CABINET.

ECONOMY.

DRAFT WHITE PAPER.

Note by the Secretary.

The attached draft White Paper, which includes the administrative economies to be effected, as well as those requiring legislative sanction, has been prepared by the Treasury in accordance with Cabinet directions of the 3rd September, 1931, (Cabinet 53 (31) Conclusion 3). The draft will be examined at 2.45 p.m. on Monday, September 7th, 1931, by the Conference of Ministers appointed in the Cabinet Conclusion referred to above. In view of the short time available the Prime Minister has given instructions for the paper to be circulated to the Cabinet forthwith.

(Signed) M.P.A. HANKEY.

Secretary, Cabinet.

2, Whitehall Gardens, S.W.1.

4th September, 1931.
Memorandum on the measures proposed by His Majesty's Government to secure reductions in national expenditure.

The following memorandum is divided into two parts. In the first, the proposals of His Majesty's Government to secure reductions of expenditure are explained and a summary of their effect is given. In the second, the points which require legislation in connection with these economies are set out and explanation given of the action which will be taken under the powers sought in the National Economy Bill.
I. Measures to secure reductions in national expenditure.

UNEMPLOYMENT INSURANCE.

The measures proposed in respect of Unemployment Insurance and the estimated economies* in the financial year 1932-3 are as follows.

(1) A reduction of weekly benefit rates (except that for the dependant child) by 10 per cent. rounded off to the nearest 5d.

The following table shows the present and proposed weekly rates for the several classes of insured persons now entitled to benefit, together with the present weekly rate and what that rate would be if a reduction of exactly 10 per cent. were applied:

<table>
<thead>
<tr>
<th>Class</th>
<th>Present Rates</th>
<th>Rates on an exact 10% reduction</th>
<th>Proposed Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Man</td>
<td>17/-</td>
<td>15/-9.95</td>
<td>15/3</td>
</tr>
<tr>
<td>Woman</td>
<td>15/-</td>
<td>13/-9.6</td>
<td>13/6</td>
</tr>
<tr>
<td>Adult dependant</td>
<td>9/-</td>
<td>8/-8.2</td>
<td>8/-</td>
</tr>
<tr>
<td>Child dependant</td>
<td>2/-</td>
<td>1/-9.6</td>
<td>1/-</td>
</tr>
<tr>
<td>Young Men</td>
<td>14/-</td>
<td>12/-7.3</td>
<td>12/6</td>
</tr>
<tr>
<td>Young Woman</td>
<td>12/-</td>
<td>10/-6.6</td>
<td>10/9</td>
</tr>
<tr>
<td>Juveniles:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boys aged 17</td>
<td>9/-</td>
<td>8/-1.2</td>
<td>8/-</td>
</tr>
<tr>
<td>Girls do.</td>
<td>7/-6</td>
<td>6/-8</td>
<td>6/-9</td>
</tr>
<tr>
<td>Boys aged 16</td>
<td>6/-</td>
<td>5/-4.8</td>
<td>5/-6</td>
</tr>
<tr>
<td>Girls do.</td>
<td>5/-</td>
<td>4/-6</td>
<td>4/-6</td>
</tr>
</tbody>
</table>

The saving estimated to result from this reduction is £12,600,000.

(2) An increase of weekly contributions to 10d. each from employers, employed and the Exchequer in the case of men, with corresponding increases in the case of women and other classes of contributors.

* The estimates of economies are based on an assumed average live register of 3,000,000 during the financial year 1932-3.
The present and proposed weekly rates of contribution for the several classes of insured contributors are as follows:

