



Public Expenditure in 1968-69 and 1969-70

A copy

*Presented to Parliament by the Prime Minister
by Command of Her Majesty
January 1968*

LONDON
HER MAJESTY'S STATIONERY OFFICE

1s. 9d. net

Cmnd. 3515

PUBLIC EXPENDITURE IN 1968-69 and 1969-70

The following is the text of the statement made in the House of Commons by the Prime Minister on Tuesday, 16th January, 1968, on reductions in public expenditure. A Table is appended to the statement summarising the effect of the proposals announced by the Prime Minister.

1. On 18th December I informed the House that the Government was engaged in a major review of every field of public expenditure as one of the measures necessary to achieve a progressive and massive shift of resources from home consumption, public and private, to the requirements of exports, import replacement and productive investment.

2. This review has now been completed. Our purpose in this review is to make devaluation work. Because until we do, until we are earning, year in year out, a substantial surplus on our overseas payments, we are unable internally or externally to do all the things which as a nation we would like to do. But what this means for the immediate future is to ensure that we cut down our demands and our ambitions at home and abroad within the limits of what we can currently earn. At home it means cutting back on excessive demands both as individuals and as a community. Abroad it means reassessing our role in the world and realistically limiting our commitments and outgoings to our true capacities. On this basis, provided our recovery is soundly based and lasting, we can go forward. The review we have undertaken, covering as it does our ambitions and expenditure at home, and our commitments and deployment abroad, is an essential step towards making these principles a reality.

3. Our immediate objective, first is to release resources from home use, in order to reinforce the balance of trade, and to do this in a way which realises every practicable opportunity to reduce Government expenditure overseas. Second, it is to ensure that, as the economy moves into expansion, led by the priority areas I have mentioned—exports, import replacement, and investment—the total level of demand, public and private, is kept in line with what the productive machine can make available without lurching into inflation and excessive strain on our national resources. Third, and immediately, at a time when unemployment, contrary to widespread expectation six months ago, is falling—seasonal factors apart—and demand for labour increasing, it is to ensure that the growing consumer-expansion now under way, gives way to an export-led expansion.

4. Our aim is not deflation, but expansion, based on the growing use of our resources at an ordered pace so that the build-up of exports and the other priority categories, does not lead to undue pressure on those resources. A higher proportion of our growing national production must be shifted decisively for the benefit of the balance of payments and investment and a smaller proportion will be left therefore for rising consumer demand and Government expenditure.

5. From every point of view it would be wrong to seek to achieve the necessary reduction in demand solely by restraining the growth of personal consumption—though personal consumption must be sharply restrained. But public expenditure also must make its full contribution; indeed if the rate of

increase of public expenditure were not severely restrained in the years immediately ahead, unacceptable burdens on the personal consumption of the ordinary family, would be required.

6. My statement this afternoon relates to public expenditure. The measures will be progressively reinforced, as I indicated on 18th December, by all appropriate further measures budgetary and non-budgetary to hold back private consumption.

7. These measures follow the steps announced at the time of devaluation, aimed at restraining both private and public consumption, and are additional to the cuts in defence expenditure, the £70 million cut in the investment programmes of the nationalised industries, the prospective changes in taxation, the hire purchase restrictions, Bank Rate and the tightening of bank lending.

8. These measures accord fully with the policies which we have pursued in the defence of the old parity—the restructuring of industry, the stimulation of investment, technological assistance to industry, an intensified attack on the problems of the development areas, and a policy of severe restraint in prices and incomes. Conceived as they were in the pre-devaluation period these policies achieved a great deal of what they set out to do: they will be needed in full measure in the new situation we now face. For whatever has to be done by reductions in the growth of public expenditure and in restraining private expenditure, so that we do not spend before we earn, the solution of our problems will basically come from changes in industry and industrial attitudes which are concentrated on increasing what as a nation we earn, at home and abroad.

9. The measures I shall announce follow a detailed and searching review of policy by the Government in every major field of expenditure, with no exceptions, on the basis that no spending programme could be sacrosanct. And I repeat, all these are in addition to the measures announced by my Right Hon. Friend the Home Secretary on 20th November.

