CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Monday, 23rd May, 1949, at 10.30 a.m.

Present:

The Right Hon. C. R. Attlee, M.P., Prime Minister (in the Chair)
The Right Hon. A. V. Alexander, M.P., Minister of Defence.
The Right Hon. Viscount Addison, Lord Privy Seal.
The Right Hon. J. Chuter Ede, M.P., Secretary of State for the Home Department.

The Right Hon. Sir Stafford Cripps, K.C., M.P., Chancellor of the Exchequer.
The Right Hon. Viscount Jowitt, Lord Chancellor.
The Right Hon. A. Creech Jones, M.P., Secretary of State for the Colonies.
The Right Hon. A. Woodburn, M.P., Secretary of State for Scotland.
The Right Hon. Aneurin Bevan, M.P., Minister of Health.

The Right Hon. George Tomlinson, M.P., Minister of Education.

The following were also present:
The Right Hon. James Griffiths, M.P., Minister of National Insurance (Items 1 and 2).
The Right Hon. Wilfrid Paling, M.P., Postmaster-General (Item 3).

Secretariat:

Sir Norman Brook.
Mr. A. Johnston.
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1. The Cabinet had before them memoranda on the progress of the National Health Service prepared by the Minister of Health (C.P. (48) 302) and by the Secretary of State for Scotland (C.P. (48) 306) in December, 1948, together with supplementary memoranda (C.P. (49) 105 and 106) by those Ministers reporting on developments since the submission of the earlier memoranda.

The Minister of Health said that he presumed that his colleagues would wish to devote their attention mainly to the cost of the National Health Service and he wished to draw attention to the difficulties of fitting this new service into the system of annual budgeting during its early formative stages. These difficulties had been increased by the lack of complete information about the finances of voluntary hospitals and even, to some extent, of the local authority medical services. The Estimate for 1948-49 had necessarily been to a large extent conjectural; and even for the second year the Regional Hospital Boards had had to submit their proposals within six weeks of being appointed. The Treasury had asked that the original proposals for the 1949-50 Estimate should be cut by £28 million, and the boards had been asked to review their proposals on that basis. But, as a result of their further review, the Boards had found that they had substantially under-estimated their probable expenditure. If the Boards were to be compelled to keep within the Estimate given in the Budget, they would have to reduce the number of hospital beds to a level below that obtaining before the National Health Service came into operation. Meanwhile, the Minister said that he had reduced the fees paid to dentists, and to ophthalmologists and opticians; and he was proposing to make some reduction in the allowances paid to chemists for containers. These reductions would yield an economy of £13 million in a full year; but there would be little benefit this year, since it would take some time before the reductions were reflected in the accounts. Suggestions of extravagance in administrative overheads were, in his opinion, unfounded since administrative costs amounted to no more than 2-1 per cent. of the total cost of the service (3-5 per cent. in Scotland). This low percentage figure was partly due to the unpaid service rendered on Regional Hospital Boards and other bodies by between 10,000 and 11,000 individuals throughout the country. The need for a Supplementary Estimate this year (which, so far as could be foreseen at present, might amount to £32 million for England and Wales and £27 million for Great Britain as a whole) would arise primarily from the cost of running the hospitals, and salaries and wages accounted for 54 per cent. of the hospitals' expenditure. In his view, it was unthinkable that a Supplementary Estimate should be avoided by closing down beds which were urgently required; nor did he consider that Ministers should entertain the idea of imposing a charge for services, particularly for hospital treatment. The imposition of a charge would greatly reduce the prestige of the National Health Service and the need to waive it in necessitous cases would introduce many complications and an expensive administration. Against the increased cost of the service to the Exchequer must be set the benefit to the community of the facilities which it was providing and the gains to the national economy of a higher level of national health.

