

104. We deal first with expenditure. This may be classified as follows :—

Adjustable
Expenditure.

TABLE 5.—PUBLIC EXPENDITURE.

(Figures in £ m.)				1929-30.	1932-33 (estimate.)
Debt charges	..	..	..	10·73	11·07
Unemployment	..	..	..	..	1·45
Exchange	..	..	..	..	1·10
Total				10·73	13·62
All other expenditure	..	..	..	14·47	13·10
Total				25·20	26·72

We may look upon "All other expenditure" as adjustable expenditure more readily subject to economies. The table shows that net economies to the amount of £1·37 m. have already been made by a reduction in Public Service salaries of 10 per cent. and by other measures. It will, however, be necessary to reduce this adjustable expenditure in much greater measure if the Budget is to be balanced. We have assumed that a 25-per-cent. reduction over all adjustable expenditure on the 1929-30 level is possible. This might be achieved by a second reduction of 10 per cent. in salaries and emoluments, by substantial cuts in pensions and other statutory allowances, and by drastic general economies. Such economies might be made without unduly impairing existing social services, and therefore would not have a disturbing effect upon the volume of employment and general economic conditions. A reduction of 25 per cent. on the 1929-30 basis would produce total economies of £3·62 m. Of this, £1·37 m. has already been achieved leaving £2·25 m. to be made.

105. With regard to the other expenditure which we classify as normally non-adjustable expenditure, unemployment accounts for £1·45 m. This is only half the total estimated expenditure on unemployment for 1932-33. (See paragraph No. 41 above.) In view of the serious condition of the public finances and the general economic conditions, it is doubtful whether a satisfactory Budget plan can be devised when new expenditure of £2·9 m. for unemployment as compared with 1929-30 is imposed upon the Budget. There is little compensating influence upon the revenue from this expenditure. For the most part it remains a dead weight, like interest on unproductive debt. If the total were reduced to, say £2 m., and the whole of the revenue for this sum raised from a special unemployment-tax on wages and salaries, the Budget would receive relief to the extent of £1·45 m. Such a step would necessitate a fundamental change in unemployment policy, but in view of the serious condition of the public finances this may be found necessary. It must be borne in mind that, if this policy is adopted, additional direct unemployment taxation is necessary by increasing present rates and extending the tax to classes now exempt. If the Budget deficit is not to be increased, any amount in excess, say, of £2 m. would require further increases in taxation.

Non-adjustable
Expenditure.

106. With regard to expenditure on exchange, we have discussed in Section VIII, above, the effects of a return to parity of exchange upon the Budget. It is only necessary here to point out that the sum of £1·1 m. includes £0·4 m. exchange on Treasury bills in London. It is possible that this £0·4 m. will not be required in 1932-33, and, in any case, it will be a non-recurring item in the Budget, and will thus provide a contribution towards Budget equilibrium from 1933-34.

Exchange.

107. No contribution to the Budget would normally be expected from an adjustment in the interest burden, except in so far as reductions of interest were made possible from conversion operations as loans mature. Under present conditions, however, the adjustments to be made in public and private finance and in all income elements are of such magnitude that consideration of the burden of fixed interest payments is necessary. In Section X we have dealt with the importance of this subject as regards private interest. We propose now to consider alternative methods of dealing with interest on the public debt.

Interest.

108. One method of dealing with the situation is by levying a special stamp duty on interest on the internal debt held by the public and the Government commercial Departments, embracing maturities commencing in 1933. This interest amounts to nearly £3·4 m. on a capital sum of £68 m.,* or nearly 5 per cent. On this amount a flat-rate duty of 20 per cent., with concessions on the lower-dated stocks, would produce approximately £0·6 m. The remainder of the internal debt held by other Government Departments could not be taxed with advantage to the Budget, unless they were able to pass on the tax to their clients. This would not be practicable in the circumstances, and the gross relief to the Budget would therefore be of the order of £0·6 m. On the other hand, there would be a loss to lending Departments if the duty were accompanied by a general reduction in fixed charges on private debts. We estimate this loss below at £0·3 m. In these circumstances the net relief to the Budget would be £0·3 m.

Special Stamp
Duty on Interest.

* This sum includes £32·5 m. free of income-tax the interest on which amounts to £1·4 m.