 15 November 19000, EHPP, 48614, respectively.

104. Hamilton to Hicks Beach, 19 November, Hicks Beach Minute, 20 November 1900, EHFP, T.168/48.

Treasury was contemplating another supplementary estimate, there seemed a chance that a contribution from the Transvaal might actually be forthcoming. The Treasury hoped to cover its short term loans as they fell due with payments from the Transvaal, on account of the indemnity. But it was not as easy as that, as further investigation of the question of indemnity disclosed.

Hoping to unravel some of the uncertainty, Hicks Beach asked Milner, through Selborne, to estimate the indemnity sum the Transvaal could pay.[105] But he took care not to raise the public's expectations. Britain should not spoil the future of the Transvaal by imposing upon her a greater burden than she could bear.[106] He was, however, "very anxious to get something within a year, and the principle admitted". He proposed to raise a guaranteed loan, secured on the Transvaal revenues, even though she could not at present pay the interest. Hamilton did not believe Britain could get a substantial indemnity out of the Transvaal in the near future. It was in such a bad state, that its administrative and reconstruction costs would for years to come absorb any revenue that could be raised, without "running the risk of killing the goose that lays the golden egg".[107]

But Hicks Beach was so keen to get the principle of indemnity established, and relieve the Treasury from some pressing liabilities, that he proceeded to explore his idea despite Hamilton's arguments against it. He told Chamberlain it was necessary to raise a Transvaal loan in order to redeem £12 million short-term Treasury Bills which he had already issued or was about to issue in the current financial year. Since it would be necessary in any case to issue next year (presumably when the war would be over), a British guaranteed loan, to compensate the colonists in Natal and the Cape for war damages, and meet other requirements in the new colonies, he argued, why not include in the loan a sum of £5 million

105. Selborne to Chamberlain, 1 November 1900, JCP, JC 11/32/3.
106. Hicks Beach at Bristol, 13 November 1900, Extra Parliamentary Hansard, ii, 423.
107. 30 November 1900, EHD, 48677.

as an initial war indemnity. This sum could then redeem a corresponding amount of Treasury Bills. He suggested only £5 million, because he did not want the initial loan to be more than the Transvaal's revenues could bear.[108]

Whatever the possibilities of an indemnity in the future, the Treasury realized that there was no chance of an immediate relief to the Treasury from that quarter. Even if a Transvaal guaranteed loan was feasible, the quotation would take months. Any indemnity from the Transvaal in the future could not, therefore, bring effective relief to the British Exchequer in its current situation. And when on 4 December 1900, the War Office requested £16 million additional funds for the financial year, primarily on account of the war, the Treasury had to find an immediate solution. The increased estimates were due to the force in South Africa remaining considerably higher than the numbers provided for, and expected to be retained there, up till the end of financial year. Consequently, instead of falling, war expenditure had increased during the second half of the year, and was unlikely to fall before the end of the financial year.[109] The War Office attributed the retention of a large force in South Africa to the guerilla tactics of the Boers, whereby a small force could pin down a big army for a long time, as in the war between France and Spain in 1808-1813, and in the Cuban wars of 1868 to 1898.[110]

A £16 million supplementary estimate was thus presented on 6 December to Parliament, the second in six months. Hicks Beach still hoped for a substantial indemnity, but did not expect it for a year or two after the war.[111] Harcourt was even less sanguine; nothing would come from the Transvaal for years to come, if ever, because it was a desolate place, and because its inhabitants, meaning the Uitlanders, did not think they ought to pay towards the cost of the war, since it had won Britain a rich colony cheaply. The chancellor told Parliament that both he and

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108. Hicks Beach to Chamberlain, 30 November 1900, JCP, JC 16/5/32.

109. WO to Treasury, 4 December 1900, T.1/9610/19924.

110. Brodrick, 11 December 1900, Hansard, vol. lxxxviii, 513-8.

111. Lady Hicks Beach, Hicks Beach, ii, 130.

Chamberlain intended to redeem a considerable sum from the Transvaal, as they had said in the past, but Harcourt's speech made the task difficult.[112] Hamilton was no more sanguine than Harcourt.[113] These two were saying aloud what many might have realized by then, namely that the Transvaal did not have the capacity to bear the cost of reconstruction, garrison, compensation and normal administration, and still be able to pay a substantial sum to the British Exchequer. Hicks Beach may not have realized yet the truth entirely, but he already knew that no immediate relief was forthcoming.

Should one attach any significance to Hicks Beach mentioning Chamberlain in relation to the indemnity issue? Was he implying that it was Chamberlain who had raised the expectations, and it was therefore up to him to redeem them, and if he was unable to do so, then he, rather than Hicks Beach, should bear the responsibility? Even if Hicks Beach was implying that, it does not mean that Hicks Beach did not expect a substantial sum from the Transvaal. On the contrary, only recently he had tried to get the principle admitted by the Transvaal, and although he realized, somewhat later than Hamilton, that the colony was unable to bear the interest, he did not seem to doubt future payment. Harcourt somewhat doubted the Randlords' readiness to pay, but Hicks Beach was "very confident that the great bulk of them expect it".[114] But he might have been implying something even more damning than mere indemnity. He may have been trying to blame Chamberlain, even more Milner, for the policy which led to the war in the first place.

Some of Hicks Beach's recent comments suggest that the above idea cannot be discounted. When Milner asked for imperial troops to fight the invading Boer guerillas, Hicks Beach's reaction was violent. It was one thing for the colony to ask for military aid from the imperial Government when it was invaded by organized forces from the Boer states, he argued, but absurd not to be able to defend itself, with half of its population being

112. 11, 12 & 13 December 1900, Hansard, vol. lxxxviii, 527, 664, 720-750.
113. 6 December 1900, EHD, 48677.
114. Hicks Beach to Harcourt, 15 December 1900, HBP, PCC/25.

British, against some 2,000 men. Then came the more significant criticism: if the Cape loyalists were so weak that they could not do even that for themselves, then "there could hardly be a greater condemnation of our South African policy, for in that case we have undertaken a burden so enormous that our people here certainly will not bear it for long; while giving it up would mean worse thing than the independence of the Transvaal."[115] Above all, he blamed Milner for the situation, whose line he disapproved, and in whom he had no confidence, since "he can only see one side of a question".[116]

Hicks Beach summed up Britain's dilemma in South Africa, both before and, as we shall see below, after the war. He could have hardly made a more damning indictment of Cabinet policy, better unravelled their impossible situation in South Africa, or expressed his personal frustrations more pungently. The cost of the war and the occupation was piling up so high, that Britain could not possibly bear the burden for long; but neither could she give up South Africa. The imperial Government was trapped between the necessity of keeping the South African colonies for strategic imperial reasons, and the politics of collaboration, which required attracting the colonists into the imperial connection at a high financial cost to the imperial Exchequer.

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115. Hicks Beach to Chamberlain, 23 December 1900, JCP, JC 11/18/1.

116. 30 November 1900, EHD, 48677.

Chapter Five

Middleburg, Second War Budget and Indemnity Expectations January-August 1901

After several months of inconclusive guerilla warfare, and the failure of the Middelburg negotiations, the Treasury intensified its demand that the Cabinet should direct the generals in the field to adopt a more economical war strategy. The response to Treasury demand for reducing the rising costs of the war provides a further test of the influence of the Treasury on Cabinet war policy. Did the continued high war expenditure, with no sign of the war itself abating, shift Treasury concerns and priorities in any way? Within what constraints did the Treasury prepare the second war budget? Lastly, did the report on the finances of the new Boer colonies change in any significant manner the Treasury's indemnity expectations?

I

As revealed in the previous chapter, war expenditure remained high throughout the latter part of 1900, and forced upon the Treasury a second supplementary estimate in December. All Treasury efforts at reducing the force in the field and containing war expenditure were summed up in the plan to raise, as soon as possible, a constabulary force of 10,000 men in South Africa itself, in the hope that they would release an equal number of imperial troops. But the demand for troops continued. Kitchener pressed for more mounted troops in December, and suggested increased pay of 5s. a day to the imperial yeomanry already in South Africa as an inducement to stay. Brodrick consented, but Hicks Beach opposed.[1] Brodrick then appealed to the Cabinet, on the advice of

Salisbury, who had "no doubt that if Kitchener wants more mounted men he must have them. If the Treasury resists, we must appeal to the Cabinet." Salisbury (unlike Hicks Beach), advocated protecting all lines and bridges, not just isolated hills, because "you will not conquer these people until you have starved them out."[2] Brodrick was backed also by Chamberlain, who objected to saving money at that stage of the war, because "a shilling saved now may mean pounds lost afterwards."[3]

This was the first serious attempt by the Treasury to reduce war expenditure by generating changes in military strategy in South Africa, except for its proposal in September 1900 that some troops be removed from Natal and the Cape to the front. The main dispute was not over the proposed higher pay to experienced yeomenry already in the field, but whether they should follow the advice of the military and despatch the extra mounted men requested. It touched on a fundamental question: whether the Cabinet or the generals should direct war strategy. The longer the war dragged on, the bolder became the Treasury's efforts to reduce war expenditure. But after the accusations and recriminations inflicted upon the Cabinet after the early military setbacks, ministers shrank from direct interference in war policy, and Hicks Beach realized that Brodrick commanded more respect than Lansdowne. The Treasury failed to persuade the Cabinet to intervene directly in the conduct of the war. Kitchener's request was granted, "without any threats".[4]

Nevertheless, Hicks Beach continued to exert strong pressure on his colleagues to reduce the military force in South Africa. In January 1901, he pressed Brodrick to bring the remaining militia units back from South Africa, maintaining that because of gratuities, they were more expensive than regulars; he also asked to limit the 5s. a day pay to experienced

1. Hicks Beach to Brodrick, 20 December 1900, SJBP, PRO 30/67/6.
2. Salisbury to Brodrick, 19 December 1900, SJBP, PRO 30/67/6.
3. Chamberlain to Brodrick, 21 December 1900, JCP, JC 11/8/5.
4. Brodrick to Selborne, 27 December 1900, ESP, 26/136; WO to Treasury, 29 December 1900, Hicks Beach Minute, 2 January, Treasury to WO, 4 January 1901, T.1/9627A/21465.

yeomen only, otherwise both militia and regulars might demand it.[5] However, since Roberts and Kitchener wanted to replace some tired and inefficient units by fresh men, there was little prospect of reducing the force in the field.[6] Moreover, Brodrick had "no doubt that to finish the War & get infantry back, it is an economy to meet [Kitchener's request] as rapidly as possible".[7] The Cabinet dared not deny Kitchener the troops, despite Hicks Beach's objections, but agreed to replace 5,000 experienced but worn-out yeomen with new recruits at 5s. a day.[8] The Treasury failed to induce the Cabinet to reduce the number of troops in the field.

Although the Treasury failed this time to prevent the despatch of further troops to South Africa, it did not give up its efforts at reducing war expenditure. It stepped up its pressure and tried to achieve its goal by other means, primarily through initiating changes in war strategy. The chancellor explicitly related troop reductions to war strategy. "My own feeling is that the occupation of every little place was an entire mistake, & that concentration should be carried pretty far - all horses from the places left unoccupied, & as much of the supplies in them as possible, being commandeered."[9] By concentrating at strategic points instead of holding the entire lines of communication, Hicks Beach expected to reduce greatly the number of men and animals, and the amount of military supplies required in the field. The proposition was not only in direct contrast to Salisbury's idea of 'protecting all lines and bridges' but implied that the Cabinet should actually dictate war strategy to the military.

The idea of changing war strategy was broached by Hicks Beach and Chamberlain who, together with Brodrick, were more involved with the war than anyone else in the Cabinet. Consequently, they were more

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5. Hicks Beach to Brodrick, 3 & 11 January 1901, SJBP, PRO 30/67/7.
6. Brodrick to Salisbury, 10 January 1901, SP; Brodrick to Balfour, 12 January 1901, BP, 49720; Brodrick to Hicks Beach, 14 January 1901, HBP, PCC/85.
7. Brodrick to Hicks Beach, 21 January 1901, HBP, PCC/85.
8. WO to Treasury, received 19 January, Treasury to WO, 24 January 1901, T.1/9634B/1200; Salisbury to King, 4 February 1901, CAB 41/26/2.
9. Hicks Beach to Brodrick, 16 January 1901, SJBP, PRO 30/67/7.

frustrated with the war, which seemed to be dragging on endlessly, and costing the Government a very high price, politically and financially. None of them had illusions that their action would terminate the war in the very near future. Their intention was rather to "stir up the 'military authorities'... about the war", because Parliament, soon to be convened, would "be furious if things are still going on as they are now, without any better prospect for the future".[10] However, the Cabinet refused to interfere in war strategy, and the existing policy of holding all lines of communication, advocated by both Roberts and Kitchener, and backed by Salisbury, continued.

A few weeks later, however, when there were still no signs of the war receding, Hicks Beach renewed his suggestion that the Cabinet be more involved in war strategy. "If we give up this lever for inducing Kitchener" to relieve the militia and volunteer units as soon posible, "will it ever be done?"[11] If it was left to the generals, the chancellor argued, there would be neither diminution of troops, nor any restraint in war expenditure. In tune with his usual distrust of the military, he thought the field commanders would continue to demand more troops, unless overruled by the political authorities. The chancellor believed the war was far too expensive to be left to the generals.

But the Government remained reluctant to impose a war strategy by using their 'lever over the generals'. When the Cabinet were accused of not giving the generals a free hand in the running of the war, Balfour was quick to deny it. "We have never, from the very begining of the war, so far as I know, interfered with their discretion." Moreover, "everything, and more than everything, asked for by our Generals is granted".[12] The Cabinet indeed left war strategy entirely in the hands of the generals, and up to now refrained from interfering in war policy. Nevertheless, the critics of Hicks Beach did argue that Treasury control had inhibited war policy, and raised the general question of Treasury

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10. Hicks Beach to wife, 19 & 22 January 1901, Lady Hicks Beach, Hicks Beach, ii,132-3.
11. Hicks Beach to Chamberlain, 10 March 1901, JCP, JC 11/8/13.
12. Balfour to Colonel Sandys, 16 April 1901, BP, 49854.

constraints on military preparedness before and during the war, and the eventual cost of the war.

In the dispute over army reorganization, Brodrick claimed that Treasury limitations on military expenditure before the war were responsible for the failure in the war. "We have on economical grounds acquiesced in a heavy deficit of Cavalry & Artillery for Home Defence which... besides leaving us unprotected at home during the war, has greatly protracted it. I doubt if from a Chancellor of the Exchequer standpoint, we have not spent more money in the last 6 months owing to these defects, then we should spend in 20 or 30 years in repairing them."[13] In denying the military sufficient money to prepare for war, argued Brodrick, Treasury constraints on peace time expenditure had actually prolonged the war, and increased its cost enormously. Treasury control, in effect, was penny wise and pound foolish. Brodrick implied that if recent Treasury tactics regarding the army were accepted, it could lead in the future to a similar situation to that which existed before the war. But the chancellor would not "allow Treasury sanction to be reduced to an absurdity".[14]

The Treasury's first serious attempt at reducing war expenditure by initiating changes in war strategy had failed. The Treasury, which had become bolder and more explicit, had argued that unless overruled by the political authorities, the military would neither reduce the number of troops in the field nor try to restrain war expenditure. The Treasury had challenged the military in the field of war strategy, and also the Cabinet to use its authority in an effort to 'stir the military' and put a break on war expenditure. This was a striking instance of attempted Treasury control over military strategy. Although the war seemed to drag on endlessly, and at a high price, political and financial, ministers were still reluctant to interfere directly in war policy. The issue raised profound constitutional questions of the relation between war readiness and

13. Brodrick to Salisbury, 20 January 1901, SP.

14. Hicks Beach to Brodrick, 1 April 1901, SJBP, PRO 30/67/7. For a more detailed discussion on the issue see chs. II & III.

parliamentary control of military expenditure in peacetime in general, and on the constraints which inhibited them in the summer of 1899 in particular. The Cabinet understandably shelved the problem of constitutional reform.

II

The Treasury's difficulties were not limited to extra-ordinary war expenditure, but were caused also by the rise in ordinary military expenditure, some of which, no doubt, was incurred as a consequence of the war, especially in the case of the army. The increase in army costs was due primarily to replenishing the military stores and the growth in the regular army establishment. Army estimates, not directly related to the war, rose from £20.5 million in 1899-1900 to £25.5 million in 1900-1901 and £30 million in 1901-02.[15] Total army estimates (war and ordinary) rose from £21.4 million in 1898-1899 to £45 million in 1899-1900, and £95.3 million in 1900-1901. At the same time, British army establishment (exclusive of India), rose from 180,500 in 1898-1899, to 430,000 in 1900-1901.[16]

There was a similar increase in the navy estimates, though this was due almost entirely to the drastic increases in naval expenditure by the Powers, particularly by Germany. Because of these formidable increases in public expenditure, normal and for war, the chancellor objected to any increase over the previous year in navy estimates. The inevitable result was a sharp clash between Hicks Beach and Selborne. Since the Treasury was interested as much in the future (and total) cost of a project as with its initial levy, the chancellor demanded of Selborne that the new naval programme estimates show "not only how much you propose to spend in the first year, but how much in each of the subsequent years for which it will last, & its total cost".[17] Hicks Beach asked Selborne to distinguish

15. Brodrick speech, 8 March 1901, Hansard, vol. xc, col. 1052.
16. "Report on Army Expenditure for 1900-1901, 18 April 1902", WO 33/226 (A728).
17. Hicks Beach to Selborne, 23 December 1900, ESP, 26/181.

between what was vital for the navy and what was not.[18] Navy estimates (excluding any increase for new ship-building) for 1901-02 were £31 million, an increase of £3.5 million over the previous year.[19]

In view of the enormous increases in military expenditure, both ordinary and for war purposes, and the lack of any serious prospect of the war ending in the near future, one might expect the British policy-makers to be eager to seize any opportunity to bring the war to an end. Indeed, the lack of progress in the war worried not only Hicks Beach and the Treasury, but the entire Government who, despite their large majority in the Commons, feared public dissatisfaction, should there be no progress towards victory. Besides the great financial difficulties, there was the fact that by early 1901 Britain was denuded of troops, and the War Office had great difficulties in finding the extra 30,000 mounted men to be sent to South Africa. Thus, not only Hicks Beach, but other ministers (above all Chamberlain), sought ways to terminate the war.[20] Yet, when in February the Boer leaders in the field indicated a desire for a possible peace conference, the opportunity was missed. Did the Middelburg negotiations fail for financial reasons?

When Kitchener and General Louis Botha met on 28 February to discuss peace, there was some confusion over the financial aspects of a possible peace settlement. Whereas Kitchener and the British Cabinet were agreed on the need to be financially generous towards the Boers, their respective interpretations of 'generous' differed. Kitchener suggested that Britain accept the legal debts of the two republics up to £1 million, and assist the Boer farmers with a generous financial grant. The Cabinet, on their part, promised that no special tax would be levied on the Boer farmers for covering the cost of the war, agreed to pay the debts of the ex-republics up to £1 million (but only to individuals), and promised to assist the Boer farmers financially. The revised British offer, which included the words 'by loan' - words objected to by Milner and

18. Hicks Beach to Selborne, 2 January 1901, ESP, 26/186.
19. Selborne Memorandum, 16 January 1901, CAB 37/56/6.
20. Chamberlain to Milner, 7 February 1901, Headlam, Milner Papers, ii, 203.

Kitchener, since it would raise the Boers' suspicion of getting into the clutches of the British Government - was sent on 7 March.[21] Botha put an end to the negotiations on the 16th. Kitchener claimed later that if Britain had been a little more generous on the question of amnesty for Cape rebels in particular, there might have been a settlement.[22]

Whether a settlement could have been reached at Middelburg, had Britain been more generous, is a matter of speculation. From documents captured after the war, it seems that the Boers were not prepared then to surrender and make peace with Britain, and Botha did not have the power to impose peace on his Burghers. The Boers may have been merely sounding Britain's intentions, while calculating the financial penalty they were imposing on Britain by continuing the war. According to Boer estimates, the war had (a) already cost Britain £150 million; (b) caused a financial crisis that had necessitated special taxes and loans for £60 million; (c) threatened her prosperity, greatly affected her prestige, and forced her to use Indian troops in China, where she had lost much power and influence. The Boer leaders believed that Britain's financial sacrifices would reduce her to a situation worse than that of 1815, that the continuation of the war for a few more months could ruin her, because "the position of England has become critical", and that if the Boers continued the war, she would have "to choose between exhausting herself in South Africa and [foresaking] her vital interests in the other parts of the world."[23]

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21. Milner to Chamberlain, 3 March, Chamberlain to Milner, 4 March, Milner to Chamberlain, 9 March 1901, JCP, JC 14/4/2/76, 85 & 87; Cabinet Memoranda, 16 March 1901, CAB 37/57/34.

22. L. S. Amery, (ed.), The Times History of the War in South Africa, 7 vols. (1900-1909), v, 191.

23. "The Position of England", articles captured from the Boers, neither dated nor signed, WO 32/8028/7389. Although undated, it is possible to define (from figures relating to Britain's war cost and borrowing), fairly accurately the time they were written. By December 1900, the Treasury had already borrowed £60 million, and the total war cost reached some £150 million before April 1901, when it borrowed a further £60 million. Bearing in mind that the Boer leadership had a pretty good idea of what was going on in Britain, one may thus assume that the articles were written sometime between January and March 1901.

These may have been idle thoughts on the part of the Boers, and the British policy-makers were aware of them at the time. But neither the Cabinet nor Hicks Beach held much hope in the negotiations with Botha.[24] That may explain why there are no references in the Treasury files regarding the Middelburg peace negotiations. The negotiations fell through because the Boers were not yet ready to make peace, at least not on the British condition of total surrender. Financial considerations were not crucial to Boer thinking at the peace conference, except for their calculation as to how Britain's financial burden would affect the Government's determination to pursue the war. The Boers did not break off the negotiations because they were dissatisfied with the financial side of the British offer. As the British Cabinet attached no importance to the peace negotiations, and had even less hope in them, it seems unlikely that the negotiations failed for financial reasons.

III

Besides efforts at containing war expenditure, the Treasury's other, and no less important, task was to raise the necessary funds for a war now well into its second year. It had already presented - besides the annual budget - three supplementary estimates for the war, £11.5 million in July 1900, £16 million in December 1900, and £3 million in February 1901.[25] Indeed, war expenditure remained the largest item the Treasury had to contend with in preparing the 1901-02 budget. It had to decide how to raise the sums necessary, whether by increased taxation or by loans, and whether by short-term or long-term loans. Its first problem was, however, to estimate future war expenditure.

Since there were no signs of the war receding or war expenditure declining, the Treasury had to base its estimates for the cost of the war in the next financial year on speculations about the length of the war and its rate of expenditure. The first such estimate had been made at the end of

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24. Hicks Beach to his son Michael, 11 April 1901, Lady Hicks Beach, Hicks Beach, ii, 136-7.

25. "Report on Army Expenditure for 1900-1901, 18 April 1902", WO 33/226 (A728).

November 1900, when a very large war expenditure was expected for a number of reasons: there was hardly any troop reduction as yet; a large army of occupation would be needed after the war, the whole cost of which was expected inevitably to fall on the imperial Exchequer; and the new colonies would not raise much revenue before April 1902. Even after victory, therefore, expenditure related to South Africa could not be reduced by more than 75 per cent of the current year. Since war expenditure in 1900-01 was £60 million, expenditure related to South Africa could not be less than £15 million in 1901-02. A further £2 million for operations in China, and part of the £10.5 million sanctioned for military reserves, would bring the total sum required for that purpose in the next financial year to £20 million.[26]

But five weeks later the forecasts were revised. The Treasury now expected no reduction in war expenditure in the first six months of 1901. The cost of the war was estimated at £28 million in 1901-02, £8 million more than the previous estimate. After taking into account the £7.5 million surplus in ordinary revenue anticipated for 1901-02, the Treasury estimated the extra requirements for South Africa and China at £20 million, sums which would have to be raised either by borrowing or fresh taxation.[27] Moreover, prospects of victory were so remote at the end of March - the 250,000 force in South Africa was not expected to be reduced before August at the earliest - that the Treasury feared that if no military progress was visible by June, the War Office might ask for another large vote.[28]

For the second year, therefore, the Treasury had to cope with a war budget. Hamilton had foreseen in the previous August that financial matters would loom large in the politics of the near future.[29] But as neither Government finances, nor the increased income-tax, had been serious issues in the elections, Hamilton believed the country had gone

26. Hamilton to Hicks Beach, 28 November 1900, EHFP, T.168/49.
27. Hamilton Memorandum, 4 January 1901, EHFP, T.168/49.
28. Brodrick to Salisbury, 31 March 1901,SP.
29. 27 August 1900, EHD, 48677.

'khaki-mad', and concluded that either the people were prosperous, or that taxation was not oppressive.[30] The results convinced him that the people considered it a reasonable price for what they were getting or hoped to get out of the war. He thus favoured further tax increases, and strongly objected to any long-term borrowing by the Treasury.[31]

After the general election the chancellor started preparing the public for further tax increases. Although he expected the Transvaal to bear a portion of the war costs, he told his audience, he feared that a large portion of the war cost would fall on Britain.[32] It has been suggested that Hicks Beach intended to resort to increased taxation only if the war dragged on, because it would have raised difficulties in Parliament and objections within the Government.[33] Fresh taxation, no doubt, would have been unpopular, caused the Government difficulty in Parliament, despite their large majority, and considerable discontent in the Unionist camp.[34] But the matter was rather more complicated. Hicks Beach did not expect the financial problems to be resolved at the end of the war. Since the Treasury's options would be far more limited after the peace than they were in war time, in certain respects these problems were expected to grow after victory, because it was one thing to borrow in wartime, quite another when the war was over. Since normal expenditure was expected to rise regardless of the war, the Treasury expected an even more difficult situation after the war. This was one major reason why the chancellor agreed with Hamilton that increased taxation in war time was better than borrowing.[35]

Indeed, Hicks Beach intended using the opportunity of the war to increase taxation beyond what he believed would be required in that financial year. Just as he allowed a large margin for contingencies in the

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30. 4 & 5 October 1900, EHD, 48677.
31. 28 November 1900, EHD, 48677.
32. 13 November 1900, Extra Parliamentary Hansard, ii, 423.
33. Lady Hicks Beach, Hicks Beach, ii, 130-31.
34. 2 & 12 December 1900, EHD, 48677.
35. 29 November 1900, EHD, 48677.

first war budget, he sought to raise in the second war budget money beyond what he thought would be required for the war.[36] Consequently, Hicks Beach had "no financial objection to any amount they [the War Office] might prefer [for next year's war estimates]. Indeed, in some respects the bigger the amount, the easier my work, both in the matter of fresh taxation & loan."[37] Treasury battles against war expenditure were on two levels. It fought the military for troop reductions in the field, and consequently the cost of the war, and at the same time tried to resolve the financial and political problems that the raising of that money entailed for the Treasury and the Government. Hicks Beach thus insisted that Brodrick should follow the Cabinet's decision of February 4, and reduce the pay and pension of the militia reserve.[38] He could at the same time use means, above all the budget, to facilitate the fiscal and political responsibility of the Treasury and the Government. After all, increased taxation and loans were "quite as much a political as a financial question".[39]

Hence, the chancellor asked for a political decision by those (beside himself and Brodrick), who counted most: Chamberlain and Balfour - the two most powerful men in Cabinet. Hicks Beach did not ask Chamberlain and Balfour merely to help him resolve a financial problem that was within the Treasury's domain, but asked their support for actions which he knew to be against the Treasury's own norms and procedures. He was asking them to approve the Treasury's scheme for raising in one financial year sums that would be required in subsequent years, a highly irregular procedure on the part of the Treasury. Since the other two were just as concerned as the chancellor (very likely more), about the

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36. A not dissimilar situation arose at the end of the First World War. Winston Churchill, as Secretary of State for War, objected to Treasury pressure to submit high estimates. He complained that the War Office was being asked to finance the policies of other departments. John Darwin, Britain, Egypt and the Middle East: Imperial policy in the aftermath of war, 1918-1922 (1981), 202. A somewhat different case was that of Lloyd George in 1908, when he encouraged ministers to spend, so that he might have justification for the extra millions he proposed to ask for next year. Murray, The People's Budget, 110.