The Secretary of State for Scotland agreed with the views expressed by the Minister of Health. There were some signs that in Scotland the demand for spectacles and dentures was beginning to fall off. In his view it was cut off the question to attempt to cut costs by reducing hospital accommodation, particularly in view of the rising incidence of tuberculosis in Scotland. A system of charges for services would cause endless administrative troubles, and he would rather see a higher rate of national insurance contribution. It might be necessary to review the salaries paid to...
specialists, who were thought to be receiving about 50 per cent. more than they received before the service came into operation. There might be some extravagance in the issue of medical supplies which would have to be dealt with by disciplinary means; but the main cost of the scheme as a whole lay in wages and salaries, particularly in the hospital service.

The Chancellor of the Exchequer said that the prospect of a large Supplementary Estimate for the National Health Service presented him with a serious problem, particularly since the need came to light so soon after the preparation of his Budget and after the specific statement in his Budget speech that only in special cases, such as major changes of policy, could any Supplementary Estimate be considered. He could not see his way to agree to accept at this stage the need for a Supplementary Estimate. Pressure should still be brought to bear on those responsible for running the National Health Service to induce them to bring costs within the figure mentioned in the Budget. At the same time he thought it was reasonable that the Cabinet should give the Health Ministers an assurance that vital hospital services would not be cut down: he recognised that any pruning of vital features would greatly impair the value of the whole National Health Service. As regards the future, he thought that there was need for an examination of the machinery for controlling the expenditure of the Regional Hospital Boards. The arrangements for scrutinising their annual estimates of expenditure might be adequate, but there seemed to be no effective means of ensuring that the Boards did not, in fact, spend more than they had budgeted for. This arose partly from the fact that the Boards had no responsibility for finding any of the money and partly because they had the independent position which flowed from their voluntary status. When pressed to reduce expenditure, they were perhaps a little apt to claim that, if reductions were made, it would be the essential services which would suffer. The Regional Hospital Board system had been quite novel, so far as concerned the relations between Ministry, Board and hospitals, and he was not satisfied that financial control by the Ministry was likely to grow with the passage of time unless the system was examined and possibly altered to secure the minimum requirements of the Government.

In subsequent discussion, the following points were made:

(a) There was general support for the view that the relations between the Health Departments and the Regional Hospital Boards in matters of finance merited examination. The Boards were nominally under the complete control of the Health Ministers, but in fact both the Boards and the management committees were in a strong position, since they could enlist a good deal of public support by representing that central control was operating to deprive the public of essential services. If Regional Hospital Boards were left in a position of considerable freedom, local authorities would soon claim that they too should be emancipated from close financial control by the central Government.

(b) The scales of remuneration for specialists fixed by the Spens Committee appeared to be unnecessarily generous, particularly to junior clinicians. The scales had also had an unsettling effect on other professional salaries in the Universities and among local authorities.

(c) Although the cost of administering the National Health Service was low expressed as a percentage of the total cost of the service, there was a widespread impression that some Regional Hospital Boards and other bodies were extravagantly, staffed in terms of numbers and scales of pay. This caused discontent among local authority staffs.
(d) A measure of extravagance in the supply of spectacles, dentures, surgical appliances and medical supplies could probably not be wholly checked until health centres were established and serviced by whole-time officers. The dilemma with which the Health Ministers were faced was that the capital cost of establishing such centres would greatly increase the total expenditure on the Health Service at the outset, even though they would lead ultimately to a substantial annual saving. Special care would have to be taken that health centres were not planned on too extravagant lines.

(e) There had been some public criticism of the fact that foreigners visiting this country could make full use of the facilities offered by the National Health Service. The Health Ministers, in informing persons visiting this country of the facilities which were available, had had primarily in mind British sailors and British subjects resident abroad who were visiting this country. Ultimately it was hoped to arrange for these services to be provided by a number of countries on a reciprocal basis, and the subject seemed to be a suitable one for discussion in the Council of Europe.

(f) The Cabinet also discussed some other specific allegations which were being made of extravagance in the Health Service, and reference was made to the political difficulties to which these were likely to give rise. It was pointed out that some anomalies and irregularities were inevitable in the first few years after the introduction of a comprehensive service of this magnitude; and it was recognised that even isolated examples of extravagance were likely to be emphasised by persons who were opposed to the scheme. The number of these cases would, however, be progressively reduced; as time went on, as a result of disciplinary action.