<table>
<thead>
<tr>
<th>Contributor</th>
<th>Employer's contribution</th>
<th>Person's contribution</th>
<th>Exchequer contribution</th>
<th>Total contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>8d.</td>
<td>7d.</td>
<td>6d. 9d. 6¾d. 9d. 19¾d.</td>
<td>30d.</td>
</tr>
<tr>
<td>Young Men</td>
<td>7d.</td>
<td>6d.</td>
<td>6d. 6¾d. 9d. 19¾d.</td>
<td>27d.</td>
</tr>
<tr>
<td>Boys</td>
<td>4d.</td>
<td>5d.</td>
<td>6d. 6¾d. 5d. 11¾d.</td>
<td>15d.</td>
</tr>
<tr>
<td>Women</td>
<td>7d.</td>
<td>6d.</td>
<td>6d. 6¾d. 9d. 19¾d.</td>
<td>27d.</td>
</tr>
<tr>
<td>Young Women</td>
<td>6d.</td>
<td>8d.</td>
<td>5d. 5¾d. 8d. 16¾d.</td>
<td>24d.</td>
</tr>
<tr>
<td>Girls</td>
<td>3½d.</td>
<td>4½d.</td>
<td>3d. 4½d. 3½d. 4½d. 9½d.</td>
<td>13½d.</td>
</tr>
</tbody>
</table>

(3) A limitation of insurance benefit (as distinct from transitional payments) to 26 weeks, after which a fresh insurance qualification would be required.

The effect of this limitation is to transfer claimants from insurance benefit to the transitional class - not in itself to reduce the total payments made (as to which see (4)).

(4) A needs test for transitional payments given after insurance rights have expired.

This will apply to persons now drawing transitional payments and to those coming on to transitional payments in future, including those who do so because they have reached the 26 weeks limit of insurance benefit. They may, however, continue to receive assistance in cash at the same rate as under the Insurance Scheme if they show that they are in need of it. Payment will be made at the Employment Exchange and the recipients will attend there to prove unemployment as at present. The amounts so paid will be a charge on the Exchequer.

The procedure will be that when unemployed persons
come to the end of their insurance benefit and desire to claim further assistance their claims will be referred to the Public Assistance Authority for the district to assess their need, and to determine the amount payable (not exceeding their rates of ordinary benefit). The determination of the Authority will be final.

The estimated saving under this head is £10,000,000.

(5) Provision will be made for dealing with the entitlement to insurance benefit in cases in which persons with broken periods of employment and unemployment draw substantial wages. There are not sufficient data for estimating the saving under this head, which, however, will not be large in amount.
SUMMARY OF UNEMPLOYMENT INSURANCE FINANCE.

On the basis of the continued payment of Benefit (including Transitional Benefit) at the rates and on the conditions at present in force, and with an average live register of 3,000,000, the financial position of Unemployment Insurance in 1932-33, apart from economies would be approximately as follows :-

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit at existing rates</td>
<td>£130,500,000</td>
</tr>
<tr>
<td>Interest on debt at £115,000,000</td>
<td>£5,700,000</td>
</tr>
<tr>
<td>Administration</td>
<td>£7,100,000</td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td><strong>£143,300,000</strong></td>
</tr>
</tbody>
</table>

Towards this sum Employers and Employed Persons would contribute at existing rates £28,500,000

Sum to be provided by Exchequer or by borrowing £114,800,000

The savings proposed to be effected, including the removal of anomalies by regulations under the Unemployment Insurance (No. 3) Act, 1931, will reduce this expenditure as follows :-

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Removal of anomalies, under the Act of 1931</td>
<td>£3,000,000</td>
</tr>
<tr>
<td>Needs test for transitional payments administered through the agency of Local Assistance Authorities</td>
<td>£10,000,000</td>
</tr>
<tr>
<td>Reduction in rates of benefit</td>
<td>£12,600,000</td>
</tr>
<tr>
<td>Increase in Contributions of Employers &amp; Employed Persons</td>
<td>£10,000,000</td>
</tr>
<tr>
<td><strong>Leaving as a charge on the Exchequer in 1932-33, after allowing for economies</strong></td>
<td><strong>£79,000,000</strong></td>
</tr>
</tbody>
</table>

This charge would be made up of three parts as follows :-

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchequer contribution on the 'Equal Thirds' basis</td>
<td>£19,300,000</td>
</tr>
<tr>
<td>Deficiency grant, using the sum required to balance the Unemployment Fund for the year</td>
<td>£22,200,000</td>
</tr>
<tr>
<td>Transitional payments</td>
<td>£37,500,000</td>
</tr>
<tr>
<td><strong>Total saving to the Exchequer</strong></td>
<td><strong>£79,000,000</strong></td>
</tr>
</tbody>
</table>

The saving to the Exchequer is thus £114,800,000 minus £79,000,000, or £35,800,000.
ROAD FUND.