37. Hicks Beach to Chamberlain, 9 February 1901, JCP, JC 11/18/3.

38. Hicks Beach to Brodrick, 5 February 1901, SJBP, PRO 30/67/7/

39. Hicks Beach to Chamberlain, 9 February 1901, JCP, JC 11/18/3.

Government's political fortunes after the war, when an adverse reaction in public opinion was anticipated, they were just as eager to pre-empt revenue, and acquiesced. The grave disputes between Hicks Beach, Chamberlain, and Balfour regarding the precise time when public opinion would turn against the Government were in the future. For the time being, the other two seemed to agree with the chancellor, who urged Brodrick to present an inflated estimate, because "the bigger your original estimate, the more people will become reconciled to the idea of increased taxation & a big loan, before the Budget".[40]

This understanding reached with Chamberlain and Balfour did not mean, however, that they were reconciled with Hicks Beach. A majority of the Cabinet viewed him as a thorn in their side.[41] Nor was Hicks Beach himself happy with his relations with his Cabinet colleagues. He had "desperate tussles with Selborne and Brodrick" over the army and navy estimates for the next financial year. Since he got "no support" in Cabinet, he doubted if he would remain in the Cabinet. Hamilton hoped he would not threaten to resign, because "the fear is that if he goes out that he won't go on, his colleagues will not press him to stay, but rather welcome his going".[42]

During the budget discussions in February, the Cabinet worried over the problems that would arise once the war was over, but also over the more immediate difficulties in the next financial year, when a very large deficit could be anticipated, if no new taxation was to be imposed. They therefore approved the Treasury's proposals for increased direct and indirect taxation, including an export duty on coal.[43] In the

40. Hicks Beach to Brodrick, 9 February 1901, SJBP, PRO 30/67/7. See ch. VI for the dispute between Chamberlain, Balfour, and Hicks Beach regarding the precise time of the public reaction to the war.

41. 4 February 1901, EHD, 48677.

42. 5 February 1901, EHD, 48677.

43. Salisbury to King, 27 February 1901, CAB 41/26/3; 26 February 1901, EHD, 48677. Hamilton could not understand why so few ministers took an interest in finance, although their fate was "more dependent on it than on anything else". 27 February, EHD, 48677.

circumstances, it seems, the Cabinet were resigned to substantial tax increases, even on articles that could be politically very detrimental to them. The Treasury had, therefore, less problems with the Government on that score, and rather more with containing the ministers' eagerness for more money. There were political dangers to underspending as well as to overspending. But it seems that ministers feared the former far more than the latter. The Treasury still believed, however, in minimal taxation and minimal public expenditure.

IV

The anticipated indemnity from the Transvaal was an important factor in the Treasury's budget claculations. But did the Treasury still expect to extract a substantial indemnity from the Transvaal, and if so, how and when? The Treasury and the Colonial Office started looking into the matter seriously in December 1900, when they decided to send Sir David Barbour to report on the economic and financial potential of the two new colonies.[44] Barbour was asked to look into all aspects of the new colonies that had a financial bearing: their past and present financial situation; the amount and the manner of war indemnity that could be extracted from them. He was to present an interim report on the question of war indemnity in particular by early March.[45] Hicks Beach wanted advanced information on the Transvaal's potential, what indemnity it could bear, and consequently its effect on his next budget.

Barbour reported on 15 February that, for the time being, neither Boer colony could bear excessive taxation, and as to exact such a share of their revenue as would cripple their administration would be counter - productive, therefore only surplus revenue or special assets of these colonies could contribute to an indemnity (or war contribution, as they prefered to call it).[46] Although the colonies had suffered severely by the

44. Hicks Beach to Chamberlain, 20 December 1900, JCP, JC 16/5/33; CO to Treasury, 22 December, Treasury to CO, 24 December 1900, T.1/9674B/21434.
45. "Draft Instruction to Sir David Barbour", December 1900, T.1/9674B/21434.
46. "Sir David Barbour Preliminary Report", 15 February 1901, T.1/9674B/6513.

war, he expected that certain interests (mining) would derive great advantage from the war.

In Barbour's assessment, the Orange River Colony, which before the war had a large surplus, would require a large sum of money for railway construction, compensation for damages to Natal and the Cape, and for the constabulary. In these circumstances, he thought it would be impossible to charge against the colony "either immediately or at any future time, any sum, however small, as its contribution towards the cost of the war". The best that could be hoped for was that the colony would, after a year or two, contribute towards the cost of the constabulary. The Transvaal's situation was more complex, and with greater possibilities. A £5 million loan would be needed for grants to persons in need, compensation, and for covering the deficit. But there could be savings by reducing the size of the constabulary, by abolishing the dynamite monopoly, and by imposing a 10 per cent (instead of 5 per cent) tax on mine profits. Since the Transvaal's wealth was in the gold mines, that industry would have to bear the bulk of taxation. Its other assets - state mining rights, land, and rights on minerals - could be utilized for indemnity payment, but they would not amount to much.

Barbour could not therefore specify a definite indemnity sum to be paid by the Transvaal. Instead, he suggested, the British Government should fix the maximum indemnity sum which the new colonies would be required to pay eventually. Portions of this maximum sum should then be charged from time to time to the colonies, according to their ability to pay. He proposed that the procedure for the payment of the indemnity should fit in with the Treasury's borrowing schedule - £10 million repayable in three years; £3 million in five years; £30 million in ten years; and £12 million within twelve months, altogether £55 million, more than the colonies were likely to be "able to contribute". The whole sum, or parts of it as they fell due, should be paid out of loans to be raised by the colonies under an imperial guarantee.

Hamilton summarised the Treasury's reaction to the Report. If the cost of the British administration was not included, he believed the Orange River Colony would cover itself financially. The Transvaal was expected to have a revenue of £3.4 million, and an expenditure of £5.3 million (excluding the cost of British administration, or interest on a loan if above £5 million). He agreed that taxes on mine profits should be raised to 10 per cent. Moreover, he asked, why not increase the tax on the mines by the sum (£600,000) saved from the abolition of the dynamite monopoly. The Transvaal's yearly deficit could be reduced in that case to £560,000. Barbour had thought a £7 million loan would be required, but since he made no provision for raising the capital required to pay off the existing debt of £2.5 million, Hamilton suggested raising a loan of £10 million.[47]

Hamilton then analysed the possible effect of the finances of the two Boer colonies on Britain's finances, and on the forthcoming budget in particular. Since the interest on the £10 million loan would have to be paid for some time by the imperial Exchequer, he saw no advantage in raising any larger loan for the Transvaal, for purposes of paying the indemnity. The Treasury had to look to other sources than revenue and loan for indemnity from the Transvaal. These included mining rights estimated at £2 million; state owned land, the value of which depended on the discovery of minerals; state rights to minerals in lands not yet proclaimed as public diggings; and state interest in railway property. But these state assets would have to prove much more valuable than anyone could expect to provide a substantial part of the contribution towards the war cost which, according to "present calculations can hardly be put at less than 150 millions sterling".[48]

What Hamilton's conclusions amounted to was that the Treasury could not expect in the near future any financial assistance from an indemnity that would contribute to the current British budget. It was the

47. Hamilton Remarks on Sir D. Barbour, "Preliminary Report on Transvaal & O.R.C.", 22 March 1901, EHFP, T.168/47.

48. Hamilton Remarks on Sir D. Barbour, "Preliminary Report on Transvaal & O. R.C.", 22 March 1901, EHFP, T.168/47.

first official indication that the policy-makers' expectation of a substantial indemnity from the Transvaal might prove unrealistic. The only substantial assets of the Transvaal were the gold mines; its other assets, including the various state rights, were inconsiderable, compared to the total cost of the war. At best, for the time being, the Transvaal's contribution to the British war bill would be marginal.

V

The Barbour Report sobered the Treasury and the Government. But pessimism regarding Britain's finances were expressed long before. In the new year, when there were no signs of war expenditure abating, the Treasury viewed the future financial prospects with anxiety. Hamilton thought the country would be permanently saddled with an increased expenditure of £15 million annually on South-African account.[49] Under the circumstances, he saw a choice of two evils: increased taxation or indefinite borrowing, and preferred the former. He had always thought that "finance would be the curse for the Government, and it is now almost certain that my expectation will be realized".[50]

In this frame of mind, Hamilton submitted at the end of January an alarmist memorandum to the Cabinet on Britain's fiscal future. From a budget point of view, the situation had deteriorated in two respects: the war had proved twice as long and costly as had been expected a year ago, while hopes of indemnity from the Transvaal had dwindled. Hence, the tax increases of last year would not cover the very large war expenditure anticipated in the next financial year. More revenue had to be raised, if the Treasury was to avoid a further large increase of the national debt. The only means left for that were the income tax and duty on tea. Had the problem been solely due to the high costs of a temporary war, it would have been best to further increase the two taxes for a fixed period. In fact, Britain was confronted with a far more serious situation. Normal as well as extra-ordinary war expenditure had grown far beyond the capacity of

49. 14 April 1901, EHD, 48678.
50. 11 January 1901, EHD, 48677.

present revenue. At the same time, believing in economic cycles, Hamilton feared that six years of continuous prosperity would be followed by a slump, consequently by shrinking revenue. The only solution, therefore, was to broaden the basis of taxation.[51] The memorandum was, in fact, an expression of political preference, which was embraced in principle by Hicks Beach, and expressed in his budget speech.

Neither the fortunes of war nor the financial outlook improved in the next two months. The Treasury anticipated a deficit of £58 million in the next financial year, compared to a deficit of £53 million in the current year.[52] Although the Treasury's current difficulty was great, it feared even more the permanent problems it would have to contend with in the future under peace conditions. Hamilton therefore exerted great pressure on Hicks Beach to increase the income tax to 1s. 3d, since objectionable taxation was better than inadequate taxation. He expressed the orthodox Treasury officials' dislike for borrowing even more than for taxation. He was not, however, oblivious of the political implications of new taxes for the Government. He believed that Hicks Beach wanted to follow his advice, but feared his colleagues, who would "wince at the latter proposal; for it is the income-tax from which they fear most trouble on their own side". Hamilton's exertions were, however, effective. "My representation has I think told. Beach says he would proceed with export duty on coal and press on Cabinet another penny on the income-tax."[53]

Hamilton's arguments regarding the Government's financial crisis so impressed Hicks Beach that he alerted Balfour, who asked to hear the grave news directly from Hamilton. "Beach had alarmed him, & I told him I could give him very small comfort." Hamilton confirmed that the situation was grave. "Even if next year we were at peace with the whole world & we had no special charge connected with S. Africa, we should need every penny of additional taxation imposed last year. As it was

51. Hamilton Memorandum, 31 January 1901, CAB 37/56/14.
52. Hamilton Memorandum, 27 March 1901, EHFP, T.168/49.
53. 25 & 26 March 1901, EHD, 48678.

certain that we should meet heavy expenses in S. Africa for some time after peace was established, fresh taxation was absolutely necessary". Balfour was gravely worried, only regretting that Hicks Beach had not made stronger representation on the financial outlook to the Cabinet when they considered the estimates. But Hamilton blamed the system. Ministers "never follow properly the figures given by the Chan. of the Exchequer orally. They ought to have a memorandum on the subject, which they could study before the discussion takes place."[54]

The Treasury was warning the Government that the permanent crisis they would face in the future under peace conditions would be much graver than the difficulties during the war. "The real problem is not the expenditure connected with the War. That is temporary."[55] Hamilton's memorandum so worried the Cabinet, that "they agreed to everything Beach proposed", including the increase of income tax by 3d. to 1s. 3d. Hamilton feared that Hicks Beach would not take advantage of his discretionary powers to increase the income tax beyond 2d (though an increase of 3d. was necessary, because he would be thinking about the reaction of the City), which he would not like to embitter "on the eve of an enormous loan".[56] Hamilton's exertions were effective. He was instrumetal in formulating the taxation policy, and helped produce the realization that the level of ordinary government expenditure would be much higher after the war than before.[57]

Hicks Beach's budget speech of 18 April was more or less an echo of Hamilton's two recent memoranda on Britain's fiscal situation and the Barbour Report. The main thrust of his speech was that the existing fiscal system had to contend with the enormous war expenditure, and with a steadily increasing ordinary expenditure that had outgrown the existing basis of taxation. The real difficulty was not extra-ordinary war expenditure, but the ordinary expenditure which was increasing faster

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54. 27 March 1901, EHD, 48678.

55. "The Financial Outlook & Future Expenses in S.A.", Hamilton Memorandum, 27 March 1901, EHFP, T.168/49.

56. 29 March 1901, EHD, 48678.

57. 14 April 1901, EHD, 48678.

than revenue. The people seemed to want a greater navy and a stronger army, and also increased expenditure on social services. But if revenue was to keep pace with the rise in ordinary expenditure, it was essential to broaden the basis of taxation.[58] But there was no chance the Government would broaden the basis of taxation in the middle of a war. Hicks Beach sounded a note of despair.

Besides the steep rise in ordinary expenditure, there were two other reasons why a further rise in taxation was necessary: the amount of indemnity that they could anticipate from the Transvaal, and the war expenditure. The chancellor admitted that Barbour's report was not very encouraging. The Transvaal would not be able to contribute towards the cost of the war for another two or three years, mainly because of the ruined state of the country. Nevertheless, the Treasury had arranged its war borrowing in such a manner that they would mature from time to time in intervals that would enable the Transvaal to pay a reasonable indemnity, but it would not exceed the 67 million borrowed so far.[59]

It is difficult to know whether the Treasury had in fact arranged its borrowing so that its loans would fall due as the Transvaal became able to pay corresponding instalments of its war indemnity. It is equally uncertain whether Hicks Beach really believed there was any reasonable hope of exacting from a ruined Transvaal indemnity sums that approached the figures he mentioned. He was far too experienced a chancellor to expect such sums from a devastated colony, potentially rich as it might be. But his rhetoric in Parliament raised expectations of a substantial sum.

Besides the increase in ordinary expenditure, and the diminished expectation of an indemnity from the Transvaal, the other reason why it was necessary to raise fresh taxation was the war itself. Out of a total expenditure of £183.5 million in the current financial year, £65 million

58. 18 April 1901, Hansard, vol. xcii, cols. 649-651.

59. 18 April 1901, Hansard, vol. xcii, cols. 647-9.

were spent on the South African war, and £3.5 million on the war in China, bringing the deficit to £53 million. The forecast for the next financial year was even worse. War expenditure was estimated at £58 million, and the deficit at £55 million. The cost of war, actual and estimated, for the years 1899-1902 had reached £153 million - double that of the Crimean War.[60] The increase in normal and extra-ordinary war expenditure required fresh taxation. Besides, argued Hicks Beach, the great majority of the people had in the last five years "encouraged, demanded, and approved that expenditure" and Government policy in the recent general election. Moreover, "when people cheered expenditure, they knew that they would have to pay the bill".[61] Did the chancellor allude to the election results merely to justify the increase in taxes, or was he rebuking the people for having approved recent Government policies on foreign and colonial issues?

However, Hicks Beach intended raising the extra money required by loans and fresh taxation. Out of total war cost of £153 million, actual and estimated, £108 million would be borrowed, the rest paid by taxation. He admitted that the proportion raised by taxation for the war was less than in the Crimean War, but maintained that a sufficient proportion had been put on the taxpayer of the day.[62] The income tax would be raised to 1s 2d, and there would be increases in the tax on sugar and on export of coal. In fact, for the first time more revenue was to be raised by direct, than by indirect taxation. However, despite the increase in taxes, and the suspension of the sinking fund, he still expected a deficit of £41 million in the next financial year. To be on the safe side he would ask for a loan of £60 million.[63]

Hicks Beach explained that he had taken the rather large safety margin for the war because in the past he had often been charged with underestimating these expenses, and because most of the revenue from

60. 18 April 1901, Hansard, vol. xcii, cols. 617-624.
61. 18 April 1901, Hansard, vol. xcii, col. 651.
62. 20 May 1901, Hansard, vol. xciv, cols. 637-8.
63. 18 April 1901, Hansard, vol. xcii, cols. 627-648.

income tax would be forthcoming only in the last quarter of the year. Only the financing of the expenditure during the first nine months of the year required £10 million.[64] One may safely assume, however, that the above argument was not the only, or even the primary reason, for the large loan. Hicks Beach asked for a much larger loan than seemed warranted because it was, on his own admission, much easier to raise money, by taxation or loan, while the war was on than after it had come to an end. A large margin was need to alleviate the Treasury's situation after the war, when funds would be required for contingencies related to the war, and for rising ordinary expenditure, but when it would be that much more difficult to raise taxes, not to mention loans. The large margin in 1901-02 was expected to see the Treasury safely through to peace time, cover the large expenses in the aftermath of the war, such as the return of the troops, and the cost of the garrison that would have to be kept in South Africa, just when the political reaction against high taxation and the Tory ministry would make more increases in taxation extremely unpopular.

How did the Treasury intend to borrow such a large sum, and why in that particular form? Hicks Beach based his arguments for choosing the form of loan on the kind of war they confronted. It was no longer a small but a great war in cost. As such, it was no longer possible to rely on temporary borrowing. Britain already had £67 million debt maturing within 10 years - excluding £36 million old funded debt redeemable in 1905. Since no indemnity that might be exacted from the Transvaal could, in any case, exceed £67 million, that speculative source could not provide a basis for fresh short-term borrowing. Consequently, it was necessary to resort to long term loans in the shape of Consols, as Hamilton and the Bank of England agreed.[65] As long as the Treasury anticipated a substantial indemnity in the foreseeable future, it could raise short and middle-term loans, believing or hoping that they would be redeemed, all

64. 18 April 1901, Hansard, vol. xcii, cols. 646-7.

65. 18 April 1901, Hansard, vol. xcii, cols. 649-651; S. S. Gladstone, Governor of the Bank of England, to Hamilton, 9 January 1901, BE/G23/87/70; Hamilton to Hicks Beach, not dated, but must be on or soon after 25 January 1901, EHFP, T.168/89.

or in part, by the Transvaal. But since Barbour's Report put an end to any hope for any immediate relief from that quarter, the Treasury had to resort to Consols, the extreme form of long term loan.

In the final analysis, the effective check on expenditure on the South African war came from the Treasury, less from Parliament or the Opposition. Although all financial policy ultimately came under control of Parliament, its actual power during a patriotic war was limited. In fact, Parliament supported the Government to win the war. Although Parliament still exercised a strong influence, but "more as an indicator of public opinion, a warning of what the electors might decide at the next election, than as an authority that might dethrone a Cabinet or reverse its policies."[66] Actual control of public expenditure had been transferred to the Treasury, Parliament's executive agent.

VI

As revealed above, the finances of the Boer colonies affected the British budgets. The preliminary Barbour Report revealed that Britain could expect little, if any, indemnity payment from the Transvaal in the near future. The Opposition doubted Britain would get any, and Morley maintained that if Britain did get any indemnity, it would be at a price not worth having.[67] The main thrust of Barbour's full report was similar to his preliminary report. He argued that since the mines were the only source of wealth in the new colonies, they should not be over-taxed. Prosperity depended on developing the lower-grade mines, which required a large initial investment. Most important of all, it would be a long time before the Transvaal ceased to be a charge on the imperial Exchequer, never mind as a source for indemnity payment.[68]

A long and detailed discussion ensued in June and July within the Treasury, and between it and the Colonial Office and Milner, who was in

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66. J. P. Mackintosh, The British Cabinet (1962), 162.

67. 23 May 1901, Hansard, vol. xciii, col. 1080.

68. 5 June 1901, EHD, 48678.

England - on all questions regarding the finances of the colonies, their potential, and the implications for a substantial indemnity. Milner did not object in principle to fixing the indemnity sum at £50 million, as proposed by Chamberlain, but on condition that both interest and sinking fund on the indemnity loan be paid only after the discharge of the ordinary administrative requirements, and that some of the surplus revenue be left for its own development.[69] The conditions eliminated, in fact, the possibility of an immediate indemnity from the Transvaal. Its revenues could not cover its own administrative expenditure and pay the interest on the loan it had to raise.

Hamilton suggested that the tax on mine profits be 20 per cent instead of 10 per cent, which would ensure the Transvaal a surplus.[70] On 14 June, both Mowatt and Hamilton presented memoranda on the Barbour Report to Hicks Beach. Mowatt's memorandum cannot be traced, but an explanatory note of his to Hicks Beach throws some light on the issue. Barbour, it seems, believed the ultimate sum could be between £25 to £30 million, Chamberlain thought of £50 million.[71]

Hamilton sought ways for providing for the £5.8 million excess expenditure of the two Boer colonies. After discussing the matter with Ommanney of the Colonial Office and Gibson of the War Office, three alternatives were considered. A Transvaal loan, an alternative not feasible in the current financial year for a number of reasons: Britain had borrowed £60 million in Consols, considerably more than it could absorb according to the budget; it would be uneconomical, because a guaranteed loan never fetched the same price as Consols; as the City was overloaded with government securities, it would resent further demands upon it, especially since it was told that the large loan would carry the Government through to the end of the current year; to impose on the Transvaal's present limited revenue a charge it could not bear

69. Chamberlain, "Memorandum of Conversations with Lord Milner, May 31-June 2, 1901", 3 June 1901, CAB 37/57/53.

70. Hamilton Memorandum, 5 June 1901, EHFP, T.168/52.

71. Mowatt to Hicks Beach, 14 June 1901, T.1/9998B/15997.

immediately, would cause much resentment. The second alternative was to charge the colonies' excess expenditure to army funds. But he objected also to that, because army funds could neither be charged with expenditure which Parliament had not granted, nor were in a position to stand any unprovided charges. At the rate war expenditure was going (£1.5 million a week), the £56 million provided for it were expected to be exhausted at the end of December. But if the army votes were to be relieved from extra charges, there was a chance that the army's funds would suffice until Parliament met next year.[72]

However, the financing of the new colonies could not be isolated, but had to be seen in an imperial context. Once the Boer republics were annexed to the Crown, their finances were bound up with those of the imperial Exchequer. So long as they were in deficit on account of their administration, they would have to be subsidised by grants from the imperial Exchequer, and the more they paid in indemnity to the imperial Treasury, the larger the grant-in-aid from the imperial Exchequer to sustain their colonial administration would have to be. To prevent the already shaky financial situation from further deterioration, Hamilton suggested a large imperial grant-in-aid to the two colonies.[73] Hicks Beach saw no reason why the cost of the constabulary should not be charged to army votes as long as the fighting continued, since it was an addition to the military rather than a civil force. The other items were subjects for a loan, but the matter could not be considered as long as the war was on.[74] The Treasury decided in favour of a grant-in-aid.[75]

The reason why the Treasury favoured a grant-in-aid to an alternative solution is connected to its expectations of an indemnity from the Transvaal and to Britain's financial situation. There was no reason why the Treasury should change its views on the indemnity from what

72. Hamilton Memorandum, 14 June 1901, T.1/9771A/8103.

73. Hamilton Memorandum, 14 June 1901, T.1/9771A/8103.

74. Hicks Beach Memorandum to Austen Chamberlain, Mowatt & Hamilton, 17 June 1901, T.1/9771A/8103.

75. 6 August 1901, Hansard, vol. xcviii, col. 1454; WO to Treasury, 13 July, Treasury to WO, 12 August 1901, T,1/9771A/12140 & 8103, respectively.

they had been earlier in the year. The full Barbour Report was not materially different from its preliminary version. It may not have been "very clear or convincing", but Hamilton realized that "it won't do to hold the country with debt", because "it will be a very long time before it ceases to be a charge on the British Exchequer".[76] Milner had also made it clear that the Transvaal could not immediately afford to pay any additional charges.[77] In the circumstances, if a large guaranteed loan was raised, its charge could not be met out of colonial revenue, but had to be provided for by the imperial Exchequer. It was basically a matter of policy whether Britain got from the Transvaal more as indemnity and less on administration, or less as indemnity and more on administration. "Whether it is in 'meat' or 'malt' is a question of tactics". Since imperial credit stood higher than colonial credit, the substitution of the former by the latter seemed bad business.[78]

What indemnity figures did they have in mind at the Treasury and the Colonial Office? Although no official figures were ever quoted, the sum discussed varied from £25 million to £50 million.[79] Barbour had thought the Transvaal could ultimately pay £25 to £30 million.[80] Both Chamberlain and Milner put the figure at £50 million, though the latter conditioned it upon first developing the colony.[81] While Chamberlain wished to exact, for obvious political reasons, the maximum indemnity possible, Milner emphasized the country's potential, and alluded in vague terms to the amount of indemnity that might be exacted from it in the future. The political convention regarding imperialists was very wrong on this matter. Milner had a hard task convincing the metropolis either to spend money in the new colonies or to restrain its indemnity demands. He wanted imperial money spent in South Africa, and did not think of extracting money from the colonies for the mother country.

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76. 5 June 1901, EHD, 48678.
77. 17 June 1901, EHD, 48678.
78. 5 June 1901, EHFP, T.168/52.
79. For arguments against early fixing of the sum, see ch. IV.
80. Mowatt to Hicks Beach, 14 June 1901, T.1/9998B/15997.
81. CO to Treasury, 12 June 1901, T.1/9998B/15997.

But why were the Treasury's anticipations of an indemnity from the Transvaal so much more muted? Hicks Beach never quoted a figure, despite promises in Parliament, and Hamilton chose on every occassion to emphasize the needs of the new colonies rather than their potential for indemnity. There are a number of reasons for this Treasury attitude, which may at first not seem in character. All Treasury officials, as well as Hicks Beach, were keen to get a substantial indemnity from the Transvaal, and never suggested relinquishing it. Although nothing could be had from the Transvaal just then, argued Hamilton, it might be wise to fix the indemnity sum to be exacted, and, perhaps, also lay hands on the mineral resources, because the inhabitants of the Transvaal might in the future repudiate that liability.[82] Because of the huge war cost, and the Government's political requirements, the Treasury constantly reviewed the subject, and never ceased to hope for a substantial sum that would alleviate its aggravated financial situation.

However, since Treasury officials (unlike other policy-makers), were constantly busy with financial matters, they were the first to realize after the Barbour Report that not much could be expected from the Transvaal in the near future. They were realistic, and considered the situation as it was, rather than what it ought to have been. They considered not only the immediate financial needs of Britain and the new colonies, but also the most rational and economic manner in which the requirements were to be met. It would have been bad finance to impose on the colonies debts they could not stand, and which would eventually fall on the imperial Exchequer. Despite its own liquidity constraints, the Treasury drew a line beyond which its own norms of proper finance seemed more important than current political interests of the Government. It was one thing to assure Parliament of substantial indemnity payments in the future - even if the Treasury did not always seem to believe in it itself - quite another to actually extract from the Transvaal an indemnity which it could ill afford.

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82. 5 June 1901, EHFP, T.168/52.

There were, however, two other reasons, equally important, why the Treasury preferred a grant-in-aid to a guaranteed loan. One was the Treasury's very long and unpleasant experience with the South African colonies regarding financial matters. This was the one imperial domain that seemed to be a bottomless pit. The Treasury never recovered the cost of the various wars in the region, above all the Transkei and Zulu Wars of the 1870s. The Barbour Report made it clear that unless large sums of money were poured into the devastated new colonies, there was little chance of any indemnity. Milner had spelled it out: unless the gold mines were brought back to full production, at a great initial cost to the imperial Exchequer, the colonies would continue to be a liability on the mother country. But Hicks Beach refused to pour unlimited sums into the new colonies, in the off chance that they would be returned with a dividend. He dreaded getting involved, preferring instead to cut his losses. On the whole, Hamilton was more sympathetic to Milner and to the financial needs of the Boer colonies than Hicks Beach or Mowatt. It was due perhaps to his friendship with Milner, and to the fact that he was more of an imperialist than either of the others. However, it is equally possible that because of his experience in financial matters, he was the first at the Treasury to realize that Britain would not be able to escape its responsibility for the well-being of the new colony

The other reason was related to the Government's acute financial problem. The Exchequer, itself badly in need of money, could ill afford to lend large sums of money to the colonies, whatever the prospects of a return might be. According to the latest War Office estimates in July, the £60 million granted earlier in the year would last only till the end of February 1902, though at the time it was estimated that the deficit for the year would be only £41 million. In order to play it safe, a large imperial grant-in-aid to the colonies seemed the best solution.[83] The Treasury preferred it to an ordinary supplementary vote, although both required resort to Parliament. But it was one thing to ask Parliament for money required for the colonies (which would be repaid at future date), quite

83. Hamilton to Hicks Beach, 10 July 1901, EHFP, T.168/50.

another to ask for more funds for the war.

Chamberlain believed Britain would get much more than the £55 million mentioned by Barbour. He connected the issue with the political future of the new colonies, and believed the annexation did not diminish the chance of an indemnity. So long as they remained as Crown colonies, it could be exacted from them. But once they gained self-government, they would not agree to pay their revenue to Britain, though they would be ready to take over any remaining debt as a legal obligation. He was, however, careful to allay any suspicion of having gone to war for pecuniary profit. Britain had not gone to war either for territory or for gold. War was not a profitable transaction. A similar line was taken by Winston Churchill, who maintained that "war never pays its dividends in cash on the money it costs", and in any case, "this war was never a financial speculation".[84]

The Barbour Report changed significantly the Treasury's views on the Transvaal. It was no longer seen as a potential source for relieving Britain of her budgetary difficulties. The Treasury realized that the problem could not be isolated but had to be seen in its imperial context. The annexations entailed not only taking over the political and financial responsibility for the colonies, but their finances were bound up with those of the imperial Exchequer, and therefore required that their needs be met in the most rational manner. When the Treasury realized that unless large sums were initially poured into these colonies they would be a liability on the imperial Exchequer, it reconsidered its attitude to indemnity. Moreover, the question got entangled with the constitutional future of the new colonies: whether their annexation was conducive to exacting an indemnity, and whether the new colonies were more likely to pay the indemnity before or after self-government. There might a dispute over whether the war ever was a 'financial speculation', but the policy-makers now fully realized that the Transvaal would not pay 'its dividends in cash on the money it cost'.

