



(c) crown copyright

The Economic Situation.

(Previous Reference: C.M. (49) 60th Conclusions, Minute 1.)

Parliamentary Arrangements.

1. The Cabinet were informed that arrangements had now been made for a general debate on the economic situation to be held in the House of Commons on 26th and 27th October. The debate would be held on a Government motion. The Cabinet discussed the terms of the motion and agreed that it should ask for a declaration of support for the measures which the Government proposed to take.

The Cabinet—

Invited the Lord President to settle, in consultation with the Chancellor of the Exchequer and the Chief Whip, the terms of the motion for the forthcoming Parliamentary debate on the economic situation.

The Economic Situation.

(Previous Reference: C.M. (49) 53rd Conclusions, Minute 1.)

Internal Financial Situation.

2. The Cabinet had before them a memorandum by the Prime Minister (C.P. (49) 205) summarising the conclusions reached by the Economic Policy Committee on the measures necessary to combat inflation.

The Chancellor of the Exchequer said that the Economic Policy Committee had held a series of meetings to consider his papers on the internal financial situation (E.P.C. (49) 102 and 110) and on the measures necessary to combat inflation (E.P.C. (49) 111). They had accepted the view that the opportunities afforded by the devaluation of sterling for expanding exports to hard-currency markets might be frustrated unless the Government took, not only positive action to increase production and productivity, but also negative steps to correct the pull of the home market by the appropriate disinflationary measures. It was not possible at that stage to form an accurate estimate of the extent of the inflationary pressure; that would have to be assessed in connection with the next Budget, when it would be possible to judge more precisely the rise in the cost of living and the other effects of devaluation. But the inflationary threat to the economy was serious and immediate, and no time should be lost in applying some of the remedial measures required. The Economic Policy Committee had therefore agreed that action ought to be taken now to secure reductions of between £250 million and £300 million in the forecasts of capital investment and Government expenditure, and that this sum should be roughly divided between capital investment and Government expenditure. As indicated in C.P. (49) 205, the Committee had recommended economies under these heads amounting in all to £256.5 million. This figure took account of a reduction of £7½ million in the cut originally proposed on the school building programme, and of a reduced saving of £700,000 on the legal aid scheme. The total fell substantially short of the total reduction of £275-280 million which should be made at this stage, and he therefore proposed that a further economy should be secured by reducing the subsidy on milk by ½d. a pint. This would produce a saving of £24 million in Government expenditure without any significant effect on the cost of living. Since expectant mothers and school children could receive milk free, a reduction in the milk subsidy had the advantage that it would not affect those sections of the community to whom cheap milk was specially important. Alternatively, a comparable economy might be secured by reducing the subsidy on butter by 4d. a lb. (£12 million), on cheese by 2d. a lb. (£4 million) and by discontinuing the subsidy on fish (£4 million).

The general view of Ministers was that it would not be advisable to seek to secure further savings by reducing the subsidy on milk. The public would react sharply to an increase in milk prices. The case for reducing the subsidy on butter was stronger, since the price of margarine would not be affected and the present