The BUDGET OF 1933

BY W. T. LAYTON.

"THE NEW WAY" SERIES

No. 2.

PRICE SIXPENCE

THE DAILY NEWS
BOUVERIE STREET, LON

"THE NEW WAY" SERIES

II.

The Budget of 1933

By

W. T. LAYTON.

NOTE.

In these post-war years all accepted political doctrines are undergoing challenge, and a vast number of intelligent people have lost the anchorage of political principle, and are drifting in bewilderment on a sea of conflicting ideas.

The pamphlets of which this is one are designed as a contribution towards clarifying this confusion. They are issued under the auspices of the Council of the Liberal Summer Schools. But they are not intended to preach a rigid party orthodoxy. Their aim is constructive study and enquiry rather than dogmatic assertion or acrid denunciation. Some of the writers are not even professed adherents of the Liberal party. But all have been invited to write because they have given special study to the subjects with which they have to deal. And all are united by two beliefs: the first, a deep dissatisfaction with many aspects of the existing order, at home and abroad; the second, a conviction that these evils cannot be cured by the glib repetition of sweeping formulæ, or by violence or class-conflict, or by mere destruction, but only by hard thinking and good will.

THE BUDGET OF 1933

"Annual income twenty pounds, annual expenditure nineteen nineteen six: result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six: result misery."

THIS sound piece of advice of "that famous English financier Mr. Micawber" was the theme of a discourse by the American delegate to the Brussels Financial Conference of 1920. The French interpreter, to make the point clear to his cosmopolitan audience, gave the quotation in francs; the Belgian printer, thinking that 500 francs was too small a sum to figure in an important financial statement, assumed that six noughts had been omitted, and in the French text of the verbatim report next morning we learned that "a country whose income was 500,000,000 francs and expenditure 490,000,000 francs would be happy and prosperous, but with expenditure at 510,000,000 francs would be faced with disaster." Though between them they had hopelessly bungled the epigram, and incidentally given the writer endless trouble in answering inquiries from Dutchmen, Finns, Peruvians and Chinamen as to who this new financial expert might be, our Continental friends had by accident stumbled on the soundest of the rules of public finance. There may be some who think the doctrine that a nation must pay its way is old-fashioned or academic, and it is true that a nation may put off the disagreeable necessity for a season. But the reprieve is only temporary, and in the end,

in one form or another, income and outgo *must* balance. A nation that lives by borrowing will one day have to tax its citizens to pay interest and principal on its national debt, while the country which endeavours to carry on by the issue of paper money is indirectly but surely depriving its citizens of purchasing power. The cost of government, of armaments, or of subsidies, must inevitably and in the long run be drawn from the available resources of the country. There is no escape from this necessity, and when we enunciate the maxim that countries should balance their budgets we are, in fact, saying that it is better that this inevitable equilibrium between the activities of government and the deduction which it makes from national resources should be a conscious and carefully planned act rather than be left to economic forces which are often extremely harsh in their operation.

Budget equilibrium is thus not merely a matter of national account keeping. It underlies all questions of national policy and of social reform. The expenditure side finances, and therefore limits, the activities of the State at any particular period. The revenue side is also a matter of the greatest economic importance, for the way in which taxes are levied may greatly affect economic activity, and may even considerably alter the distribution of wealth among various sections of the nation. The graduation of direct taxes in relation to wealth, which was the chief innovation in taxation policy in the twenty years before the war, largely received its public support on these grounds, and one of the problems of the future is undoubtedly whether the instrument of taxation is to be further extended for the purpose of modifying the unequal distribution which results from the system of private enterprise.

But important though it is even in ordinary times, the Budget is superlatively important to-day, for it has to meet the burden of interest upon something like two-thirds of Great Britain's war costs—the remaining third having been paid for out of current taxation during the war. The financial legacy of the war will be appreciated from the fact that, in the present year, interest on debt, the charge for Sinking Fund, War Pensions, and outstanding war obligations amount to about £450 millions; that is, to two and a half times the total of our last pre-war Budget. With this enormous sum to pay in addition to the greatly swollen cost of Government administration, of defence, and of various forms of current expenditure, it is little wonder that there is a disposition to take a pessimistic view of the future, and, in particular, to regard this heavy burden as blocking the way for a generation to all schemes of social amelioration which involve public expenditure, however modest. The total which we have to raise each year is, indeed, enormous; but it is well to keep a sense of proportion. The object of this paper is to show that, if the financial principles which were developed, in the main by Liberal Chancellors of the Exchequer, before the war are applied with consistency and vigour, if all avoidable expenditure is drastically curtailed, if a sound monetary policy is pursued, and if we can secure steady progress in material production, our burden may be reduced to manageable proportions.

In a discussion of this kind, however, vague statements have little meaning, and the thesis of this paper has, therefore, been cast into the form of a hypothetical Budget ten years hence. It is hardly necessary to say that this is not in any sense a prophecy. It is merely an expression in figures of

what we may hope to attain if certain policies are continuously pursued.