10. The House will be aware, from long experience, that the expenditure of any given year is to a very large extent committed by decisions taken two and three years before, particularly where major works such as roads, hospitals and schools, and many items of defence production are involved. Because of this time-lag, and the difficulty of making an impact on many continuing projects, we have concentrated on expenditure in the financial year 1969–70, though in some cases, particularly defence, the full saving resulting from our decisions will not be seen until 1970–71 or even later. At the same time, substantial reductions in expenditure in 1968–69 will be achieved. I must however tell the House that so great is the proportion of expenditure governed by programme decisions taken two, three and more years ago, that there will still be a considerable rise in public expenditure in 1968–69 compared with 1967–68, and a further small rise in 1969–70.

11. I begin with defence expenditure, the whole of which has been reviewed against the background of our commitments and alliances. Our decisions have been based on two main principles. First, the House will recognise that it is not only in our own interests but in those of our friends and allies for this country to strengthen its economic base quickly and

decisively. There is no military strength whether for Britain or for our alliances except on the basis of economic strength; and it is on this basis that we best ensure the security of this country. We therefore intend to make to the alliances of which we are members a contribution related to our economic capability while recognising that our security lies fundamentally in Europe and must be based on the North Atlantic Alliance. Second, reductions in capability, whether in terms of manpower or equipment, must follow and be based on a review of the commitments the Services are required to undertake. Defence must be related to the requirements of foreign policy, but it must not be asked in the name of foreign policy to undertake commitments beyond its capability. Major foreign policy decisions therefore are a prior requirement of economies in defence expenditure. And in taking these decisions we have to come to terms with our role in the world. It is not only at home that, these past years, we have been living beyond our means. Given the right decisions, above all given the full assertion of our economic strength, our real influence and power for peace will be strengthened by realistic priorities.

12. We have accordingly decided to accelerate the withdrawal of our forces from their stations in the Far East which was announced in the Supplementary Statement on Defence Policy of July 1967 (Cmnd. 3357) and to withdraw them by the end of 1971. We have also decided to withdraw our forces from the Persian Gulf by the same date. The broad effect is that, apart from our remaining dependencies and certain other necessary exceptions, we shall by that date not be maintaining military bases outside Europe and the Mediterranean.

13. Again by that date we shall have withdrawn our forces from Malaysia and Singapore. We have told both Governments that we do not thereafter plan to retain a special military capability for use in the area. But we have assured them both, and our other Commonwealth partners and allies concerned, that we shall retain a general capability based in Europe (including the United Kingdom) which can be deployed overseas as, in our judgment, circumstances demand, including support for United Nations operations. During his recent visit to Kuala Lumpur my Right Hon. Friend the Commonwealth Secretary told the Government of Malaysia that we wish to reach a new understanding with them about the Anglo-Malaysian Defence Agreement so as to make it fit the changed conditions. As the House knows, the Agreement contains provisions for a review of this nature. He also assured the other Commonwealth Governments concerned of Britain's continued interest in the maintenance of security in South-East Asia, with the forces which will be available here. Meanwhile if our Commonwealth partners so desire and mutually satisfactory arrangements can be made we would be prepared to assist them in establishing a future joint air defence system for Malaysia and Singapore and in training personnel to operate it. We have informed the Governments of Malaysia and Singapore that we will discuss with them the aid implications of our accelerated withdrawal. We shall amend our force declarations to SEATO as our forces in the area are run down.

14. We shall make an early reduction in the number of aircraft based in Cyprus while maintaining our membership of CENTO.

15. On the Gulf we have indicated to the Governments concerned that our basic interest in the prosperity and security of the area remains; and, as I have said, the capability we shall be maintaining here will be available for deployment wherever in our judgment this is right having regard to the forces available.

16. As the House already knows, my Right Hon. Friend the Foreign Secretary has visited Washington to discuss our intentions with the United States Administration. And my Right Hon. Friend the Commonwealth Secretary has paid special visits to the four Commonwealth countries concerned with Far East defence so as to discuss with their Prime Ministers the intended changes in our political commitments and consequent military dispositions and the consequences flowing from them. My Right Hon. Friend the Minister of State, Foreign Office, has paid a special visit to the States of the Gulf for a similar purpose. Other Governments and Organisations concerned have already been made fully aware of our decisions. These decisions were taken in the knowledge, and in the light, of the views of our Commonwealth partners and of our allies directly concerned.

17. We recognise the deep feelings and anxieties of our allies and Commonwealth partners. We recognise too that these changes involve risks, but in the circumstances we believe they are risks that must be accepted. We are determined that our commitments, and the capacities of our forces to undertake them, should match and balance each other.

