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CABINET.

AN EMPLOYMENT POLICY FOR THE ELECTION.

MEMORANDUM BY THE SECRETARY OF STATE FOR DOMINION AFFAIRS.

THERE can be no mistaking the public insistence on a definite and effective employment policy for the coming election. No one expects us to compete with Mr. Lloyd George in extravagant schemes for borrowing hundreds of millions in anticipation of speculative land dealings, or with the Socialists in similar schemes plus a general policy of doles based on confiscatory taxation. But we are expected to do something, and something much bolder than can be done within the ultra-conservative financial limits which we have hitherto set ourselves.

We have to consider three main points : what the programme is to be, how it is to be financed and when it should be launched.

The answer to the last question is obvious. Our policy, whatever it is, should be announced with the Budget, and the financial provision for it should form part of the Budget. No other procedure can compare with that in giving our proposals that note of actuality, of practicality, of immediacy, which will at once distinguish them from the hypothetical generalities of our opponents. It is a procedure which is only open to the Government in office. Its adoption would show our confidence in our own prospects. It would at once transfer the whole initiative to us: our proposals would hold the field, and our opponents would have to conform to our strategy and devote themselves to discussing our schemes in Parliament and outside. Any other procedure will expose us, when the Budget comes, to the taunt that we have not, even at the eleventh hour, thought out our policy, and that we do not really believe in it, or in our return to power, because we have made no financial provision for putting it into effect.

When it comes to the financial method to be adopted, it is no less obvious that, even if our schemes are to be on a much more modest scale than those put forward by our opponents, they must, if they are to produce any appreciable effect, or appeal to the imagination of the public, involve expenditure considerably in excess of our normal Budget provision, which is already heavily mortgaged to the cost of making good our de-rating scheme. One alternative would be to raise the necessary money by fresh taxation. As we are apparently debarred from imposing any form of revenue tariff, and as the revenue from any future safeguarding duties is still speculative, this would mean, in practice, an increase in income tax or super-tax. For us to alienate all our best supporters on the eve of the election by adopting the policy of our Socialist opponents is out of the question. Another alternative—again that chosen by our Liberal opponents—is to find the necessary sums by loan. To this there is first of all the ordinary objection to increasing our indebtedness with conversion schemes in the offing. But there is the further objection that any loan policy will involve legislation after the election, which means not only delay but also the certainty of legislative limitations and safeguards which will seriously impair executive freedom to make our policy effective. Lastly, as I hope to show subsequently, some of the most effective things we can do require, not fresh money, but the remission of existing taxation and loss of current revenue.

There remains the third alternative: to provide for any necessary fresh expenditure, or loss due to the remission of taxation, by reducing our normal provision for debt redemption. From the point of view of the financial purist this is at any rate no worse in principle than the raising of fresh loans, while, in practice, the measures which I suggest would reduce the Sinking Fund by less than the increase of indebtedness involved in any ambitious schemes on a loan basis. It is, of course, awkward to go back, even temporarily, on a programme of debt redemption so recently announced. But unless we are to steer straight on to the rocks politically, some measure of inconsistency is unavoidable. Mr. Snowden will sneer, but the sneer will be on the wrong side of his mouth, for the public will be quite indifferent to anything but the actual positive measures we propose. As for the City, it knows quite well what the alternatives are, and will content itself, outwardly, with a shake of the head, and with unfeigned inward relief, if we have produced a policy that will help trade and keep us in.

So much for the "when" and "how" of our policy. Now for "what" that policy should be. The essentials are that it should appeal, in the first instance, to our own supporters, and that it should be consistent with, and appear a natural development of, policies and methods already adopted, so that we can point to it, not as a last moment conversion, inspired by panic, to the policies of our opponents, but as a bolder and more confident advance on lines already adopted and an improvement of methods already tried out. It should aim in the first place, not so much at temporary State

aid for the unemployed as at increasing the opportunities for permanent employment by liberating industry from unfair or vexatious restrictions. In the second place, it should aim at enlarging and securing our whole economic basis by promoting Empire trade and development—in the opinion of the Balfour Committee (see p. 23 of their final report), "a cardinal object" of national policy.

I venture to submit for consideration some suggestions which might figure as items in such a policy :—

Abolition of the Horse-Power Tax on Motor Cars.