The Budget and Prices.

Of the considerations mentioned in the preceding paragraph, the two that are most fundamental and will affect most the ability of the country to meet its obligations are: (1) The future value of money; and (2) the future productivity of the country.

The war debt is payable in pounds sterling, and its burden, therefore, depends largely upon the future level of prices. The interest charge is fixed at about £310 millions, and this would be a crushing obligation if the joint national income of the country only amounted to £2,000 millions. But if all prices, wages, salaries, etc., were doubled, so that the national income became £4,000 millions, the burden of this fixed charge would be greatly reduced, though the physical production of the country would be unchanged. It is obvious that if we cared to indulge in inflation, as Germany has been doing, and raise prices and wages enormously, and so depreciated the £, that part of the national debt which is payable in pounds sterling would, in fact, be virtually repudiated. In view of the object lessons which we have recently been given by certain countries of Europe, there is no one who would seriously recommend that solution in Great Britain. On the other hand, it is evident that if wages and prices were to fall back to their pre-war level the burden of the national debt would become much heavier than at present. Now the future of prices is to some extent in our own hands, and may be influenced by monetary policy. Prices in 1923 have, on the average, been about 75 per cent. above those current in Great Britain in the five years before the war. I suggest that it

would be sound policy for Great Britain to endeavour to maintain prices at about this present level. Some of the national debt was borrowed when prices were lower than at present, but some of it at a higher level, and from the point of view of equity to the nation's creditors the fairest outcome would be that capital and interest should both be repaid with prices approximately where they are to-day. Moreover, a steady level of prices is of the utmost importance in encouraging steady trade development and legitimate business enterprise, while checking the violent variations of employment which are the greatest disturbing element of our economic system. In what follows I shall assume that in the next decade prices will not fall appreciably below their present level; that by 1933 the slow, but definite, upward movement in prices which had been in progress for twenty years before the war, owing to the rapid growth of the world's gold supply and to economies in its use, will have been resumed, and that in that year we may assume prices to be about 100 per cent. above the average level of the five years before the war.*

The Budget and Production.

The second and even more important consideration is the future of Great Britain's productivity. What assumptions can we make on this vital problem? The significance of the question is at once apparent if we consider for a moment what happened one

* This does not mean inflation or that the £ will remain, divorced from a gold standard. The indications are that, long before the decade is over, American prices will have risen to at least 100 per cent. over those prevailing in 1909-14. If this anticipation is correct, normal relations between the dollar and the £ will be resumed—perhaps at an early date—not by the fall in English prices, but by the rise in American prices.

hundred years ago. It is not generally realised that the burden of our present national debt is approximately the same as that which was left by the Napoleonic Wars, when measured in proportion to the wealth of the country. Our present national debt is about ten times the national debt of 1818, but the joint income of the nation to-day is also ten times the national income of 1818.*

The situation is, therefore, not entirely unprecedented. In the century that followed the Napoleonic Wars the national debt became a matter of steadily diminishing significance owing to the enormous growth of population and of wealth in the nineteenth century. Can we safely assume that this process will be repeated in the twentieth century? It would take the discussion too far afield to enter into this highly speculative question. For the purpose of the present discussion I shall assume the answer to be as follows:—Since other great industrial nations have challenged, and even surpassed, the achievements of this country, and manufacturing processes and commercial practice, which one hundred years ago were almost confined to Great Britain, are now world-wide, we cannot expect to repeat so rapid a development of either population or of wealth per head as that which occurred in the nineteenth century. On the other

* It was estimated that in 1818 the national income was nearly £400 millions; the National Debt was £791 millions; and the debt charges in the Budget £32 millions, *i.e.*, about 8 per cent. of the nation's income. In 1913, the national income was about £2,240 millions, the National Debt £651 millions, and the debt charge £24½ millions, *i.e.*, about 1¼ per cent. of the nation's income. In 1923 the gross national income is not far short of £4,000 millions (thanks to the rise in prices), the National Debt is £7,733 millions, and the debt charge £350 millions, *i.e.*, nearly 9 per cent. of the national income.

hand, we may take it for granted that there will be little, if any, slackening in the progress of man's control over the material world, or in the spread of population in unoccupied or thinly-peopled areas, or in the diffusion of the products of material progress among the more backward and densely populated countries of the world. This should mean a large and continual growth of the world's international trade. It is not unduly optimistic to assume that Great Britain's geographical position between the old and new world, her natural resources, her industrial history, and the quality of her people will enable her to retain, not her old proportion, but at all events a large and increasing amount of this international commerce. I shall, therefore, assume that the total material income of the country in terms of goods and services will increase by 10 per cent. in the next decade—an increase substantially more modest than the average increase during the last hundred years.

The Budget and Protection.