The expenditure from the Road Fund in 1932 was estimated (if existing policies remained unaltered) as £27,865,000 plus the general exchequer contributions paid under the Derating Scheme from the Road Fund. This sum of £27,865,000 will be reduced to a round figure of £20,000,000 - a saving of £7,865,000.

It was estimated that the Road Fund would have required a loan from the Exchequer next year of £10,000,000 to enable it to meet its obligations, and under existing practice, the Exchequer would have itself borrowed this £10,000,000 in order to lend it to the Road Fund. The sum required from the Exchequer will now be reduced to £2,135,000 and this sum will not be borrowed by the Exchequer but will be provided out of a vote of Parliament.

It is intended, also, that in the current year the sum which the Road Fund will require will be provided by a Vote and not borrowed by the Exchequer.

In order to secure the reduction of Expenditure which is essential in the altered financial circumstances new schemes must, of course, be postponed and many schemes in progress slowed down or curtailed on a large scale.
The savings to be secured on these votes will amount to about £1,250,000 in a full year and to about £475,000 in the remainder of the financial year 1931/32.

National Health Insurance.

Remuneration of Insurance Doctors and Chemists.

Since the 1st January, 1924, the remuneration of insurance doctors has been at the rate of 9s. 0d. a year for each insured person included in a doctor's list.

It is proposed that the rate of 9s. 0d. should, from the 1st October, 1931, be made subject to a deduction of one-ninth, and that the product of this deduction should be applied towards meeting expenses of administration of the National Health Insurance Acts which are now met out of moneys provided by Parliament.

The amount which will be realised by this percentage deduction is estimated for Great Britain at £425,000 in the financial year ending on the 31st March, 1932, and at £850,000 in a full year.

A similar percentage deduction will also be made as from 1st October, 1931, from the remuneration at present payable to insurance chemists and the sum realised by this deduction will also be applied towards meeting the expenses of Health Insurance administration at present borne by the Exchequer. The sum which will be realised by this deduction is estimated to amount to about £50,000 in the financial year 1931/32 and to about £120,000 in a full year, subject so far as England and Wales are concerned to the reconsideration of the present contract with the chemists which expires in December 1932.
Exchequer Grant to the National Health Insurance Central Fund.

It is proposed to withdraw the grant of £142,000 per annum which would be payable to the Central Fund as from 1st January 1932 under the provisions of section 68 of the National Health Insurance Act 1924. The Government are, however, anxious that this Fund, which was constituted for the purpose of assisting Approved Societies who are found to be in difficulties on valuation, should be in no way weakened. They propose therefore that the Health Insurance part of the contributions payable by the employers of insured persons over 65 years of age which at the present time is paid into the Pensions Account under the Widows', Orphans' and Old Age Contributory Pensions Act, 1925, should be transferred to the Central Fund. The sum which will be transferred amounts approximately to £300,000 a year.

Miscellaneous.

It is expected that there will be some slowing down of the rapid expansion of housing expenditure as the result of the measures for regulating development of expenditure which are being taken by the local authorities. It is estimated that the savings on this account will amount to about £150,000.
Reductions of Salaries of Ministers and Members of Parliament, Judges, Civil Servants and Members of the Fighting Services

The Government propose that during the period of the present emergency all ministerial salaries shall be reduced: by 20% on salaries of £5,000 a year and over, by 10% on salaries of £2,000 a year and over, but less than £5,000 a year, by 7½% on salaries of £1,000 a year and over but less than £2,000 a year; and that the allowances now payable to members of the House of Commons shall be reduced by 5%.