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84. 17 July 1901, Hansard, vol. xcvii, cols. 733-50.

Chapter Six

Treasury Control, War Expenditure and Defence Estimates July 1901 - January 1902

From July 1901 to January 1902, large imperial forces continued to be engaged by Boer guerillas. The stalemate gave no hope of reducing the war effort or of cutting war expenditure. The peace time army had been greatly inflated to fight the war, and the military setbacks had inspired a movement in favour of maintaining a larger and more efficient army after the war, whatever the cost. Thus, while the war was still on, the Treasury increasingly directed its efforts at reducing war expenditure, to containing its military after-effects, especially at frustrating demands for increasing the size of the army establishment in peace time.

I

In this period, Treasury efforts were concentrated in three directions: to reduce war expenditure, to restore ordinary military expenditure to pre-war levels, and to transfer costs ancillary to the war, so far as possible, to the South African colonies. Since most of the ordinary increases applied to the Services, Treasury efforts were directed at the War Office and the Admiralty. The chancellor asked Brodrick, "in the present condition of our finances", to moderate his Works Bill to an absolute minimum that year, and sought Balfour's assistance.[1] Was

1. Hicks Beach to Brodrick, 10 May 1901, SJBP, PRO 30/67/7; Hicks Beach to

the Treasury's demand compatible with the previous year's decision to raise six army corps, apart from other auxiliary units? Brodrick and Balfour suggested that this decision to increase the army establishment required an accompanying increase in the funding of the army.[2] But the financial constraints did not permit any military expenditure beyond the absolute minimum.

The Treasury refused to sanction the raising of a militia field artillery unit in that financial year. Brodrick explained that since the war was not going to end that summer, as they had assumed, he was forced to change the basis of his calculations.[3] He told Salisbury that Hicks Beach "had fastened himself on reducing the Army", but that "no Government which had itself added these men on the most carefully considered grounds can go back... I trust I may have your support."[4] But the Treasury did not relent. It maintained that sanction should have been obtained before raising the units, that the War Office had no right to form the units without Cabinet approval, and that the request should not be presented separately, but in conjunction with other changes in army estimates for the next year.[5] Accustomed to annual estimates and budgets, the Treasury refused to sanction funds for military purposes in a piecemeal fashion. Treasury control was effective. The matter was not resolved, at least for the time being.

The increase in ordinary military expenditure, and the high rate of war expenditure, also led the Treasury to argue for retrenchment all over the world. Besides the war in South Africa, Britain was involved also in a war in China. In May, after strong pressure from Hicks Beach, the Cabinet agreed to withdraw its troops from China.[6] Upon quashing the

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Balfour, 13 May 1901, HBP, PCC/12.

2. 13 & 16 May 1901, Hansard, vol. xciv, cols. 281-382.
3. Brodrick to Hicks Beach, 11 June 1901, HBP, PCC/85.
4. Brodrick to Salisbury, 15 June 1901, SP.
5. WO to Treasury, 31 May, Mowatt to Hicks Beach & to Austen Chamberlain, 15 June, Treasury to WO, 20 June 1901, T.1/9673/9489.
6. Hicks Beach to Salisbury, 14 may 1901, SP; Salisbury to King, 17 & 25 May 1901, CAB 41/26/9 & 12.

Boxer uprising and the relief of the foreign legations in Pekin, the Powers intended imposing a £50 million indemnity upon China.[7] Most powers pressed for a high indemnity, but Britain, which handled most of China's foreign trade, objected. The Treasury also objected to the suggestion to raise a new Chinese loan, mostly on British credit, for the payment of non-British debts.[8] The Treasury especially objected to the raising of Consols for China, since it could affect any loan that might be required for the prosecution of the war in South Africa.[9]

The Treasury's other mode of reducing war expenditure was to transfer, as far as possible, all expenditure ancillary to the war to the South African colonies. One such issue was compensation for losses as a result of the war. The Treasury had agreed to bear temporarily charges for compensation to individuals in Natal, on the understanding that they would eventually be charged to the revenues of the two Boer colonies. Both the Colonial Office and the Treasury refused to make similar arrangements with the Cape, maintaining that its Government, unlike Natal, which had helped in the war, had encouraged the Boer invasion of the colony, and much of the damage was done by its own rebels and not by Boers from across the border. Moreover, they argued, since the Cape had profited financially from the war, its Government should pay the compensation, if it was so inclined.[10] Hamilton was even more opposed to the idea, since he believed that many people in the Cape were "so fattening on the War that they are loath to see its termination".[11]

Another example is the £300,000 compensation demanded by the De Beers company for expenditure and loss it had incurred during the siege of Kimberley.[12] Hicks Beach objected to the imperial Exchequer

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7. FO to Treasury, 28 March 1901, T.1/9770/5786.
8. Balfour to King, 26 April 1901, CAB 41/26/8.
9. Hamilton to FO, 7 August 1901, Treasury to FO, 3 January 1902, T.1/9770/5786 & 20353.
10. CO to Treasury, 18 & 23 July, Treasury to CO,31 July & 20 August 1901, T.1/9723/12445 & 12701.
11. 14 October 1901, EHD, 48678.
12. General Officer Commanding, Lines of Communication, to WO, 9 October, WO to Treasury, 10 November, Treasury to WO, 17 November 1900, T.1/9828B/14897.

compensating companies for their losses, the De Beers company in particular.[13] When the company reduced its claim to £55,000, the War Office wished to pay, but the Treasury refused. It maintained that the money claimed was largely spent on the employees of the company, while defending its own property, that the company had been connected with the Jameson Raid, and that "it was mainly due to the exceptional value of that property, that measures were taken for the defence of Kimberley by the imperial forces which caused much difficulty and delay in the early stages of the war."[14]

Hicks Beach, who personally dictated the Treasury reply to the War Office, connected De Beers with the Jameson Raid, implying that the diamond company was partly to blame for involving Britain later in a war for South Africa. However that may be, this letter suggests that financial considerations influenced the war strategy in the field in this case. From a purely military point of view, it might have been better to abandon Kimberley (and Ladysmith) in December 1899, but because of its economic value, and political importance, the Cabinet decided to defend it. Hicks Beach either believed De Beers was wealthy enough to meet its own needs, or wished to penalize it financially.

II

The rising cost of the war, and indeed Britain's imperial military commitments in general, were questioned in Parliament. Britain's total imperial expenditure on the army and the navy stood in 1901 at £90 million a year.[15] The Government's financial difficulties were pointed in July, when Parliament's sanction was required for the £60 million loan. The Treasury was forced to move to Consols, since it could not resort to short term loans which then amounted to £67 million.[16] The Treasury

13. Hicks Beach to Brodrick, 14 December 1900, SJBP, PRO 30/67/6.

14. WO to Treasury, 28 May, Treasury to WO, 7 June, WO to Treasury, 26 August, Treasury to WO, 5 September, WO to Treasury, 20 December, Treasury to WO, 30 December 1901, T.1/9828B/9276, 14653 & 21027.

15. Sir C. Dilke, 13 May 1901, Hansard, vol. xciii, col. 1554.

was so pressed for money in July, that it started using the £60 million loan before the necessary statute had been enacted and thereby, in the opinion of the Comptroller and Auditor General, the Treasury had bent the law. Indeed, the Law Officers supported his view. But because of the Treasury's desperate liquidity problem, both Hicks Beach and Hamilton defended their action, assuring the conscientious Comptroller and Auditor General that if he "were taken to task by the Public Accounts Committee, the Government would support" him.[17]

Following the discussion on the £60 million war loan, a number of interrelated issues were raised in Parliament regarding Britain's imperial military commitments in general, and the South Africa war in particular: the cost to the taxpayers, the effect of the war on Britain's financial situation, and whether the Treasury had controlled military expenditure effectively. Though it was generally accepted that Britain's financial position had suffered because of the war, the chancellor emphasized the increase in normal public expenditure, claiming that it had occurred regardless of the war.[18] Austen Chamberlain contended that an increase in army costs would have been necessary regardless of the war. The war had merely brought home the defects in the military system which needed changing.[19] Was the rise in military expenditure due to Government policy? Hicks Beach maintained that it had nothing to do with the Government's policy. The Empire had expanded whatever the Government of the day, and defence expenditure had expanded with the territorial commitment. It was not that the Treasury had lost control over military expenditure, he argued, but even the Treasury could not be expected to control the expansion of Empire.[20]

The Irish Nationalist M.P., Dillon, accused the chancellor of

16. 4 July 1901, Hansard, vol. xcvi, cols. 850-51.
17. Memorandum by D. C. Richmond (Comptroller & Auditor General), of an Interview with the Chancellor of the Exchequer, 31 July, & a Note to Hamilton, 8 August 1901, T.1/9778A/12749.
18. 4 July 1901, Hansard, vol. xcvi, col. 690.
19. 23 May 1901, Hansard, vol. xcii, col. 1093.
20. 20 May 1901, Hansard, vol. xcii, col. 647.

deferring to the Prime Minister's view that Treasury control of other departments was not for the good of the country. Otherwise why was Hicks Beach, asked Dillon, who had continuously preached economy, increasing taxation? Was he going to give a free hand to the army and the navy over expenditure? Was he perhaps being compelled to open his purse to the Services? Hicks Beach denied the charge and insisted on his consistent discharge of the duties of Treasury control over public spending. "Such control as is legitimate for the Treasury to exercise is exercised", he claimed. Treasury vigilance would continue as long as he was Chancellor of the Exchequer. He maintained that expenditure had increased regardless of the war, due, not to appetites of the spending departments, but chiefly to the "universal feeling of present day in favour of increased expenditure".[21] He did not reveal to Parliament his continued battle with his colleagues over the increases in expenditure, from which it could be inferred that the expenditure could be contained, if only the ministers wished it.

Hicks Beach's contention that increased expenditure was due to the 'universal feeling' in its favour was backed by others in the Lords, not least of all Salisbury and Lord Welby, former permanent under-secretary at the Treasury. Like Hicks Beach, they saw a close relation between public expenditure and public opinion. All three agreed, rather regretfully, that the rise in ordinary expenditure was due to public demand. Cabinets, claimed Welby, were influenced by public opinion, and went on to define the political nature of Treasury control. "If public opinion is in favour of economy, the Finance Minister is all-powerful. If public opinion is careless about economy, then the Finance Minister is absolutely powerless." Salisbury implied that the war was a result of a change in public opinion, which left the Government no choice but "incur the expense which that protection [of expanding Empire] costs."[22]

The Cabinet was caught between the conflicting requirements of the Treasury which wished to contain the growth of the army and the navy,

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21. 2 July 1901, Hansard, vol. xcvi, col. 690.

22. 23 July 1901, Hansard, vol. xcvii, cols. 1255-62.

and the Services, which because of the deficiencies uncovered in the army by the war, and the recent upsurge in naval construction by other powers, sought more funds for the army and the navy. The Palace, which throughout the years had tried to preserve its influence with the military, became anxious over a possible contraction of the army.[23]

The high war expenditure and the increase in ordinary military expenditure, which were to a large extent interrelated, so aggravated the Government's financial situation that it endangered its equilibrium, and raised the question of the viability of the existing fiscal system. The financial situation seemed so desperate in July, that Hicks Beach sought to resign in August. There were serious disputes in Cabinet between Hicks Beach and the Service ministers. Hicks Beach felt that since he could neither withstand the demands of the Service ministers, nor bring them to see the dangers of increased expenditure, he could not continue as chancellor. He realized that the end of the war would not solve the Treasury's problems. On the contrary, the nearer they seemed to get to the end of the war, the more anxious the Treasury became over the formidable financial difficulties the war would leave behind. The struggle to decide the size of Britain's defence forces in peace time had just started: "we are only at the begining of the conflict now".[24] For the moment, however, Hicks Beach could not resign, because all Cabinet ministers had subscribed to a self-denying ordinance that no one would resign until victory was won.[25]

The discussions in the Lords raised once again the basic question of reforming the character of the British laissez faire government in the form of whether she had reached the limits of tax revenue under the existing fiscal system. The cost of the army and navy (excluding war) had increased in four years from £42 million in 1897 to £63 million in 1901, and had doubled since 1887. In ten years, revenue from taxation had

23. Brodrick to King, 20 August 1901, SJBP, PRO 30/67/15.
24. Salisbury to King, 6 July 1901, CAB 41/26/15.
25. 2 July 1901, EHD, 48678.

increased from £75 million in 1891 to £122 million in 1901. Welby warned against the indefinite increase of taxation by broadening its basis, as it would put 80 per cent of the taxation on the working class. The only solution to the fiscal dilemma, therefore, thought Welby, was a diminution in the rate of increase. Salisbury agreed with Welby's proposition, but hoped that "future Chancellors of the Exchequer will not only wish to follow but will be able to follow".[26] The chancellor and the Prime Minister were not only aware of the sharp increase in public expenditure, for defence purposes in particular, but dreaded its political implications, and consequently hesitated to face them.

III

The Treasury's immediate preoccupation remained, however, the war expenditure. "The Cabinet as a body seem to me to care little or nothing about this expenditure", complained Hicks Beach, and warned Salisbury that if it was not reduced, it would mean further borrowing in December, if not sooner.[27] The high rate of war expenditure with what seemed to be little result troubled the Cabinet, but they preferred to avoid any change in war policy before they had discussed the entire situation with Milner who was expected that week in London.[28] So far, the Cabinet endorsed Kitchener's war strategy, the policy of all-out engagement of the Boers. Although this policy was not very successful, the Cabinet were reluctant to change it because they were anxious not to be seen interfering with military policy. The Cabinet could soon discuss with Milner in person the alternative policy he had all along proposed; the policy of protection, of localizing the war to certain strategic areas; a policy that had been endorsed by Hicks Beach.

The Cabinet met Milner a number of times and discussed a whole range of issues related to South Africa, including an alternative war strategy. Kitchener expected by the end of the South African winter

26. Extracts from The Speaker, 3 August 1901, EHFP, T.168/53.
27. Hicks Beach to Salisbury, 10 May 1901, HBP, PCC/34.
28. Salisbury to King, 17 May 1901, CAB/41/26/9.

campaign in September to terminate all serious opposition and start returning large number of troops home. If Kitchener's plan failed, Milner suggested a new 'protection policy'. Instead of trying to capture all the rebels in the Cape and the Boer colonies, they should protect the Rand and other principal revenue-producing, populous districts, with the key railway lines. Priority would be given to reviving the mining industry, upon which the prosperity of all the colonies in South Africa depended, and then the protected areas would be gradually extended.[29] At the end of June, the Cabinet endorsed Milner's policy of protection, and asked Chamberlain and Balfour to make their wishes clear to Kitchener.[30]

Although the Government had been returned the previous October with a substantial majority, they were not happy with the situation in South Africa. War expenditure was running at the rate of £1.25 million a week, with seemingly little results, and the total war cost in 1901-1902 was estimated at £58 million, excluding all ancillary expenditure for the new colonies.[31] The Government did not seem to have a clear strategic policy and lacked one strong leader. Milner was impressed by their "profound ignorance", except for Chamberlain and Balfour.[32]

The chancellor's strong pressure for curtailing war expenditure by way of changing the strategic policy seemed at long last to have succeeded. On 2 July, Kitchener was told through Roberts that he had to terminate the war by the end of the South African winter in September, or adopt Milner's 'protection policy':

> We must now face the possibility that your winter campaign, however successful, will not conclude the war. Indeed its very success in reducing the larger commandos to small unorganized guerilla bands may render some change of method necessary by the end of August. But, the winter once over, the Government do not think it either possible or desirable to continue

29. Chamberlain "Memorandum of Conversations with Lord Milner, May 31 - June 2, 1901", 3 June 1901, CAB 37/57/53; and Salisbury to King, 21 June 1901, CAB 41/26/14.
30. Salisbury to King, 28 June 1901, CAB 41/26/15.
31. WO to Hamilton, 25 June 1901, EHFP, T.168/50.
32. 7 & 21 June 1901, EHD, 48678, respectively.

> indefinitely to spend £1,250,000 a week, and keep in South Africa 250,000 soldiers, to deal with an enemy who cannot be crushed simply because they are too few and too scattered, and... estimated not to exceed 18,000 men. They would, therefore, like to ask your opinion on the following scheme, which, it is hoped, may effect the gradual pacification of the country with a reduced expenditure of men and money...
> For this purpose, an Army of 140,000 men, at the most, should be left in South Africa, out of an Army of 250,000 now there.[33]

After twenty months of war that seemed to be dragging on indefinitely, the Cabinet finally decided, despite all their disclaimers and promises, and with great reluctance, to intervene in war strategy, and impose on the military a new policy proposed all along by Milner. Treasury control was starting to tell.

Kitchener accepted the Cabinet's war policy in principle, but did not hurry to implement it. Instead he argued for weeks that his scheme was progressing well, that so many commandos either surrendered each month or were killed and captured. In any case, he argued, it would be dangerous to reduce the field force before the Cape was clear of its rebels. Kitchener's response put Brodrick and the Cabinet in an awkward situation. On the one hand, they were reluctant to impose on Kitchener demands for actual reductions in the field force. But they were equally reluctant to summon Parliament "in the autumn to vote more money which is on all grounds most undesirable". Brodrick asked Milner to see Kitchener, and find out "whether any middle course is possible".[34] But Milner sided with Kitchener, and warned against troop withdrawals before the Cape had calmed down.[35] All Treasury efforts failed. There was no chance of a substantial reduction of the force in South Africa in the near future, consequently there was little hope of an immediate relief to the Exchequer. The Treasury succeeded in inducing the Cabinet to discuss troop reductions in South Africa, but not actually to impose them on the military. That stage had not yet come.

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33. Roberts to Kitchener, telegram, 2 July 1901, JCP, JC 14/4/2/124.
34. Brodrick to Milner, 27 August 1901, BP, 49720.
35. Milner to Brodrick, 31 August 1901, BP, 49720.

IV

In September, started the Treasury's customary autumn offensive against military expenditure, both ordinary and for the war. The timing of the offensive was related to the start of the Offices' preparations of their estimates for next year's budget. The discussion that ensued was limited almost entirely to five ministers, largely through extensive correspondence, due to the summer recess which discouraged meetings between ministers. Only after these ministers (Salisbury, Chamberlain, Brodrick, Selborne, and Hicks Beach) had exhausted the two subjects throughout September and October, were the results presented to the Cabinet for formal discussion and approval.

The extent of the interrelation between war and normal military expenditure was best presented by Hicks Beach. The Chamberlains and the Hicks Beachs had for some time contemplated a trip together to the West Indies. The chancellor wrote to the Colonial Secretary:

> Your going necessarily depends on affairs going well in South Africa. But if they go well, my real difficulty will begin. So long as the war goes on, we can borrow and tax with little resistance. When it ends, we must stop borrowing, and resume paying off debt, both old and new. Yet we could not increase taxes: it will be as much as one can do to maintain them. I am therefore convinced that we must seriously check the increase in our ordinary expenditure, especially on the Army & Navy. I am preparing papers on this subject which will soon be ready, & which I will send you. Whether they will convince the Cabinet I do not know, but I look on the matter as of the utmost importance; and it is so much connected with the Army & Navy Estimates of next year, that if they are to be 'peace' estimates, I fear I could not be away from the discussion on them in December & January, unless either the Cabinet had decided in November that they were to be on the principles I desire, or I had ceased to be responsible for the finances of the country. In the course of a month I hope to send you the papers I have mentioned - & when I know what you, Salisbury & Balfour think of them, I shall be better able to judge as to my future movements.[36]

Hicks Beach tried through Salisbury to bring pressure on Brodrick

36. Hicks Beach to Chamberlain, 10 September 1901, JCP, JC 11/18/9.

for reductions in army estimates.[37] Salisbury spoke to Brodrick, but without the effect desired by Hicks Beach. Brodrick assured Salisbury that the War Office had done everything to reduce costs, and had even postponed a pay increase "to humour Beach in these difficult times". Brodrick's concession to the Treasury was, however, only temporary. He would, he warned Salisbury, "press in November for a decision by the Cabinet on the question of pay even if Beach decides to resign on it". In any case, he would sooner ask Parliament for funds than face it "with a deficit of 40,000 or 50,000 men and no proposal to meet it". Salisbury proposed putting the matter to the Cabinet.[38]

Hicks Beach's second battle front was the war expenditure. At the end of June, the Cabinet had decided to adopt by September a new war policy and drastically reduce the force in South Africa. Hicks Beach now intended implementing that Cabinet decision.[39] But Kitchener was stalling, and so far nothing had materialized. Brodrick refused to take any drastic decision on troop withdrawal from South Africa before the meeting between Kitchener and Milner. But Hicks Beach wanted definite decisions before Salisbury went abroad and other ministers dispersed to their country houses. Troop reductions would not be possible, believed Hicks Beach, unless Salisbury personally intervened with the War Office. If troop reductions were not both extensive and immediate, he warned, a December session of Parliament would be required.[40]

Hicks Beach's demands and threats alarmed both Salisbury and Chamberlain. Salisbury, who saw Brodrick, did not make any operative suggestions about troop reductions in South Africa, but merely passed on his anxieties at Hicks Beach's insistance.[41] Chamberlain was more forthcoming. He thought that Brodrick and Roberts should "insist on a substantial reduction in the cost of the War. All these skirmishes and

37. Hicks Beach to Salisbury, 9 September 1901, HBP, PCC/34.
38. Brodrick to Chamberlain, 10 & 11 September 1901, JCP, JC 11/8/50 & 51.
39. Chamberlain to Brodrick, 1 September 1901, JCP, JC 11/8/44.
40. Hicks Beach to Salisbury, 9 September 1901, HBP, PCC/34.
41. Brodrick to Chamberlain, 11 September 1901, JCP, JC 11/8/51.

captures must be making sensible inroads in the Boer forces." He did not think that "more than 150,000 men are required to deal with the irreconcilables."[42] But Chamberlain was not really sanguine. He hoped that by the middle of September they might bring home some costly and inefficient troops.[43] Nor did he elaborate whether the new war policy should actually be imposed on Kitchener.

Regarding the rise in ordinary military expenditure, Chamberlain genuinely sympathized with Hicks Beach, but wondered if they could do much about it. The situation was imposed on Britain by the extensive arming of the other powers, he argued in terms similar to those used by Salisbury and Hicks Beach himself. Moreover,

> The war had disorganised our whole system & positively affected our situation in India so that, after the war is over, its consequences will certainly be felt for a year or two & we cannot possibly get back immediately to a normal peace footing.

The political arguments Chamberlain used against any rash move by Hicks Beach were, perhaps, even more compelling.

> If we are to attack the Army expenditure & risk not merely Brodrick's resignation but also that of the Commander in Chief & possibly other high officials, we must first work out an alternative plan in our own minds to which we can stand. We cannot fairly say to all the experts 'cut down the Army by so many millions' unless we have some broad idea of how the necessities of our defensive position can be met with the smaller sum.
> After all, in a Constitutional Government... we have always to consider what is possible as well as what is right... Now I do not believe that the people of this country - and certainly not the Unionist party - would at present support any serious reduction of military expenditure against the advice of all the experts & merely to save taxation or to pay off debt. The reaction may come but it has not begun yet & I think you ought to wait for the signs of it before taking any very strong steps to secure economies. At present no one will thank you or even understand your motives.[44]

Hicks Beach, however, continued his offensive in a letter and memorandum to Salisbury. Since the fighting in South Africa would be

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42. Chamberlain to Brodrick, 12 September 1901, JCP, JC 11/8/52.

43. Chamberlain to Hicks Beach, 12 September 1901, HBP, PCC/86.

44. Chamberlain to Hicks Beach, 12 September 1901, HBP, PCC/86.

over in the next financial year, he explained, it would bring a new financial situation. It would be a normal budget, as "there will be no justification for borrowing or new taxation". But normal expenditure had increased by more than £42 million in six years, an increase of 40 per cent. The charges relating to South Africa were not expected to diminish next year. But the sinking fund had to be renewed, and even increased, if they were to pay some of the £127 million war debt they had incurred by then. He maintained that the country's prosperity was falling, and it was impossible to increase taxation. The 14d. income tax could neither be increased in peacetime nor reduced. "I can conceive no financial methods which could long provide for such a rate of increase [in expenditure] in time of peace." The increase had to be checked.[45]

After analysing the financial and fiscal situation, and arguing for a complete restraint in expenditure, the chancellor suggested ways of implementing it. The Cabinet should refuse any further increase for the army and the navy. In his opinion, the "Foreign and Colonial Offices had gone too far", and a policy of retrenchment in foreign and imperial commitments was needed. He asked his colleagues for a self-denying ordinance, disagreeable and unpopular as it might be. Ministers should check their estimates before submitting them to the Treasury, "for I have found by experience that detailed criticism by the Chancellor of the Exchequer of estimates already prepared in the Departments rarely produce any result worth the labour and friction which it involves". His proposal did not mean he was relaxing Treasury control; on the contrary, he proposed ways for making that control more effective.

If, however, his measures were not accepted, "I do not see how I can continue responsibility for the Exchequer". He was more explicit in his letter. "If you do not sympathize with what I propose, or consider it impracticable, I fear that I can only advise that my successor should be appointed as soon as possible." To maximize the pressure, Hicks Beach used his trump card, knowing full well that the Government could not

45. Hicks Beach Memorandum to Salisbury, 13 September 1901, HBP, PCC/34.

afford his resignation at that time. Moreover, if he was driven to resign and brought down the Government, he implied, it would be Salisbury's own doing, because "whether [his proposals] should afterwards go to the Cabinet would depend on their reception [by Chamberlain and Balfour], especially from yourself."[46] The chancellor was making positive demands on the Cabinet for retrenchment all over the world.

V

The Government were caught between two necessities. Hicks Beach was asking them to choose between two alternatives, both difficult: either bring home a substantial number of troops from South Africa, and thereby reduce expenditure, or cut the ordinary military expenditure. Salisbury agreed that war costs had to be reduced, and had for that matter seen Brodrick, who was "pressing Kitchener" as far as he could.[47] But Milner, whose long expected reply had just arrived, and Kitchener, resisted any serious troop reduction before the Cape was cleared of its rebels. And Brodrick would not overrule Kitchener. "He would rather leave the Government than accept such a responsibility." Salisbury was playing at Hicks Beach's own game. If Brodrick was pushed too far, he warned Hicks Beach, he would resign and bring down the Government. But "the Cabinet need not necessarily fall in pieces, and if it does so without necessity it will be committing a great public offence."[48] The onus was on Hicks Beach. If the Government were to fall, Salisbury seemed to say, it would be Hicks Beach's misdoing.

But Salisbury agreed almost completely with Hicks Beach about the dangerous rise in ordinary military expenditure, and the need for drastic financial changes after the war.

> I have no such confidence with respect to the state of things when war is over. Your memorandum shows that some very drastic reforms will be

46. Hicks Beach Memorandum & Letter to Salisbury, 13 September 1901, HBP, PCC/34.
47. Brodrick to Salisbury, 14 September 1901, SP.
48. Milner to Brodrick, 11 September, in Brodrick Circular to Cabinet, 13 September 1901, CAB 37/58/86, and Salisbury to Hicks Beach, 14 September 1901, HBP, PCC/69.

> necessary in order to bring back our finances into a healthy state. But I doubt exceedingly whether the Cabinet is now sufficiently homogeneous to accept such a renovation of policy. After the beginning of the year, when I saw how blindly the heads of our defensive departments surrendered themselves to the fatal guidance of their professional advisers, I realised that we were in face of a Jingo hurricane... We could not do otherwise while the War was going on. But when that pontification has ceased to operate, I am not sanguine of the cohesion of the Government.
> My answer to you therefore is, that I sympathize deeply with your general view. I believe, however, that whenever any thorough & honest effort is made to turn it into a practical policy, the Government will go to pieces. I think it is the duty of all of us - I have certainly made it my own - not to do anything which may bring about that catastrophe while the war lasts. When it has ceased, we shall return to the guidance of ordinary rules.[49]

Salisbury's almost total agreement with Hicks Beach regarding the rise in ordinary military expenditure is not surprising, in view of the similarity between their views on the Services. Both men despised the advice of 'the professionals', especially the military. They both lamented the spirit of jingoism that existed then in Britain, a spirit that was being used by the 'professional' advisers, Salisbury implied, for unnecessarily strengthening the army and the navy. He was certain that after the war the Government would fall on its financial policy, but he was resolved that it should not happen as long as the war lasted.

> I concur with you that our financial position - when peace has come back - is full of embarrassment and even of peril. We must work for a remedy as soon as we meet together. But when we do I shall urge upon you that it is desirable to keep the questions of war finance and peace finance distinct. In the matter of war finance, our difficulties may be intensely disagreeable, but they are hardly perplexing. If the worst comes to the worst, it is legitimate to borrow in order to pay your bills in war. The durable settlement of peace finance stands on a different footing... Therefore it is that I think we ought to keep the two problems asunder. Otherwise we may make the confusion much larger than is necessary."[50]

Salisbury was aware of the grave financial and fiscal problems that faced Britain. But the Government's priority was the war. All other matters, however grave, had to await its termination. The first priority was to bring the war to a satisfactory conclusion. The solution of the financial

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49. Salisbury to Hicks Beach, 14 September 1901, HBP, PCC/69.
50. Salisbury to Hicks Beach, 14 September 1901, HBP, PCC/69.

problems had to await peace, by which time Salisbury might not be head of the Government.

