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C(67) 182

20th November, 1967

CABINET

ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate herewith an extract from the Conclusions of the meeting of the Cabinet held on Thursday, 16th November, 1967.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

20th November, 1967

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CC(67) 66th Conclusions

Extract from Conclusions of a Meeting of the Cabinet held on Thursday, 16th November, 1967.

The Cabinet -

- (1) Took note, with unanimous approval, of the Prime Minister's summing up of their discussion of the devaluation of sterling and the necessary consequential measures.
- (2) Agreed:-
 - (a) that the parity of the pound sterling should be immediately reduced to a new fixed rate of \$2.40 to the pound, representing a devaluation of 14.3 per cent;
 - (b) that measures should be introduced to free resources on a scale designed to secure an improvement of at least £500 million on the balance of payments;

subject to the right of the Chancellor of the Exchequer to invite the Cabinet to reconsider these decisions if, before they were announced, there should be major international developments justifying such action.

- (3) Agreed that, otherwise, these decisions should be announced in the late evening of Saturday, 18th November; that they should be formally communicated to Parliament on Monday, 20th November; and that arrangements should be made for a Parliamentary debate as soon as possible thereafter.
- (4) Agreed that the measures to reduce demand set out in the Annex should be introduced as appropriate and should be announced together with, or as soon as possible after, devaluation.
- (5) Invited the Chancellor of the Exchequer to consider the extent and timing of such further tax increases as might be required in order to bring the reduction in demand effected by the measures in the Annex to the prescribed total.
- (6) Invited the Chancellor of the Exchequer, in consultation with the Lord President of the Council, the Secretary of State for Scotland and the Minister of Housing and Local Government, to consider how a saving of some £30 million in the field of local authority expenditure could best be made, whether by withholding any increase in the Rate Support Grant or by other means yielding an equivalent saving.
- (7) Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Scotland, the Ministers of Transport, Power and Technology, and (after devaluation had been announced) with the Chairmen of the Boards of Nationalised Industries (including the Post Office), to consider the best means of securing a reduction of some £75 million in 1968-69 in the investment programmes of those industries.

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- (8) Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Education and Science and the other Ministers principally concerned, to arrange for further consideration to be given to the desirability of postponing the raising of the school-leaving age to 1974-75.
- (9) Agreed to give further consideration, at a subsequent meeting of the Cabinet and in the light of their decision on devaluation, to the memoranda by the First Secretary of State, the President of the Board of Trade and the Minister of Technology on British European Airways Re-equipment (C(67) 176, 177 and 178).
- (10) Agreed in principle that the Government's decision to protect those members of the community who would be most adversely affected by devaluation should be announced at the same time as the decision on devaluation itself; and invited the Chancellor of the Exchequer, in consultation with the First Secretary of State and the Minister of Social Security, to consider the amount and form of possible measures to this end.

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ANNEXMeasures to reduce demand

- (i) Bank Rate to be raised to 8 per cent and restrictions on bank credit, subject to the priorities obtaining before the recent relaxation, to take effect at the same time.
- (ii) An increase in hire purchase restrictions in respect of motor cars, to achieve a reduction of £100 million in hire purchase debt, to take effect forthwith.
- (iii) Corporation Tax to be increased in the next Budget by $2\frac{1}{2}$ per cent.
- (iv) The tax on fuel oil for industrial purposes to be increased, possibly by 50 per cent or 100 per cent, the amount to be determined by the Chancellor of the Exchequer in consultation with the Minister of Power and the other Ministers principally concerned.
- (v) The 7s. 6d. premium payment under the Selective Employment Tax to be abolished for manufacturing industry outside development areas.
- (vi) The investment programmes of nationalised industries to be curtailed on a sufficient scale to achieve a reduction of some £75 million.
- (vii) Defence expenditure to be reduced by rather more than £100 million in 1968-69.
- (viii) Public expenditure in the local authority field to be reduced whether by withholding of any increase in Rate Support Grant or otherwise, on a scale to secure a reduction of some £30 million.
- (ix) Abolition of the export rebate, to be effected in the next Finance Bill but to be announced as part of the measures accompanying devaluation.