They propose further that abatements on the same graduated scale - 10% or 20% as the case may be - shall be made from the salaries of Judges and of officers of the four Crown Services whose substantive pay is £2,000 a year or more.

With regard to the remuneration of members of the Crown Services whose pay is less than £2,000 a year the Government have decided to follow throughout the recommendations of the Committee on National Expenditure.

In the case of the Civil Service, the index on which cost of living bonus is based fell by 10 points on the revision made on 1st September 1930 and by a further 5 points on the revision made on 1st September 1931, these reductions involving a total saving to the Exchequer at the rate of £4,800,000 a year, of which the most recent revision accounts for a saving at the rate of £1,600,000 a year.

In the case of the Fighting Services, the changes to be made will take effect as from 1st October and are briefly as follows:

(i) Steps will be taken through the normal negotiating machinery to review a preferential bonus of from 2/- to 4/- a
week which has been paid in the Royal
Dockyards and Ordnance Factories since
1924.

(ii) New rates of pay, introduced in 1925
for the men and lower ranks of officers
in the services, were not then applied
to the existing personnel.
The 1925 rates will now be applied to
all personnel.

(iii) Deductions made from the pay and pensions
of officers in respect of the fall in
cost of living since 1919 will be revised
and brought into harmony with the current
cost of living index. The deduction from
the 1st October 1931 will be based on the
average of the index figures published
for the six months 1st March to 31st
August 1931, and will be 11\% instead of
the 9\% now in force.

(iv) The pension rates of men in the Services
will in future be determined by the
Scheme in force at the date when the
man enters upon his final engagement
which qualifies him for pension. Men
who before the 1st October 1931, had
entered upon their final engagements to
complete time for pension will be
entitled to reckon service prior to that
date on the rates introduced in 1919.

The total savings in 1932 compared with the estimates
for 1931 arising from the reductions of salaries of Ministers,
Members of Parliament, Judges, Civil Servants and Members of the
Fighting Services are estimated to be £4,034,000.
A total reduction, including the reductions in pay already specified, will be made in the Estimates for the Fighting Services in 1952 of £3,600,000.

The Service Departments will secure savings on services other than pay and pensions to the amount of approximately £5½ millions. They will secure these reductions in ways which will have the least effect on the efficiency of the Services but it must be appreciated that in view of the extensive reductions which the Services have made in recent years, these further reductions can only be secured with great difficulty and many of the reductions made will not be of a continuing character.

Police.

(A paragraph on Police Savings will be inserted later when the Home Office and Scottish Office have seen the Representative Bodies).
Education.

A total saving of £9.4 millions in a full year will be made in the expenditure of the Board of Education.

(i) Grants in respect of the salaries of teachers will be calculated on the assumption that as from 1st October, 1931, there is a deduction from the aggregate salary bill. The May Committee recommended that such deduction should be 20%. The Government has carefully considered the position and has reached the conclusion that the deduction should be 15%.

(ii) The Grant in respect of elementary teachers' salaries is 60%. This grant will now be reduced to 50%, but as this reduction of percentage would, notwithstanding the reduction of salaries, increase the salary charge borne by local authorities, adjustment will be made elsewhere in the grant formula with the object of meeting this difficulty.

(iii) The present 50% minimum limit of grant for elementary education will be abolished.

(iv) In addition to the above specific measures, by a general slowing down of the service and other economy measures the increase in the Education Estimates in 1932 compared with 1931, which would otherwise have been £2,250,000, will be restricted to £1,000,000 - a reduction of £1,250,000.

The reductions of expenditure made in England and Wales will involve automatically a reduction of 11/80 of the savings in the grants made for Education in Scotland.

The financial effect in the first full year of the proposals which have been adopted is as follows:—
(1) Abolition of 50% minimum limit of grant for elementary education

£.

