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Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. J. Weldon Jones

FROM : Gerhard Colm *GC*

SUBJECT: A new Beveridge (200 proof)

DATE: November 30, 1944

I would like to bring to your attention Sir William Beveridge's new report, "Full Employment in a Free Society." I would not be surprised if in later years this book would be regarded as a landmark in the formulation of economic policy. The book goes a definite step beyond the British White Paper on Employment. As a guide for immediate policies, it may be too big a step. Yet I think this book will be the center of discussion in the formulation of fiscal policy for sometime to come.

The essence of the book can best be summarized by quoting a table which gives what we would call the nation's budget for the year 1938. In that year there were unused resources which could have produced \$500 million of goods and services. This is shown in the first column. The three following columns show three different ways in which full employment could have been obtained. Route 1 makes up for under-employment by additional loan-financed public outlays which in turn result in an increase in private consumption, investment, and tax revenue. Route 2 follows a policy of a balanced budget. Public expenditures are increased and also tax rates. Tax-financed public expenditures must be increased by three times as much as loan-financed public outlays in order to have the same effect on employment. Route 3 accomplishes full employment by drastic reduction of taxes, thereby stimulating consumption and investments. In the case of tax reduction the budget deficit is much larger than in the case of additional outlays. (See table on next page.)

The conclusion drawn from this analysis is that Route 1 would have been the most appropriate way for accomplishing full employment under the conditions of the year 1938. Although fiscal and budgetary policy is in the center of Beveridge's recommendations, he gives full emphasis to the great variety of other economic policies, domestic and international, which must support fiscal policy.

Beveridge lays down "three rules of national finance," namely,

"The first rule is that total outlay at all times must be sufficient for full employment. This is a categorical imperative taking precedence over all other rules, and over-riding them if they are in conflict with it. The second rule is that, subject to this over-riding categorical imperative, outlay should be directed by regard to social priorities. The third rule is that subject both to the first and second rule, it is better to provide the means for outlay by taxing than by borrowing."

ACTUAL AND FULL EMPLOYMENT OUTLAY IN 1938

(£ Million)

	Actual Outlay at 1938 Level of Employment	Outlay at Full Employment attained by:		
		Route I (Public Outlay)	Route II (Orthodox Finance)	Route III (Remission of Taxation)
Private Consumption Outlay (C)	3,510	3,755	3,135	4,045
Net Private Home Investment Outlay (I).....	420	460	460	460
Balance of Payments Abroad (B)	-55	-130	-130	-130
Public Outlay on Goods and Services from Revenue (R)...	725	860	1,710	460
Public Outlay on Goods and Services from Loans (L).....	75	230	0	340
Unused Resources (U).....	500	0	0	0
Output Capacity (M).....	5,175	5,175	5,175	5,175
Total Public Outlay on Goods and Services.....	800	1,090	1,710	800
Increase on Actual Public Outlay.....	-	290	910	0

In implementing these principles, Beveridge proposes "a new type of budget."

"Adoption of a national policy of full employment means a revolution in national finance--a new type of Budget introduced by a Minister who, whether or not he continues to be called Chancellor of the Exchequer, is a Minister of National Finance."

He develops his proposals as a continuation of the present practice:

"The Chancellor of the Exchequer now presents annually to Parliament a Treasury White Paper on the Sources of War Finance, which sets out, not merely the revenue and expenditure of Government, but the estimated income and outlay of the nation as a whole. In introducing the latest Budget in April, 1944, the Chancellor of the Exchequer expressly used the occasion for a review of the economic and financial position generally and not for a review limited to the activities of the Government. The figures given in the annual Treasury White Paper provide the basis for fiscal policy in wartime. The same type of statistical information--extended and refined--is a pre-condition for a policy designed to achieve steady full employment in peace; in the field of budgetary policy, as in other fields, experience gained in war should be used in peace."

You see why I think that this is a significant new brand of beverage--although I do suggest diluting the 200 proof beverage to perhaps 180 proof so that it may be more agreeable to the American stomach.

CC to Marsh-Rice