The arguments put by Salisbury and Chamberlain against early decisions on peacetime military expenditure had their effect on Hicks Beach. He accepted Salisbury's assurances that Brodrick was making every effort possible at reducing war expenditure, but had something to say about the tactics employed with subordinates, especially military. "If you want a thing done by a person who may be unwilling to do it, it is better to tell him to do it and then, if necessary, consider his objections - than to ask him whether it might or might not be done - and this latter seems to me the tone of Brodrick's telegram to Kitchener."[51] Hicks Beach suggested that Brodrick should use Treasury tactics in dealing with the military: at first deny all request, and then concede only what was absolutely necessary or unavoidable. For the moment, he conceded the need for expenditure to win the war - one of the prongs of the Treasury's two-front offensive against increases in war and ordinary military expenditure. Nevertheless, he warned his colleagues of the political consequences of that expenditure in the form of yet another special session of Parliament in December.[52]

For the time being, Hicks Beach withdrew his resignation threat, "after your strong expressions as to the duty of holding together", but only temporarily. For "I fear that I shall have to say it [his resignation], before next year's budget begins".[53] He would insist in the preparation of next year's estimates "that regard should be had, in everything not due to war, to what I desire,... a real attempt to stop [war expenditure] increase".[54] Hicks Beach was not asking for a reduction in ordinary expenditure, merely a diminution in its rate of increase. Not "much to ask, in view of the situation shown in the papers". Although he was not blind "to the

51. Hicks Beach to Salisbury, 16 September 1901, HBP, PCC/34.

52. Hicks Beach to Balfour, 17 September 1901, HBP, PCC/12; Hicks Beach to Chamberlain, 16 September 1901, JCP, JC 11/18/11.

53. Hicks Beach to Salisbury, 16 September 1901, HBP, PCC/34.

54. Hicks Beach to Balfour, 17 September 1901, HBP, PCC/12.

risk of misunderstanding - indeed to the certainty of misunderstanding", it was his duty as chancellor to warn them. He had "frequently been overruled by the Cabinet in matters involving large expenditure, & have yielded,... but... this has its limits in matters affecting the department for which one is oneself responsible, and I cannot accept, next year, even a more unbearable position than that in which I was placed last year."[55] Hicks Beach had indeed yielded to the inevitability of war expenditure (after he made his colleagues fully aware of the political consequences of such expenditure), but he was resolved to make a firm stand against the rise in ordinary military expenditure. Treasury control was to continue. The Cabinet had merely been given a respite to resolve the problems, before he considered his next steps which could bring down the Government.

Brodrick and Selborne, who were less willing than Salisbury or Chamberlain to accommodate Hicks Beach, tried to coordinate policies and "jointly resist Beach's petty interferences. I am sure we can stop him."[56] Hicks Beach was becoming "increasingly troublesome", and since they were certain to "have a crisis with Beach in Nov[embe]r", when next year's estimates were discussed, should not Balfour take over the Exchequer, Brodrick wondered.[57] Chamberlain, however, from whom they expected a tacit understanding, if not direct assistance, was not encouraging. He cautioned his colleagues against the possible political repercussions of the situation. Although he did not entirely agree with Hicks Beach's figures, they were, nevertheless, startling. They had no choice, therefore, but to reduce war expenses or postpone expenditure that was not absolutely necessary. Otherwise they would have a session of Parliament in December, which "would be a disaster". He therefore asked Brodrick and Selborne to "go closely into the matter for I suppose we should all agree with Beach that we cannot increase or even maintain our present taxation <u>in time of peace</u>".[58]

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55. Hicks Beach to Chamberlain, 16 September 1901, JCP, JC 11/18/11.
56. Brodrick to Selborne, 1 October 1901, ESP, 26/171.
57. Brodrick to Chamberlain, 15 September 1901, JCP, JC 11/8/53.
58. Chamberlain to Brodrick, 17 September 1901, JCP, JC 11/8/54; Chamberlain to Selborne, 17 September 1901, ESP, 26/126.

Chamberlain's attitude was, perhaps, not surprising. Despite his misgivings about Hicks Beach's analysis, and their disputes, especially on imperial questions, Chamberlain who, like Salisbury, grew up in the mid-Victorian era, was in a sense closer to the chancellor than the younger men in the Cabinet, such as Balfour, Brodrick, and Selborne. In certain respects he accepted (like Salisbury) the orthodox Gladstonian principles of public finance, unlike his younger colleagues. Moreover, he acted as mediator to reconcile the antagonists, and keep the ministry in being. While agreeing with Selborne that the public had not yet asked for reduction in taxes, and taxation was not really too high (arguments he himself put to Hicks Beach), he did not believe that after the war "the public will long stand a continuance of war taxation".[59] To Hicks Beach he maintained the contrary - that "public opinion will sanction a great deal of extraordinary expenditure for a considerable time after the bulk of the troops have been brought home".[60] Chamberlain's words had their effect on Brodrick, who also considered a supplementary estimate "as a real calamity", and was willing to do everything, short of overruling Kitchener on troop withdrawals from South Africa.[61]

Selborne was less reconcilable than Brodrick. He believed the money spent on the navy was "barely sufficient to maintain our battle fleet in a position to cope successfully with France & Russia combined & protect our commerce in a naval war". He would therefore object to any cuts for the navy, and believed he could rely on the consensus "that the Navy ought to be the last branch of the public services which we ought to economise". But "are we indeed at the end of the taxable capacity?", he challenged Hicks Beach and the whole fiscal sytem.[62] He challenged also the system of Treasury control. He recognized the chancellor's right to tell the "Cabinet 'he cannot afford Navy Estimates beyond such & such a figure'". It was, however, Selborne's

59. Chamberlain to Selborne, 26 September 1901, ESP, 26/41.
60. Chamberlain to Hicks Beach, 30 September 1901, HBP, PCC/86.
61. Brodrick to Chamberlain, 18 September 1901, JCP, JC 11/8/55.
62. Selborne to Chamberlain, 21 September 1901, JCP, JC 11/32/13.

> right & duty to disagree. If I cannot persuade the Cabinet that I am right & Beach is wrong then I have to decide my course. What Beach has no right to do, what he is always trying to do, and what I shall steadily resist, is to dictate how the Admiralty is to spend the money alloted to it. It is for me for instance to advise the Cabinet what ships or guns are wanted. It is for the Cabinet to accept or reject my advice. Beach has no right to say as he will 'we have plenty of destroyers, I won't assent to any more expenditure on Destroyers'. His peculiar methods put me into peculiar difficulties.[63]

Selborne criticized Hicks Beach also directly. "I do not think that you would approve if the Admiralty after writing to the Treasury to ask for more money were to proceed to give them advice on the subject of taxation nor do I think you would welcome the reverse process were you in my place."[64] Hicks Beach did not yield, nor "think the Treasury exceeded its proper function".[65] It was, however, a direct challenge to the chancellor and to the entire convention regarding the role of the Treasury in the British system of government. Selborne questioned the fiscal system as it had existed during the second half of the nineteenth century, and the role of the Treasury regarding the other departments, as it had developed for much longer.

VI

Before presenting his financial outlook to the Cabinet, Hicks Beach invited Hamilton to his home for the week-end, to discuss the matter.[66] Hamilton endorsed the "very good Memorandum which he is about to circulate to his colleagues, warning them of the financial outlook." He, like Hicks Beach, believed the real financial difficulties would start after the war, "when we shall have to pay our way & raise enough revenue wherewith to meet the enormously increased ordinary expenditure and the annual outlay in S. Africa for many years to come at any rate." Since war and peace expenditure were strongly connected, it would be impossible to increase the one without affecting the other. The Treasury

63. Selborne to Chamberlain, 21 September 1901, JCP, JC 11/32/13.
64. Selborne to Hicks Beach, 30 October 1901, ESP, 26/231.
65. Hicks Beach to Selborne, 1 November 1901, ESP, 26/232.
66. Hicks Beach to Hamilton, 22 September 1901, EHPP, 48614.

would not be able to raise the funds necessary for South Africa, in war and in peacetime, "if our peace estimates are allowed to grow at the rate of recent years". Unless ministers adhere to the self-denying ordinance, worried Hamilton, Hicks Beach "won't remain any longer responsible for the finances." Unfortunately, he "has cried 'Wolf' a little too often, and his words have consequently lost weight".[67]

Chamberlain's response to the Treasury memorandum (so far seen by a few men only), was significant. He agreed with Hicks Beach that "without a good cause" the public would expect tax reductions after the war, "but the reaction has not even begun as yet". Moreover, the war failures had produced a feeling that Britain was not strong enough, and warned Hicks Beach that the public would not like ministers who rejected the advice of experts, reminding him of Randolph Churchill's fate as chancellor. Besides, the end of the war would not "justify an immediate return to normal peace expenditure", as "the consequences of the war will extend for months & perhaps for years after the war is over". Therefore, concluded Chamberlain, "public opinion will sanction a great deal of extraordinary expenditure for a considerable time after the bulk of the troops have been brought home". Consequently, taxation should not be reduced, nor the sinking fund resumed.[68] They should not differentiate, for either political or financial considerations, between war expenditure that was incurred while actual fighting was on, and that which was incurred after the cannons were silenced, but not their repercussions.

Chamberlain was surprised that Hicks Beach had not taken into consideration the expected indemnity from the Transvaal. He himself was certain that the Transvaal could bear an indemnity of £50 million. If Egypt, "a smaller & much poorer country, bears easily a debt of over 100 millions", then "the Transvaal can without difficulty sustain a still larger liability".[69] Chamberlain not merely repeated his belief that the

67. 27 September 1901, EHD, 48678.

68. Chamberlain to Hicks Beach, 30 September 1901,HBP, PCC/86.

69. Chamberlain to Hicks Beach, 30 September 1901, HBP, PCC/86.

Transvaal would pay a substantial indemnity, but also urged Hicks Beach to take account of it in his peactime estimates, and consequently, relax his pressure on the Cabinet. But the Treasury had refrained from taking the hypothetical indemnity into its calculations, since nothing definite could be expected in the near future from that direction. Hicks Beach's scepticism over the indemnity was well-founded.

All Chamberlain's efforts and arguments did not put Hicks Beach at ease. Though resigned to war expenditure, he thought the demands of the military experts for future defence had "become unreasonable and must be checked". Moreover, he doubted if many people in Britain would disagree with him, except for "the 'Liberal Imperialists' , at the most, who would join our own Jingoes". He did not think (like Chamberlain), that the majority of the people after the war would favour increased military expenditure. His own assessment of the public mood after the war proved more accurate than Chamberlain's prediction that the Government, especially the chancellor, would be unpopular if they were to reduce military expenditure.[70]

In any case, argued Hicks Beach, he had not asked for reduction in military expenditure, merely a cessation to its increase. Although he agreed that the people of Britain were more lightly taxed than their ancestors a hundred years ago, but then they had been engaged in a life and death struggle with Napoleon, something that could not be said of the present war. It was true that people in Britain were more lightly taxed, except for income tax, than those of most European countries (in fact, Britain was less taxed than either France or Germany[71]), but that, he argued, was one of the main reasons for the increase of wealth in the country in the past fifty years. If, therefore, peacetime taxation was to be greatly increased, as it must, if current expenditure grew indefinitely, it would diminish the wealth of the country, and greatly endanger Britain's social fabric.[72] The chancellor was stating the conventional Gladstonian

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70. Hicks Beach to Chamberlain, 2 October 1901, HBP, PCC/86.

71. Matthew, The Liberal Imperialists, 255.

72. Hicks Beach to Chamberlain, 2 October 1901, HBP, PCC/86.

wisdom regarding the relation between security and peace time taxation. The assumption was that "the ability to conduct a successful war depended not just on the army and navy but on the ability of the economy to support them, and that in turn rested on the lowest possible level of government spending in peacetime".[73]

In October, the Treasury formally presented the Cabinet with its financial guidelines for the future.[74] Hicks Beach warned the Cabinet over future financial difficulties, and repeated most of the arguments he had raised informally with Chamberlain and Salisbury. So long as the war lasted, he had comparatively little difficulty in increasing taxes or raising loans. But assuming the war was over by 1 April 1902, he could no longer resort in the next financial year to either borrowing or new taxation, either direct or indirect, even if a garrison was kept in South Africa. It would then be necessary to reinstate the sinking fund and enlarge it towards paying off the £127 million debt incurred by the war. The income tax could not be reduced, despite complaints against its retention at that level after the war, and justly, as "it has always been considered our great reserve for time of peace".

Under the circumstances, Hicks Beach appealed to his colleagues for economy and restraint in preparing their estimates for next year. To check the increase of ordinary expenditure, he asked the Cabinet to accept his guidelines, but promised to leave the actual implementation to the heads of the departments. The increases in the Services had gone beyond what was necessary. In the last five years, navy estimates had risen from £19 million to £31 million, and in the same period Britain had spent £35 million for new ships, compared to £31 million spent by Russia and France together. In the same period, army estimates had increased from £18.5 million to £30 million. He considered these increases more than sufficient, and the increase in army establishment much too fast. If ministers would not accept a self-denying ordinance, he could not "continue to be responsibile for the Exchequer".[75]

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73. French, British Planning, 9-10.

74. Hicks Beach Memorandum, October 1901, CAB 37/58/109.

The chancellor knew that his proposals would not be popular, and very likely "excite the wrath of the Navy League, the Service Members, and the Daily Mail". However, he argued, "it would be far safer for our party in the end than continuance in a course which leads straight to financial ruin".[76] Since Hicks Beach rarely related to party politics (at least openly) when discussing financial matters, his raising it here is rather significant. Was he suggesting that the financial situation was so desperate, that they had to take strong measures, even if they would be unpopular and to the detriment of the party? Did he in fact propose to the Cabinet that they should sacrifice the primacy of party survival in order to save Britain from financial ruin? It is difficult to know. It is also difficult to know whether he would have carried on his threat and resigned, had there not been a self-denying ordinance against any resignation during the war.[77] The fact is, that though his memorandum was "without any effect", he did not resign.[78]

VII

By the autumn, there was a strong feeling in the country that the war was not going to end soon, that the one thing the Government seemed to care about was to avoid an autumn session of Parliament, and that the War Office under Roberts was more chaotic than ever.[79] The lack of apparent progress in the war induced many, including the King, to suggest that Salisbury should return from his holiday abroad, while others felt he was fading, and that except for foreign affairs, nothing interested him.[80] As seen above, the handling of the war was criticised not only from the outside, but also by Cabinet ministers, such as Brodrick

75. Hicks Beach Memorandum, October 1901, CAB 37/58/109.

76. Hicks Beach Memorandum, October 1901, CAB 37/58/109.

77. 27 November 1901, EHD, 48678.

78. Hicks Beach Minute [not dated, but most likely after his resignation], on Salisbury to Hicks Beach, 14 September 1901, HBP, PCC/69.

79. 2, 4 & 6 October 1901, EHD, 48678.

80. 14 October 1901, EHD, 48678.

and Selborne.

The situation in South Africa was far from satisfactory. In July 1901, it was hoped that by the middle of September the force there would be reduced to 140,000 men, and the defence of the Cape colony handed over to its Government. But since then the war had extended into Natal, and the imperial forces had suffered several reverses. The War Office had hoped to return 10,000 troops to India and release 20,000 militia, but neither was possible. The financial repercussions of the military setbacks were grave indeed. War expenditure in the first six months of the financial year was running at the rate of £5.5 million a month. It was feared that if it continued at that rate, the £56 million set aside for that purpose would suffice only till the end of January, at best till the middle of February. The War Office had made considerable savings to avoid calling Parliament in December.[81]

Moreover, not only was there no chance of reducing the force in South Africa, but Kitchener was asking for more mounted troops.[82] At the time, Boer strength was estimated at under 13,000 men, compared to an imperial force of more than 200,000 men in South Africa.[83] The request for more troops was accompanied by a warning from Kitchener that they "should be prepared for a considerable time before the war is over", and that any "sign of impatience from home makes them [Boers] stick out", but if resolution was shown, "I believe they would very soon give up".[84] Kitchener's request was disquieting; it strained the War Office who were asked to "make bricks with uncommonly little straw"; but primarily it meant that the war was far from over.[85] In any case, Kitchener required an answer. In the absence of a Cabinet, Brodrick consulted those who were about, all of whom agreed that while every

81. Brodrick Memorandum, 30 September 1901, CAB 37/58/91; "A Financial Forecast", by Hamilton, 3 October 1901, EHFP, T.168/50.
82. Brodrick to Balfour, 17 October 1901, BP, 49720.
83. WO Memorandum, 7 October 1901, WO 32/8028/7398; Brodrick Memorandum, 17 October 1901, CAB 37/58/100, respectively.
84. Kitchener to Roberts, 18 October 1901, CAB 37/59/116.
85. Balfour to Brodrick, 18 October 1901, BP, 49720.

effort had to be made to avoid calling Parliament before the new year, they had to supply Kitchener with the troops he asked for. The dispatch of mounted troops to South Africa was accordingly authorized.[86]

Hicks Beach objected to the despatch of fresh troops without a Cabinet. He also questioned the wisdom of the decision not to give amnesty to the rebels when the war was over, and whether it justified spending an enormous sum "till we have caught every Boer or rebel".[87] This was a direct challenge to both Cabinet and the War Office. Hicks Beach wondered why they had to change the policy of concentration (knowing full well that it had never materialized), and questioned the wisdom of putting so much effort at subduing every Boer and rebel. His intention probably was to implement at long last the policy adopted three months earlier, and reinforce the authority of the Government over the military.

Brodrick was thus forced, despite the inconvenience, to ask for a Cabinet.[88] The Cabinet was convened on 28 October. Brodrick explained that after his circular of 16 October he had received positive replies from several ministers, but the chancellor had demanded that the subject of reinforcements "be discussed by the Cabinet before any resolution was taken at variance with the policy of reduction agreed to in July". That policy had been generally accepted by Kitchener, but he had not made it clear that troop reductions would start only after the Cape was cleared of its rebels. In the present circumstances, explained Brodrick, it was impossible to reduce troops without sending fresh men. He proposed sending 6,000 fresh troops, including 3,000 cavalry, and at the same time relieve 14,000 militia. Cost of the operation would not exceed £500,000 before February, and at the present rate of expenditure would not require a special session of Parliament.[89]

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86. Brodrick Memorandum, 16 October 1901, CAB 37/58/99.
87. Hicks Beach to Brodrick, 19 October 1901, SP.
88. Brodrick to Balfour, 21 & 23 October 1901, BP, 49720; Brodrick to Salisbury, 20 October 1901, SP.
89. Brodrick Memorandum, 25 October 1901, CAB 37/58/107.

The Cabinet sanctioned Kitchener's request for reinforcements, but directed Chamberlain and Brodrick to enquire why the 'protection policy' had not been implemented.[90] Milner was warned that unless there was "clearer evidence of definite plans and expectations we shall have great difficulties when Parliament meets".[91] Though Hicks Beach did not prevent the reinforcements, his efforts were not entirely in vain. He induced the Cabinet to review the war strategy in South Africa.

The opening of Parliament early in the year greatly worried the Government. When they decided to send reinforcements to South Africa, it was realized that in view "of the condition of the Treasury", it would not be possible to delay the opening of Parliament beyond 16 January 1902, since it would require time to take the necessary measures to replenish the Treasury.[92] A month earlier, Hamilton had assured that war grants would hold till the middle of February.[93] On 5 November, Kitchener asked for more troops, besides those sanctioned a week earlier, thereby raising once again the question whether Parliament should be summoned before the end of the year, and what troops to despatch. Since Britain was practically denuded of troops, the Cabinet considered sending reinforcements from India, but decided to wait until the India and the War Offices reached an agreement on the matter.[94]

Since the matter entailed the early summoning of Parliament for fresh votes, Balfour became involved. He instructed Sandars to inquire into the matter. Sandars discovered that Hamilton thought War Office funds would be exhausted by the end of January, while Mowatt thought by 20 January, but if certain bills were held back, the funds could be stretched until 8 February. According to Treasury officials, therefore, it was possible to defer the summoning of Parliament to the second week of January - considering the three weeks it took to enact a financial bill. But

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90. Salisbury to King, 29 October 1901, CAB 41/26/22.
91. Chamberlain to Milner, 31 October 1901, CAB 37/58/108.
92. Salisbury to King, 29 October 1901, CAB 37/26/22.
93. 4 October 1901, EHD, 48678.
94. Salisbury to King, 5 November 1901, CAB 41/26/23.

Sandars and Short, Balfour's other private secretary, preferred a short session in December, merely for a supplementary vote, to summoning Parliament on 8 January.[95] This way they hoped to assure all their requirements for the remainder of the financial year, and separate the issue from the King's speech in January or February.

Two days later news arrived from South Africa which indicated that war funds would, after all, suffice till the middle of February, and thus not require the summoning of Parliament before January 23. But Hicks Beach remained pessimistic.[96] Consequently Parliament was not summoned for a special session. On 3 December, a significant drop in war expenditure was reported by the War Office, and Sir Ian Hamilton, the newly appointed Chief of Staff to Kitchener, estimated the war would be over within six months.[97] The first estimate regarding the end of the war by a high-ranking general. The drop in war expenditure was confirmed a week later, enough to carry war funds till the end of February.[98] Whereupon Brodrick pressed for an immediate despatch of reinforcements to Kitchener. Hicks Beach objected, especially to the replacement of regulars, who were cheaper but exhausted, by the costly volunteers, and wondered if troops could not be sent from India.[99] But Brodrick, who was determined to send Kitchener fresh mounted troops, solicited the assistance of Salisbury and Balfour.[100] His efforts were successful; his request was sanctioned by the Cabinet.[101]

The Treasury was not successful in reducing war costs in 1901, either through direct control of military expenditure, or by affecting a change in war policy. After very strong pressure by the chancellor, the Cabinet had adopted Milner's 'protection policy' at the end of June, but it

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95. Sandars to Balfour, 9 November 1901, BP, 49760.
96. Brodrick to Salisbury, 11 November 1901, SP; 11 November 1901, EHD, 48678.
97. WO to Treasury, 3 December 1901, T.168/50; Sir I. Hamilton to Roberts, 3 December 1901, CAB 37/59/124.
98. WO to Treasury, 12 December 1901, EHFP, T.168/50.
99. Hicks Beach to Brodrick, 16 December 1901, SJBP, PRO 30/67/8.
100. Brodrick to Salisbury, 19 December 1901, SJBP, PRO 30/67/8.
101. Brodrick Memorandum, [not dated, but very likely immediately after 21 December 1901], SJBP, PRO 30/67/8.

was never followed by Kitchener. Because of Cabinet reluctance to interfere in military matters and impose on Kitchener a war policy that was not to his liking, that policy was never pressed on the Commanding Officer. Kitchener continued his policy of total engagement, with small success but at very high cost. Although the Cabinet craved to bring the war to a quick and successful conclusion, their aversion to be seen interferring in war policy must have been stronger. Treasury control of Cabinet involvement in war policy was successful only to the extent that they actually adopted a new strategy that was never implemented.

VIII

Since the Treasury failed to effect a change in war policy and reduce war expenditure to any significant degree, how successful was it regarding the military estimates for the next financial year? In response to Hicks Beach's allegation that army and navy estimates had in recent years grown beyond the necessary, Brodrick maintained that army establishment could not be decreased. The present strength of the army had been fixed before the war, and therefore not related to it, as implied by the chancellor. Since then, the army had been "taxed to its fullest extent", and the wastage of war had considerably depleted it. After the war they would require 20,000 men for India and 30,000 for the garrison in South Africa. They therefore would have to maintain the establishment. Consequently, the minimum ordinary estimate required for the army in the next financial year would be £29 million, 2 million less than presented by the Army Board.[102] In private, Brodrick tried to placate Hicks Beach; told him he was personally making every effort at economy, as he could expect none from the military, and assured him that he saw himself as his colleague and not an opponent.[103]

The army estimates were extensively discussed in December by the Defence Committee of the Cabinet. The two most important issues were

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102. Brodrick Memorandum, 7 December 1901, CAB 37/59/128.

103. Brodrick to Hicks Beach, 6 December 1901, HBP, PCC/85.

the army establishment and the question of pay. After assuring Hicks Beach that there would be no increase in army establishment in the next three years, Brodrick received his practical concurrence to his scheme.[104] Hicks Beach had realized that the man who confronted him at the War Office was very different from his predecessor. Brodrick had turned out to be a strong Secretary of State for War, as Hicks Beach had feared.[105] Brodrick could not be intimidated by 'Black Michael' the way Lansdowne was. Brodrick may have learnt from Sir E. Hamilton, and Sir E. Carson, the Solicitor-General, that "the way to deal with him [Hicks Beach] is not to be afraid of him".[106] When Hicks Beach realized that due to the war Brodrick would not diminish the army establishment, he was "therefore anxious to meet Brodrick as far as I can".[107]

In January 1902, before the estimates were discussed by the full Cabinet, the protagonists submitted their final memoranda. Brodrick warned that when the war would be over, the army would be short of 35,000 men. To forestall that, he favoured giving pay inducements that would cost Britain and India some £2 million extra a year. Hicks Beach argued that if pay increases were given to some, the whole army would ask for them, and thereby add a further £500,000 to the cost. Besides, it would be better to finish first the war, set a commission of inquiry, and then look into military reorganization, "in the leisure of peace".[108] Hicks Beach tried to the last to postpone the scheme which would have cost the Treasury some £2 million a year extra, but without success. In fact, once Brodrick undertook to distribute the Mowatt plan over a long period, postpone or reduce other expenditure, and promised to reduce the establishment in the future, the chancellor became resinged to the increases in pay and in army establishment.[109]

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104. Brodrick to Salisbury, 21 December 1901, SP.
105. 11 November 1901, EHD, 48678.
106. 12 October 1901, EHD, 48678.
107. Hicks Beach to Mowatt, 23 December 1901, EHD, PCC/85.
108. Brodrick Memorandum, 4 January, Hicks Beach Memorandum, 9 January 1902, CAB 37/60/2.
109. Hicks Beach to Brodrick, 9 January 1902, HBP, PCC/85.

Lord George Hamilton, Secretary of State for India, thought the scheme for enlarging the army establishment by pay inducements was not fully examined. As the scheme entailed an extra charge of £800,000 a year on the Indian Exchequer, the India Office and the Government of India were bound to protest.[110] Brodrick claimed that South Africa and India would require troops after the war, and thus further deplete the reserves which were already 30,000 short. In any case, they need not be anxious of Parliament, since "all our critics last year pointed to want of increase of pay & made it the nucleus of their attack".[111] Brodrick's proposals for increasing the pay and establishment of the army were finally approved by the Cabinet by a majority of 11 to 8.[112]

The other defence expenditure in dispute was the navy estimates. Parallel to the scheme for increasing the army establishment ran a new naval construction programme. Selborne declared that he was willing to reconcile his plans with the chancellor's urgent plea, by spreading the expenditure involved in the new naval construction programme over six years. However, he argued, Hicks Beach had not given sufficient weight to the importance of the navy to the country. The country's navy and credit were the two pillars of its strength, and each was essential to the other. But the growth of the navy had not matched the growth in the trade to be protected in the last twenty years. "The experience of the last four years has taught the whole nation that the expenditure on the Navy has been its most economical expenditure. Without that expenditure the Fashoda incident would have produced war, [and] our position in South Africa to-day would be untenable." He therefore asked that the two power standard set in 1889 should be upheld.[113]

Why did the Treasury finally acquiesce to Brodrick's scheme for increasing the army establishment? Hicks Beach claimed that he would have resigned, had the Cabinet accepted the original plan without the

110. Lord George Hamilton Memorandum, 10 January 1902, CAB 37/60/2.
111. Brodrick Memorandum, 11 January 1902, CAB 37/60/2.
112. Salisbury to King, 19 & 24 January 1902, CAB 41/27/1 & 2.
113. Selborne Memorandum, 16 November 1901, CAB 37/59/118.

promise to reduce the establishment in the future.[114] This suggests that when the Treasury was assured that the army establishment would not be increased in the next three years, it acquiesced. Its acquiescence was explained perhaps by Brodrick, who maintained that freezing the establishment for three years was more important to Hicks Beach than the money involved.[115] But why did the chancellor care more about the size of the army and less for next year's estimates? It is possible that the extra cost entailed in the increase in pay and establishment was less acute than claimed by the Treasury, especially since nearly half of that increase was to be charged to the Indian Exchequer. The problem was, however, more complicated. The dispute - and it was not between the Treasury and the Services only, but cut right across the Cabinet, as attested by the very small majority that the proposals were approved - was not merely over costs, but also, perhaps primarily, over Britain's future imperial policy, and its corollary, defence requirements.