(2) Reduction of 15% from the aggregate of teachers' salaries and revision of grant formula for elementary education (i.e. 50% for teachers' salaries and revised capitation grant per unit of average attendance) and allowing an increase of grant to poor areas

5,987,500

(3) Reduction of grants for higher education in consequence of 15% reduction from the aggregate of teachers' salaries

712,500

(4) Reduction of growth of education expenditure in 1932

1,250,000

TOTAL

£3,450,000

Add 11/80 in respect of saving in Scotland

1,300,000

TOTAL

£10,700,000

Owing to the manner in which Government grants are paid only 90% of these savings will accrue in the financial year 1932 and, after allowing for the effect on grants in 1932 of the savings to be made in the current year, the saving in 1932 will be £10,300,000.

The reductions are to come into force as from 1st October 1931. It is estimated that the savings in the current year will be approximately £3.5 million in England and Wales and £5 million in Scotland.

University Grants.

The Vote for grants to Universities and Colleges will be reduced in 1932 by £150,000. The above sum of £150,000 represents an accumulated balance which would normally be used for non-recurrent purposes and can be withdrawn without reducing the annual recurrent grants to any of the University institutions.
Ministry of Agriculture and Fisheries.

The provision for 1932 will be reduced by £580,000. This will involve the discontinuance of grants to landowners for field drainage and water supply schemes, a reduction in the sums available for the assistance of Drainage Authorities and Catchment Boards, the postponement of new developments in agricultural research, and a reduction in the scale of grants to Local Authorities for the provision of agricultural education. Expenditure on National Mark publicity will be reduced, and it will be necessary to postpone the Government grant towards the cost of reconstructing the Royal Veterinary College.

It is not proposed to ask parliament to vote a Supplementary Estimate this year for the purposes of the Agricultural Land (Utilisation) Act, and no provision will be made in 1932 for the purposes of this Act.

On the Fisheries side it will be impossible to include provision in 1932 for maintaining the new Fisheries Research ship. The possibility of placing this ship at the disposal of the industry for research purposes is being examined.

Agriculture (Scotland).

A saving of £75,000 will be made in the case of the Department of Agriculture for Scotland on somewhat similar lines.

Forestry.

The expenditure of the Forestry Commission in 1932 will be reduced by £478,000. This reduction will be secured by restricting afforestation work and acquisitions and by suspending the provision of forest workers holdings. Care will be taken that the Commissioners' nurseries of young plants are not prejudiced.
Empire Marketing Board.

The grant to the Empire Marketing Board will be reduced next year by £250,000. This reduction is additional to savings which will be secured on the gross Votes for the Agriculture Departments in respect of services now financed by grants made by the Board through those Votes.

Colonial Development Fund.

The grant to the Colonial Development Fund will be restricted to £750,000 next year (saving £250,000). The Advisory Committee will be invited to concentrate their recommendations on schemes which will give the greatest and speediest benefit to this country.
UNEMPLOYMENT GRANTS.

As decided by the late Government the last date for applications by Local Authorities to the Unemployment Grants Committee for grants towards schemes of work for the relief of unemployment was 30th June, 1931, though in exceptional circumstances applications after that date in respect of work to begin before 31st December, 1931, are being entertained, provided that good reason is shown why earlier application could not be made. There are at present approximately 900 applications outstanding of an estimated value of about £14,000,000. The rates of grant are being reduced and, except in regard to schemes for which a grant has already been definitely promised, the revised rates will in no case exceed 25 per cent. of the cost of the scheme. It is anticipated on this basis that only schemes of the highest economic value will be proceeded with, and this factor coupled with the reduction in the rates of grant will result in an estimated saving to the Exchequer of £500,000 in 1932/3 as compared with the amount which it would have been necessary to provide had existing rates of grants been continued.
The Treasury has issued a circular to Government Departments calling for a stringent review of their expenditure with a view to supplementing by further economies, the specific decisions of the Government on major issues.

Amongst other economies, a saving of £250,000 will be obtained in 1932 by a slowing down of the work of Land Valuation.

It is expected that this review of miscellaneous economies will produce a total of savings next year of £2,500,000.
II. Action to be taken under the powers sought in the National Economy Bill.