It is, however, important to emphasise that such an increase could not possibly take place, but, on the contrary, we should be faced with a fatal shrinkage in our material well-being, if any government were so foolish as to attempt to make Great Britain self-sufficing. Our material progress has been made possible because we have been a nation of specialists, exchanging our goods and services for the products of other specialised communities, and our wealth will only increase if we continue on this course. It is obvious that if every nation shut itself off, and, by prohibitions or high tariffs, succeeded in making itself self-sufficient, international trade would cease. On the other hand, overseas commerce would reach its maximum if all barriers to trade are removed

and the nations pursue a policy of international division of labour and concentrate on those forms of production for which they are most suited. It is no accident that, while the dependence of Great Britain on exchange is also fully realised by all of our great exporting industries, the leaders of the shipping industry of Great Britain have been, and remain, the staunchest defenders of Free Trade. In basing my forecast on a 10 per cent. increase of national wealth in the next decade, I assume that Great Britain will remove all traces of Protection from her fiscal policy. By so doing she will not merely remove her own barriers to trade, but will free her hands to take the lead once more among the nations in a policy of removing of barriers which have tended so seriously to increase since the war.

This increase of wealth is not so optimistic an assumption as might appear at first sight from the fact that we have at present such an unexampled number of unemployed in this country. These large numbers represent, in the main, the increase in the adult population since 1914. The high birth-rate of the eighties and early nineties has been having its effect in recent years on the number of persons of wage-earning age in the country, and, as emigration stopped during the war, the increase of persons between 15 and 60 was very large. If we look at the actual numbers employed, where figures are available, they are as great, or greater, than those of 1914. Two years ago the most optimistic estimates did not put our physical volume of production in Great Britain higher than 80 or 85 per cent. of the pre-war figure. That percentage has risen to something in the neighbourhood of 100 per cent. during the present year, and must increase well beyond 100 per cent. if we are to absorb even our present unemployed.

A 10 per cent. increase in our national production in ten years is, therefore, a very modest assumption, and we must hope greatly to exceed this.

Principles of Taxation.

Having made these two assumptions in regard to the fundamental conditions, I turn to the more definitely fiscal aspects of the Budget of the future, and will deal, in the first place, with taxation. It will be readily agreed that we should endeavour, on the one hand, to make the total burden of taxation as light as possible, and, on the other, that we should so adjust it that taxation falls as equitably as possible and interferes as little as possible with the free development of our economic life. As regards the first point, taxes inevitably act, partly as a check upon savings, and partly as a check upon consumption. One of our first cares must be that saving should not be unduly discouraged. If taxation gets beyond a certain point, or if very drastic changes are made, those who own capital or are in a position to save may be tempted either not to do so or to take their possessions abroad, and thus make it more difficult for home industries to get an ample supply of capital. There is no reason to think that our taxation up to the present has led to an exodus of capital from Great Britain, but it has happened in some other countries of Europe. We cannot altogether ignore the comparison between the taxation levied in Great Britain and the taxation levied in more fortunate countries overseas as an influence which may affect the resources which we shall have for our industrial development.

Capital Levy.

There is, however, no short cut to a lower basis of taxation; nor is it practicable to get the wretched

business over quickly by making a desperate sacrifice here and now. The capital levy has been put forward as a way of doing this, but I shall put this solution on one side. A very pertinent contribution was made to this controversy by Sir Josiah Stamp a year ago at Oxford,* and I do not propose to deal here with arguments which are now very familiar. It is unsound to argue that, whereas taxes on income are perfectly legitimate, taxes on capital are inherently wicked, for we already have capital taxes in the Budget; and capital is a common basis of taxation abroad. But there are grave economic and practical objections to the plans commonly put forward. It is, however, for what I may call the political arguments that I put the capital levy on one side. A capital levy would only be tolerable as a substitute for some of the existing taxes on income. But there would be a temptation to a Government bent upon high expenditure to *keep taxes on income high* in addition to the levy on capital. This would mean an intolerable burden on industry. Moreover, the fear is deep rooted that if a capital levy were once imposed it might be repeated, perhaps as part of a deliberate policy to get into the hands of the State a large part of the nation's industrial capital. As time passes these fears gather force. I do not believe it will be practical politics for any party to impose a capital levy ten years after the war has passed into history. At any rate, my purpose is to show what can be done by other means.

These objections, however, would not apply to a voluntary payment out of capital. I throw out for consideration the suggestion that a part of the existing income and super taxes should be earmarked as War

* *Essays in Liberalism.* Collins, 2s. 6d.