It was connected to the dispute between those who adhered to the principles of the nineteenth century Liberal State, with all that it entailed - minimum taxation, minimal involvement of the state in public affairs, free trade, devolution of power, and above all, a small army and reliance on the navy for defence of the Empire. It was this Liberal State that Hicks Beach wished to preserve. Others, above all Brodrick, Selborne, and Chamberlain, pressed for a centralized state, with a large army, as existed on the continent. They blamed the Liberal State for the military disasters in the war, and wished to rectify them. The subject was indeed of "extreme difficulty" for the Government.[116]

This was the background which set Brodrick to increase the army establishment, and fix it as high as possible, because in two years "the public will be sick of expenditure".[117] But he wished to strengthen the

114. Hicks Beach to Brodrick, 9 January 1902, HBP, PCC/85.
115. Brodrick to Salisbury, 21 December 1901, SP.
116. Salisbury to King, 24 January 1902, CAB 41/27/2.
117. Brodrick to Roberts, secret, not dated, but very likely written before the Cabinet of 21 December 1901, because although he expected "plenty of opposition", he had told the Cabinet his proposals would "be large", and "I have every reason to hope for

army not only because in two years it would be impossible to do so, but primarily because the Liberals would cut it down when they came to power, and very soon. He was "working hard to get something done [for the establishment] if for no other reason, because I am convinced the other side [Liberals] will reduce the Army in some way & I want to leave it so that there is a possibility of doing it without damaging it".[118] Brodrick was determined not to leave the future size of the army to chance, but utilize the opportunity that the war afforded, and establish a fait accompli that could withstand the axe of the Liberal Government that would follow. Thus, while Hicks Beach wished to defer army reforms until after the war, Brodrick was anxious to settle the matter while the war was still on.

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support", SJBP, PRO 30/67/8.

118. Brodrick to Hicks Beach, 27 December 1901, HBP, PCC/85.

Chapter Seven

The Third War Budget and the Peace of Vereeniging
January - July 1902

In the spring of 1902, after two and a half years of war, the Treasury faced the problem of paying for the conflict while making the transition back to peacetime budgeting, and what it entailed in terms of reducing taxation and borrowing. Its position was complicated by anticipation of an early indemnity from the Transvaal that was slow to materialize, and by the financial needs of the new colonies. Moreover, with peace, the financial demands involved in organizing a more modern state to intervene in social reform and match the power of its rivals on the continent strained the country's fiscal system and political institutions. The disagreements which had been brewing between the traditionalist Gladstonian Hicks Beach and his modernizing colleagues came to a head, and led finally to his resignation from the Treasury.

I

By January 1902, when the estimates of the War Office and the Admiralty for the next financial year were received, the Treasury was planning the next wartime budget with three considerations in mind: the ordinary expenditure and revenue estimated for the forthcoming year; the length and cost of the war in South Africa; and the amount of indemnity that could be expected from the Transvaal. Much was uncertain: the revenue depended on the state of the economy, while expenditure, which depended, inter alia, on the length and cost of the war, could be only roughly estimated, and the indemnity from the Transvaal was an unknown figure.

Earlier, Hicks Beach had proposed to impose 1s. import duty on corn for the next financial year, and to balance the indirect taxation, to add 1d. to the income tax, graduate the home duty on houses of over £200 or £300 a year, and increase the estate duty.[1] In January 1902, however, he considered reducing "considerably the income tax at the expense of indirect taxation, which is to be largely increased".[2] When next year's deficit was estimated at £27 million, Hamilton agreed that the best indirect taxation would be a shilling duty on corn.[3]

A shrinking revenue was feared from an anticipated slump in business activity. The Treasury also feared that due to expectation of increased import dues, many merchants would clear their goods from the ports, and thus cause great loss of revenue.[4] The Treasury's state of liquidity also worried Hamilton. The income tax was a major source of revenue, but since most of it was paid in the last quarter of the financial year, the Treasury was often short of funds during the first nine months of the year. In peacetime, when pressure was not so great, the problem was not acute. Nor was it especially grave during the war, since the Treasury was covered by special powers to borrow from the Bank of England - although Hicks Beach used the delay in income tax payments as an excuse during the war, when he wished to explain the large margins for error allowed for in his estimates. Once the war was over, the Treasury would no longer have those powers, and have to resort to Parliament for authority to borrow large sums from the City.

War expenditure was another major uncertainty considered by Hamilton, when he prepared his estimates at the start of the year. It seemed to be slackening, but there was no way of knowing whether the trend was fortuitous or not, or how long the war would last.[5] After

1. 14 December 1901, EHD, 48679.
2. 8 January 1902, EHD, 48679.
3. 26 January 1902, EHD, 48679.
4. 1 January 1902, EHD, 48679.
5. 1 January 1902, EHD, 48679.

seeing Brodrick, the chancellor doubted the war would be over by the end of the financial year.[6] On the other hand, the sudden boom in the price of South African mining shares in mid-January - due to heavy buying by foreigners, who had their information through their Boer friends - seemed to suggest that a Boer surrender might be in sight.[7]

Whatever the signs of an end to the war, the Treasury was not happy with their implications for the budget. For the past year, Hicks Beach had urged the War Office to reduce war expenditure, yet when war expenditure seemed to be about to decline, the Treasury feared that the War Office was creating a false impression of a reduction by postponing claims for some of its expenses. The suspicion was not unjustified. Since the Treasury feared peace expenditure far more than war expenditure, "the best thing from a financial point of view is that the expenditure shall be as large as possible this year".[8] Besides, the Treasury did not like carrying over liabilities from one year to next.

As it was difficult to estimate exactly how much longer the war would last, it was impossible to estimate precisely the cost of the war in the next financial year. No one seemed to know when the war would be over.[9] Hicks Beach thought Brodrick would be "rather inclined to take 30 millions" for war expenditure in the next financial year, and the chancellor would have been pleased to settle at that figure.[10] Three days later, the Cabinet decided to ask for £40 million, though they thought the sum was more than would actually be required up to the end of the war.[11] There were two reasons for deliberately erring on the side of generosity: Cabinet wish to allow a sufficient margin for contingencies; Treasury desire to present as large a budget as possible under war conditions, because long experience taught that Parliament was

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6. Hicks Beach to Hamilton, 16 January 1902, EHPP, 48614.
7. 20 January 1902, EHD, 48679.
8. Hamilton to Hicks Beach, 14 January & Hicks Beach to Hamilton, 16 January 1902, EHFP, T.168/50.
9. Sir Ian Hamilton to Roberts, 3 December 1901, CAB 37/59/124.
10. Hicks Beach to Hamilton, 16 January 1902, EHPP, 48614.
11. Salisbury to King, 19 January 1902, CAB 41/27/1.

generous in war, but mean with taxpayers money in peace time. Hicks Beach claimed in Parliament, however, that the inflated estimate would prove to the enemy that the Government was determined to win the war.[12] He failed to mention that it was also intended to alleviate the Treasury's financial problems after the war. Nevertheless, a month later, on 25 February 1902, the War Office notified the Treasury that the £40 million would last only until the midddle of December, and if war expenditure continued at its current level of £4.75 million a month throughout the financial year, "we should require about 17 millions more".[13] It speaks volumes for the lack of any reliable notion of when the war would be over, in the War Office no less than the Treasury.

The dragging out of the war, discussed in Parliament in January, was attributed either to the Government's failure to put enough energy into the war effort, or to the Boers' belief that Britain's resources were being exhausted. Some blamed the Opposition, whose criticisms of the Government encouraged the enemy to fight on. Chamberlain thought they did so to persuade the British to improve on the terms offered at Middelburg. He therefore made it clear that since Middelburg Britain had "been put to heavy loss in life and in treasure", consequently that offer was no longer on the table.[14] Now, the British Cabinet was determined to settle for nothing less than total surrender, as the rejection in January of the mediation overture by the Dutch Government showed.[15]

II

The Transvaal's finance was the third, and the most speculative, element in Hicks Beach's budget estimates, involving the amount of indemnity that could be anticipated, and when the Transvaal would be

12. 14 April 1902, Hansard, vol. cvi, cols. 170-3.
13. WO to Hamilton, 25 February 1902, EHFP, T.168/50.
14. 20 & 21 January 1902, Hansard, vol. cl, cols. 338-477.
15. Lansdowne to Baron Gericks, 29 January 1902, CAB 37/60/25; 31 January 1902, EHD, 48679.

able to pay it. That would depend on several imponderables, including the Transvaal's current capacity and future potential; the sums needed for redeveloping the mines - the only potential source of revenue; the sums that would be required for the civil administration of the colony; the cost of the garrison in the two new colonies; the requirements of the imperial Exchequer; and the readiness of its Government to invest in South Africa in anticipation of dividends in the future, whether economic or political.

In February, the Government was thinking of an indemnity from the Transvaal of £50 million, half to be paid immediately in order to ease the pressure on the Treasury in the next financial year, and the other half to be paid off gradually, through a loan secured on estimated local surplus revenue.[16] But was this figure realistic? Milner believed he could 'stagger humanity' with the Transvaal's potential riches, if only they would let the colony recover before taxing it with war debt. But he refused to commit himself to figures or time table. Hamilton agreed that the Transvaal had "a great future", but "it won't do I think for the Home Government to open its mouth too wide. Chamberlain is talking of fixing the War contribution at 100 million. I believe we shall do very well if we get half".[17] The experienced civil servant, who saw the question in its complexity, cautioned his political superiors.

Since neither new colony had surplus revenue or any substantial assets that could be sold off for cash, the only way the Exchequer could receive any payment - either as a capital sum or gradually in the future - was by raising a colonial loan. Hence, when the chancellor realized in January that he would have to resort to borrowing in the new financial year to balance his budget, he became keen on a Transvaal loan as the easiest solution. But Hamilton cautioned Hicks Beach that the Transvaal would require all its revenue for its own needs. Besides, it would be wrong to saddle a colony with debt before its government was able to pay its own way. In any case, it would be bad economy to borrow, just when the Treasury would be issuing more Consols.[18] Hamilton, who

16. 9 February 1902, EHD, 48679.
17. 23 February 1902, EHD, 48679.

understood finance better than anyone else at the Treasury, admitted that a colonial loan was unavoidable, but insisted that the proceeds ought to be devoted primarily to balancing local expenditure. Only when the colony could pay for its administration and achieve a surplus, could it be expected to contribute to reducing the British debt.[19] While Hicks Beach saw great domestic political advantages in a Transvaal loan, part of which would be paid into the British Treasury by way of indemnity - it could enable him to reduce taxes, or at least avoid further increases - Hamilton wished to uphold the traditional code of colonial government financing, even if it worked against the political interests of the Government of the day.

Hamilton also opposed Milner's suggestion that Britain end its grant-in-aid to the Transvaal administration at the start of the next financial year, and substitute a loan of £25 million that would cover the cost of its administration, the constabulary, the purchase of the railways, and compensation for war damages to Natal and the Cape.[20] He argued that a colony ought not to borrow on its own account so long as the imperial Exchequer provided part of the ordinary expenses of the colony, in other words, so long as it was insolvent.[21] In these circumstances, if the colony paid an indemnity, the Treasury would be receiving tribute with one hand and paying it back with the other. Any early indemnity payment, Hamilton warned, would "be called an attempt to confuse the British public".[22]

In March, despite the financial difficulties of the Boer colonies, Hicks Beach still hoped to relieve the imperial Exchequer through an indemnity from the Transvaal, by means of a £50 million Transvaal loan. Hamilton again argued against the idea, despite its popularity, on the grounds that it would be bad finance, and the chancellor gradually came

18. 8 January 1902, EHD, 48679.
19. 10 January 1902, EHD, 48679.
20. Milner to Chamberlain, received 15 January 1902, JCP, JC 14/4/2/236.
21. 22 January 1902, EHD, 48679.
22. Hamilton Memorandum, 31 January 1902, EHFP, T.168/50.

to accept his advice.[23] Hicks Beach decided that "no matter what the City thinks, it would not do to have a Transvaal Guaranteed loan yet".[24] Pressures continued to be exerted on the Treasury throughout, and the matter was not finalized until the day before the budget.

Chamberlain, like Hicks Beach, favoured a Transvaal guaranteed loan, but for both colonial and imperial purposes. He wished to furnish Milner with the funds necessary for his reconstruction schemes for the new colonies. At the same time he wished to levy on the Transvaal as soon as possible "a substantial War Contribution", since he feared "that as soon as the Colony can assert its own voice it will repudiate its liability in this respect".[25] But Sir M. Ommanney, Colonial Office permanent under-secretary, objected to a loan as strongly as Hamilton, especially to hypothecating the revenue of the colony by imperial legisation rather than through its own legislature.[26] Hamilton saw the force in Chamberlain's argument, but believed it to be secondary to his own. Consequently, while the two politicians favoured a Transvaal loan, primarily for parliamentary political reasons, the civil servants spoke against it, and therefore against their own political chiefs, on grounds of traditional orthodoxy in colonial financing.

The question of a Transvaal loan was bound up with the needs of the imperial Exchequer. The only way the Treasury could raise the £30 to £40 million it would require in the next financial year was through a long term loan, in the form of Consols. But that complicated matters, and made the Treasury's task even more difficult. The City was strongly against Consols, and favoured instead a large Transvaal loan guaranteed by the British Exchequer. Consols, argued Lord Rothschild, would look bad in the City, and be seen as a sign that the war was not over. The City's motives were, however, less charitable and more pecuniary. A Transvaal loan would be more lucrative than Consols. "It is impossible to

23. 4 March 1902, EHD, 48679; Salisbury to King, 14 March 1902, CAB 41/27/9.
24. 18 & 20 March 1902, EHD, 48679.
25. 2 April 1902, EHD, 48679.
26. Ommanney to Hamilton, 12 April 1902, EHFP, T.168/89.

get an unprejudiced opinion from a City man on a financial matter", concluded Hamilton, because "they always regard things from one point of view - their pockets, leaving out of account all Parliamentary & political considerations".[27] Hicks Beach was reluctant to act against the advice of the important banking houses, since he feared they would not 'come in' when Government loans were to be raised. But "the British government was probably the most prestigious government client in the world".[28] Since "friends don't exist in this kind of thing", according to Sir Clinton Dawkins, Morgan's partner in London, "the very big houses dare not be left out".[29] Hicks Beach gradually reached the conclusion that it would be wrong to raise such a loan yet, and preferred to await Cassels' advice, "the man whose opinion Beach thinks is most worth having", and who was on his way back from the East.[30]

What form should the loan take? A large Transvaal guaranteed loan that would incorporate in it a substantial sum for the relief of the imperial Exchequer (preferred by Chamberlain and the City, but opposed by Hamilton, Milner and Ommanney), or Consols, the less popular option, but one which made more political and financial sense? Hicks Beach, like Chamberlain, wished to ensure that the Transvaal paid its war indemnity, since it would relieve him from the loathsome task of yet again raising a long-term loan to cover the expenses of the war. But by then he had accepted the arguments of Hamilton and Ommanney.[31]

But before making up his mind finally, Hicks Beach consulted the Governor of the Bank of England, Goschen, Rothschild and Cassels. They all concurred in the view that the guaranteed loan would be the more popular option, in the City as with the public at large, but admitted the political and financial considerations against the proposition.[32] Since

27. 18 & 24 March 1902, EHD, 48679.
28. Burk, Historical Research, 201.
29. Quoted in S. D. Chapman, "Rhodes and the City of London: Another View of Imperialism", Historical Journal, 28, 3 (1985), 661.
30. 20 March 1902, EHD, 48679. Cassels was a leading merchant banker in the City.
31. Hamilton Notes, April 1902, EHFP, T.168/89.
32. Hamilton Notes, April 1902, EHFP, T.168/89.

Hicks Beach still had reservations about the form of the loan, he asked for a Cabinet. It was scheduled for 8 April, but due to the chancellor's illness had to be cancelled.[33] On 12 April, two days before the budget, the chancellor had still not decided, trying till the last moment to evaluate the situation. In fact, "everybody believes it was a convenient ailment, which enabled him to gauge the situation better".[34] The final decision was taken on 14 April, budget day.[35]

Hicks Beach explained to Chamberlain why he eventually decided against a Transvaal loan. From past experience he had learnt not to be sanguine. Although the Transvaal's progress was remarkable, it could "not be so fast as to bring as much revenue as Milner suggests". It was therefore unlikely that the Transvaal would be able to pay for the extra 4,000 constabulary, and the British garrison in 1902-1903. Under the circumstances, the imposition of an immediate war indemnity upon the Transvaal (when the interest on it would fall on the British Exchequer), would be opposed by Parliament and denounced in the City, since Britain could raise a loan more cheaply on its own credit than through a loan guaranteed by an insolvent Transvaal.[36]

The chancellor explained also in Parliament why he had decided against a Transvaal loan. It had always been the Government's intention to charge the new colonies with "a share of the expenses of the war as may fairly be expected to be borne by them without unduly hindering the development of the country and of its principal industry". However, he argued, it was premature to fix the sum, although Chamberlain was willing to make the charge upon the Transvaal.[37] Hicks Beach seemed to have doubts whether Britain would get much from the new colonies. Harcourt was even more pessimistic, and warned that the new colonies would not be a source of wealth but of great expenditure.[38] Harcourt's

33. 4 & 9 April 1902, EHD, 48679.
34. 12 April 1902, EHD, 48679.
35. Hamilton Notes, April 1902, EHFP, T.168/89.
36. Hicks Beach to Chamberlain, [not dated, but most likely in April 1902], JCP, JC11/18/18.
37. 15 April 1902, Hansard, vol. cvi, cols. 307-8.

warnings were in line with his general stand against further imperial expansion. His fears were to a large extent shared by the Treasury.

When the chancellor took his final decision on 14 April, the price of Consols was rising (due to the conference of the Boer leaders), so he waited another day, and thus received better terms than suggested by the bankers. On the 14th, the Treasury made a bargain with Morgan that forced Lord Rothschild and the other bankers to follow the lead and accept its terms. The next day Parliament passed the resolution.[39] In two days £200 million were subscribed for the issue of the £32 million loan, and it reached a premium of 1 per cent.[40] One day later, when the application list closed, £318 million had been subscribed, hardly affecting the money market.[41]

The Treasury's final decision was taken, therefore, on financial and long-term political grounds. The short-term popular political gains, advocated by Chamberlain, were set aside by the chancellor in favour of what he hoped to be the long term political benefits in Transvaal, as presented by Milner and Ommanney, and by the Treasury's own financial rules, as presented by Hamilton. Although Hicks Beach looked forward to the Transvaal becoming a source of relief to the imperial Exchequer, he restrained himself, despite the temptations. New factors had to be taken into the post-war cost-benefit considerations, not least, the needs of the new colonies, and the politics of local collaboration. The first to perceive the new constraints were the civil servants, but the politicians soon acknowledged them and acted accordingly.

III

Once it was realized that there was no hope of immediate relief to the British Exchequer from the Transvaal, the Treasury had to

38. 15 April 1902, Hansard, vol. cvi, cols. 309-316.
39. Hamilton Note, April 1902, EHFP, T.168/89.
40. Hamilton to Hicks Beach, 17 April 1902, EHFP, T.168/89.
41. Bank of England to Treasury, 14 May 1902, T.1/9848B/6782.

compensate by resorting to fresh taxation. The chancellor was little inclined to raise taxes, but Hamilton thought it was unavoidable. The deficit could not be covered by borrowing alone.[42] When Hicks Beach presented his budget proposals to the Cabinet on 14 March, he informed them that since he expected a considerable deficit on account of the war, he had to raise taxation. Revenue was estimated at £145 million, and expenditure at £193 million, leaving a deficit of £48 million in the next financial year. Although most of this deficit was to be covered by loan, the chancellor wished to cover £5 to £6 million of it by increased taxation. There were two ways of doing this: on the favoured principle that half the revenue should be raised by direct and the other half by indirect taxation - a penny on the income tax, with import duty on corn; or a duty on meat, and increases in house and stamp duties.[43]

The Cabinet had great difficulty in deciding upon the chancellor's proposals. While they agreed to impose a shilling duty on corn, they refused to impose a duty on meat, because it was one thing to revive a tax which had existed until recently, but another to introduce a new tax. As for direct taxation, the majority of the Cabinet were averse to increasing the income tax, especially to remodelling and graduating the home duty, because such a duty would hit London, the Tory stronghold, hardest.[44] On the other hand, the Cabinet were reluctant to impose new indirect taxes, because they would fall primarily on the poorer classes. But the case for increasing indirect taxation rather than the direct taxation was strengthened by the fact that for the first time more revenue was being raised by direct than by indirect taxation.[45]

The Cabinet had to choose between increasing the direct taxation, which would fall primarily on their own constituency, and increasing indirect taxation, which would largely affect the lower income groups.

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42. 11 March 1902, EHD, 48679.

43. Salisbury to King, 14 March 1902, CAB 41/27/9.

44. In the last General Election, the Unionist took 51 out of 59 London seats. See Butler and Freeman, British Political Facts, 145.

45. 14 March 1902, EHD, 48679.

The parliamentary party exerted strong pressure against tax increases, especially any increase in the income tax (a desire shared also by the majority in the Cabinet).[46] But the chancellor refused to budge, and forced the Cabinet to raise part of the extra funds required for the war by fresh taxation, direct and indirect. The Cabinet preferred to raise the income rather than the house tax, because of "the peculiar situation of the Metropolis [which] made that plan impracticable". There was a greater divergence of opinion regarding increases in indirect taxation (not surprising, in view of later developments). The Cabinet agreed by a majority to an import duty on corn, though not on meat.[47]

The Opposition criticised the budget in Parliament on the grounds that too much of the war expenditure was raised by loan and too little by taxes, and that the corn duty was a first step towards protection. In fact, a third of the war expenditure - £74 million out of an estimated £218 million - was raised by taxation. Hicks Beach admitted the contribution of taxation to the cost of the Crimean War (£76 million) had been much greater, but argued that the more expensive the war, the less was it possible to pay for it out of increased taxes. He justified the corn duty by saying it would bring the cost of the war home to the people.[48] He seemed to imply that if jingoism was popular, the people as a whole ought to pay for it. Hamilton had justified the corn duty in similar terms as Hicks Beach.

Was the corn duty the thin end of the wedgeof protection? Hicks Beach denied the charge. He was, he said, for an imperial zollverein, as it existed in Germany and the United States.[49] A year later, when the corn duty was repealed amid growing controversy over imperial preference, Hicks Beach insisted that it had been intended "as a fiscal measure, and not as a protective measure".[50] The Tory Chancellor of the Exchequer wished to contain direct taxation, and looked instead for new

46. 12 April 1902, EHD, 48679.
47. Salisbury to King, 18 March 1902, CAB 41/27/10.
48. 12 May 1902, Hansard, vol. cvii, cols. 1376-84.
49. 9 June 1902, Hansard, vol. cix, 167-8.
50. 9 June 1903, Hansard, vol. cxxiii, 351-4.

forms of indirect taxation. Direct taxation alone, explained Hamilton, "would never have been tolerated by the Cabinet & it is doubtful whether it would have passed the House, there had to be some compensatory indirect tax with which to gild the pill of extra taxations".[51] Neither the Treasury nor the Unionist Government were then willing to go beyond that. There was ample margin for expansion of both direct and indirect taxation, but the Government dared not risk more taxation. Chiefly for this reason the Treasury failed to meet a higher proportion of the cost of the war from increased taxation, and resorted instead to extensive borrowing.

IV

The Treasury had planned its budget early in 1902, not knowing how long the war would last, and how much it would cost precisely. By April, however, when the Boer leaders in the field met to discuss whether to continue the war, prospects of peace brightened. How did developments on the war front affect the Treasury's financial plans, and what role, if any, did the Treasury play in the peace negotiations?

When the Boer leaders met in late March, Hicks Beach doubted that peace would result. However, should there be any proposals from the Boers, he asked that a Cabinet be convened before a reply was sent. "I have always regretted that this was not done" before the British reply of 28 August 1899. If there was any prospect of peace, he wanted the Cabinet to take account of its possible effect on the budget; it might even require the postponement of the budget, although this, "for financial reasons, would be more than inconvenient".[52] Hicks Beach was anxious that no opportunity of bringing the war to an end should be missed, even if it entailed granting the Boers better terms. He would grasp any opportunity, however remote, of ending a war which had played havoc with Britain's finances.

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51. 21 April 1902, EHD, 48679.

52. Hicks Beach to Salisbury, 26 March 1902, HBP, PCC/34.

Pressure to end the war was exerted also by the King, eager that it be concluded before his coronation.[53] Salisbury assured Hicks Beach that the Cabinet would discuss any Boer proposal, although he was "not very sanguine of a favourable outcome to the present negotiations. I have forgotten the lacks of which you remind me just before the war. I had forgotten it. It was a very grave mistake."[54] Salisbury forwarded Hicks Beach's request to Chamberlain.[55] Chamberlain thought "Beach's intervention was wholly unnecessary. It is inconceivable that I should deal in any way with proposals for peace without consulting you and the Cabinet. The King with his coronation and Beach with his Budget are both too eager for 'Peace of a sort'."[56] A Cabinet was summoned for 8 April at Hicks Beach's insistence, in the hope that if some progress were made in the peace negotiations, the budget could be altered. But since no concrete news suggested that, the chancellor did not revise his budget proposals.[57]

As the peace negotiations got under way in April, Chamberlain was careful to forestall any complaint that he was handling the peace negotiations on his own through Milner, without the full knowledge and participation of the Cabinet. He wished above all not to alienate Hicks Beach, and therefore asked his comments on the telegram he intended sending to Milner on the terms to be negotiated with the Boers.[58] The Cabinet met that same day, but as it was a Saturday, and no news had arrived from South Africa, a Cabinet Committee of three (Hicks Beach, Chamberlain and Brodrick), was authorized to deal with urgent matter that arose during the week-end out of the meeting with the Boers. The full Cabinet was to meet again on Tuesday, one day after the budget.[59]

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53. Salisbury to Chamberlain, 29 March 1902, JCP, JC 11/30/225.
54. Salisbury to Hicks Beach, 29 March 1902, HBP, PCC/69.
55. Salisbury to Chamberlain, 29 March 1902, JCP, JC 11/30/225.
56. Chamberlain to Salisbury, 1 April 1902, JCP, JC 11/30/226.
57. Salisbury to King, 9 April 1902, CAB 41/27/12.
58. Chamberlain to Hicks Beach, 12 April 1902, HBP, PCC/86.
59. Salisbury to King, 12 April 1902, CAB 41/27/13.

During the week-end, Hicks Beach did all he could to influence the negotiations in favour of peace. He urged Chamberlain to direct Milner to offer better terms to the Boers than previously suggested, and to impress upon him "the strength of the desire for peace here among those who have supported the war throughout. The condition of the Army. Brodrick seems almost in despair about the latter - and other reports are also bad." He warned Chamberlain that the public would not support them if they rejected a peace agreement with the Boers "on what they would consider merely minor grounds".[60] Hicks Beach, who had lost all confidence in Milner, believed he would be unnecessarily tough with the Boers, unless told by Chamberlain what line to take. The latter took notice of Hicks Beach's remarks. "The question of money alone ought not to stand in the way of a satisfactory settlement", he told Milner. "The enormous cost of the war and the continuous strain upon the army make peace most desirable". However, "we cannot buy it by concessions which may encourage future rebellion, or which would justify the loyal section [in South Africa] in saying that they had been betrayed".[61]

The Cabinet met again on the 15th as scheduled, and agreed on the general lines of the answers to the telegrams received from South Africa. Chamberlain was to prepare the next day a draft reply for the Cabinet's consideration.[62] Chamberlain stressed in the draft reply to Milner that financial issues should not stand in the way of peace. "We are willing to be generous in both respects [amnesty and restoration of farms] providing that we do not place our enemies, and especially rebels, in a better position than those who have been loyal." If Milner could secure these, "you might agree to allot any amount necessary for rebuilding and restocking farms, and although there would be many advantages in doing this by means of loans, we do not exclude the idea of gifts." But the Boers must not get the impression that Britain was eager for peace. "We have just asked Parliament for means to enable us to prosecute the war on its present scale for another year, and there is no doubt that the funds

60. Hicks Beach to Chamberlain, 13 April 1902, JCP, JC 11/18/20.
61. Chamberlain to Milner, 13 April 1902, CAB 37/61/72.
62. Salisbury to King, 15 April 1902, CAB 41/27/14.

will be voted."[63] The Cabinet chose the carrot and stick method. On the one hand, they offered the Boers, the defeated enemy, what could be seen as very generous financial terms. The Boers were warned, however, that if they rejected the terms offered, Britain would pursue the war indefinitely, as indicated in the budget.

But what was the Boers' situation? Could financial inducements bring them to the negotiating table? J. B. Robinson, the well-informed Rand magnate, was convinced that the Boers could be made to come to terms. "It is all now a question of money. The remaining Boer leaders would cease fighting for a substantial consideration."[64] But what sum could be considered substantial? A distinction should be made between the estimates regarding the damage done to the Boers, and the amount of money they actually expected to receive from Britain. Both Boers and Milner agreed that the damage was enormous, but both understood that Britain would furnish only a small portion of the sum needed for the reconstruction of the country. De la Rey estimated the destruction at over £80 million,[65] while Milner, who was keen on getting large sums from the mother country for the new colonies, believed the damage was not "less than 20 to 30 millions".[66] Whatever the estimates, the Boer leaders were anxious to obtain the funds necessary for rebuilding their country, once peace had been restored.