18. These decisions will entail major changes in the role, size and shape of the forces, in the nature and scale of the equipment which they will require and in the supporting facilities which are necessary. Time will be needed to work out the precise implications: these will be embodied in a White Paper to be published and, if the House so wishes, debated later in the year. Nevertheless, I can now give some specific illustrations of the effects of our decisions in advance of the further detailed work.

19. *Manpower.* Cmnd. 3357 envisaged withdrawal from certain East of Suez stations by the mid-1970s, and planned for a reduction by roughly the same date in the establishment of the Services of 75,000 uniformed manpower, and 80,000 civilians. As a result of our decisions, and of others that will result from the further planning which is now starting, the active strength of the forces will be reduced by the end of 1971 well below the levels forecast last July in Cmnd. 3357. We would expect that, within about five years or so from now, we shall have reduced the total size of the forces below the long-term strengths we had previously planned. Thus the eventual saving in Service manpower will be greater than the total reduction of about 75,000 forecast previously for the mid-1970s and we shall achieve it earlier. We shall also be reducing civilian manpower at a faster rate over the same period, and our aim will be to increase the forecast reduction of 80,000 civilians and to achieve this significantly earlier than previously planned.

20. *The Navy.* The aircraft carrier force will be phased out as soon as our withdrawal from Malaysia, Singapore and the Gulf has been completed. There will also be reductions in the rate of new naval construction, for example in the nuclear-powered Hunter/Killer submarines.

21. *The Army.* There will be a considerable increase in the rate of rundown of the Army and in the disbandment or amalgamation of major

units. As a result of our accelerated withdrawal from Singapore and Malaysia, the rundown of the Brigade of Gurkhas to 10,000 by the end of 1969 will continue at the same rate until 1971 bringing the total strength of the Brigade to 6,000. The future of the Brigade after 1971 will depend on developments obtaining at that time; there is no question of reducing the strength or effectiveness of the Hong Kong Garrison. There will also be substantial savings on Army equipment and stocks and many of these will be achieved between 1969-70 and 1972-73.

22. *The Royal Air Force.* We have decided to cancel the order for 50 F-111 aircraft. Further study is being given to the consequences of this decision on the future equipment of the Royal Air Force. Leaving out of account the results of this study, the cancellation of the F-111 is estimated to yield total savings on the Defence Budget of about £400 million between now and 1977-78. This figure allows for likely cancellation charges. The saving in dollar expenditure over the period, again allowing for likely cancellation charges, will be well over \$700 million. Because of the credit arrangements, these savings will mature over a period of years. We are discussing with the United States Government future arrangements for offset orders and credit for the Phantom and Hercules aircraft. The reduction in our overseas commitments will make it possible to cut down the transport force.

23. *Support facilities.* The more rapid withdrawal of our forces from outside Europe and the changes we intend to make in their role and equipment will impose a massive task on those responsible for providing the most efficient and economical logistic support for the three Services. Very substantial savings in base facilities staff overseas will follow as a consequence of withdrawal. The rundown in the forces will be increasingly reflected in reduced support facilities, such as training establishments in this country, but it is too early yet to indicate the extent of the total reduction of the United Kingdom base as a whole. In spite of the extra planning load placed upon it, we shall energetically continue the process of cutting the size of the Ministry of Defence.

24. *Financial effects.* The financial effects of policy changes on this scale will inevitably take time to work themselves through. The immediate effect will not be to reduce the level of defence expenditure: indeed, in 1968-69—when we have already made a saving of £110 million—the level will be increased through cancellation payments and other transitional costs. These are expected to be relatively modest thereafter. From 1969-70 onwards, accordingly, there will be an increasing relief to the Budget, accompanied by a release of valuable resources for civil production. The scale of what is involved for the economy can be measured by my expectation that in 1969-70 the Defence Budget which was planned to come down to £1,970 million at 1964 prices as a result of the November devaluation economies will be reduced to about £1,860 million at 1964 prices, that is a cut of £110 million. By 1972-73 the Defence Budget is expected to be between £1,600 million and £1,650 million, at 1964 prices, a further reduction of £210 million to £260 million.

25. The Government are very conscious of the effect that these further cuts will have on the Services and of the upheavals they will cause.