Tax, and that the taxpayer should be offered terms which might tempt him to compound for these taxes by a capital payment at his option. This principle was successfully applied to the land tax of a hundred years ago. The suggestion might be worked in two ways. One is that income tax payers might compound, say, for sixpence, a shilling, or one-and-sixpence in the pound on their income for a period of years or for life. This plan would have a certain speculative element about it, for if the taxpayer's income was increasing during the period he would be getting off lightly, whereas if his income were dwindling he would be paying more than on the income tax principle and the Treasury would benefit. This speculative element might, indeed, be one of the attractions of the scheme to the public. The other device is that, by a capital payment made now, the taxpayer would be entitled to deduct a given fixed sum from his income tax payment for a given number of years. This plan would be much less speculative than the first, except that the taxpayer would benefit if the rate of interest in general fell. He would, in fact, capitalise his income tax payments on favourable terms. If either of these plans proved attractive they might do something to relieve the overwhelming influence which the debt, and the consequential activities of the Treasury, exercise at present in the capital market.

If, however, we must abandon any hope of a short cut to ease the situation in our public finances, we must consider carefully how the burden of taxation may be adjusted so as to fall more fairly and without harmful effects. In this connection there are certain proposals for altering our tax system which call for notice before we are in a position to outline the Budget of the future.

Site Values.

In the first place there is the proposal to tax site values of land. The arguments for taxing site values depend upon the economic results of removing taxation from buildings or agricultural improvements and fixing the burden in proportion to site value. The plan does not open up a large untapped source of taxable capacity; still less is it a source from which all other taxes could be replaced. The total income of landlords from both houses and land before the war was not much more than the total Budget receipts. Obviously the whole income of landlords could not possibly be taken in taxation without serious economic effects, for the greater part of it represents the return to capital invested in buildings or land improvement, and not a rent for site value at all. To-day, when rent has been prevented from rising by legislative enactment, while the Budget has increased fourfold, the idea that a *single tax* would meet our needs is *fantastic*. Moreover, real property not only bears the ordinary taxation of income under the income tax, super-tax, etc., but it also bears an exceptionally heavy burden in respect of rates. The Liberal policy of taxing land values aims at easing the housing situation and encouraging development by transferring existing burdens on real property from existing assessments to site value, and so avoiding the folly of taxing improvements to buildings or land. The change is an important and very desirable one, and a start should be made by assessing new buildings on the new basis. But this means a transfer of taxation. It is not a new source of income.

Death Duties.

In the second place, economists, politicians and business men in many countries have been in recent

years asking whether the State should not control to a greater extent than it already does the right of inheritance. Death duties are already heavy, but the arguments in their favour, which are dealt with in another pamphlet of this series, are strong. Being levied at a time when property is being transferred, they cause less disturbance than a corresponding levy at any other time. They are a tax upon capital, but, as assessments of estates are being made continuously, they do not involve the enormous difficulties which would be involved in the assessment of the whole nation's capital at any one time, and finally, and perhaps most important, they undoubtedly can be used to limit the exaggerated advantage with which the inheritors of great wealth are able to start in life. The tax is commonly paid out of income by the device of death duty insurance policies, and even if it is not so paid it, in fact, falls upon income, because the inheritor has his capital reduced. But though it is to be regarded as a capitalised income tax, it is one which the taxpayer can adjust to his changing circumstances, and can pay when and in what form it suits him best. There is a case for amendment of our present law when an estate changes hands a number of times through deaths occurring in rapid succession. But such objections can be met by administrative changes; they are not a criticism of the principle.

Direct v. Indirect Taxation.

The income tax and super-tax will, however, remain the chief instruments of our financial system. There is much to be done to make them more equitable, particularly in the direction of reducing the burden on precarious or earned middle class incomes and by adjusting abatements on family incomes. The sug-

gestion of Mr. Sidney Webb to divide family income in proportion to the number in the family, and to give abatements on each section of the income, is an extreme one. But the present plan, though it has increased abatements, etc., as compared with the inadequate allowances of five years ago, is still much too favourable to the unmarried receiver of earned, and still more of unearned, income. I contemplate a more radical graduation of the income tax both in its lower and in its upper ranges. But with this proviso it remains the most elastic, the most direct and the most innocuous in its economic effects of all our taxes. In any case, direct taxes, and the income taxes in particular, have many advantages over indirect taxes. The latter take no account of the circumstances of the taxpayer, and in the case of taxes on necessaries cannot be evaded, but must be borne by rich and poor alike. But the income tax can be graded to fall in proportion to the ability of the taxpayer to pay. Again, whereas taxes on commodities tend to raise their price and directly affect the economic circumstances of the market for the commodity in question, the income tax has very little effect upon prices, which, for the most part, are governed by the costs of those who make very little profit, but only just pay their way.