The Cabinet—

(1) Took note of C.P. (48) 302 and 308 and C.P. (49) 105 and 106.

(2) Agreed that it would not be practicable to meet any rise in the cost of the National Health Service by cutting down essential hospital services.

(3) Agreed that the need for a Supplementary Estimate for the National Health Service in the current financial year should not yet be accepted in principle, and that all possible endeavours should be made by those responsible for the administration of the Service to bring the cost within the figures given in the Estimates.

(4) Invited the Health Ministers, in consultation with the Chancellor of the Exchequer, to examine the adequacy of the existing methods of controlling the expenditure of public funds by Regional Hospital Boards.

2. The Cabinet had before them a memorandum by the Minister of National Insurance (C.P. (49) 14) reporting on the progress which had been made in carrying into effect the provisions of the National Insurance Act, 1946, and the National Insurance (Industrial Injuries) Act, 1946.

The Minister of National Insurance said that there was one point on which he wished to supplement the information given in his memorandum. His Department were now obtaining for the first time complete information about accidents and injuries in industry; and it was noteworthy that one-third of the claims for disablement benefit were in respect of pneumoconiosis and industrial dermatitis. While the number of serious accidents seemed to be going down (though the total number of accidents reported showed some increase) it was disturbing to find how heavy was the toll of industrial
diseases, notably of dermatitis and similar preventable complaints. In consultation with the Medical Research Council, arrangements were being made for a determined campaign to reduce the incidence of preventable industrial disease.

There was general agreement that the National Insurance Schemes had been brought into effect with smoothness and efficiency.

The Cabinet—

Took note of C.P. (49) 14

3. The Cabinet considered a memorandum by the Postmaster-General (C.P. (49) 117), prepared in the light of the Cabinet’s discussion on 19th May, showing how the proposed telephone rental increases could best be imposed by notice to individual subscribers and the extent to which revenue would be lost if this procedure were adopted instead of legislation.

The Cabinet first considered whether it would be expedient to withdraw the Budget proposals for increasing telephone rental charges. The simplified procedure for giving individual notices, proposed by the Postmaster-General in C.P. (49) 117, would probably cost about £200,000 and subscribers would be faced with increased charges beginning with the period between January and July 1950. The Lord President and other Ministers felt that these increases were inexpedient on political grounds, and attention was drawn to the undesirability of increasing the charge made by a socialised industry at a time when other industries were being called upon to cut their costs and prices. It was also awkward that the increased rentals could not yet be justified on the score of increased costs of installation and maintenance. Against these considerations, it was pointed out that the revenue to be derived from the increase in rentals, amounting to almost £4 million in a full year, was well worth the administrative cost of bringing them into operation and that no new considerations of a kind which could be used in debate had been brought to light since the Budget statement was made. The possibility of increased Government expenditure in various directions made it difficult at this juncture to abandon any source of revenue which had entered into the Budget calculations.

There was general agreement that, if the increase in telephone rental charges were proceeded with, the balance of advantage lay in varying individual contracts, rather than in proceeding by legislation, particularly since there was now no prospect of bringing the increased charges into operation, even by legislation, before 1st January, 1950. Legislation would, however, be necessary to make some necessary financial adjustments between the Postmaster-General and the Hull City Council in respect of its telephone undertaking.

The Cabinet—

(1) Agreed that, if the proposal to increase telephone rental charges were proceeded with, the increases should be effected by a variation of individual contracts and not by legislation.

(2) Invited the Lord President to arrange for the Speaker and the Opposition Leaders to be informed that legislation would not be introduced to authorise any increase in telephone rental charges, and that the question could therefore be discussed during the debate on telephone charges which was to be held in Committee of Supply in the House of Commons that afternoon.

Cabinet Office, S.W. 1,
23rd May, 1949.