Nevertheless, they are necessary in the national interest so that we can restore the strength of our economy. The accelerated rate of rundown in the Services, and in the civilians associated with them, is bound to cut short the careers of some who would otherwise have expected to serve for some years to come. There will inevitably be a considerable amount of disruption in all three Services and one of the major problems will be to arrange this very large reorganisation so that hardship to individuals is minimised and at the same time efficiency is maintained. The Government intends to ensure that at the end of this process the Services remain cohesive and viable and still offer a good career to those who serve in them.

26. The future of the Services will then lie mainly in Europe. But we still face the problem of the heavy continuing cost in foreign exchange of stationing our troops in Germany. As the House knows, there have already been informal preliminary talks in Bonn about ways and means of meeting this after the current Anglo-German Offset Agreement expires on 31st March next. We are now ready for formal negotiations at Ministerial level. We have proposed to the Federal German Government that the talks should start early in February.

27. Now I turn to civil public expenditure. No review of planned expenditure programmes would be realistic, or adequate for the task we have set ourselves as a nation, which failed to go deeply into every aspect of home expenditure. This we have done. Our decisions reflect the national priorities we have applied and which we commend to the House. In almost every major area of expenditure economies have been made in the rising programmes which we had before us. Within each major area we have of course been highly selective in the cuts we have made. Our objective, as I stated a month ago, is to produce a total of economies which is coherent, credible—and fair.

28. *Social Security.* I begin with Social Security. Expenditure this year, 1967–68, is £2,909 million, an increase at current prices of 48 per cent since 1963–64. Last year the House approved a general uprating of National Insurance and other benefits, which took effect last autumn. In our forward planning we do not envisage that a further general uprating can be undertaken before at least the autumn of 1969.

29. Sir, in the statement made by my Right Hon. Friend the Home Secretary on 20th November, an assurance was given that the most vulnerable classes of the community will be protected against hardship resulting from those price increases which must result from the effect of devaluation on import costs. We shall be watching price rises very carefully and we intend in the light of this to raise Supplementary Benefits in the autumn of this year.

30. It has already been decided that Family Allowances will go up by 7s. in April. But it is essential that this increase should be confined to families most in need and my Right Hon. Friend the Chancellor of the Exchequer intends to recover the full amount of the increase from taxpayers at the standard rate and above through the tax machinery, taking back lesser

amounts from those who will pay tax only at reduced rates. I should add that my Right Hon. Friend is examining the possibility at a later stage of extending this principle of selectivity based on tax adjustments more generally through the family allowance system, not just the 7s. increase. To help less well-off families generally we intend to raise the income limits for the Rate Rebate Scheme in the coming autumn. The qualifying limit for the full rebate will be raised for single persons from £8 per week to £9 per week, and from £10 to £11 for married couples; the rate for each child will be raised from 30s. to £2.

31. *Education.* Next Education, one of the biggest and most rapidly expanding expenditure programmes. Total expenditure is estimated this year at £1,989 million, an increase at current prices of 42 per cent since 1963-64. Here again it is a question of priorities. We have decided we have no alternative to deferring from 1971 to 1973 the raising of the school leaving age, a postponement of two years. I need not tell the House how difficult, indeed repugnant, this decision has been to my Right Hon. Friends and myself.

32. This decision will mean a saving of about £33 million in 1968-69, and £48 million in 1969-70, principally in the school building programme. But the basic school building programmes will be increased by extra starts of £8 million both in 1968-69 and in 1969-70 to ensure that comprehensive reorganisation is not held up, and to provide additional resources beyond the extra £8 million starts in each of these years announced by my Right Hon. Friend the Secretary of State to the House last year, for improving conditions in educational priority areas.

33. We propose to cease to provide milk free in secondary schools from September of this year. This will require legislation.

34. The capitation grants to direct grant schools will be reduced.

35. Some new capital projects in the universities, colleges of further education and elsewhere will be held back during 1968-69. Following the next review of students' awards, the increase in September will only cover half the rise in the cost of living since the last review.

36. The combined effect of all these measures in the field of education will be to make a net saving of £39 million in 1968-69 and £58 million in 1969-70.

37. *Health and welfare.* I turn next to health and welfare, with a 1967-68 expenditure of £1,619 million, an increase at current prices of 45 per cent over the past four years.

38. In the Government's view the most important way of sustaining and improving the National Health Service is to press ahead with the expanding programme of hospital building. We are therefore proposing no reductions in this programme which will go ahead as planned.

39. The Government have, however, decided after the most serious consideration and with the utmost reluctance, to reintroduce a system of charges for prescriptions issued under the National Health Service, at the rate of 2s. 6d. per item.