On the other hand it would not be equitable to endeavour to abolish indirect taxes altogether. For administrative reasons it is not easy to impose an appropriate income tax on wage-earners, the cost of collection and the difficulty of assessment being prohibitive. At the same time, in a democracy where nearly the whole adult population has a vote it is politically undesirable that there should be a large class which does not contribute to the Exchequer and is, therefore, not directly interested in the important

question of securing Budget equilibrium. There is a strong case to be made on these grounds for maintaining indirect taxes to a small extent upon necessaries, which should be regarded as the wage-earner's definite contribution to Government revenue. The case for luxury taxation is even stronger. Such taxes are paid in small amounts at a time when the taxpayer is parting freely with his money, and the convenience of this method of raising revenue is strengthened by the consideration that, if it has any influence on the taxpayer's action at all, it is to check forms of expenditure that are not particularly desirable. In the desire to ease the burden of the main taxes hitherto considered, an effort must be made to find new sources of luxury taxation. The proposed tax on betting seems to me to fulfil all the conditions of a good luxury tax, its imposition tending to restrict, if it affects at all, the amount of betting done. The further taxation of motorists is another obvious source of revenue, particularly because these taxes, whether upon cars or petrol, are comparatively easy to administer.

Beer and Tobacco.

While, however, our indirect taxes can be supplemented with advantage, there is no question that our present dependence upon the alcoholic and tobacco duties is excessive. In the present year these taxes will probably yield about £200 millions (of which £50 millions will be from tobacco), a figure which is more than 25 per cent. of the Government's total revenue for the year. If these receipts increase with increasing population and wealth, while the Budget shrinks, these taxes would in ten years represent one-third of the Government's revenue. The task of forecasting the yield from these duties

ten years hence involves another prophecy. I venture to suggest that the influence of temperance propaganda, the increase of other forms of amusement than that of lounging in a public-house or tippling in a club, the growing disapproval of public opinion towards drunkenness, and the recognition of improved health and efficiency that results from sobriety, will combine to reduce the consumption per head of alcohol in Great Britain, even if these influences do not lead us to prohibition. I think, therefore, that in any case we should be wise to anticipate a reduced yield from the alcohol duties.

The idea that these taxes should be used as a lever for reducing the consumption of alcoholic liquors raises the question whether taxes should be used for other than financial purposes. To some extent these taxes undoubtedly limit the consumption of alcohol. It is obvious that, if the whole of these duties were repealed, beer, wine and spirits would be so much cheapened that their consumption would certainly increase. On the other hand, a reduction from their present high level to something nearer the pre-war duty would, in my judgment, have a comparatively small influence as compared with the more deeply rooted influences just mentioned. And when we get on to purely fiscal grounds, there is solid reason for regarding these high yields as a weakness in the British Budget, for we put too many eggs into one basket. If a wave of temperance spread over the country the Exchequer would be seriously depleted, and would need to improvise quickly some new sources of revenue. It may be said that greater temperance would make England so much more efficient that other taxes would quickly become more productive. But such increases could not possibly fill so large a deficit as would be made in the

Budget. Moreover, if indirect taxation is intended in the main to supplement direct taxes, and to be paid by the large number of voters who do not come within the ambit of the Inland Revenue, it is right that the incidence of indirect taxes should be as wide as possible. I suggest, therefore, that on all grounds it is proper to budget for a reduced, and not for an increased, yield from the alcohol and tobacco duties. If the reduction comes of itself, it will be a welcome sign of sobriety ; but if not, we must make a beginning to broaden the basis of taxation ; but not by cheapening alcohol so much as to encourage a largely increased consumption.

To sum up the main changes in the drift of taxation in the next decade, I suggest there should be further readjustments of income tax as between high and low, earned and unearned, and individual and family incomes, and that we must endeavour to secure a reduction in the rate of the income tax, part of which should be compensated by an increased yield from death duties. Secondly, a search should be made for new sources of indirect taxation upon luxuries, to compensate for the reduction of taxation upon necessaries ; and we should modify somewhat our excessive dependence upon the alcohol and tobacco duties.

Reparations and Allied Debts.

Before leaving revenue, it should be observed that, in forecasting the Budget, no allowance should be made for any receipts either in respect of the debts due to us from our Allies or in respect of reparations from Germany. Up to the present it is true that we have received a certain amount in reparation payments, but our revenue from this source has been more than swallowed up by the cost of the armies of occupation. There are three grounds for writing

these two items off as bad debts. In the first place it is the principle already adopted by British Chancellors of the Exchequer; in the second place, one may venture to prophesy that if Europe is to return to settled conditions—an assumption on which all the figures in this paper depend—it is certain that the German reparation debt will have to be written down to a figure which will not do much more than pay the cost of actual physical damage, and that it will not be practicable to reach a general agreement with France, Italy and Belgium if we insist that part of their receipts must be passed on to us in the form of interest on Inter-Allied debt. Thirdly, it may confidently be expected that, in the long run, public opinion in this country, and probably in America also, will recognise that this is not merely a practical necessity, but also that it is the only just solution of this problem. If the burden of the war were adjusted between the Allies in proportion to their ability to bear it, with due regard to the sacrifices, not only of money but of men, that they have made, France, Italy and Belgium would certainly not be regarded as being in our debt. If the British people get it into their heads that France has run amuck in Europe, and that her policy unnecessarily prolongs the political and economic disorder of Europe, they will be disposed to use every available means of bringing pressure upon her to alter her policy, and one of these may be a request for her to pay our debts. But if at any time we arrive at the point that we can again co-operate with France to secure real peace in Europe, and thus restore Allied solidarity, the idea of asking France to hand over to us any part of those receipts from Germany, which are needed to restore the waste places of Northern France, would be repugnant to the British sense of justice.