It is proposed that Orders in Council should be made to deal with the following matters (described in more detail in the first part of this memorandum) in respect of which statutory powers are required before the economy measures proposed can be carried into effect:

(1) **Unemployment Insurance.**

   (1) Reducing the rates of benefit.
   (2) Increasing contributions.
   (3) Limiting the payment of insurance benefit to 26 weeks.
   (4) Applying a means test to applicants for Transitional payments.

(2) **Roads.**

   (A note on the legislation required as regards the Road Fund will be inserted here later).
(3) **National Health Insurance.**

(1) applying the saving in the cost of medical benefit (doctors and chemists) towards the payment of the expenses incurred by Government departments in the administration of the National Health Insurance Acts;

(2) withdrawing the Exchequer grant to the National Health Insurance Central Fund under section 58 of the National Health Insurance Act 1924;

(5) transferring from the Pensions Account under the Widows Orphans and Old Age Contributory Pensions Act to the Central Fund the health insurance part of the contributions payable by employers in respect of insured persons over 65 years of age as from 1st January 1928.

(4) **Reductions of Salaries etc.**

(1) authorising reductions of salary on the scale proposed in cases where such salaries are fixed by statute.

(2) repealing an existing provision fixing soldiers pensions on the scale in force at the time of their first enlistment.

(5) **Education.**

(1) abolishing as regards Elementary Education, the obligation to pay a minimum 50 per cent. expenditure grant to Local Education Authorities under Section 113(2) of the Education Act 1921.
(2) Scaled down by 15 per cent. the existing contractual rights to salary of teachers in grant-aided schools or institutions.

(6) Police.

(A note will be inserted later if it is found that the economies proposed in the case of the police require legislation).

(7) Land Drainage.

Abolishing the existing limit in Sec. 22(2) of the Land Drainage Act, 1930, on the amount chargeable on the rates in respect of drainage schemes.
Note: - Estimates (including the sums which would have been borrowed for the Unemployment and Road Funds had existing practice continued) would have been appreciably higher under existing policies in 1932 than in 1931. The saving shown, which is the saving which will be effected in 1932, does not therefore imply that estimates in 1932 will be less than those in 1931 by the figures stated.

<table>
<thead>
<tr>
<th>Category</th>
<th>Saving in 1932</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Reduction of expenditure</td>
<td>25,800,000</td>
<td></td>
</tr>
<tr>
<td>(b) Increased income from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>contributions of employers and</td>
<td>10,000,000</td>
<td></td>
</tr>
<tr>
<td>workmen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total for Unemployment Insurance</td>
<td>35,800,000</td>
<td></td>
</tr>
<tr>
<td>Road Fund</td>
<td>7,865,000</td>
<td></td>
</tr>
<tr>
<td>Ministry of Health and Scottish</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Health</td>
<td>1,250,000</td>
<td></td>
</tr>
<tr>
<td>Reductions of Salaries, etc. of</td>
<td>4,034,000</td>
<td></td>
</tr>
<tr>
<td>Crown Servants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fighting Services (in addition to</td>
<td>5,500,000</td>
<td></td>
</tr>
<tr>
<td>reductions of £5,114,000 in pay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and pensions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Police (Great Britain)</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>Education (Great Britain)</td>
<td>10,500,000</td>
<td></td>
</tr>
<tr>
<td>University Grants</td>
<td>150,000</td>
<td></td>
</tr>
<tr>
<td>Agriculture (Great Britain)</td>
<td>655,000</td>
<td></td>
</tr>
<tr>
<td>Forestry</td>
<td>478,000</td>
<td></td>
</tr>
<tr>
<td>Empire Marketing Board</td>
<td>250,000</td>
<td></td>
</tr>
<tr>
<td>Colonial Development Fund</td>
<td>250,000</td>
<td></td>
</tr>
<tr>
<td>Unemployment Grants</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>2,500,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>£70,052,000</strong></td>
<td></td>
</tr>
</tbody>
</table>