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S E C R E T.

C A B I N E T.

P.4314.

THE NECESSITY FOR NATIONAL ECONOMY.

Note by the Chancellor of the Exchequer

My colleagues, on taking office, will no doubt receive pressing applications for expenditure, in many cases on objects with which we should all sympathise.

I desire therefore to take the earliest opportunity to make clear that, without any new expenditure whatsoever and without any reduction of existing taxation, the problem of making next year's Budget balance will be one of supreme difficulty. So far from increased expenditure being incurred, very considerable reductions in existing expenditure over and above the reductions made last year and at present contemplated for 1923/24 will be necessary if we are to avoid increased taxation next year. Any appreciable addition to our expenditure will certainly mean a proportionate increase in the Income Tax.

I only wish to add that, if the present tendency to improved trade continues, State borrowing e.g. to meet maturing short term debt will be increasingly difficult. Money taken for Government purposes is money taken away from trade and borrowing will thus tend to depress trade and increase unemployment.

(Intd.) S.B.

TREASURY, S.W.,

20th November, 1922.