It may be asked whether this line of reasoning does not apply also to our debt to America. The answer is that the two cases are not on the same footing. The United States Government never gave its adherence to the repeated declarations of the Allies to one another that they undertook to pool their economic and military resources in the common cause. America was not in the war in the same complete sense as the European nations, and if she decides to hold to the conception of limited liability, and to impose upon herself for the purpose of the war a fraction only of the financial burden which the European beligerents bear, that is her own affair. The fact that it is smaller in proportion to her wealth than our own burden should not affect our gratitude for a contribution to Allied morale, man-power and matériel which was a decisive factor in the ultimate victory. Our payments to America are in respect of food and munitions sent freely to this side; they are an essential part of the cost of the war, and, so long as America calls for repayment, the European Allies must pay—with thankfulness for timely aid. But which of them should pay, and in what proportion, are questions that should be decided—as all the debts incurred between the European Allies should be determined,—by our respective abilities to bear the cost which the war imposed upon us.

Expenditure.

Turning now to expenditure, there are certain general propositions that may be laid down. First, as regards the War Debt. If we reject the capital levy we must be prepared to substitute for it a bold and drastic sinking fund policy. This must not be, as at the beginning of the nineteenth century, a matter of chance, but the policy must be pursued

without hesitation. Our present plan of a maximum sinking fund of fifty millions a year will require one hundred and fifty years to pay off the war debt. On the other hand, if we added to the sinking fund the saving of interest that will gradually be made as the debt begins to dwindle, we should bring in the principle of compound interest and write off the debt in about forty years, and towards the end of that period we should be paying off £200 millions or so of debt a year. This is too rapid. My proposal is that the present sinking fund of fifty millions should be increased by the amount of interest saved annually until the sinking fund reaches one hundred millions, and that thereafter no further increase should be made. This will write off the debt in about eighty-five years. War pensions will automatically fall, and may be assumed to be at about half their present level at the end of ten years.

On the rest of the Budget there must be vigorous economy. The most critical item is Defence. On the assumption that the Washington Agreement is followed by land disarmament in Europe, and the League of Nations becomes an effective instrument, it is assumed that military and naval expenditure can be reduced substantially below the standard prevailing before the war, and that the actual cost will be about the pre-war figure. As to other items, on the assumption that prices will reach about double the pre-war level, the cost of the central Government Departments, administration of justice, and our foreign services, both political and commercial, cannot presumably be reduced below twice the pre-war figure. This leaves us with the important social services. For the moment we will assume that expenditure on Old Age Pensions, Education

(so far as paid for out of taxes), and other items under this head remain at their present figure.

The Budget of 1933.

We are now in a position to set out the figures of a hypothetical Budget for 1933, giving, for purposes of comparison, the figures of the last pre-war Budget, as well as those of the present year. In the revenue table—Table I—an additional column has been added under the head of the present Budget, showing what the revenue this year will amount to under present conditions when the tax remissions made this April have taken their full effect and certain temporary sources of revenue are eliminated. It will be remembered that Mr. Baldwin has made arrangements for the gradual disappearance of the Corporation Tax, which will mean a loss of £20 millions to the Exchequer. Abnormal arrears of Income Tax probably account for £20 millions under direct taxation which will disappear. Special items of war revenue may, perhaps, persist for a long time, but they cannot be included at all in considering the permanent characteristics of our revenue system.

The revenue figures for 1933 have been first set out on the assumption that rates of taxation remain as at present, but a second column has been added showing receipts when a balance has been struck between the need of reducing taxation on the one hand and the call for urgent forms of social and other expenditure on the other. The figures show a revenue for that year of £680 millions, arrived at in the following way:—£45 millions of new taxation is provided for, £25 millions being the proceeds of increased taxes upon inheritance, and £20 millions increased taxes upon luxuries, including, say, £10 millions from a tax upon betting, and the rest from various sources, to

which a substantial contribution will be made by the motoring public.

No allowance is made for readjustments in the Income Tax, it being assumed that losses of revenue resulting from more liberal abatements, and costing, say, £25 millions, will be met by steeper gradations of the Super Tax. It is, however, assumed that the rate of Income Tax will fall to 3s. in the £1, at a cost of £78 millions, and that indirect taxation will be relieved by the abolition of all protective duties, reduction in the tea duty to 4d. in the lb., halving of the sugar duty, and a reduction of £20 millions in the yield of the beer and tobacco duties—the total remissions costing £37 millions. The indirect taxes in the Budget would be £40 millions from entertainments, motoring and betting, £25 millions from tea, sugar, etc., £45 millions from tobacco, £160 millions from alcohol, and the balance from the less important items.

