CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Monday, 13th March, 1950, at 11 a.m.

Present:

The Right Hon. C. R. ATTLEE, M.P., Prime Minister (in the Chair).
The Right Hon. HERBERT MORRISON, M.P., Lord President of the Council.
The Right Hon. HUGH DALTON, M.P., Minister of Town and Country Planning.
The Right Hon. VISCOUNT ALEXANDER of HILLSBOROUGH, Chancellor of the Duchy of Lancaster.
The Right Hon. J. CHUTER EDE, M.P., Secretary of State for the Home Department.
The Right Hon. G. A. ISAACS, M.P., Minister of Labour and National Service.
The Right Hon. T. WILLIAMS, M.P., Minister of Agriculture and Fisheries.
The Right Hon. J. H. WILSON, M.P., President of the Board of Trade.

The following were also present:

The Right Hon. G. R. STRAUSS, M.P., Minister of Supply (Item 2).
The Right Hon. EDITH SUMMERSKILL, M.P., Minister of National Insurance (Item 3).

The Right Hon. VISCOUNT ADDISON, Lord Privy Seal.
The Right Hon. VISCOUNT JOWITT, Lord Chancellor.
The Right Hon. E. SHINWELL, M.P., Minister of Defence.
The Right Hon. ANEURIN BEVAN, M.P., Minister of Health.
The Right Hon. GEORGE TOMLINSON, M.P., Minister of Education.
The Right Hon. HECTOR McNEIL, M.P., Secretary of State for Scotland.

Secretariat:

Sir NORMAN BROOK.
Mr. A. JOHNSTON.
### CABINET 10 (50)

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The Minister of Health said that the Debate on the Address had reflected a widespread dissatisfaction with the current rate of house-building, and this would be brought to a head in the discussion in the House of Commons that afternoon of the Conservative amendment expressing regret that the King’s Speech contained no indication that the Government intended to take more effective measures to deal with the housing situation. There was evidence that, in addition to the private distress which it caused, the housing shortage was also damaging the national economy by increasing the immobility of labour. The Minister said that it would be helpful if, when he spoke in the debate later that day, he could announce that the Government intended to restore their former target of 200,000 houses a year, and would like to see the programme run on at that level for some time to come. In that event he would also propose to give local authorities a discretion to license the building of houses for sale up to a limit of one in five of their total allocation of houses. No local authority would be allowed to exceed that limit except with special permission granted after a full investigation into the housing needs of the area.

The Secretary of State for Scotland said that he presumed that Scotland would receive its proportionate share of the increase in the total programme which the Minister proposed. As regards the licensing of houses to be built for sale, the solution proposed by the Minister could not appropriately be applied in Scotland.

In discussion it was recognised that there was widespread dissatisfaction with the current rate of house-building; and there was some support for the view that, in a further review of the investment programme, there should be room for some adjustment of priorities which would enable a larger proportion of building resources to be allocated to the housing programmes of the local authorities.

On the other hand it was pointed out that public dissatisfaction would not be removed by the relatively small increase which would result from reverting to the earlier target of 200,000 houses a year. Moreover, it would be difficult to find sound economic reasons for reversing in March the decision taken in the previous October, when the Government had made a detailed review of the investment programme and decided that housing must make its contribution towards the general reduction in the programme which the general economic situation of the country demanded. The economic reasons for imposing this cut on the housing programme had been fully stated in the debate in the House of Commons on the economic situation on 26th–27th October; and the Government would appear to be yielding to political pressure unless they could show equally sound economic reasons for reversing that decision.

The Cabinet—
(1) Agreed that no immediate change should be made in the total size of the housing programme.
(2) Invited the Investment Programmes Committee, in reviewing the investment programme for 1951 and 1952, to consider whether within the total resources available for investment the priorities could be so adjusted as to allow some increase in the current rate of house-building.

The Cabinet had before them a memorandum by the Minister of Transport (C.P. (50) 22) to which were attached reports from the Transport Tribunal on the application of the British Transport Commission for authority to increase railway freight charges and dock and canal charges. The Minister sought authority to make the necessary regulations under section 82 of the Transport Act, giving
effect to the increases of charges proposed by the British Transport Commission and supported by the Transport Tribunal.

The Minister of Transport said that he accepted the recommendation of the Transport Tribunal that railway freight charges and dock and canal charges should be increased, because there was no other source of revenue to which the Commission could turn to meet their deficit. As regards the closer integration of road and rail transport, the Commission would in a month's time have completed their acquisition of the long-distance road-haulage undertakings and would then be in control of all long-distance road transport other than vehicles operated under "C" licences. As regards road passenger services, the Transport Act provided a somewhat elaborate procedure for the approval of schemes, and he doubted whether the first scheme, relating to the north-eastern area, would obtain Parliamentary approval in present circumstances. There might, therefore, be considerable delay in the further co-ordination of road passenger transport services. In accordance with the Cabinet's decision of November last, he had asked the Transport Commission for their plans for co-ordinating road and rail transport over the next three years. While he recognised that the considerations to which he had already referred made co-ordination difficult in present circumstances, he was not altogether satisfied with the reply which he had received from the Transport Commission, and he proposed to discuss further with them the directions in which costs might be reduced. For the present, however, he saw no alternative to the imposition of the increases in railway freight charges and in dock and canal charges which the Transport Tribunal had supported. Apart from other considerations, it was desirable to maintain the authority of the Tribunal, which would shortly be considering, under the normal machinery provided by the Transport Act, an application from the Commission for the fixing of passenger charges in the London area and, thereafter, charges covering the whole field of transport.