Presentation of a high war estimate (when it was obvious that the Boers could not pursue the war for much longer), could achieve two aims which were complementary: it would dispel any hope the Boers may have still entertained about the British being tired of the war or for a change of Government in London; at the same time, a high war estimate could ease the financial pressure on the Treasury after the war. Did the high war estimate for 1902-1903 have any effect on the Boers? Although the Boers were closely following the political scene and the economic situation in

63. Chamberlain to Milner, 15 April 1902, CAB 37/61/73.
64. 9 December 1901, EHD, 48679.
65. Lewis to Marks, 17 April 1902, JSP, C.735/96.
66. Milner to Chamberlain, 6 June 1902, JSP, C.735/132.

Britain, it is unikely that their peace initiatives were influenced by the British war budget. Their military situation was desperate, as the British Cabinet knew from an agent's report of a despatch from Louis Botha to Kruger in Europe: "unless we receive the usual amount of ammunition, and unless the promised complications in Europe take place within the next four months, I shall consider it a duty to the burghers and to myself to surrender".[67] One may therefore assume that this information helped the British Cabinet to press for early submission from the Boers.

V

The financial terms to be offered to the Boers were influenced also by the personal attitudes of the British negotiating team. The conventional view is that Milner took a tougher stand towards the Boers than Kitchener, and this was true regarding political questions, but not financial matters. Milner did not think Kitchener a good judge of questions affecting the political future of the region, but "extremely anxious to end the war and to get away", and was therefore likely to make dangerous concessions.[68] After such sacrifice of men and money, Milner was loath to let the gains of victory slip away, whether because Kitchener was itching for the Indian command, or because of "the great longing at home for peace".[69] But concerning the financial aspects of the peace terms, Milner was more liberal than Kitchener, and for good reason. Once peace was reached, Kitchener would leave, but Milner would stay behind with the formidable task of rebuilding South Africa.

While Milner wanted an unconditional Boer capitulation on the political level, he was willing to be generous financially, though he vacillated on how that generosity was to be expressed. At first, when the question of money came up, he suggested very liberal terms. Later he feared that if Britain was too generous to the Boers, she would have to give as much and more also to the loyalists, and consequently he, Milner,

67. Agent Report, 7 March 1902, CAB 37/61/55.
68. Milner to Chamberlain, 10 April 1902, CAB 37/61/69.
69. Milner to Chamberlain, 12 April 1902, CAB 37/61/90.

would have "so much less to spend for development of the country". Because "every one million spent in development will do more good to the country, and to both Boer and Briton, than three millions given away in small sums to individuals. You have no idea how the state of the country cries aloud for judicious expenditure... it is out and away the finest 'undeveloped estate' in the Empire."[70] Milner thus advocated extensive financial assistance to the new colonies, but wished to see it spent through his office rather than granted to individual Boers.

The Boers' financial demands were included in their offer of 21 May: that no fresh tax be imposed on landed property in either colony for defraying war expenses; that a sum of £3 million be granted to the Boers for war damages and losses; and that the burghers be given loans, free of interest, to help them rebuild their farms and houses.[71] Milner objected to these demands, because "we shall be virtually paying for conduct of war against us". But there was more to his objection than unwillingness to pay the Boers' war costs. "This extravagant liberality to the enemy will certainly involve corresponding extravagance in dealing with compensation of loyalists and cost of many millions. For all this,... the British Transvaal will have to pay."[72] In the first place, Milner wished to ensure the economic development, and the financial solvency of the Transvaal, and was therefore very anxious to prevent the imposition of any extra liability upon the colony.

Milner had used this same argument with Jan Smuts. Britain, he argued (when the Boers asked that Britain compensate the burghers for goods confiscated by their commanders), did "not like to pay the [war] bill for both sides... We would rather spend a large sum of money after the war in improving the condition of the people we have been fighting, than pay a smaller sum for the expenses incurred by them in fighting us".[73]

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70. Milner to Chamberlain, 23 April 1902, CAB 37/61/90.

71. Kitchener to Brodrick, 21 May 1902, CAB 37/61/107.

72. Milner to Chamberlain, 21 May 1902, CAB 37/61/ 93.

73. Kitchener to WO, 26 May 1902, "Minutes of meeting of Peace Commission of Boers with Kitchener and Milner on 21 May", ESP, 118/84; & "South African

Milner's objection to the financial clause of the proposed treaty was "not merely a question of money. Of all ways of giving money this is the worst." He would rather give £2 or £3 million as free grant, than acknowledge British liability for Boer war losses.[74] His objection was related rather to the political and economic future of the colonies, than merely to the sum of compensation given to the Boers.

What was the British Cabinet's attitude to the financial aspects of the peace negotiations? While all despatches to Milner and Kitchener were discussed and approved by the Cabinet, the drafting of the various despatches was entrusted to Chamberlain, who was also responsible for communicating with Milner. Chamberlain warned Milner, prior to the crucial Cabinet of 23 May, intended to discuss the terms to the Boers, that mere questions of money should not "prevent termination of war, which cost more than a million per week. Kitchener says it is a point of honour with Boer leaders that their receipts should be paid, and that this condition is vital to peace, since Botha and Delaray [sic] both insist. There should be some argument more cogent than the money cost to justify risking a failure on this point."[75]

The Cabinet were satisfied with Kitchener's proposed terms to the Boers, although they were better than those offered at Middelburg. They asked, however, for clarifications.[76] That same day Chamberlain informed Milner of the Cabinet meeting. The financial clause (11) had raised some objections from ministers. While they did not want £2 or £3 millions to stand in way of peace, they objected to giving the Boers better terms for their confiscated goods than to loyalists. If clauses 11 and 12 were combined, the objections might be modified.[77] Milner agreed to combining the two clauses, and proposed that they should offer the Boers a lump sum of £3 million for war losses, regardless of the sum of notes

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Peace Negotiations, Reports of Proceedings", 21 May 1902, WO 32/8108/8960.

74. Milner to Chamberlain, 23 May 1902, CAB 37/61/99.

75. Chamberlain to Milner, 23 May 1902, CAB 37/61/95.

76. Salisbury to King, 23 May 1902, CAB 41/27/18.

77. Chamberlain to Milner, 23 May 1902, CAB 37/61/96.

and receipts in the hands of the burghers.[78]

The attitudes of individual ministers to the financial clauses of the peace terms are significant. While Salisbury, Ritchie, and Hicks Beach tended to be liberal with Boer financial requests, Chamberlain, Balfour and Brodrick feared that if they were too liberal, the loyalists would also demand large sums. Balfour and Brodrick (like Milner and Chamberlain), resented paying for Boer bills which included payments for munitions, but did not wish to see financial questions preventing peace. But none of them wished to haggle over details, considering the magnitude of the issues at stake.[79] Salisbury's attitude is especially significant. While he was ready, perhaps more than any other minister, to better the financial terms to the Boers, he was against any hasty decision. The issues were far too important to be disposed of "in this hurry". It was in any case so very "hard to decide such questions by a Cabinet at all, especially a large Cabinet".[80] Salisbury resented going over each clause of the proposed treaty with the entire Cabinet. He was not used to discussing details of foreign policy with the entire Cabinet.

The Cabinet met on 27 and 29 May to discuss various changes to the proposed draft of the peace terms. The draft proposal prepared by Chamberlain was accepted. According to it, no tax would be imposed on agricultural land in the two Boer colonies to pay an indemnity; Britain would grant a sum of £3 million to the Boers for losses in the war; and raise a loan for the restoration of their farms.[81] This arrangement, it was hoped, would relieve all genuine suffering arising from the war, without contributing to Boer war costs.[82] On the whole, the two sides differed little on the financial questions.[83] The financial questions were insignificant compared to the monthly war bill, not to mention the cost of

78. Milner to Chamberlain, 25 May 1902, CAB 37/61/101 & 102.
79. Balfour Notes to Cabinet, 23 May 1902, JSP, C.735/112 & Brodrick to Balfour, 25 May 1902, SP.
80. 27 May 1902, EHD, 48679 & Salisbury to Balfour, 26 May 1902, JSP, C.735/114.
81. Draft telegram to Kitchener, 24 May 1902, CAB 37/61/97.
82. Salisbury to King, 27 May 1902, CAB 41/27/19.
83. Salisbury to King, 29 May 1902, CAB 41/27/20.

the entire war. The British Government were concerned primarily with the political clauses of the peace terms, because they would decide the future of South Africa after the war, and not whether the Boers would be granted one or two more millions. That is why the Treasury did not raise any difficulty over the financial aspects of the peace terms. The total sum requested by the Boers was slightly more than the monthly war bill. Besides, the Treasury expected to charge at least part of the money now promised to the Boers to their own future revenues, as will be seen below.

VI

Far more important from the Treasury's point of view was the possible effect of peace on the budget. Should the Treasury substitute a peace budget for the scheduled war budget? Towards the end of May, when there could be little doubt that peace was only a matter of weeks, if not days away, the chancellor considered the matter. "So far as the financial necessities of the year are concerned", he wrote to Balfour, "it might not be absolutely necessary to press for either the additional Income Tax or the Corn Duty. Whether, having gone so far, it would be right or wise to give them up is another, and a very different matter - and the probable situation in 1903-4 has also to be examined". And if they were going to revise the budget, "we ought to do so of our own initiative, not after long opposition to the Corn Duty in Committee". He asked to discuss the issue with Salisbury, Chamberlain and Balfour.[84]

Thus, for two reasons the chancellor objected to changes in the budget: although the imminent peace allowed the Treasury to dispense with the corn duty and the increase in the income tax, he wished to retain both, because they would ease the Treasury's finances, and be of political benefit to the Government, not only in the current year which had just started, but also in the next financial year; secondly, having gone through the process of preparing the budget, the chancellor did not look favourably on last minute changes. The Treasury did not like too many deviations from its rigid system of annual budgets.

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84. Hicks Beach to Balfour, 22 May 1902, JSP, C.735/101.

Hicks Beach asked Hamilton, then in Paris, whether he should revise the budget. The latter's immediate reaction was that he "must stick to his guns" and stand by his original budget.[85] Hamilton then interrupted his holiday, returned to London, and wrote a memorandum on the question. The imminent peace raised two difficult questions: whether the Treasury could dispense with the additional taxation, and if so, how would it stand in that and in the next financial year; and whether the extra taxation "ought to be dispensed with". If the war did end then, and War Office estimates of their requirements were fairly accurate, he thought the Treasury would not require the extra taxation for 1902-03, and might have a slight surplus in 1903-04.[86]

But should the extra taxation sanctioned be withdrawn? Hamilton was "sensible of the political and parliamentary difficulties about proceeding with the proposals which are not absolutely necessary". He could, however, "only review the situation from a financial point of view", although there were "sundry considerations which militate against the policy of dropping the extra taxation." His conclusion was categorical: the additional taxes should not be dropped.

Hamilton gave several reasons for retaining the budget as it stood: there was no precedent for facing an estimated deficit of £24 million, without some additional taxes; the £30 million borrowed did not change the situation, because it would be required for the first nine months of the financial year, due to late collection of the income and estate taxes; since the budget had already passed, its withdrawal could amount to admitting that the corn duty was a return to protection, and the chance of imposing it would be gone for ever; should the new taxes be dropped, the Treasury would face difficulties in repaying those who had already paid them; the corn duty was intended as a permanent new tax; the chancellor would not be justified in giving up the increased taxes, because Britain could not

85. 24 May 1902, EHD, 48679.
86. "The Budget as affected by Peace", Hamilton Memorandum, 25 May 1902, JSP, C/735/103.

restore its financial position, unless it recreated an increased sinking fund, and reduced the income tax to 1s, a point from where it could act, if necessary, "as a rescue power".[87]

Changing the budget now would be also bad politics. Taxation that was difficult to pass a few weeks ago, would be easy now,

> because people will be in such a thankful frame of mind that they won't mind this last exaction, and will look forward with confidence to a large remission of taxation next year. The odium of the extra taxes has already been incurred, and so far as I can judge there has been no expectation that if peace came - & the majority of the public have confidently expected it for the last 6 weeks - the extra taxation would not be proceeded with. Moreover, the brunt of the Parliamentary fight in the shape of a 'full dress' debate is over.

Lastly, argued the man who supposedly was concerned only with the financial aspects of the issue, "withdrawal of proposals always brings discredit on the Government of the day and specially on the minister principally & directly responsible". Political and personal reasons were interconnected. "The withdrawal of the whole budget - for income tax must go with the corn duty,...- would be fatal to Beach's reputation."[88] He feared that drastic changes in the budget would injure Hicks Beach's reputation irrevocably.

On 29 May the Cabinet discussed whether they should abolish the proposed new taxes in view of the imminent peace. Although they could not be absolutely certain that the Boer delegates would ratify the final draft treaty, there was very little doubt that the war was over. It was equally clear that they could drop the proposed taxes. Nevertheless, the Cabinet refrained from discarding the new taxes, and decided instead to meet on 2 June.[89] The implication was that they could not reduce any taxes before the peace agreement was signed and sealed. In practice, however, the Cabinet's indecision meant that the budget would proceed as originally submitted, despite the difficulties the Cabinet would face in

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87. "The Budget as affected by Peace", Hamilton Memorandum, 25 May 1902, JSP, C.735/103.

88. 25 May 1902, EHD, 48679.

89. Salisbury to King, 29 May 1902, CAB 41/27/20.

explaining why they did not reduce taxes when it was possible.[90]

The Cabinet's de facto decision not to alter the budget had much to do with the stand taken by Hicks Beach. It seems, from the available evidence, that Hicks Beach was not explicit on the question in Cabinet. He informed them that if the war was to end then, the Treasury would not require the extra taxation. But he also indicated that if the extra taxation was retained, it would ease the Government's situation next year and in 1903-04. His preference seems to have been for retention of the tax increases. He realized, however, that retention of the new taxes was against the norms of public finance. The increase of taxes, especially the income tax, "nothing but a war tax", when the war was practically over, ran totally against what he believed and preached throughout his chancellorship.[91] The chancellor gave a rather different account to Parliament of why the war budget was not changed when the peace treaty was signed.[92] But it seems that the political exigencies of the Government, especially in the form of increased expenditure after the war, were more important to Hicks Beach than either his own principles or Treasury dogma.

VII

The end of the war brought to a close the political life of some leading men in the Unionist Cabinet, notably Salisbury and Hicks Beach. Once peace had been achieved, the self-denying ordinance lapsed, and Hicks Beach made up his mind to resign.[93] Peace did not mean the end of the Treasury's financial difficulties. In a sense, as seen above, the contrary was true. Although the Treasury no longer had to contend with war expenditure, once the guns had stopped firing, it had to cope with the financial aftermath of the war which, from its point of view, was more difficult to deal with: the large increase in the national debt; the need to

90. 30 May 1902, EHD, 48679.

91. Hicks Beach Notes on Hamilton Memorandum, May 1902, JSP, C.735/109.

92. 4 June 1902, Hansard, vol. cviii, cols. 1457-64.

93. 4 June 1902, EHD, 48679.

resume the sinking fund and reduce taxation; and the realization that the end of the war would not halt the rising ordinary peacetime expenditure on defence. If anything, more funds would be required for defence and social reform. Hicks Beach's decision to resign from the Treasury was related to his perception of the difficulties that awaited the Government after the war.

The war, as seen above, put into cold storage what little the Government had intended doing in the way of social reform. The old age pension scheme was deferred indefinitely, and Balfour was in difficulty over his Education Bill. Once the war was over, the parliamentary party was not going to stand an addition to the rates which the Education Bill entailed. Indeed, it was realized that Balfour would not carry the bill against his own backbenchers, unless the increased charge, estimated at £1 million, was thrown on the Exchequer. But the chancellor refused to provide the sum, and threatened to resign.[94] He was "decidedly opposed" also to the old age pension scheme Balfour contemplated for the next year.[95] The other area where major increases in expenditure were expected was for the army and the navy. As seen above, towards the end of the war Hicks Beach had became more anxious about rising ordinary defence costs after the war than actual war expenditure. But these issues had by and large been deferred, at Salisbury's request, until after the war. Once the war was over, however, they threatened to reemerge and require a solution. Selborne was the first to demand that his shipbuilding programme, postponed since last December because of the war, be reexamined by the Cabinet.[96] Selborne's demand seemed only to be the beginning of a general escalation in military expenditure.

But Hicks Beach opposed the large rise in military expenditure as much as he objected to expenditure on social reform, if not more. In the circumstances, most Unionists realized that the Government stood little chance of either social legislation or an increased army and navy,

94. 12 June 1902, EHD, 48679.
95. Hicks Beach to Balfour, 11 July 1902, JSP, C.736/100.
96. Selborne to Salisbury, 1 July 1902, SP.

required by the war and the extensive European rearmament, if Hicks Beach remained at the Treasury. When Salisbury resigned on 11 July, Hicks Beach found himself increasingly isolated in the Cabinet, and declared his intention to resign. There is no doubt some truth in Hicks Beach's claim that he could not separate himself from Salisbury, with whom he had worked for a long time. However, it does not seem that he was referring merely to the sentimental aspect of their collaboration. Indeed, the two greatly respected each other, but Hicks Beach's motives for resignation were of a different kind.

Hicks Beach shared Salisbury's anxiety over the growing demands of the modern state upon the country's political institutions and fiscal system. The growing chasm between Hicks Beach and many ministers, especially on expenditure, was too great to be bridged. Hamilton, who through long and close association with Hicks Beach knew his views better than any one else, best summed up his reasons for resignation. "The real reason why he is going is that he can get no support in the Cabinet. His colleagues won't see that there must be a limit to our spending powers. They think it does not matter what we spend; he does. Hence they part."[97] Hicks Beach also believed that all his colleagues were protectionists, while he himself adhered to free trade.[98] After the general election Balfour had tried to oust Hicks Beach from the Treasury. But now, as Prime Minister, he urged Hicks Beach to stay on, because he feared the effect of his resignation upon the party. Balfour thus minimized the differences between Hicks Beach and some of his colleagues, above all Chamberlain, Selborne, and Brodrick.[99] But Hicks Beach feared the financial difficulties that lay ahead. Besides, he did not like Balfour, and also objected to Lansdowne's new foreign policy course, the Anglo-Japanese treaty in particular.[100]

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97. 14 July 1902, EHD, 48679.

98. 22 July 1902, EHD, 48679.

99. Balfour to Hicks Beach, 11 July 1902, HBP, PCC/88.

100. Z. Steiner, The Foreign Office and Foreign Policy, 1898-1914 (Cambridge,1969), 52-3.

Hicks Beach indicated that he might stay on as Chancellor of the Exchequer in the new Balfour Government, but only for a limited period, and upon three conditions: that he be allowed to retire not later than October; that the Transvaal loan be postponed till then; and that in the mean time the Cabinet would refrain from committing itself to colonial preference.[101] Balfour tried to placate Hicks Beach by assuring him that Selborne's naval construction programme could be deferred, and by arguing that the Transvaal loan need not be taken before the autumn.[102] But Hicks Beach insisted on resigning, unless his conditions were fully accepted. The Cabinet rejected his conditions, upon which he resigned. Hamilton thought the majority in the Cabinet were "rather pleased to be rid of him".[103] But not Hamilton, who saw his resignation from the Treasury as "nothing short of a national loss", and considered him "one of the ablest men I have ever served". A man who was critical, decisive, and followed the right fiscal policy. "I put him very high as Chancellor of the Exchequer,... not far off such men as Pitt, Peel & Gladstone."[104]

Hicks Beach's resignation from the Treasury was thus due to his inability to agree with most of the Cabinet over the increases in public expenditure in peace time. But was the growth in expenditure entirely due to the war, and if so, was it unique to this particular war? The Treasury did not consider the growth of normal expenditure after the war, whereby it was necessary to maintain in peacetime the bulk of the extra taxation imposed for the war, as unique as "frequently spoken of". It was a natural phenomenon with "distinct parallel in the period of the Crimean War. Mr. Gladstone's Budget Speeches in the early sixties tell the same story repeatedly." Gladstone attributed his own failure after the war to lower the income tax to the abnormal growth of expenditure after the war, in itself due to "the 'spirit of expenditure' which grows up with a vast and sudden increase in expenditure, however caused, and which affects the people, Parliament, the Departments, even the Chancellor of

101. Hicks Beach letter and Memorandum to Balfour, 11 July 1902, JSP, C.736/100.
102. Balfour to Hicks Beach, 11 & 13 July 1902, HBP, PCC/88.
103. 18 July 1902, EHD, 48679.
104. 14 July 1902, EHD, 48679.

the Exchequer."[105] As far as the Treasury was concerned, the financial situation after the war was not without precedent.

Was it in fact possible to make a clear distinction between war and peace expenditure? Who was to say when exactly war costs ended and ordinary peacetime expenditure started? Earlier, when Hicks Beach was anxious about the growth in ordinary defence costs after the war, Chamberlain thought it wrong to distinguish too clearly between war and peacetime defence expenditure. Much of the recent expenses, either for military purposes within Britain, or for various matters in the new colonies, was caused by the war. Hamilton thought that all expenditure related to the new colonies was "really part and parcel of the War Expenditure: it is, in fact, a direct outcome of the War."[106]

But the growth in expenditure was not entirely due to the war. The 'spirit of expenditure' had been growing for some time, regardless of the war. "I remember", noted Hamilton, "when the most telling attack on the Government of the day was growth of Charges." However, public attitude to expenditure had changed. Parliament's sympathies, claimed Hamilton, were "much more with the spending Departments than with the Treasury. If the country desires economy the House of Commons will be economical, and when the House becomes economical, economy will be reflected in the Government of the day."[107] In other words, there was less parliamentary resistance to Government expenditure, and therefore little Treasury control, when Parliament began to favour overspending over economy.

Hamilton and Hicks Beach were pointing to changes that British governing institutions were going through at the end of the nineteenth century. In the past, no Government could have been absolutely certain of Parliament sanctioning a financial bill. Now, they seemed to argue, Governments could rely on their parliamentary majorities to sanction

105. Blain Memorandum, 28 July 1902, EHFP, T.168/93.
106. Hamilton Memorandum, 21 October 1902, EHFP, T.168/51.
107. Hamilton Memorandum, 11 November 1902, EHFP, T.168/51.

any sum they thought necessary. Parliaments no longer displayed their old vigilence; their supervisory powers over Government expenditure gradually diminished. Consequently, the powers of the Treasury - the guardian of the public purse and the financial agent of Parliament - were diminished. Treasury control, they seemed to say, was no longer what it had been in the past.

Chapter Eight

Aftermath
The Illusory Indemnity
May 1902 - December 1905

When the war ended on 31 May 1902, the Colonial Office and the Treasury expected to receive a considerable sum from the Transvaal by way of indemnity, and the quest preoccupied the Treasury for the next three years. In the end, the imperial authorities were forced to admit that to exact any contribution from the Transvaal would be a mistake. The official thinking which finally had to confess that the allowance for an indemnity in the budgets of the past three years was totally unrealistic, reflects on the casual and restricted cost-benefit analysis on which Treasury and Cabinet had dealt with the question of how much the war would cost and who was to pay for it.

I

The question of the amount and the timing depended on the current British financial situation and the rate of reconstruction in the two Boer colonies, the one known, the other problematic. Clearly, the Treasury would have to pour funds into the new colonies before they would be able to pay their own way and also start paying the imperial Exchequer. Milner expected them to pay from 1 July 1902 not only their own administrative expenses, but also the cost of 6,000 constabulary, leaving the remaining 4,000 to be provided by the imperial Exchequer, provided the railways were taken over by the colonial administrations with their revenue, all of which would require a substantial imperial loan. Milner

estimated the financial requirements of both colonies at £36 million, including some £23.5 million for the redemption of debt, the purchase of existing railways, and the construction of new lines.

The Treasury balked at Milner's ambitious proposal, partly because it could not ask Parliament for a larger loan than the finances of the two colonies could bear, and partly because the money market and the credit of the colonies would improve in time. It thus agreed with Chamberlain that they ought to confine the colonies' financial outlook to eighteen months. Neither the cost of purchasing the existing railways, nor that of their proposed extension, would be included in the first loan, which should be restricted to paying compensation to Natal and the Cape, relieving distress and resettling people. Milner's plan for subsidising the settlement of British immigrants was to be deferred for similar reasons, and then a pilot scheme only to be attempted.[1] The Treasury objected to a large guaranteed loan for the colonies at this stage. It would be wrong to impose on them debts which they were unable at present to bear.

The Treasury was not only concerned with the financial well-being of the colonies. Parliament was unlikely to authorize an imperial guaranteed loan for the Transvaal, unless definite arrangements for the payment of indemnity were included in its terms. The Treasury suggested that the arrangements should be such as to earmark specified parts of the Transvaal's revenues for the indemnity, to ensure that a substantial part of the cost of the war was recouped "in time to the taxpayers of the United Kingdom".[2] Any future guaranteed loan was to be conditional on the payment of a fixed and substantial indemnity. There were thus two ways of looking at the relations between the reconstruction of the new colonies and the payment of indemnity: one, from the colonial

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1. Treasury to CO, 22 May 1902, T.1/9890/6771.
2. Treasury to CO, 22 May 1902, T.1/9890/6771. At that time, China could not pay the indemnity sum imposed upon her by the Powers. It was linked to gold, while her customs dues were calculated in silver. Britain, which had most to lose from a Chinese bankruptcy, was willing to spend part of the £6,5 million owed to her in developing China's railways. See Lansdowne Memorandum, 25 June 1902, CAB 37/62/115.

side, as expressed by Milner, and the other, on the British side, represented by the Treasury. Just as the payment of any indemnity depended on the reconstruction of the colonies, the funds necessary for reconstruction depended on the payment of the indemnity. They were interdependent; it would therefore be impossible to achieve the one without the other.

Milner concerned himself primarily with reconstructing the two new colonies, not with the payment of any indemnity. Since the entire economy of the subcontinent depended on the mines, his first target was to get them running as soon as possible, and for that he required substantial sums of money, which could be had only from the mother country. Money could be had either by borrowing in the free market, or through the issue of an imperial guaranteed loan. Milner maintained that Britain had no chance of exacting any indemnity from the colonies unless their economy was restored, and that was impossible without a large investment of funds from the mother country.

The Treasury was in a serious predicament. It had expected and promised throughout the war to recoup part of the war cost from the vanquished colonies, but with victory its hopes were frustrated: the colonies were bankrupt. There was no chance of immediate financial relief to the imperial Treasury. The most that could be expected was that the colonies would pay in the future, after the mines had returned to full production and their economies had sufficiently developed to sustain the indemnity. But even that could not be guaranteed, unless the Treasury first poured substantial sums into the colonies, in the hope of recouping dividends in the future, including payment of indemnity, or merely to ensure that the new colonies would not become a permanent financial liability on the imperial Exchequer. The upshot of it all was that although the Treasury could not expect immediate indemnity from the new colonies, it became responsible for their development and well being. The Treasury was therefore forced, despite its own inclination, to be involved in the reconstruction of the new colonies.

II

The Treasury and the Colonial Office could not reach a decision on the twin questions of a guaranteed loan and indemnity, especially on whether the indemnity should be a fixed sum. Milner objected, because he thought it was impossible to estimate the Transvaal's capacity. "If you fix a large amount now it will be considered a figure pour rire. If you fix a small amount, it may prove to be very uncommensurate with the amount it may be possible eventually to exact." But the Treasury feared that "if you don't fix a sum at all, there will be no inducement for the Transvaal to keep up sufficient taxation to extricate itself from debt." Chamberlain was also anxious to fix the sum, though mainly for political reasons.[3] But the question was how.

Chamberlain laid out in Parliament the Government's dilemma - how to reconcile the indemnity to be exacted from the Transvaal with the urgent requirements of the new colonies. The matter would have been easy, had Britain restored the independence of the ex-republics, because she could have then laid upon them, "according to all modern experience and procedure", a heavy indemnity. However, there was no reason, just because they had become British colonies, and ultimately would become self-governing nations, that they should not bear a fair proportion of the war cost, from which they stood to gain enormously in the future. Chamberlain refused, however, to specify the amount of indemnity to be exacted on grounds similar to Milner's.[4]

It is hard to say how much of an indemnity Chamberlain really expected to extract from the Transvaal. For obvious reasons, he was careful not to quote a figure in public. But he often quoted figures in private. In the summer, before Alfred Beit departed for South Africa, "I told him that I expected as ultimate contribution to war expense 100

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3. 8 July 1902, EHD, 48679.

4. 29 July 1902, Hansard, vol. cxii, cols. 37-50.

millions." But when Beit told him the sum was larger than expected, Chamberlain assured him that he "did not expect to raise this sum by increasing the present rate of taxation", and if the mining industry could not produce in the future sufficient revenue for the payment of the interest, "the debt could remain without interest or might have to be reduced."[5] It seems that Chamberlain did not really expect to get £100 million from the Transvaal. He was merely sounding out a leading Rand magnate, one of those who would eventually have to foot the bill.