The second table* shows expenditure. It will be seen that the items of expenditure for 1933, on the basis already briefly indicated, amount to £50 millions less than anticipated revenue. Of this surplus it is assumed that £20 millions will be required for additional expenditure on social services, leaving £30 millions available. This margin has been allocated in the forecast to local authorities, on the ground that, during the next decade, it will be imperative to reduce what is, in fact, the heaviest of all our indirect taxes, *viz.*, that upon houses levied in the form of local rates. In the last financial year £176½ millions was raised by the various local authorities, the purposes for which this sum was spent being approximately :—Relief of the Poor, £30·4 millions ; Education, £36·8 millions ; Police, £9·8 millions ; and Other Services, £99·5. It may be argued that, in the main, the expenditure of the last £100 millions improved

the value of house property, and may properly be made a charge upon it. This may be so, but it has to be remembered that, whether the house tax is levied for these "Other Services" (roads, lighting, drains and the like), or whether it is levied for public services, such as relief and education, for which the taxpayer gets no direct or proportionate return, the method of levying taxes in proportion to housing accommodation imposes a burden which increases in proportion to the size of the family, and is, therefore, heaviest where the wage or salary already has the most calls upon it. The burden of rates is so large that some means must be found of shifting some of it from houses. At the same time, it would lead to hopeless confusion to allow local authorities to levy their own direct taxes, or even their taxes upon commodities. In many countries the central government returns to local authorities a definite proportion of the revenue it receives from all the multifarious forms of national taxation. It is not necessary to make so radical a change as this; but there is little doubt that some of the heavy expenditure of local bodies should be transferred to a broader and more varied basis of taxation. This reform must not be rejected because it will be difficult to harmonise grants in aid with the desire for local independence of central control. This problem of administration must be solved, for a carefully thought-out scheme of larger contributions from central funds to local purposes, combined with the slow but continuous transfer of local rates to the site value of land, are among the most hopeful means of relieving the housing deficiency.

A forecast of the Budget of 1933, and a comparison with those of the present year and of the last year before the war:—

TABLE I.—REVENUE.

	Pre-War Budget.	Present Budget.		Budget of 1933.	
		Actual.	When remissions made this year have taken full effect and war receipts ended.	On existing taxation, but allowing for 10 per cent. increase in wealth.	On basis of additions and remissions proposed in the text.
	Mill. £	Mill. £	Mill. £	Mill. £	Mill. £
Direct Taxation...	75	406	366	402	349
Indirect Taxation	75	294	290	320	303
Other Revenue ...	23	26	26	28	28
Special War Rev.	—	40	—	—	—
Total Revenue ...	173	766	682	750	680

It is to be noted that the present Budget includes under the heading of "Central Government Expenditure" and under "Other Consolidated Fund Charges" considerable payments to Ireland—compensation and non-recurring payments to Northern Ireland. The second item also includes items in respect of emergency measures of relief, such as road construction.

This programme, though containing no new revolutionary principles of taxation, nevertheless gives

---

The figures in both the tables slightly differ from those actually given in Budget statements by omitting both the revenue and expenditure of the Post Office. It is very misleading to swell the figures of both sides of the balance-sheet by including the costs of a commercial undertaking such as this. Strictly speaking, the profit of the Post Office should be carried to revenue, but this has been omitted on the grounds that these profits may well be devoted in the future to the cost of cheapening communication.

ALLOCATION OF SURPLUS.

Additional Grants in aid of Local Authorities... ...	30
Additional Expenditure on Social Services	20
Total Expenditure	680

TABLE II.—EXPENDITURE.

	Pre-War Budget. Mill. £	Budget of 1923-4 Mill. £	Budget of 1933 (as indicated in the text). Mill. £
WAR CHARGES—			
Interest on debt ... }	24½	310	280
Sinking Fund ... }		40	70
War Pensions	Nil	73½	35
Outstanding war payments...	Nil	15½	Nil
Mesopotamia and Palestine...	Nil	8½	Nil
Total Charges	24½	447½	385
DEFENCE—			
Army	28	48½	—
Navy	49	57	—
Air	—	11½	—
Total Defence	77	117	80
SOCIAL SERVICES—			
Education	19½	48	48
Old Age Pensions	12½	23	23
National Health Insurance }		6	6
Other Costs of Ministry of Health (includ. housing) }	6	16(10)	16
Ministry of Labour (including Unemployment Insurance and Assistance) }	—	14(10)	17
Total Social Services ...	38	107	110
Central Government, not included under Social Services	16	52	32
Collected for Local Authorities	10	10	10
Other Consolidated Fd. Charges	1½	20	4
Cost of Collection (Inland Revenue and Customs)... ...	4½	11½	9
Total Expenditure ...	171½	765	630

plenty of openings for radical reform. It calls for a development of taxation of wealth passing at death; it develops and improves the graduation of our main system of direct taxation; and it introduces very considerable reform in our taxes upon land and housing. It preserves a certain balance between direct and indirect taxation, with a definite tendency towards an increase in the proportion levied directly as compared with pre-war practice. But of the indirect taxation which is retained, a very small proportion is levied on necessaries. Finally, the programme makes a clean sweep of any protectionist or preferential duties in the British tax system.