The De-rating scheme relieves industry generally of an unfair burden. Its provisions have been specially designed so as to concentrate the maximum of relief on certain hard-pressed old-established basic industries. Safeguarding apart, there is not much more that can be done for them. But there are new basic industries whose expansion is no less important than the preservation of the older ones. Of these none can touch in importance the motor industry, which is rapidly becoming the key industry of the modern world. This industry already employs directly not far off 250,000 persons, and indirectly at least twice as many more. Yet it is, in fact, only an infant industry in this country. Its total output is barely one-eighteenth of the American output.* Its production for the home market alone would be quadrupled if we used cars as freely as the Americans, and might well be doubled. It has in the British Empire, in South America and in Asia, potential markets of almost illimitable capacity of absorption. Yet this industry, whose expansion might easily afford additional employment to hundreds of thousands in the next few years, is paralysed, so far as the external trade is concerned, by a system of taxation which is little less than sheer insanity. Under that system it is impossible to build for use in England a car that can be sold in any quantities in any part of the Empire or in any neutral market outside. To build a car specially for those markets is out of the question, for the scale of production would be insufficient to enable us to touch American prices. Nothing but this crazy tax prevents our manufacturers building cars equally suitable to British and foreign road conditions without increase of cost, but with a substantial decrease resulting from an ever-increasing output. Incidentally the tax seriously discourages the acquisition of cars, even in this country, in so far as it taxes not the use of a car but the ownership of it.

No artificial measure could give anything approaching the increased employment, and largely skilled employment, as the abolition of a tax which is almost as prejudicial to expansion on the modern scale as the old law compelling a man with a red flag to walk in front of any mechanically propelled vehicle. A small registration fee, graded on an ascending scale by weight, might still be retained, yielding, say, £2,000,000 a year as against

* The American motor exports for the 10 months ended October 1928 were \$440,177,392.

the £10,000,000 of the Horse-Power Tax. But there should be no attempt to equate the revenue lost by any other form of taxation of the motor industry or by any immediate further increase of the petrol tax. The object is not revenue but the stimulation of production, and I can think of no way in which revenue could be more economically sacrificed from that point of view. The immediate loss, in any case, need not be very large. The production of cars to new designs, and the arrangements for marketing and service overseas must necessarily take time, and as far as manufacturers are concerned, it would serve their purpose quite well enough if they knew that the horse-power tax were coming off in six months' time, or even at the end of the year. In the latter event, the actual loss to the revenue in the new financial year would only be about £2,000,000, or £4,000,000 if the tax came off in the autumn.

Incidentally no measure could have a greater political effect. I am thinking not merely of the million and more owners of cars scattered throughout the community, or of the help those cars might be at election time. The retention of the tax is, to all business men, standing proof of the Government's incapacity to understand the problems of modern industry. Its removal would be hailed as evidence, not only of a real desire to help, but, above all, of a "forward view."

Road Construction.

The moneys available for this should be increased by as much as can be really effectively spent without creating serious administrative difficulties. I am not in a position to form any estimate, but can only conjecture that there ought to be no difficulty in speeding up work to the extent of £5,000,000 a year, possibly £10,000,000.

Home Development Fund.

A fund should be placed at the disposal of a Committee presided over by the Minister of Labour to enable him to subsidize the construction of public works and utilities, and the promotion of drainage, reclamation and afforestation schemes, with a free hand to negotiate terms in each case which will secure the maximum of additional employment and, where desired, of transference from the distressed areas. Here, again, I can only suggest, tentatively, that £5,000,000 a year is as much as is likely to be spent effectively, at any rate in the first year.

British Marketing Fund.

The success of the Empire Marketing Board has created a widespread demand for a corresponding expenditure on promoting the marketing of British manufactures at home and overseas. A fund administered on the

same flexible lines as the Empire Marketing Fund could be utilised partly for publicity at home and overseas, in conjunction, if possible, in each oversea market with a corresponding effort made by the industries themselves; partly for an expansion of the overseas organisation of the Department of Overseas Trade; partly for assistance to research into problems affecting industrial production and marketing. The amount required for such a fund might be fixed, ultimately, at £1,000,000 a year, but, judging by the experience of the Empire Marketing Board, more than, say, £350,000 could not be effectively spent in the first year, and the maximum would not be reached for three or four years after that. The fund might be expended by a Committee or Board of Ministers, officials and business men, under the President of the Board of Trade, possibly utilising the secretarial machinery of the Empire Marketing Fund.

Colonial Development Fund.