Since the indemnity question could not be separated from the guaranteed loan, both issues had to be resolved simultaneously. On the one hand, Chamberlain wanted the loan to be substantial, much bigger than any liability of the same kind that had ever been brought before Parliament. He also wanted the loan to provide for all the major needs, because for a long time the colonies would not be able to borrow again on their own credit. But he believed that Milner's £36 million estimate could be reduced to £30 million. At the same time, Chamberlain linked the question of a guaranteed loan with that of indemnity, over which he was "getting very anxious, as I feel that the difficulties increase with lapse of time". In any case, he argued, "it would be intolerable to expect the British taxpayer to pledge his credit for Transvaal development, without some guarantee that the Colony recognizes its liability for a fair share of the war expenditure."[6] Milner agreed that the Transvaal should be able to pay part of the indemnity next year or the year after, and that the indemnity should be settled concurrently with the loan.[7]

There was a political and a financial side to both questions. On the political level, the problems were how to combine the indemnity with the loan, and how to secure the former when the colonies became self-governing. Ommanney believed they could bind the colony to its obligation by local ordinance even after self-government. The undertaking of a definite obligation by the colony would help overcome such objections,

5. Chamberlain to Milner, 5 August 1902, JCP, JC 17/4/3.
6. Chamberlain to Milner, 5 August 1902, COCP, CO 879/77/700.
7. Milner to Chamberlain, 11 August 1902, COCP, CO 879/77/700.

though that too could be denounced as being imposed without the assent of the people. But that argument could apply to any colonial public debt contracted prior to self-government.[8] The end of the war inevitably brought the problem of reconstructing the politics of collaboration with colonial rule. How were the British Government's financial requirements of an indemnity to be reconciled with the wider imperial necessity of cooperation with the leaders of the new colonies, and their eventually unavoidable progress towards self-government?

The financial side of the equation was equally problematic. The Treasury had tried to co-relate the payment of indemnity with the repayment of instalments of British war costs as they fell due, but without success. It was now suggested that the indemnity should be co-related to the short term securities issued by Britain on account of the war, and which stood at £67 million. But the Transvaal could not possibly pay the annual interest on £103 million - £67 British war debt and £36 million guaranteed loan - which at 4 per cent would amount to £4.1 million a year. One solution was to define the total annual revenue, deduct £4 million for administrative expenses, allocate a third or one half of what remained to development, and the rest for payment of the interest on the loans.[9] The Treasury awaited Milner's latest report on the financial situation of the new colonies before deciding.

III

At this stage of the discussions between the Colonial Office and the Treasury, Hicks Beach offered advice to the new Chancellor of the Exchequer. Hicks Beach still believed Milner's estimate regarding the revenue of the new colonies was too sanguine, and suggested that the loan be as low as possible. Parliament "ought not to guarantee a bigger loan than what the Colonies will be able to repay".[10] Hicks Beach's advice is surprising, in view of his resentment in the past when others

8. Ommanney Memorandum, 22 August 1902, COCP, CO 879/70/700.
9. Ommanney Memorandum, 22 August 1902, COCP, CO 879/77/700.
10. Hicks Beach to Ritchie, 28 August 1902, HBP, PCC/28.

ventured to advise him on matters which he felt to be within his sole domain. But since the discussion related to something which developed entirely during his term of office, and towards which he felt special responsiblity, his interference is perhaps understandable.

Hicks Beach was even more explicit regarding the indemnity. The maximum practicable sum to expect from the Transvaal for the time being was £30 million. Moreover, "it is really more important for us that the new Colonies should be solvent,... than that they should pay a large indemnity for the war".[11] Their long-term solvency seemed even more important to him than a substantial indemnity. He was willing to relinquish some of the Government's urgent political and financial requirements, to prevent the colonies becoming a financial liability on the imperial Exchequer. Although out of office, Hicks Beach expressed the traditional Treasury principle of colonial finance, that they must pay their own way out of local taxation.

Milner's long awaited report was sent on 8 September. The time had come, he argued, to take definite decisions on both issues, as they were causing political unrest and financial depression in the colonies. Any indemnity figure specified would excite some dissatisfaction, but it would soon die down, and the best thing would be to get it over with. But two principles had to be recognized: that a liberal expenditure on development was a precondition for an increase of revenue for paying an indemnity; and that the solution was to be found in an increase of revenue without raising the existing rates of taxation. While revenue could only be increased by increasing the country's wealth, the increase of taxes would only check their expansion.[12]

To prove his case, Milner compared the level of taxation in the new colonies to that in Britain, on which he was an expert from the Inland Revenue days. The extra revenue required, he maintained, could not

11. Hicks Beach to Ritchie, 28 August 1902, HBP, PCC/28.
12. Milner to Chamberlain, 8 September 1902, B.P.P., April 1903 [Cd.1552.].

come from the mines, because they had greatly suffered from the war. The existing profit tax on the mines was high enough, and should not be increased beyond 10 per cent. The existing per capita indirect taxation in the colonies was £10 compared to £2 in Britain. Moreover, recent British tax increases due to the war would be compensated by the increase of trade with the Transvaal and South Africa in general, and by the emigration of British nationals to the new colonies. Britain should declare that she would neither impose any fresh 'tribute tax' on the Transvaal, nor claim an immediate indemnity payment, but should postpone it to meet the needs of the Transvaal itself. However, there was one more argument, more compelling, against the imposition of any immediate indemnity on the new colonies: since the total cost of the war was £220 million, and the war debt was £150 million, any indemnity exacted from the Transvaal would be negligible compared to these figures.[13]

Milner's last argument summarized Britain's dilemma. He put into words what others seemed to know, but dared not utter, certainly not in public, namely, that Britain was in an impasse. She had no chance whatsoever of getting any indemnity without first providing the funds for the reconstruction of the new colonies, necessary also for the political stability of the whole region. They were also aware that the new territories could not remain Crown colonies for long. At that time it was impossible on economic grounds to exact any indemnity. It was likely, however, that in the future, when the colonies would be in a better financial situation, it would be just as difficult, on political grounds, to exact an indemnity. How could the mother country demand a war indemnity from one of its own self-governing colonies? Was not an indemnity exacted only from an enemy? Once again the Treasury was faced with the dilemma of having to chose between Britain's short term financial needs, and the wider imperial requirements.

Hamilton presented the Treasury view of Milner's memorandum to the Cabinet. Based on the assumption that the loan would be guaranteed

13. Milner to Chamberlain, 8 September 1902, B.P.P., April 1903 [Cd.1552.]

by the imperial Exchequer, he recommended: that the cost of neither the constabulary nor the garrison should fall on Britain, although "we have never charged self-governing Colonies with the expenses of quartering troops upon them"; that the guaranteed loan should be limited to £30 million; that while the whole amount should be guaranteed, only £15 million should be issued immediately, and the rest as required; that the loan should be for 30 to 35 years; and that the interest and sinking fund should constitute a first charge on the Transvaal's revenues.[14]

Hamilton found it difficult to fix the indemnity sum, since they knew so little about the Transvaal's potential. He repeated Milner's arguments against a high and a low figure, but unlike him, he thought it could be dangerous to postpone the question. The sum should be named at about £40 to £50 million, but the colony should be given ample time to pay the indemnity. He did not share the fear that the Transvaal was more likely to repudiate the liability when it became a self-governing colony. No self-governing colony had ever repudiated the liabilities which it had incurred as a Crown colony. The best way to guard against this risk would be to demand that the balance of the indemnity be paid before granting self-government.[15]

At the end of September, the new Chancellor of the Exchequer discussed the matter with his colleagues. While Chamberlain was still sounding people about an indemnity of £100 million, Ritchie was ready to accept £25 million in cash. In between stood Hamilton, who spoke for moderation. "I believe it will be a mistaken policy if we open our mouths too wide". And "we must be moderate in our demands even at the risk of not getting the best bargain for the British taxpayer."[16] As he did not think it feasible to get any immediate indemnity in cash, he opposed Ritchie's proposals that they should settle for a smaller sum. The best plan would be to fix the indemnity at £50 million, spread it over 30 to 35

14. Hamilton Memorandum, 15 September 1902, CAB 37/62/132.
15. Hamilton Memorandum, 15 September 1902, CAB 37/62/132.
16. 23 September 1902, EHD, 48680.

years, and stipulate that its repayment should precede the grant of self-government.[17]

But no decision was taken. While those concerned seemed to be reaching more or less a consensus on the guaranteed loan, they were far apart over indemnity, regarding both sum and form of payment. Since it was not likely that the British Government would consider the question of a guaranteed loan on its own, without linking it with the question of indemnity, a comprehensive solution was required. Besides, it was one thing for the imperial Government or the Treasury to decide the sum and form of payment of the indemnity, quite another to ensure that their decision would be accepted by those who could be considered to be somehow representing the colonies, either in an official capacity, such as Milner, or in any other manner, such as the Rand mine-owners. At this phase of the debate Chamberlain decided to go to South Africa.

IV

Chamberlain went to South Africa to see for himself the 'new estates' recently acquired at such a high price, and to resolve the many interconnected problems, mainly financial, of all four colonies.[18] They included the complex problem of compensation; the size of the garrison to be kept in South Africa, and who should pay for it; and the imperial guaranteed loan and its corollary, the war indemnity. However, since the reconstruction of South Africa is not within the framework of this study, only the last two questions, especially indemnity, will be looked into.

Chamberlain managed to get the principle of indemnity accepted by a large group of Rand businessmen, to the tune of £30 million.[19] His next step was to forge the principle of indemnity with the guaranteed loan into one definite agreement. According to the agreement reached on 12 January 1903, a £30 million guaranteed loan would be raised for

17. 23 & 29 September, 7 & 8 October 1902, EHD, 48680.
18. 23 October 1902, EHD, 48680.
19. Chamberlain to A. Chamberlain, 9 January 1903, ACP, AC 8/2/16.

reconstruction of the new colonies. Then a second loan of £30 million would be raised, as a second mortgage on the Transvaal's revenues and assets, to cover the indemnity. It would be called in three annual instalments of £10 million each, the first to be covered by the mining interests. Chamberlain believed that the arrangements would render repudiation of either loan impossible. The first loan because it was in the interest of the Transvaal, and the second because Britain would be paid within three years, and its repudiation would destroy the credit of the colony. Chamberlain urged the Cabinet to sanction the arrangement, "as it is most desirable to strike while the iron is hot".[20]

The Cabinet approved Chamberlain's proposals for a £35 million guaranteed loan, and the arrangements regarding the indemnity sum and mode of payment.[21] Chamberlain acknowledged the £7.5 million due to Britain from the loan, except for the question of railways which might be disputed.[22] At the meeting of the deputation representing various bodies in Johannesburg, 73 out of 78 men voted for the arrangements, and only 4 men voted against them .[23] Chamberlain's primary object in going to South Africa seemed to have been achieved.

How did the Treasury regard Chamberlain's arrangements? The fact that Ritchie approved them promptly speaks, of course, for itself. They were "probably the best he could make, & if they are carried out, I shall consider that we have done well on the whole", noted Hamilton.[24] They were, indeed, the best arrangement the Treasury could expect at the time. Hamilton never believed they could get more than £30 million, and Ritchie was willing to settle for £25 million. There was, therefore, no reason why the Treasury should not be thankful for the £10 million a year that it would receive in the following three years. The timing was perfect; it would enable the Treasury to reduce taxation, despite the rise in

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20. Chamberlain to Onslow, 12 January 1903, JCP, JC 14/4/2/594.
21. Onslow to Chamberlain, 16 January 1903, JCP, JC 14/4/2/596.
22. Chamberlain to Onslow, 18 January 1903, JCP, JC 14/4/2/600.
23. Proceedings of meeting between Chamberlain and Transvaal Deputation, 19 January 1903, BPP, South Africa, April 1903 [Cd.1552.].
24. 13 February 1903, EHD, 48680.

expenditure. Moreover, it seemed that Chamberlain had managed to link the guaranteed loan to the payment of indemnity. It was believed that he had received from those who counted most in the Transvaal - or so it seemed at the time - a solemn and irrevocable pledge to honour the bargain made with him, and pay the indemnity.

Treasury approval of Chamberlain's arrangements did not mean, however, that it felt assured of their success. Shortly after they were approved by the Cabinet, the Treasury raised a number of very delicate questions, which indicated that it had many doubts about the finality of the arrangements, and which in fact preoccupied the Government in the future. If the Transvaal's labour problems were not resolved, and things turned badly for her, would the imperial Government not go to her aid, asked Hamilton. And would Britain postpone the self-government of a colony because it had a large debt which had been incurred because it had to meet a payment to the imperial Exchequer? Hamilton maintained that these practical questions did not concern the Treasury. "What does concern us is how to turn to the best the financial arrangement which has been made in regard to the Contribution Loan."[25] But one ought not accept Hamilton's modesty at face value. He often analysed a problem politically and financially, and then declared that he or the Treasury were interested only in its financial aspects. Hamilton was indeed a model of an objective and impartial civil servant, but not blind to the political implications of a financial problem. And since the financial aspects were interlocked with the political, as realized by Hamilton, the Treasury was well aware of the arrangements' imperfections and, therefore, also of their vulnerability.

V

The question of indemnity for the third year running affected the Treasury's budget. Since the recent increases in ordinary expenditure had absorbed most of the extra taxes imposed on account of the war,

25. Hamilton Memorandum, 12 February 1903, CAB 37/64/12.

argued the Treasury, the income tax could not be reduced below 1s. But because of the Government's very large capital commitments, neither could it resort to further large borrowing without damaging Britain's credit. The only solution, therefore, was to reduce both expenditure and income tax. "We shall not be strong again financially until, in addition to having a substantial sinking fund, we have brought down the income tax to well below a shilling."[26] The parliamentary party was also keen to cut income tax "to the lowest possible point, even temporarily".[27] In the circumstances, the anticipated indemnity could be the salvation.

The Treasury took into consideration the effect of the first £10 million instalment of the £30 million indemnity, and the £7 million owed to her out of the £35 million guaranteed loan soon to be raised, on its balances. Hamilton suggested extinguishing £27 million unfunded debt created by the war.[28] The Treasury even hoped to receive before 7 August 1903, the first instalment of the indemnity to pay off £10 million Exchequer Bonds maturing on that day.[29] The chancellor told Parliament that due to these extra revenues the income tax would be reduced next year by 4d.[30] There was little criticism in Parliament over the sum of indemnity.[31] Both Government and Opposition seemed fairly satisfied with Chamberlain's arrangements.

A day before the guaranteed loan was issued, Chamberlain made in Parliament "a most touching speech in support of the Transvaal Loan resolution".[32] He confirmed that the £35 million guaranteed loan ought to be considered together with the payment of £30 million indemnity. The loan was "indeed conditional upon the contribution of £30 million". But any indemnity would be received upon two conditions: that they would not impose additional taxation upon the Transvaal beyond the 10 per cent

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26. Ritchie Memorandum, 21 February 1903, CAB 37/64/15.
27. 11 & 29 March 1903, EHD, 48680.
28. Hamilton Memorandum, 12 February 1903, CAB 37/64/12.
29. Blain Memorandum, 24 January 1903, EHFP, T.168/57.
30. 31 March 1903, Hansard, vol. cxxi, cols. 239-56.
31. 24 March 1903, Hansard, vol. cxx, cols. 9-10.
32. 6 May 1903, EHD, 48680.

profit tax on the mines; and that any contribution should be made "willingly, voluntarily, and not be forced or imposed upon them by the superior power". But just as the loan depended on the indemnity, so the indemnity depended on the loan. And since Britain would receive £6 million from the loan, she would be getting altogether not £30 million but £36 million.[33] By stressing the close link between the guaranteed loan and the indemnity, Chamberlain sought to remove any doubts that stil existed over the payment of indemnity, and secure parliamentary sanction for the guaranteed loan.

The first signs of doubt over the payment of the indemnity were raised by Hicks Beach, but soon others also started questioning. Even Chamberlain, who maintained he was optimistic, had second thoughts about his arrangements, and wished to insert a sinking fund clause in the draft ordinance to the Legislative Council of the Transvaal. When the Treasury claimed that it was not its business, that if Chamberlain thought the guaranteeing syndicate could not abide by their obligation, he should release their undertaking, he refused.[34] The uncertainty regarding the Transvaal's ability to pay the indemnity, whether for political or financial reasons, seemed to be catching. Soon questions were raised in Parliament. Harcourt thought the indemnity ought to be secured by legislative action, either in the Transvaal or in Britain. Chamberlain thought in similar terms, and told Parliament that legislation for the indemnity would be introduced in the Legislative Council of the Transvaal, thereby giving it legal security.[35]

VI

By October 1903, the Transvaal's finances so deteriorated, that Milner became desperate. Alfred Lyttelton, Chamberlain's successor at

33. 6 May 1903, Hansard, vol. cxxi, cols. 1522-48.

34. CO to Treasury, 22 July, Treasury to CO, 29 July, CO to Treasury, 21 August 1903, T.1/10034B/12886 & 14627.

35. 27 July 1903, Hansard, vol. cxxvi, cols. 339-351.

the Colonial Office, discussed with the Treasury Milner's request for money and postponement of the first instalment. They could not have come at a less inopportune time from the Treasury's point of view. The deferment of the first indemnity instalment would be uncomfortable for the Government, who would be faced with a very difficult decision indeed. Milner, who was in England, asked Austen Chamberlain, the new Chancellor of the Exchequer, for funds, and indicated that the Transvaal could not go on with the first £10 million instalment of the indemnity, though he was optimistic about the colony's finances.[36] A month later, "for the first time Milner was rather pessimistic about prospects".[37]

The pessimism was not limited only to the Transvaal's finances, but also to Britain's own finances. In August, a Treasury memorandum on Britain's fiscal situation maintained that the depressed state of the money market was in great measure due to the enormous expenditure on the aftermath of the war in South Africa. As long as the war lasted, it had stimulated many industries, but then depression followed, due to the enormous loss caused by the war, the taxation, the cessation of new orders, and the debt. The shock was not more severe, as one could expect, because while in the past inflation followed a crisis, now the City exercised caution, and guarded against the more violent forms of collapse, especially by depression substituting for panic.[38] The money market further deteriorated in the autumn, because, inter alia, the Government had borrowed "on so large a scale on account of the war and the Transvaal after the war". Besides, the Government would soon require large sum for various projects. And if they were to add to all these requirements the £30 million which the Transvaal would have to raise in order to pay the indemnity, the loan horizon was disturbing.[39]

By January 1904, Britain's financial situation had deteriorated even

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36. 27 & 29 October 1903, EHD, 48681.

37. 15 November 1903, EHD, 48681.

38. Ritchie Memorandum, 25 August 1903, CAB 37/66/55. The memorandum was written by Hamilton, from papers of Mowatt, Chalmers, and Blain, but presumed by Ritchie. See Sandars to Balfour, 17 August 1903, NP, 49761.

39. Hamilton Memorandum, 9 October 1903, EHFP, T.168/61.

further.[40] It was reflected in the fall of Consols to 86.[41] In February, the financial situation seemed desperate. Sandars and Hamilton sought Hicks Beach's council, and the latter proposed that the former chancellor return to the Treasury.[42] By March, a deficit of £6 million was expected in the current financial year, and £5 million in the next year.[43] Inevitably, the income tax was raised by 1d. to 1s.[44]

The convergence of the Transvaal's financial requirements, and its inability to pay the first instalment of the indemnity, with Britain's own financial difficulties, put the Treasury in an awkward situation. Since Britain could not let the Transvaal default, the Treasury had the choice of two options: it could either issue the remaining £5 million of the £35 million guaranteed loan, and postpone the first instalment of the indemnity, or alternately, issue the first £10 million instalment of the indemnity, and let the Transvaal retain part of the money. Austen Chamberlain was inclined to accept the second option, as suggested by the Colonial Office, "as the least bad alternative". Hamilton was more cautious, fearing the long term implications if it failed.[45]

Hamilton took exception to two points of the second alternative. The first was intended to safeguard the Treasury's own independence. He resented the Treasury bearing the responsibility for issuing the stock, since it was "made in the interest of the Transvaal just as much, if not more than, for imperial interests". Secondly, he did not agree that it was arranged to raise the remaining £5 million only next year. Before approving that option, "we ought to make sure that the income of the Transvaal is able to stand the additional strains upon it to the amount of £400,000.... It is bad enough to postpone the issue of the first instalment of the War Indemnity Loan which the Capitalists undertook to underwrite,

40. A. Chamberlain to Balfour, 6 January 1904, BP, 49735.
41. Ritchie, 21 April 1904, Hansard, vol. cxxxii, cols. 867-8.
42. 22 February 1904, EHD, 48681; Hicks Beach to Hamilton, 10 February 1904, EHFP, 48614, respectively.
43. Balfour to King, 15 March 1904, CAB 41/29/8.
44. 19 April 1904, Hansard, vol. cxxxii, cols. 544-60.
45. Hamilton to Austen Chamberlain, 10 December 1903, T.1/10034B/20232.

but it would be much worse to issue it & to find that the Transvaal was unable to pay the interest on it with the almost certain result that a claim would be made on the British Taxpayer." He suggested that Austen Chamberlain should put the whole matter to the Cabinet.[46]

Austen Chamberlain thought Hamilton's proposal premature, and told him to explain to Ommanney the Treasury's objections to Colonial Office proposals, and ask Milner to telegraph estimates of Transvaal revenue and expenditure for current and the next financial year. They would then discuss again the matter.[47] The chancellor was in no hurry to bring the matter before the Cabinet, but refrained from formally approving the second option, as he was inclined to do, before further probing into the problem. The payment of indemnity was important for the Government. The reputation, perhaps the political future, of some politicians, including that of the chancellor's own father, could depend on it. The chancellor could not, therefore, be too cautious before announcing the postponement of the first instalment of the indemnity.

Milner's telegraph arrived at the end of the year. He estimated that the Transvaal would not be able to balance its budget in the next financial year, "except by severe retrenchment", and by reducing the strength of the constabulary to a figure which was "hardly safe".

> Under these circumstances it is evident that we cannot provide for interest on any further debt at present. It is, I think, a matter for the serious consideration of H. M's Government, whether it would not be better to defer the raising of the first instalment of the War Loan for a year... To raise before the country is able to pay the interest on it would in my judgment be a grave financial and political mistake. I am perfectly convinced that there is a strong feeling here in favour of fulfilling, even at considerable sacrifice, the obligation to contribute the Thirty millions...
> If, however, H. M's Government insist on the carrying out of the obligation at once without regard to the serious, and, in its severity, wholly unseen crisis which has arisen since the obligation was undertaken, it will I fear permanently injure the strong attachment which undoubtedly exists among the loyal population to the Mother Country while putting a most

46. Hamilton to Austen Chamberlain, 10 December 1903, T.1/10034B/20232.
47. Austen Chamberlain to Hamilton, 11 December 1903, T.1/10034B/20232.

formidable weapon into the hands of those already disaffected.[48]

The Treasury's worst fears were confirmed. On 1 January 1904, the Colonial Office formally informed the Treasury that the Transvaal's finances were so desperate, that it would have to apply to Parliament to make good part of its guarantee to the Transvaal reconstruction loan. Moreover, that the colony would be unable to assume the interest on the first instalment of the indemnity. In these circumstances, Lyttelton thought the Government had no choice but to put off the first £10 million instalment of the indemnity, and face the "political inconvenience attending the postponement". There was no other option open to them, since Chamberlain had expressly pledged to the guarantors of the first instalment that the issue would not be made without considering the market conditions. As there were no sign that market conditions would improve in the near future, Lyttelton thought the Transvaal had to defer the issue of the first instalment of the indemnity loan, until the £30 million guaranteed reconstruction loan (out of the £35 million), was absorbed by the public. But there was no reason to release the Randlord guarantors of the first instalment from their undertaking.[49]

Lyttelton's official announcement put an end to the uncertainty concerning the first instalment of the indemnity, but not to Treasury dilemma. The Secretary of State's recommendations deserved serious consideration, but it was up to the Chancellor of the Exchequer, after discussing the matter with his staff, to decide what course of action to take. Hamilton and Chalmers, the two senior financial men at the Treasury, spoke in similar terms. Since the Transvaal could not pay its way, argued Chalmers, it was financially undesirable either to impose on the imperial Exchequer a further charge of 4 per cent interest on the first £10 million instalment of the indemnity loan, or to allow the Transvaal to raise the remaining £5 million of the guaranteed loan, beyond what was absolutely necessary for its existing commitments. Hamilton repeated his earlier aguments.[50]

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48. Milner to Lyttelton, 28 December 1903, MP, dep. 323, leef 7-10.

49. CO to Treasury, 1 January 1904, T.1/10138A/98.

The chancellor agreed that "any fresh issue either of guaranteed stock or war loan was out of the question for the present", but had two comments. Considering Britain's financial situation, "I will not finance Transvaal development at the cost of the British taxpayer. This cannot be made too plain to the C. O. & Ld. Milner." Secondly, the Treasury must be satisfied that

> Milner has made every possible economy, & we must be satisfied that he cannot raise further taxation... Lord Milner assumes that if new taxation is to be imposed, it must be on the United Kingdom.
> The fact is that at the back of Ld. Milner's mind there is the confident belief that he has the British Exchequer to draw upon for any expenditure which it is inconvenient to him [to] postpone & difficult for him to meet from colonial resources. This is a very dangerous behaviour... & we had better dispell it at once."[51]

Milner was being accused - justifiably from a Treasury point of view - of favouring the colonies at expense of the metropolis. Milner had a very hard task convincing the metropolis of the need to spend money in the colonies. He wanted money from the City of London spent in South Africa. He did not think in terms of extracting money from the colonies for the mother country. But Milner was not so unique. Empire builders on the spot were often more concerned with getting the Empire to subsidize their colonies than in their colonies subsidizing the Empire.

Hamilton came to Milner's defence. The Treasury could not let Milner raise further taxation before the remaining £5 million of the reconstruction loan had been paid. "Otherwise it would mean killing the goose that lays the golden eggs"; in other words, the mining industry. "We are bound to have recourse to the Exchequer for any deficiency of fund on a dividend day, [since] we guarantee the Sinking Fund as well as the interest."[52] Otherwise, the mining industry, upon which depended the economic recovery of the entire sub-continent, would not recover, and

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50. Chalmers Memorandum, 5 January, Hamilton to A. Chamberlain, 6 January 1904, T.1/10138A/98.
51. A. Chamberlain to Hamilton, 7 January 1904, T.1/10138A/98.
52. Hamilton to A. Chamberlain, 12 January 1904, T.1/10138A/98.

the possibility of any indemnity in the future would disappear. The Treasury, Hamilton hinted, had become responsible for the economic well-being of the mother country and the new colonies. Their finances had become inter-dependent. It was thus in the Treasury's interest to create viable colonies in South Africa.

For these reasons, the next day the chancellor agreed to postpone the issue of the first £10 million instalment of the indemnity loan indefinitely.[53] Milner was informed accordingly. The Cabinet were "largely influenced by the considerations in regard to local feelings to which you draw their attention, and by their desire to do nothing which might add to the Colony's present embarrassment, or which might appear to show any want of appreciation of the difficulties which have arisen since the obligation was entered into".[54] Moreover, "it may be assumed that the first issue of the War Contribution Loan will not take place until after the issue of the final instalment of the 5 millions of the Guaranteed Loan", most probably not before next autumn, or even the spring of 1905. No indemnity could be expected, therefore, for at least 15 months.[55] But the Treasury rejected Milner's argument that the Transvaal's entire financial difficulties were due to the fact that only £30 million out of the £35 million loan had been received.[56]

The postponement of the first instalment of the indemnity loan was inevitable from a Treasury point of view. It made no sense to impose on the Transvaal obligations which it could not bear, since they were bound to fall eventually on the imperial Exchequer. It was useless to take with one hand and give back with the other. There was, however, more to it than mere finances. The local politics of collaboration had to be considered. The British policy-makers were aware of the political implications of any indemnity. That was why Chamberlain tried to secure the indemnity by colonial, rather than imperial, legislation, and

53. 13 January 1904, EHD, 48681; Hamilton Minute, 14 January 1904, T.1/10138A/98.
54. Lyttelton to Milner, 18 January 1904, ACP, AC 16/4/35.
55. Lyttelton to Milner, 18 January 1904, ACP, AC 16/4/35.
56. Milner to Lyttelton, 22 February 1904, COPP, South Africa, June 1904 [Cd.2102.]

paradoxically, so feared its introduction, and therefore postponed it for as long as possible. The fears over the implications of such legislation on the local politics of collaboration were so great, that when it was decided to postpone the first instalment, there seemed "no object in introducing the loan Ordinance this Session".[57]

VII

The financial situation of neither the British Government nor the Transvaal improved substantially in 1904. Since no indemnity could be expected from the Transvaal in that year, the Treasury looked for ways to reduce expenditure. Hamilton claimed that British expenditure was out of proportion to the material wealth of the country, and that the country was over-taxed. He blamed the Government for not restraining themselves. Whereas in 1864-5, total taxes represented 8.6 per cent of the aggregate income, in 1904 they represented 9.8 per cent. In that period, defence expenditure had risen from 3.4 per cent to 3.7 per cent of the aggregate income. The increase had been in public services, but since nobody thought of cutting them down, the only sphere for economy was in reducing defence expenditure, especially on the army.[58] But that entailed cutting army costs both at home and in South Africa, to which both the Colonial and the War Secretaries were opposed.[59]

The Government's handling of the indemnity issue was strongly criticised in Parliament.[60] But regardless of all the criticism, the Treasury had taken the only predictable decision over the indemnity. The Transvaal's financial difficulties were so acute in April, that it had to resort to short term loans in the open market.[61] Hicks Beach refused to assist the Crown Agents raise these borrowings in the City, "unless

57. Lyttelton to Milner, 18 January 1904, ACP, AC 16/4/35.
58. Hamilton Memorandum, 21 April 1904, EHFP, T.168/62.
59. Arnold-Forster Memorandum, 2 May 1904, CAB 37/70/63, and 26 April 1904, EHD, 48682.
60. 21 April 1904, Hansard, vol. cxxxii, cols. 861-8.
61. CO to Treasury, 5 April 1904, T.1/10138A/7100.