40. My Right Hon. Friend will immediately enter into discussions with the medical profession with a view to introducing as soon as possible a system of exemption for particular categories of patients. Those we have in mind are the elderly, over 65, children up to 15, expectant and nursing mothers and the chronic sick. While the procedure for dealing with these proposed exemptions is being negotiated, regulations will be made to bring these charges into operation in the Spring which is the earliest that arrangements can be made to introduce simultaneously refund of charges to those in need on the pre-1965 basis, namely those on Supplementary Benefits, those with the standard of living broadly at or below Supplementary Benefit levels and war pensioners in respect of disabilities. The scheme as initially introduced would save about £50 million in a full year. But the further exemptions which we regard as fair and necessary, would reduce this saving to about £25 million, and we propose to make this good by increasing the National Health Service employees' contribution by 6d. as soon as possible.

41. The maximum charge for dental treatment which has not been changed since 1952 will be increased from £1 to 30s. and this will yield a further £1½ million. As the House knows children and young people up to 21 and expectant and nursing mothers receive free treatment and people receiving Supplementary Benefits have the charges met for them. These arrangements will continue. In addition some reductions in the planned growth of local health and welfare capital expenditure are being made averaging £5 million a year over the three years 1968-69 to 1970-71.

42. I have referred to the National Health Service stamp. The House ought to know that quite apart from the expenditure review, and for quite other reasons, a further shilling, 6d. for employees, 6d. for employers, will be needed to prevent the National Insurance Fund from going into deficit. This will be done at the same time as the 6d. increase in the National Health Service contribution which is collected on the same stamp.

43. *Home Department Services.* Now I turn to Home Department Services, including Home Defence. We have decided to reduce Home Defence—Civil Defence—to a care and maintenance basis, with a saving of about £14 million in 1968-69, and £20 million in 1969-70 and in subsequent years. This will involve the disbandment of the Civil Defence Corps, the Auxiliary Fire Service and the Territorial and Army Volunteer Reserve Category III. The Government propose to restrain the growth of expenditure on other Home Department Services by £6 million in 1968-69 and £12 million in 1969-70.

44. *Housing* expenditure in the public sector in 1967-68 is £1,018 million. The Government have decided to reduce planned approvals of new houses by 15,000 in England and Wales and 1,500 in Scotland in both 1968 and 1969, saving in terms of public expenditure £27 million in 1968-69 and £55 million in 1969-70. But even with these withholdings, we shall be able to maintain the momentum of the programmes for slum clearance and for the relief of serious local housing shortages. Our measures will safeguard the housing priority areas.

45. *Transport.* Next, Roads. The estimated expenditure in 1967-68 is £560 million, an increase of 52 per cent at current prices, compared with

1963-64. Of the present programme £300 million is on the major road programme of my Right Hon. Friends; and the remainder, nearly all local authority expenditure, includes about £200 million on road maintenance. The Government have decided that, overall, expenditure on roads should be reduced so as to produce savings of £53 million in 1968-69 and £69 million in 1969-70. Of this, local authorities will be asked to find £75 million over the two years out of their expenditure on the maintenance and improvement of their roads; and the planned growth of expenditure on major roads, including trunk road maintenance, will be cut by £18 million in the first year and £29 million in the second.

46. At the same time expenditure on the new forms of assistance to public passenger transport, provided for in the Transport Bill, is being limited to £10 million in 1968-69 and £20 million in 1969-70.

47. *Industry.* The Government will continue to give special priority to the regeneration of the Development Areas, and will continue its programmes of financial assistance. It will direct this assistance towards activity which will contribute most to the economic strength of the areas and to the Government's general objectives.

48. In the Ministry of Technology's industrial programme there will be a careful selection of priorities. The reorganisation of the shipbuilding industry will continue, the work of the National Research Development Corporation will be fully maintained and programmes will go ahead for other industries including computers, electronics and machine tools. Industrial research in the Ministry of Technology's civil establishments will be kept within present limits, and there will be savings concentrated in the nuclear research and development programme of the Atomic Energy Authority. There will also be a further cut in the Ministry's defence research programme in 1968-69, part of which will be carried by Aviation Establishments. The saving on planned expenditure from all these measures will be £13 million in 1968-69 and £15 million in 1969-70, including the savings by the Atomic Energy Authority which were foreshadowed by previous announcements.