My experience of the various methods hitherto adopted for speeding up Colonial Development, especially as regards railways and public works, has convinced me that the only way of securing real progress is by adopting in this field also the flexible type of financial machinery which has proved itself in connexion with Empire Marketing and Research. An annual fund should be provided out of which a Committee or Board, comprising commercial and technical members, under the Secretary of State for the Colonies could contribute the whole or part of the interest for a certain number of years on railways and other public works in the Colonial Empire in order to expedite their construction, or promote other schemes of general development. The amount to be allocated to this fund should ultimately be at least another £1,000,000, in which, however, might be included the £250,000 a year now spent by the Treasury in grants-in-aid to backward Colonies. Here again, however, only a relatively small amount could be usefully spent in the first year—say, £200,000 new money.

Oversea Settlement Fund.

Experience has convinced me that the existing financial machinery for migration, working, as it does, moreover, under the narrow restrictions of the Empire Settlement Act, is unsuited to the purpose which Cabinet and Parliament alike have had in view, namely, the successful promotion of migration on the largest scale attainable within the financial limits prescribed. Here, again, the provision of a definite annual fund, on Empire Marketing Fund lines, from which money could be allocated to Oversea Governments, or to the Ministry of Labour, or to municipal or private institutions, would lead to far better results. For political, as well as for administrative reasons, some change of machinery is desirable, for

there can be no doubt that, rightly or wrongly, public opinion is not satisfied with the progress we have made with oversea settlement. The fund, in this case, should be fixed at the £3,000,000 a year which has been nominally available ever since 1922, though here, again, it is unlikely that more than £2,000,000 could usefully be employed in the coming year.

Altogether the total fund allocated to Imperial development purposes would be £6,000,000 a year, viz., £1,000,000 Empire Marketing, £1,000,000 British Marketing, £1,000,000 Colonial Development, £3,000,000 Empire Settlement, of which not more than £3,700,000, or, say, £800,000 above the estimates already provided, would be needed in the coming year, rising possibly to £4,500,000 in 1930-31. The immediate increase of expenditure suggested is, therefore, relatively small, but the effect of knowing that there was a comprehensive programme in existence, and a machinery calculated to get the maximum results, would make a real appeal to the public.

Following the very successful precedent both of the Oversea Settlement Committee and of the Empire Marketing Board, representatives of the political oppositions should be invited to sit on each of the various suggested boards and on their sub-committees. To prevent overlapping or conflict of jurisdiction between the various boards, it might be useful to have a co-ordinating Committee of the chairmen of the different boards under the presidency of the Chancellor of the Exchequer. The essential thing is that each board should be under the personal chairmanship of the Cabinet Minister concerned in the execution of the policy, assisted by Ministers from other departments affected, and by business men, and that the matter should not be left to some business committee inclined to regard its functions as quasi-judicial rather than executive. It may seem that I have laid undue stress on the financial machinery in these proposals. But I am convinced that the appropriate machinery is of the very essence of success in dealing with the problem. If our policy is to promote certain ends by the expenditure of money, then it is necessary to have financial machinery which, within the limits set, is calculated to expedite that expenditure and promote the ends in view.

The total additional expenditure or loss of revenue envisaged for the coming financial year in the above proposals would be, say, £15,000,000-£20,000,000, viz., £4,000,000 in respect of Horse Power Tax, £5,000,000-£10,000,000 for acceleration of road programme, £5,000,000 for Home Development Fund, and under £1,000,000 for the initial stages of British Marketing Fund, Colonial Development Fund, and additional migration development. The deduction of this from the Sinking Fund would hardly be calculated to shake our credit in the City. The future cost will depend very much on circumstances. There will be a permanent loss of £8,000,000 a year on Horse Power Tax, which might, however, be partly recouped by a subsequent increase of, say, 2*d.* in the petrol tax. The extra expenditure on roads might be reduced as the industrial situation improved, and the

same might apply to the Home Development Fund. The full development of the Imperial Development scheme, which would necessarily have to be of much longer duration to achieve its end, would involve a total of £6,000,000 a year, or about £3,000,000 above present expenditure on Empire Marketing, Colonial Grants in Aid, and Oversea Settlement.

In any case, the figures given above are purely tentative, and mainly for the purpose of illustrating my proposals, which I would sum up as—

- (1.) Abolition of the Horse Power Tax without compensatory new taxation on the motor industry;
- (2.) Emergency employment policy at home, and
- (3.) Permanent Empire Development policy, both based not on loans or guarantees, but on fixed annual allocations to bodies definitely entrusted with the financial responsibility for putting their policy into effect;
- (4.) The above policy to be incorporated and announced in the forthcoming Budget, and
- (5.) Paid for, not by fresh taxation, but by raiding the Sinking Fund.

L. S. A.

Dominions Office, March 18, 1929.