On the assumptions on which the plan has been drawn up, the national income of 1933 would be about £5,000 millions. On this total the Budget which has been outlined amounts to about 14 per cent., compared with 9 per cent. before the war—not an intolerable increase.

Half of the expenditure in the Budget consists of the charge for interest on and the repayment of the War Debt. Under the scheme proposed it would be twenty years before the total figure of £350 millions is reduced. By that time this figure would already begin to be less burdensome in proportion to the growing wealth of the country, and, as the actual total began to fall thereafter, the way would be clearer for the next generation to use the instrument of public finance with greater freedom. It may be added that the reduction of the income tax to three shillings in the £ leaves our revenue system with a margin for increasing taxation once more in the event of some fresh great national emergency.

Social Programme.

The purpose, however, of this paper is to show that the rehabilitation of our national finance may be

carried out without shutting out for several decades any hope of social reform. If the Budget, as drafted, can be realised, the way would be clear for many important steps forward. In the first place, it has to be remembered that social reform does not merely consist in giving certain classes of people sums of money out of public funds. On the contrary, many notable developments may be made at a comparatively small administrative cost. For example, any step that would improve the relations between capital and labour and reduce the number of strikes would not merely be a profitable investment to the taxpayers, but, in fact, would probably increase the revenue through the greater productivity of industry. There are strong reasons for thinking that if the Government would encourage the organisation of a National Assembly of Industry it would help towards this end. Its cost would be as small in proportion to what we now pay in social insurance as our contribution to the League of Nations is minute in proportion to the sums we pay for national defence. Similarly the improvement of our economic system calls loudly for adequate machinery for preventing abuses by Trusts and Monopolies. The cost would be small, and the increased sense of public security an economic asset. Yet a third illustration is our Trade Board system, which is doing a great work at small expense in preventing avoidable human suffering, no less than in checking the demoralisation of the wage market through sweated labour. Thus the field for social reform, at the cost only of administration, is a very wide one.

But even when we come to more expensive forms of social reform the Budget I have outlined contains considerable possibilities. Even allowing for prices 100 per cent. higher than before the war, the figure

in the Budget for social services shows more than a 50 per cent. increase—the post-war equivalent of the pre-war figure being £80 millions, against which we have provided for £130 millions. This figure includes a substantial and continuous expenditure on housing; it allows an expenditure of £10 millions on unemployment insurance, with a hidden reserve of £3 millions spent this year upon the training of ex-soldiers, etc. With unemployment normal, these figures, which are based upon a high rate of contribution from all parties to the insurance scheme, would furnish a handsome surplus to the unemployment fund, which would enable much more adequate benefits to be paid, all forms of insecurity to be provided against, and the poor law to be eliminated as a means of contribution to the normal maintenance of the unemployed. There is, moreover, a further margin for other purposes, which would make it possible to carry out such obvious reforms as the extension of Old Age Pensions to all persons, regardless of whether they have saved or not. There would also be funds for the important task of widening the opportunities for secondary and university education for those who cannot pay their own way. Such expenditure is quite properly to be regarded as remunerative, provided always that efficient control is exercised and extravagance avoided. The provision of educational facilities for those who are able to take advantage of them is carrying out in the highest degree the first object of society, namely, the fullest development of the potentialities of the individuals who compose it, and is at the same time enriching national life by exploiting to the full all its potential ability, and, incidentally, is removing an important source of quite justifiable discontent. Indeed, the opposite policy of leaving the nation's human resources undeveloped is the highest folly.

Armaments v. Social Reform.

But the outstanding feature of the Budget is that these margins for carrying on the task of social reform will only become available on the assumption that our enormous war expenditure, which is responsible for the biggest debt item in the Budget, will not have been entirely spent in vain, but will make it possible in the future to reduce military expenditure very drastically by saving us from ever again having to renew the armaments competition which so heavily burdened our Budget before the war. In short, this Budget puts into figures the fact that the finance of the future will be a balance between the struggle to secure lower taxation on the one hand, and the rival claims of social reform and militarism on the other.

The rather optimistic future which it depicts, however, cannot be taken for granted. It will only be attained if the assumptions on which it is based are fulfilled, and the financial policies indicated steadfastly pursued in the meantime.

"THE NEW WAY" Series.

1. The New Liberalism.
   By RAMSAY MUIR.
2. The Budget of 1933
   By W. T. LAYTON.
3. Why I am not a Socialist.
   By R. H. BRAND.
4. Houses for All.
   By E. D. SIMON.
5. Property and Inheritance.
   By HENRY CLAY.
6. The Ebb and Flow of Unemployment
   By D. H. ROBERTSON.