49. On investment grants, where in the current year the Board of Trade have paid grants on five quarters of investment in order to shorten the period between the incurring of expenditure and the payment of grant, the Government consider that any further shortening of this period must wait for the time being. It therefore intends that in 1968-69 grants will be paid in respect of four quarters' past investment, so that the average time between investment and payment will remain at the 12 months which it has already reached. This compares with the interval of about 18 months between the incurring of expenditure and the receipt of investment allowances. It will reduce payments in 1968-69 by £80 million below what they would have been had there been a further acceleration. Decisions about 1969-70 will be taken in the light of circumstances nearer the time.

50. *Local authorities.* The House will be well aware that a substantial area of public expenditure lies within the control of local authorities, whose expenditure has risen by £1,380 million, or 46 per cent at current prices over the past four years. A considerable part, though by no means the whole of local authority expenditure, is in response to national programmes endorsed

by this House by statutory or other provision. Much of it is, however, subject by various means, indirect and direct, to a measure of Government control or influence, and some of it will be affected by the measures I have announced. But it is vital that local authorities, no less than Central Government, make their full contribution to restraint in their programmes, the release of resources for the reinforcement of our trade balance and the avoidance of inflation.

51. Taking local authority expenditure as a whole, the Government expects that in 1969–70 local authorities as a whole will restrain the level of their expenditure so that it does not in total exceed a figure in the region of 3 per cent in real terms above what has already been agreed for purposes of the Exchequer contribution in 1968–69; and the Government will propose rate support grant for 1969–70 on this basis when the time comes. As regards 1968–69, the Government will expect local authorities to absorb any increases in cost which they cannot avoid by making savings elsewhere. Full details for England and Wales and for Scotland, where special problems arise, will be worked out with the local authorities and the House will be kept informed.

52. *Northern Ireland.* As regards Northern Ireland, it should be possible to realise substantial savings in public expenditure there, broadly comparable to those in Great Britain. Discussions with Northern Ireland Ministers have already started.

53. Special measures must be taken to arrest the growth in the number of people employed in public service. Government Departments will, under the guidance of the Treasury, plan their staffing so that over the year 1968–69 there is no further net increase in the number of civil servants as a whole. This is estimated to save £15 million. The economies which we are asking local authorities to make, notably in services assisted by the rate support grant, should produce similar results for local government staffs.

54. Sir, to avoid unduly wearying the House I have given the facts only about the main expenditure programmes of any size. In addition there are other reductions totalling £28 million in 1968–69 and £41 million in 1969–70. These come mainly from environmental services. There may well be other savings as the consequences of these major decisions work through the whole field of public expenditure.

55. *Summary.* The results of all the changes I have announced will be to reduce planned expenditure in 1968–69 by £300 million, plus, of course, an additional £25 million income from the N.H.S. contribution, and in 1969–70 by £416 million, again plus the contribution. This implies an average annual rise in public expenditure in the period 1967–68 to 1969–70 of 2·8 per cent. I am circulating in the Official Report a table showing public expenditure in 1968–69 and 1969–70 as forecast before the reductions, and the details of the reductions themselves.

56. I must again remind the House of the severe limitations within which any expenditure review must operate, particularly so far as the period immediately ahead of the review is concerned. In many of the continuing programmes, particularly where major and lengthy capital projects are concerned, cuts which act quickly can be achieved only with great disruption and great dis-economy. Some of the Government's decisions will have an

immediate and major impact on expenditure in 1968-69 and subsequently, others will have a more limited effect in 1968-69, and a growing impact on 1969-70 when a decisive switch of resources will be needed. In defence large-scale savings will be achieved only in 1970-71 and later years. But in this case, if the decisions are not taken now, they will not make any impact until well into the 1970s, and Parliament in 1970, 1971 and later years will be impotent to secure major savings in those programmes.

57. Finally, Mr. Speaker, I repeat that the review whose conclusions I have announced to-day is only part of a continuing process which will dominate national financial and economic management for the next two years. Other measures including budgetary decisions will be required.

58. But in a wider sense, no measures of a purely financial character, however necessary, can by themselves solve our problems, and ensure that the opportunities presented to us by the decision to devalue are fully realised.

59. I must again emphasise the paramount importance of prices and incomes policy. The measures we have decided on and those which will be announced in succeeding months will be adequate if and only if the competitive advantages we have gained are not dissipated in increases in incomes over and above the very limited figures the country can afford. It is this which must guide us—not what the country or individual sectional interests would like or would seek to extract, but what we are earning.