Transvaal Colony is prepared to recognize that the Guaranteed Loan is part only of a larger arrangement which included the War Indemnity Loan".[62] He did not expect to get any immediate indemnity by this pressure, but that in return for assisting the colony it would formally recognize its moral obligation to Britain. Now, both Treasury and Colonial Office realized that Britain might get no indemnity, unless the obligation was formally acknowledged by some representative body in the Transvaal. What constituted a representative body; a nominated Legislative Council as then existed in the Transvaal, a representative government, the half-way house Lyttelton intended giving, or only full self-government, as requested by the Boers? With postponement, the indemnity issue inevitably became entangled with the constitutional future of the Transvaal.

The Treasury's coercive powers were very weak, because it could not let the colony go bankrupt. Britain's involvement in the finances of the new colonies, both by virtue of the guaranteed loan and on account of the expected indemnity, not to mention the politics of collaboration, required the colony's solvency. Consequently, after discussions with the Colonial Office and the Bank of England, the Treasury considered the issue of the remaining £5 million of the reconstruction loan to be the best solution.[63] The issue was fixed within a few days.[64]

The Transvaal's financial situation improved in the second half of 1904 - especially with the issue of the remaining £5 million of the reconstruction loan - but its financial prospects remained poor. The colony was heavily indebted, and Hamilton doubted if Britain would ever get any indemnity, although she was in a position to raise the first £10 million instalment of the indemnity loan.[65] In January 1905, the Treasury saw no reason why the guarantors of the first £10 million indemnity should not raise the loan, since the interest on the loan would

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62. 29 & 30 May 1904, EHD, 48682.
63. 30 May & 1 June 1904, EHD, 48682.
64. 15 & 19 June 1904, EHD, 48682.
65. 7 November 1904, EHD, 48682.

not fall due in the current financial year. Milner was asked to make provision for the interest on the £10 million for the next year, and pass the necessary indemnity ordinance in the next session of the Legislature.[66] The British Government were at last ready to jump the difficult hurdle, and pass the required ordinance (the draft of which had been ready since August 1903).

Milner advised to "think twice before raising at this juncture the question of the first instalment of war contribution". The Transvaal's finances had indeed improved, and it would be able to pay the interest on the first £10 million, but it would cause nervousness there.

> What I dread chiefly, however, is its political effect... It will kill the British party, and will drive all the wobblers and dissenters into the arms of the Boers... [and that] means that any form of representative institutions short of full self-government will be from the first unworkable. While we might, in that case, get 10 millions now, we should certainly never get another penny, and the new system would be started under the worst conditions possible, that is to say, with a large majority hostile from the outset.
>
> In any case the war contribution is the nastiest of the fences which we have to get over. But it need not bring us to grief, taken at the proper time and in the proper way. In my judgment the proper time is after and not just before the creation of an assembly popularly elected... It is a very different thing to defend the imposition of what would now be denounced fiercely as a forced tribute than to appeal to people free to shoulder a debt of honour... I believe that, in these circumstances, a war contribution will be agreed to by an elected assembly.[67]

The previous year, the payment of the indemnity was postponed mainly on financial grounds, although all policy-makers, both in South Africa and in London, were conscious also of its political difficulties. But now, when the colony's finances seemed to permit the issue of the indemnity loan, the political difficulties were stressed, and not surprisingly. Six months earlier, in July 1904, Lyttelton had announced (when the agitation for self-government had mounted in the Transvaal), Britain's intention to grant representative institutions to the colony in the near future. The complex domestic politics of the Transvaal were now

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66. Lyttelton to Milner, 14 January 1905, JCP, JC 20/3/7.
67. Milner to Lyttelton, 18 January 1905, JCP, JC 20/3/8.

brought to the fore, mixed with the colony's constitutional future, thereby complicating the question of indemnity. The time, it seemed, was again inopportune for exacting it.

Against the issue of the first £10 million instalment of the indemnity loan, Milner now brought up an entirely new line of argument, suggesting the advantage of giving up the idea of indemnity altogether. He believed that an elected assembly would agree to pay the indemnity.

> But I believe that if it did not, we should be better, in the long run, without it. After all, even from the purely financial point of view, a prosperous Colony, well affected to the mother country, and doing an enormous trade with it, is better than any contribution which could be exacted at the cost of a quarrel. [In] such a quarrel, however it ended politically, and it might end very badly, would certainly involve economic loss owing to unrest and the consequent check to development and to trade, which would result in a diminution of income to this Colony, to the rest of South Africa, and also to Great Britain.[68]

Milner thus put in a nutshell the political and economical problem of imperial cost-benefit calculations involved in the indemnity, which the financially minded Treasury rarely took into account. By annexing the Boer states, the imperial Government had, whether they liked it or not, taken reponsibility also for their general well-being. Just as in the past the imperial Exchequer saved the colonies from insolvency, it was now called to relinquish its right for indemnity, if it wished to receive any dividends in the future, financial or political. Milner considered pacified colonies in Southern Africa more rewarding in the long run than any payment of indemnity, as it entailed disrupting the amicable relations between them and the mother country.

Upon receiving Milner's telegram, the Secretary of State and the chancellor thought that the question was too important, and put it to the Cabinet. The Cabinet was reminded of the conditions laid down by Chamberlain regarding the payment of indemnity: that no additional taxation would be imposed in the Transvaal beyond the 10 per cent profit tax on mines; and that any indemnity "should be made willingly,

68. Milner to Lyttelton, 18 January 1905, JCP, JC 20/3/8.

voluntarily, and not be enforced or imposed upon them by the superior Power". Had Britain exacted a year ago the first instalment, it would have broken these conditions. Britain had refrained mainly for financial reasons from issuing the indemnity loan. Besides, the required legislation in the Transvaal could only have been passed by use of the official vote.[69]

At present, argued Lyttelton, market conditions were favourable, but it still required legislation by the Transvaal. Since a representative body was to be shortly created for the colony, such legislation would at present provoke great irritation, and furnish excuse for the repudiation of the second and third instalments of the indemnity. But if the issue of the loan was deferred till the new constitution was launched, Britain's case could only be ignored "by a serious breach of faith", as she would have kept her side of the bargain. "Under these circumstances, though we could get £10 million now from the Colony, and obviously the money would be most convenient to the Chancellor of the Exchequer, and from a party point of view most desirable for us to obtain forthwith", he was for postponing the first instalment.[70] Lyttelton thus accepted all of Milner's arguments for deferring the issue of the indemnity loan until after the Transvaal had been granted a representative government.

The chancellor explained why he did not "press for the immediate issue of the first instalment of the Transvaal war contribution". It was certainly not due to any improvement in Britain's financial situation. On the contrary, her obligations and short-term loans, amounting to £88 million, and her repeated borrowing, caused disquiet in the City. The whole situation caused great anxiety to the Treasury, and could be most serious in case of war. He did not press for the immediate issue of the first instalment because of Lyttelton's arguments. The indemnity payment was, however, "an obligation of honour on the part of the Transvaal, for which the Government will ask it to provide as early as

69. Lyttelton Memorandum, 30 January 1905, CAB 37/74/13.
70. Lyttelton Memorandum, 30 January 1905, CAB 37/74/13.

possible after the meeting of the new Representative Body. It was part of a bargain with this country involving mutual advantages and mutual sacrifices. We have completed our share of the bargain, and we are bound to call upon them to do so at the earliest possible date."[71]

Upon the chancellor's consent to defer the first instalment of the indemnity until after the establishment of the new constitution in the Transvaal, Lyttelton further elaborated his scheme and his reasons for it. After the "feat of extracting 30 millions from the people whom you magnetised", he wrote to Chamberlain, it would be best to write in the preamble of the letters patent of the proposed new constitution the circumstances that led the British Cabinet to their decision.

> But the merit of the scheme is that it places on solemn record the debt of honour and the scrupulous fulfilment of our part of the bargain, and it shows our belief in the honour of our fellow subjects to carry it out. It plays for a high stake viz the whole contribution plus the good will of the Colony. Any other course such as the taking of security for the debt would be to show a distrust in their good faith, and would not only jeopardise the 20 millions, but worse than all, inaugurate the new Parl[iamen]t in a mood of resentment and sourness.
> There are real merits in justifying some little delay here. Putting aside for the moment your three conditions, a debt of 65 millions on less than 300,000 white individuals within 3 years of a great war is a tremendous affair. Unless it is voluntary and not imposed it can never be exacted...
> The debt is not really secure till we get the free assent of the representatives of the people. You got all that was possible then, we must somehow get that assent now.[72]

The Cabinet had to choose between two alternatives, neither of which could be appealing: either demand the immediate payment of the first £10 million instalment of the indemnity - against the advice of both Milner and the Secretary of State, at the risk of not getting the remaining £20 million, and the strong likelihood of dangerous political repercussions - or accept Lyttelton's proposals, in the hope of getting eventually the whole £30 million, and reap the political benefits that went

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71. A. Chamberlain Memorandum, 16 February 1905, T.172/957.

72. Lyttelton to Chamberlain, 23 February 1905, JCP, JC 20/3/1. Lyttelton's letter to Chamberlain, and Memorandum to the Cabinet, are based extensively on arguments put by Milner some nine months earlier. See Milner to Lyttelton, 9 May 1904, MP, dep.168, leef 484-487.

with the move. The Cabinet accepted Lyttelton's proposals, and recited, formally and explicitly, in the preamble to the letters patent establishing the colony's representative constitution, the character of the debt owed to Britain by the Transvaal.[73]

The Cabinet's decision was strongly criticised by Hicks Beach, but with little justice.[74] Just after he had resigned as chancellor, his advice to his successor had been that in the long run it was more important that the colonies should not become a financial liability on the imperial Exchequer than to obtain an instalment of the indemnity. He had also approved the postponement of the first instalment, and did not ask at the time that the indemnity be secured by any legislative action, and for good reason.

The fact is that the British Government were once again in an impasse. They were caught, on the one hand, between genuine financial requirements after the war, with the political need to show that part of the cost of the war was retrieved from the conquerred territories (as promised throughout the war), and the need, indeed desire, to act within the constitutional norms regarding white Dominions, as they developed in the nineteenth century, and its corollary - the gentlemanly norms of honour and fair play. The ordinary principles of Empire on the cheap could not apply to South Africa for the time being. Cost-benefit analysis was applied in this case, but the exceptional circumstances of this region dictated their own rules. The viability of the colonies was indispensable, indeed a prerequisite, for the politics of collaboration in South Africa. The British Government's predicament was, in a sense, rather similar to that in which they found themselves in the summer of 1899. In both times, neither the short term financial requirements of the Exchequer, nor the immediate political exigencies of the Unionist Parties, eventually determined Cabinet policy, but the broader imperial considerations. The

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73. Balfour to King, 8 March 1905, CAB 41/30/6; Lyttelton to Milner, 8 March 1905, ACP, AC 16/4/44.

74. 20 March 1905, HBP, PC/PP/65.

indemnity was finally dropped in 1906 by the Liberal Government.

At first, the Treasury expected the South African War to be won quickly at an estimated cost of £10 million, while assuring Parliament that a substantial part of it would be recouped by way of indemnity from the defeated Transvaal. After three months of war the estimate was revised to £50 million, and two months later to £68 million, almost as much as the cost of the Crimean War. A colonial expedition had turned into a war on a European scale. By April 1901, the estimated cost had risen to £153 million, and eventually the actual charge to the British Exchequer was £217 million, twenty two times the original estimate.[75] If allowance is to be made for the decline in the buying power of the pound Sterling, the cost of the South African War in 1988 prices was £7,600 million.[76] In the end, not a penny of indemnity was exacted from the Transvaal.[77]

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75. Blain Memoranda, 4 April 1903 & 8 April 1904, EHFP, T.168/51 & 65 respectively.
76. Key Data 1986, Central Statistical Office, 1986, Table 19, p.81.
77. The Treasury gave much thought to calculating the cost of the war and its distribution between revenue and borrowing. No precise computation has ever been arrived at regarding the cost of a war on an extensive scale lasting several years. Both the Napolenic and the Crimean Wars were calculated by assuming that in the absence of war, naval and military establishment would have remained on the same scale, and the annual cost of this assumed peace establishment was deducted from the actual expenditure on the Services during the war period. This method is not precise, because military estimates are often higher after than before a war, and it is difficult to evaluate how much of the increase was due to the war. Besides, it is difficult, if not impossible, to calculate the full effect of a war upon the country's finances. Similarly, no estimate of the war cost can include all indirect additions to expenditure. Nevertheless, the basis of calculation must be kept within manageable limits. The best seemed to be by computing only the army and civil estimates specifically voted in connection with the war.

Conclusion

I

At the turn of the nineteenth century, the Treasury under Hicks Beach and Hamilton was still the stronghold of the Gladstonian canons of public expenditure - a balanced budget, the lowering of taxes to an absolute minimum in peacetime, and the principle that self-governing colonies should normally be self-financing. In Britain's relatively unstructured system of government, where power was in the hands of a small ruling elite who was aware of the constraints and played by the rule, these principles were generally accepted as an ideal. Party leaders were aware from past experience of voters' prejudices against increased taxation for imperial purposes, that defiance of the rules carried high political risks in Parliament and at the next election. It was the Treasury's role, as guardian of the public purse, to remind the Cabinet of these political and financial constraints, especially when expenditure was increasing 'by leaps and bounds'.

The power of the Treasury to do so was considerable. Since all public expenditure required its sanction, according to the annual budget authorized by Parliament, the Treasury had financial power over disbursement to all other departments, which in turn had to account to it, showing that the money had been spent under the heads authorised. The Treasury was the only government department whose operations were defined precisely by Parliament, giving it an over-riding authority. If the Cabinet wished to over-ride the budget for extra-ordinary expenditure, the chancellor had to be persuaded to go to Parliament for a supplementary grant of ways and means. Thus, the Treasury was at once the financial executive of the budget laid down by Parliament, and the financial executive of Cabinet policy. The chancellor's powers arose from the fact that he was personally responsible for reconciling his two roles.

The account suggests that the financial considerations of the Treasury exerted the strongest influence on Cabinet decisions on the eve of, and, towards the end of the war. Before the outbreak of war, Treasury control in line with the rigidity of the annual peace time budget with its strict allocation of current revenue and expenditure, obstructed the taking of military precautions in case of a war. By the same token, it also made any long-term strategic planning almost impossible. As a result, there were no serious financial or military preparations until the crisis had reached and war had broken out. The Cabinet was left with no reserve fund for war contingencies. Rather than run the political risk of asking Parliament to sanction money for extra-ordinary reinforcements to the garrison in South Africa, which would be unpopular, as it might require increased taxation, and which might prove unnecessary, the Cabinet waited till the crisis was upon them. Only at the last minute, when the need to make sacrifices and spend taxpayers' money had been demonstrated to public opinion represented in Parliament, did the Cabinet feel safe to ask for it. Treasury control in peace time thus tended to delay preparations for a colonial war until war broke out.

For financial reasons and for tactical reasons in South Africa, the Cabinet preferred to postpone sending reinforcements to South Africa, acknowledging the likelihood that each of them would result in initial setbacks on the battlefield if war broke out, and thereby a longer and more expensive campaign. This postponement stemmed from parliamentary allocation of money in the annual budget in peace time, of which the Treasury was the ordained executive and guardian, and which was the essence of Treasury authority and control. In this instance, it was fortified by the self-confidence that Britain could easily recover lost ground and defeat the Boers. It was by no means obvious at the time that Treasury constraints on expenditure were endangering the security of the Empire in South Africa.

The account also suggests that once reinforcements had been sent

out, financial considerations encouraged the Cabinet to work up to a climax on their negotiations with Kruger through an ultimatum. The actual cost involved in the increased garrison was negligible for a country rich as Britain, but the Government was intent on avoiding asking for a vote of extra-ordinary military expenditure, fearing that Parliament would not tolerate the cost of a large garrison in South Africa for a prolonged stay. Consequently, Hicks Beach, representing parliamentary constraints on extra-ordinary expenditure for military precautions against the probability of a war, in the end reinforced on grounds of financial economy, Milner's and Chamberlain's strategy of risking a military solution to the crisis.

The Treasury intervened in various other ways throughout the war, though its power of veto was largely reduced by the imperative of winning it. Peace time rules of accounting in detail to the Treasury for war expenditure were suspended, but the chancellor attempted on numerous occasions to influence war strategy on financial grounds, and the Treasury's interference in little things, in aggregate brought protests from ministers against obstruction to the war effort. They objected, for example, to Hicks Beach impeding the replenishment of the military stores, to his opposition to increasing the pay of the soldiers, and to increasing the size of the army during the war which, he feared, would lead to a permanent increase in the size of the regular army after the war.

From July 1900 onwards, Hicks Beach made positive demands on the Cabinet to reduce the force in South Africa, demands which required a change in war strategy, in order to put a brake on war expenditure. He believed the war was far too expensive to be left to the generals. At first, he failed to persuade the Cabinet to overrule the generals and interfere directly in war policy, but by June 1901, after further pressure from him, the Cabinet endorsed the policy of protection, and asked that the force in South Africa be drastically reduced. Treasury pressure for curtailing war expenses by way of changing war strategy seemed at long last to have

succeeded; but the new policy was never pressed on Kitchener, and the strategy of total engagement continued, with relatively little success and very high cost. The Cabinet were very reluctant to impose war strategy on the generals, despite their desire to reduce war expenditure. The lack of military preparations before the war and the early defeats inhibited them from interferring with the military once the war had to be won, thereby limiting effective Treasury influence over war expenditure.

II

While Hicks Beach wished to raise a substantial part of the war cost through taxation on Gladstonian principles, other ministers wanted to minimize the tax increases and pay for the war largely through loans. The outcome was inevitably a compromise - increased taxation, with a substantial part of the cost met by loans. Ministers exerted great pressure towards the end of the war against further tax increases, especially in income tax and the home duty, which would largely fall on their own party supporters. They were in favour of raising the entire war needs from loans. But the Treasury insisted on a further increase in taxation. The fact that two thirds of the war expenditure were raised in the end through borrowing, only one third by fresh taxation, indicates the strong resistance of the Unionist Government to taxation, and the limits of Treasury control, where the politics of party survival were at stake.

The Treasury, as has been suggested, had to play a dual role: as Parliament's executive controlling Government expenditure, and as the financial executive of Government policy. The problem was how to reconcile the two roles. Even an orthodox Chancellor of the Exchequer like Hicks Beach could not ignore the Government's party political needs. On one occasion, for example, he presented Parliament with an inflated war estimate, much larger than the actual estimate for the financial year 1901-1902. The large surplus was intended to see the Treasury through to peacetime and cover the continuing expenses of the war's aftermath in the first peace time budget, when Parliament would expect considerable

reducion in taxation for military purpose. Hence, Hicks Beach and ministers conspired to raise in one financial year sums that would be required in subsequent peace years, a highly irregular procedure according to Gladstonian financial orthodoxy.

Another traditional doctrine of parliament and Treasury control was that so far as possible the self-governing colonies rather than the home tax payers should bear the cost of their defence, and Hicks Beach did his best to comply with it. The only explicit piece of cost-benefit analysis made by the Treasury as regards the war suggested that the gold mines of the Transvaal would eventually repay to the Treasury a substantial part of the cost of the war. Throughout the war and after it, the Treasury sweetened its demands on Parliament for money with assurances that the cost of the war would eventually be recovered substantially from an indemnity from the Transvaal. The prospective indemnity was also used as a bait to attract investors into short term war loans and to assuage public resentment against mounting taxation. The Transvaal loan of 1903 is but one example of the Treasury including the hope of indemnity in its financial demands to secure parliamentary approval. By wrapping the imperial guaranteed loan of £35 million for the Transvaal's reconstruction in the promise of £30 million indemnity, which by that time the Treasury knew to be quite illusive, the imperial loan, required by Chamberlain and Milner to reconstruct the politics of collaboration in South Africa, was the more easily obtained from Parliament.

III

The unexpectedly large war expenditure created problems of liquidity for the Treasury, but Britain avoided a serious financial crisis. Her enormous financial resources afforded the Government a large margin for military and financial error. The Treasury had at its disposal the City's loan market which easily sustained large loans throughout the war, and a large tax capacity that could be tapped for short-term effort

during the war. There was, however, as Hicks Beach told the Cabinet, a budgetary crisis, due to the failure of the tax system to exploit Britain's vast financial resources; not only to meet the short-term cost of war, but also the long-run rise in normal peace time public expenditure on social reform and defence. The war exacerbated long term problems that had been accumulating in peace time. The Empire had expanded and its defence costs had increased in proportion. Ordinary public expenditure had increased also because of extensions of the franchise and the growing political and social awareness of the working classes, which compelled the Government to pay attention to their wishes, thereby bringing orthodox Treasury principles into question.

It is difficult to define Treasury control precisely, except in practice. Salisbury's criticism of Treasury control was an expression of the Government's frustration at the fiscal othodoxy which denied them the freedom of action they often wished, especially in time of crisis such as in 1899. By blaming the system, at the centre of which stood Treasury control, Salisbury excused the Government's military shortcomings in Parliament. Since both Treasury and Government functioned within the prevalent financial orthodoxy, the constraints were as much political as financial. Treasury control was, in effect, parliamentary control. As an instrument of Parliament's financial control over the executive, Treasury control was perhaps the most important element in the internal checks and balances within the British system of government.

But the Gladstonian Treasury in the person of Hicks Beach was not able or willing to cope with the increase in public expenditure. The chancellor, believing the Empire was expanding beyond Britain's means to defend it, made positive demands for retrenchment all over the world and a revision of imperial defence policy. But younger men, such as Brodrick, Balfour and Selborne, disputed Hicks Beach's views. They thought it was necessary to increase the defences of the Empire in view of the challenges from rival Powers. The dispute reflected a broader conflict between those who adhered to the principles of the nineteenth century

Liberal State - minimum taxation or involvement of the state in public affairs, a small army and reliance on the navy for defence of the Empire, and those who blamed the Liberal State for the military defeats and wished to rectify them by various means, including the creation of an efficient and more centralized state with a large army. While Hicks Beach wished to preserve the Liberal State, and Salisbury feared it was not possible, Brodrick and others tried to utilize the opportunity the war afforded to modernise the state and enlarge the army.

The dispute centred on public finance. There was a growing breach within the Cabinet between those who held modern views on public finance, and those who adhered to the Gladstonian orthodoxy. While Hicks Beach wished to keep down public expenditure, other ministers feared the disruptive effect of his fiscal orthodoxy, certain that the Treasury under him would deny them the necessary funds after the war. The growing rupture between Hicks Beach and ministers endangered the Government's cohesion and the future of the Unionist Party. Hicks Beach's final resignation from the Cabinet was largely due to this rift on financial matters. Ministers' objection to Hicks Beach's fiscal orthodoxy amounted, in effect, to questioning the viability of the existing fiscal system, and a direct challenge to the Treasury's conventional role in the British system of government. The Treasury tried through the annual peacetime budgets to run a war for which it was totally unprepared and return quickly to ordinary peace time finance, while these men saw an enlarged army and a reserve fund for military contingencies as essential for imperial defence. Hence, changes were possible only if they reformed Treasury control of the purse on the basis of peacetime annual budgets.

The solution to the growing budgetary crisis seemed to be in reforming the existing fiscal system. But Hicks Beach objected to a major reform of direct taxation for increasing its yield. He wished to contain direct taxation and looked instead for permanent new forms of indirect taxation. There was ample margin for expansion of both direct and indirect taxation, but a lack of consensus among the Unionists did not

make it feasible and led to budgetary crisis. The war emphasized the orthodox view of the income tax as a reserve for emergencies and the sinking fund as a second financial reserve. The war had raised the national debt by £160 million, a high price for a colonial war in orthodox financial eyes. From their point of view, the maintenance of Britain's credit was as necessary for its security and power in the world as the maintenance of armed forces. The war also raised questions concerning the taxable capacity of both individuals and the country, and whether taxation was only for revenue purposes, or should serve as an instrument of long-term social policy.

In these circumstances, Hamilton believed the Gladstonian orthodoxy was breaking down, and that the change in public attitude to expenditure was reflected in both Parliament and Government. The orthodox Gladstonians claimed that Britain's institutions were going through major changes; that as Governments with the tightening of party discipline could rely on their parliamentary majorities for any sums they thought necessary, Parliament's power to demand economy in Government expenditure had diminished. Consequently, the powers of the Treasury, Parliament's financial executive, were being reduced in proportion. Treasury control, which had ensured Britain's financial solvency and political independence, and safeguarded against military and imperial adventures and the loss of civil liberties, was dwindling at its source with the drift of parliamentary opinion in favour of extravagance.

The Government, however, despite their large majority, feared Parliament. The reason may partly be found in the fact that men such as Salisbury and Hicks Beach either did not perceive the political and social changes that were taking place in Britain, or were unable to bring about the adjustments required in its political institutions. Salisbury, a sick man, had neither the strength nor the inclination to change Britain's institutions. He only wished to bring the war to a satisfactory conclusion and thus postponed the difficult decisions to after the war, when he would

be gone. Hicks Beach was so immersed in the old Gladstonian orthodoxy that he was unable to acknowledge the changes in the relative strength of the governing institutions, or to perceive the required changes in financial priorities.

IV

The Treasury calculated the cost of the war in terms of its effect on the annual budget and on parliamentary opinion, not on long-term cost benefits. It had no systematic estimate of either the cost of the war or the amount that could be expected as indemnity from the Transvaal. It saw the war expenditure as an extra-ordinary phenomenon, a question of a temporary adjustment to ordinary, pre war 'normal' levels of revenue and expenditure. The Treasury's view was restricted largely to the current year's budget and next year's estimates, and how to present them so as to secure approval in Parliament. As there was no long-term approach to the cost of the war, there was no long-term provision for war. The approach was short-term, ad hoc financial expedients, whether the resort was to the Bank of England, or the stock market, or the Transvaal indemnity.

Furthermore, the Treasury took little account of the question of the profitability of fighting a colonial war, in terms of the profits and losses to British trade, or the security of its investments in the mines and railways of South Africa. It is hard to find any explicit reference to these considerations which, to a modern economic planner might seem to be the essence of a cost-benefit balance sheet, although, no doubt, some vague notions of profit and loss on this account were implicit in the thinking of the Treasury and the Cabinet. The economic cost-benefit considerations were subsumed in terms of imperial strategy and the balance of power between Boer and Briton in South Africa. This, however, was the business of the Colonial Office. Implicit in this idea of imperial supremacy in the sub continent was the unspecified sum of all British economic interests in South Africa and the East. But how these interests

actually were affected by the war and its expense, and whether the war was economically beneficial, was never explicitly elucidated.

The Treasury did not apply cost-benefit analysis in 1899, apart for who would pay for the war, because it was thought unnecessary. It was accustomed to an annually increasing revenue from constant levels of taxation which in the past had left a margin for overseas contingencies. In the past, colonial campaigns had cost comparatively little, and some of the charge was usually transferred to colonial or to the Indian revenue. On the same principle of transferring imperial costs to the colonists who benefited from them, the Treasury assumed a considerable contribution from the Transvaal by way of indemnity, but without taking account of the economic or political implications of charging the Transvalers for their own conquest when it came to the test of re-establishing imperial loyalty in South Africa. Intent on its accounts, the Treasury was remarkably slow to grasp that the war had destroyed the Rand's capacity to bear the indemnity for the time being and that, before the Transvaal could recover sufficiently to pay for the war, Britain would have to invest heavily in reconstructing its administration and economy. Upon this belated discovery, the Treasury considered raising another loan to enable the Transvaal to pay the indemnity. But to lend a British colony money to be paid back to the Treasury proved the rebuttal of the Treasury's approach. It was forced to relinquish any claim to an indemnity which could only be exacted at the cost of the colony becoming a financial liability on the imperial Exchequer.

At first, the Treasury expected the war to be won quickly at an estimated cost of £10 million, while assuring Parliament that much of the cost would be recouped by way of indemnity from the defeated Transvaal. After three months of war the estimate was revised to £50 million, two months later to £68 million, almost as much as the cost of the Crimean War. A small colonial expedition had turned into a war on a European scale. By April 1901, the estimated cost had risen to £153 million. Eventually, the charge to the British Exchequer was £217

million, twenty two times the original estimate, and not a penny-worth of indemnity was exacted from the Transvaal. Treasury intervention and influence on the approach to outbreak of the war, its conduct and its aftermath, proved to be based on unrealistic short-term financial estimates that discounted the over-riding requirement of imperial strategy in South African politics. 'Treasury control' in this instance was by and large as ineffective, as its estimates of the cost of the war and who would pay for it, were unrealistic.

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