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Butler's Budget

MR BUTLER'S Autumn Budget is important not so much for the specific fiscal measures it introduces as for the policy shift it implies. For many, this return to budgetary control of expenditure in the economy will only mean a return to logic, somewhat belatedly. It accepts the truism that in an inflationary situation, monetary policy on orthodox lines is no substitute for specific measures to curb national spending, even as mere fiscal policy is no substitute for credit restraint. The two have to be complementary. And if the Labour Government relied too much on taxes and direct controls and too little on credit instruments, Mr. Butler has so far leaned heavily on the latter to the neglect of the former. He is even now against import controls such as Sir Stafford Cripps revelled in; but should the trade gap widen he may have second thoughts on that too!

That things were likely to come to this pass was evident at the time of Mr Butler's last budget, and many will therefore accuse him of having allowed a drain on the British economy for serving Party interests. By then, the wage-price chase had got going and aggregate demand in the economy was too large to be healthy, increases in output notwithstanding. This had naturally manifested itself in the form of growing Import surplus, rising prices and a general lack of response to the monetary measures implemented. Very unluckily for Mr Butler, his observations last July set in motion a flight from sterling—which abated only after his clarification of the policy towards convertibility at Istanbul in September during the IMF Annual meeting. But in the meantime, the sterling area's gold and dollar reserves had been run down to an alarming degree. As always, the fall in these reserves has spurred the Chancellor of the Exchequer to quick action.

Given his aversion to imposition of import controls, Mr Butler had to resort to a curbing of disposable purchasing power—in order to close the payments gap. He had, prior to the budget, ordered the banking system to reduce its advances drastically; and he had earlier taken steps to cut down hire purchase credit and facilities. But last April, he thought it fit to reduce the budget surplus through tax remissions and adjustments—on the argument that they were essential incentives to larger production, and that increasing output was a better way of checking inflation than cutting down demand on expenditure.

To be fair, Mr Butler has not yet abandoned the last proposition. His latest budget includes no revisions of the income-tax or of death-duties, though there is a thin end of the wedge in the form of an increase in the tax on shareholder's dividends from 22½ to 27½ per cent. It is, of course, a moot point whether all questions of incentives are connected with direct taxes only. Leaving that aside for the present, we need to note that Mr Butler's major proposals are connected with reducing Government spend-Ing and raising the levels of indirect taxation.

Of major Import is the decision to abolish by stages the housing subsidy amounting to about £73 million; to reduce loans to local governments; to stop work on Government buildings at home and abroad; and to reduce spending by the State-run electricity and gas industries. Whether Mr. Butler could or should have gone further in these directions, it is difficult