60. But, sir, success in securing the massive shift we need to get from home consumption to the priority areas of exports and import saving depends above all on the response of industry, at all levels, to the challenge of winnable export markets, import replacement and productive investment.

61. To the efforts of those in industry who are responding to the challenge and opportunity which the new situation has created, the measures I have announced, cutting deep, comprehensive, but—the Government believes—balanced and fair, provide essential help and backing. What these measures can *not* do is to provide a substitute for the efforts that now have to be made by all in industry, indeed by the whole nation.

62. Whenever in the past this nation has set out to achieve the domestic objectives it has set itself, we have been frustrated by an endemic imbalance within the economy. If we refuse to abandon these objectives—and we do refuse—then the course we must take, however great the temporary cost, is to remove that problem once and for all.

PUBLIC EXPENDITURE 1967-68 TO 1969-70

(The figures in the following table show the results of the announced decisions on the basis of present estimates and forecasts, and are expressed in terms of 1967 Survey prices.)

£ million (1967 Survey prices)

	1967-68	1968-69			1969-70		
	Total ⁽¹⁾	Total as at 31.12.67	Reductions	Revised Total	Total as at 31.12.67	Reductions	Revised Total
Defence Budget ⁽²⁾ ...	2,218	2,167	—	2,167	2,225	-110	2,140
Civil Programmes:							
Social Security ⁽³⁾ ...	2,909	3,106	—	3,106	3,126	—	3,126
Education (including local libraries and museums)	1,989	2,103	-39	2,064	2,205	-58	2,147
Health and Welfare (with welfare foods) ...	1,619	1,672	-29	1,643	1,737	-31	1,706
Housing	1,018	1,098	-27	1,071	1,124	-55	1,069
Roads	560	632	-53	579	679	-69	610
Other transport (excluding British Rail Deficit Grant)	110	126	-2	124	139	-5	134
Home Departments Services (excluding Home Defence)	472	506	-6	500	532	-12	520
Home Defence	22	27	-14	13	27	-20	7
Civil Technology	234	223	-10 ⁽⁴⁾	213	233	-15	218
Overseas Services ⁽⁵⁾	338	371	—	371	367	—	367
Investment grants	189	440	-80	360	380	—	380
Agriculture ⁽⁶⁾	374	388	—	388	388	—	388
SET additional payments and REP	170	156	—	156	131	—	131
Environmental Services... ..	732	797	-26	771	839	-27	812
Other expenditure ⁽⁷⁾	1,433	1,566	-2	1,564	1,396	-14	1,382
Civil Service manpower ⁽⁸⁾	—	—	-12	-12	—
Contingency allowance	—	—	—	—	75	—	75
Total	14,387	15,378	-300	15,078	15,628	-416	15,212
Increase in Health Stamp (treated as revenue in national accounts) ...	—	—	-25	—	—	-25	—
Total Savings	—	—	-325	—	—	-441	—
Nationalised Industries' Capital Expenditure ...	1,676	1,695	—	1,695	1,564	—	1,564

.. Indicates not available.

(1) Estimate derived from 1967 public expenditure survey.

(2) The figures for both 1968-69 and 1969-70 exclude transitional expenditure, e.g., cancellation charges, etc.

(3) The figures for 1968-69 and 1969-70 have been estimated on the basis of existing rates of benefits taking account of forecast changes in the number of recipients.

(4) In addition there will be £3 million saving on defence research and development expenditure.

(5) Includes military aid.

(6) The amount for agricultural support included in the figures for 1968-69 and 1969-70 is on the basis of the 1967 Annual Price Review and takes no account of determinations at future reviews.

(7) These figures will be adjusted in order to reflect the decisions on major programmes listed above. They include expenditure on other military defence apart from military aid.

(8) These savings, which will be spread over a wide range of programmes, exclude similar savings already taken into account against some individual programmes. It is not possible to make an estimate of the corresponding savings in 1969-70.

HER MAJESTY'S STATIONERY OFFICE
Government Bookshops

49 High Holborn, London w.c.1
423 Oxford Street, London w.1
13A Castle Street, Edinburgh 2
109 St. Mary Street, Cardiff CF1 1JW
Brazenose Street, Manchester 2
50 Fairfax Street, Bristol 1
258/9 Broad Street, Birmingham 1
7-11 Linenhall Street, Belfast BT2 8AY

*Government publications are also available
through any bookseller*

27808