Cabinet Economic Situation

Note by the Prime Minister

I circulate, for discussion by the Cabinet tomorrow morning, the attached draft of a Parliamentary statement on additional economic measures, which it is proposed that the Chancellor of the Exchequer should make in the House of Commons in the afternoon.

H. W.

10 Downing Street, S. W. 1.

26th July, 1965
The measures taken in the Budget to correct the balance of payments deficit are beginning to take effect. This year’s balance of payments deficit is likely to be well below half last year’s figure. To ensure that we reach our aim of eliminating the deficit in the course of next year and of maintaining the strength of sterling, the Government have decided to adopt the following measures.

A. PUBLIC EXPENDITURE

First, expenditure at home. The Government intend to slow down the rate of expenditure on capital projects and to defer as far as possible purchases of equipment and stores by Government Departments, Local Authorities and nationalised industries.

Housing, schools and hospitals will be contained within their existing programmes. For other capital projects for which contracts have not yet been signed, the starting dates will be postponed for six months. Exemptions will be made for projects in development districts and other areas of above average unemployment. Similarly, purchases of goods will be deferred to the maximum possible extent.

All Government Departments have been instructed to carry out this policy and to arrange for other bodies for which they are responsible to do likewise. The nationalised industries will be called on to follow a similar course of action. Local authorities will be asked to follow suit.

Loan sanction will only be given to local authority projects which are urgently required. In particular, sanction will not be given except in special circumstances to loans for expenditure on civic buildings, offices and a variety of miscellaneous projects which, though desirable in themselves, are not essential at this time. The expenditure in these categories is now running at £150 million a year.

Lending by local authorities on mortgage for house purchase has trebled in England and Wales in the last five years, and in 1964-65 reached £180 million. This will be restricted to the average of the three years ended 31st March, 1965, namely £130 million.

Since the beginning of the financial year drawings by local authorities on the Public Works Loans Board have been exceptionally heavy. In present circumstances a more regular phasing of issues is necessary, and I have asked the Public Works Loans Commissioners to arrange this forthwith.

The Government, in addition to reviewing their own establishments, are asking the local authorities to review their present establishments; and in the light of this to confine net increases in their staffs to very urgent services, where essential professional workers, e.g. teachers, are required.
As regards Defence, good progress is being made with the review designed to reduce the forward defence programme by some £500 million by 1969-70 and to achieve a large cut in that part which falls on the balance of payments. Next year’s programme is being reduced by £118 million below the planned figure. As to other overseas expenditure, all Departments and public authorities are to observe the most stringent economy in overseas expenditure and do all they can to increase overseas receipts.

So much for cuts in existing expenditure. We shall also have to defer some of the desirable social reforms we had hoped to do in the immediate future. We have decided that it will not be possible to introduce an income guarantee scheme in the coming year. First priority must go to wage-related unemployment and sickness benefits.

We have also decided that for the time being we cannot remove any of the remaining National Health Service charges.

We have also decided to postpone, for the time being, the introduction of the scheme of specially favourable interest rates for owner-occupiers.

B. PRIVATE INVESTMENT

The Government will introduce legislation instituting a starting date procedure for privately sponsored construction projects of the value of £100,000 or more with the exception only of housing projects and industrial building.

The control will be made retrospective to all such projects for which no contracts have been entered into before the time of this announcement.

Provision will be made for exempting projects in development districts and other areas with more than average unemployment.

It is further proposed to introduce control over office development in the Birmingham conurbation. An Order giving effect to this will be laid before Parliament as soon as possible after the Control of Office and Industrial Development Bill receives the Royal Assent. As my Rt. Hon. Friend the President of the Board of Trade has already announced, closer control over industrial building will also be introduced when this Bill becomes law. It will become necessary in the London and South Eastern, Midlands and Eastern Regions to obtain an industrial development certificate for industrial development exceeding 1,000 sq. ft.

C. HIRE PURCHASE

I have decided to reinforce the Hire Purchase measures. As from tomorrow the maximum repayment period of H. P. contracts will be reduced from 3 years to 30 months. This will apply to all goods which are now subject to H. P. controls other than furniture, bedding, cookers and water heaters, for which the period will not be altered.
D. EXCHANGE CONTROL

I propose to introduce some further changes in exchange control. The first concerns direct investment outside the Sterling Area for which official exchange has been allowed on the ground that it is specially favourable for the balance of payments. For the time being no further approvals will be given for the use of official exchange in such cases. All approved projects will have to be financed with investment currency or by borrowing abroad.

Another change concerns investment currency. I announced in the Budget that certain receipts of foreign currencies by residents of the United Kingdom which had hitherto been allowed to be sold as investment currency would in future be exchanged at the official rate. The same change will now be made in respect of certain other receipts, including the proceeds of life policies and the assets of immigrants redesignated as residents of the United Kingdom.

The next change relates to prepayment for imports. At present payment for imports into this country may be made at any time between the date of contract and the date of arrival of the goods. In future payments will not normally be allowed before the goods have been shipped. This should produce a useful once-for-all saving and help to check excessive purchases.

Finally, I am asking the Bank of England to exercise more uniform control over borrowing in this country by companies registered here but controlled by non-residents of the Sterling Area.

If these exchange control changes are continued for a full year, the saving in official exchange should be at least £45 million over the next year.

E. IMPORTS

It is the Government's policy to limit to the greatest possible extent facilities for financing imports of manufactured goods for home consumption and imports of all kinds for stockbuilding. With the Government's approval, the Governor of the Bank of England has now written a further letter to the banks. It asks them to scrutinize with even greater care than they do already all requests for credit when there is prima facie evidence that to provide the finance would facilitate payment for imports.

F. EXPORTS

My Rt. Hon. Friend the President of the Board of Trade is introducing from Monday next a further improvement in the E.C.G.D. bank guarantee facility, by reducing the qualifying contract value from £50,000 to £25,000.
Arrangements are also being made to reduce the cost of shorter-term credit. This will affect a much larger volume of exports, and help many more companies. For shorter-term credits of at least 30 days and less than two years, guaranteed unconditionally by E. C. G. D., the Banks have agreed in principle to make finance available at Bank Rate. This compares with rates of around 1 per cent above Bank Rate at present. The scheme will involve a large extension of E. C. G. D's unconditional Bank Guarantee facility.

Details will be announced as soon as possible.

G. CONCLUSIONS

These measures taken together, will result in a further substantial improvement in our balance of payments. Industry has its part to play. The key to the situation is productivity and particularly the problem of over-manning. We intend to identify particular cases of restrictive practices on both sides of industry and take specific steps to eliminate them.