In discussion serious doubts were expressed about the expediency of authorising these increases in charges. There was general agreement that the Transport Tribunal had not made a sufficiently searching enquiry into the possibility of securing greater economy in the administration of the railways. Indeed, it appeared from the final paragraph on page 13 of their report that they had been content to accept, without making any investigation of their own, the evidence given to them on this point on behalf of the British Transport Commission. Ministers were, however, reluctant to accept the Commission's estimates of future savings in running costs. These assumed increased productivity at a rate of less than 1 per cent., as compared with the average figure of 2½ per cent. which the Government were assuming for industry generally. Ministers believed that there was scope for much larger economies in the administration of the railways; and the suggestion was made that the Prime Minister might call on representatives of the railway unions to put forward proposals for increased efficiency and more economical administration. Secondly, it was felt that the Tribunal had failed to give sufficient weight to the consequences which these increased charges would have on other industries. The Cabinet were informed that they would result in an average increase of 1s. 6d. per ton in the price of coal, and additional costs to gas and electricity undertakings of £2 million and £1½ million respectively, which would have to be met by increased charges to the consumer. It had also been estimated that the increases would add something between £4 and £8 to the average export price of a motor vehicle. The increases would therefore have the most serious repercussions throughout industry; they would increase the difficulties of the general economic situation, and would result in a further rise in the cost of living. Thirdly, these increased freight charges would aggravate still further the mal-distribution of traffic as between road and rail transport. The
economic difficulties of the railways were largely due to the diversion of traffic to the roads; and an increase in railway freight charges would tend to make this situation even worse, by driving still more traffic away from the railways. The Tribunal had themselves estimated that £10 million of traffic would be lost to the railways as a result of these increases.

In these circumstances the Cabinet felt obliged to postpone taking a final decision on this application by the British Transport Commission. They recognised that in the forthcoming debate on transport in the House of Commons on 15th March there might be criticism of their delay in reaching a decision on this application. It would, however, be reasonable for the Minister to say in reply that the report of the Transport Tribunal had only recently been received, and that the Government were still considering the effect of the Tribunal’s recommendations on the national economy.

In further discussion questions were raised about the relations between Ministers and the Boards of socialised industries. Thus, if the Government were held accountable in the last resort, by Parliament and by the electorate, for the standard of efficiency in the socialised industries, was it satisfactory that the Boards should regard this as a matter of day-to-day administration falling mainly, if not wholly, within their jurisdiction? Further, was it not desirable that Ministers should be given an opportunity of expressing their views, however informally, on proposals of the Boards which might have political repercussions? Thus, should not Ministers have been made aware of the intention of the British Transport Commission to submit to the Transport Tribunal a charges scheme for the London area involving adjustments in passenger fares, including a modification of the existing system of workmen’s fares?

The Cabinet—

Invited the Minister of Transport to formulate, in the light of the Cabinet’s discussion, fresh proposals designed to reduce railway costs, to secure a better balance of traffic between rail and road and generally to secure that, over a number of years the Transport Commission’s undertakings, taken as a whole, would be self-supporting.

3. The Cabinet had before them a memorandum (C.P. (50) 31) submitted by the Minister of Health in response to their request of 9th March, setting out the existing financial structure of the National Health Service in England and Wales and the modifications which would be required if the Government were to be enabled to exercise closer control over expenditure on this Service.

The Minister of Health said that, in an expanding service at an early stage of its development, it was inevitable that expenditure should increase and that some of this increase should be reflected in Supplementary Estimates. In present circumstances he could not favour the imposition of any rigid ceiling on expenditure in 1950-51. As regards the extent to which past expenditure had exceeded the annual Estimates, he thought there was little substance in allegations of extravagance or deliberate overspending. He had, however, appointed a financial expert, Sir Cyril Jones, to undertake an independent examination of the financial administration of the Service as a whole. The Central Health Services Council had set up a special committee to consider the administrative structure of the hospital service; and the Nuffield Trust had instituted an investigation into hospital finances. From these enquiries the proposal was likely to emerge that a representative of the Minister should sit on the hospital management committees.
If closer financial control was achieved by way of suggestions emanating from an independent enquiry, rather than by an instruction imposed by the Government, he believed that the advantages of the present organisation could be retained while securing greater central supervision. He was opposed to the imposition of charges, either for hospital treatment or for the supply of drugs or appliances, at such an early stage in the development of the Service.

The Chancellor of the Exchequer said that a Supplementary Estimate amounting to almost half the total of the original Estimate laid the Government open to the serious criticism that they could not effectively control the expenditure of public money. The Government would be seriously weakened if they did not put themselves in a position to rebut that criticism. In his view the least that he could say in the debate on the following day was (i) that the amount of the Estimates for the National Health Service in 1950–51 would be a fixed ceiling, which would not be exceeded; and (ii) that, whatever the outcome of the current enquiries into the financial administration of the National Health Service, the Government were determined to enforce effective control on behalf of the responsible Minister in the various stages of hospital expenditure. He would not need to say at this stage precisely how this would be done: the most effective and convenient methods could be discussed in detail with regional hospital boards and hospital management committees; but it was in his view essential to assert at once the principle of central financial control without awaiting the results of the current enquiries to which the Minister had referred.

In discussion there was general agreement that the Government must be in a position to balance the claims on the Budget of expenditure on the National Health Service and expenditure on education, defence and other services. One service could not be allowed to incur expenditure without limit, while the others remained subject to strict financial control. Hospital committees had in the past been accustomed to operating within financial limits and subject to financial checks; and there was reason to believe that the more responsible members of regional hospital boards and hospital management committees would welcome the imposition of closer financial control on behalf of the Minister. The scheme approved by the Cabinet in 1946 had contemplated that each regional hospital board would have an accounting officer responsible to the Minister of Health, and the placing of officers of the Ministry of Health in key positions need not interfere with the smooth running of the Service.

Some doubt was expressed whether it would in practice be possible to adhere to a rigid limit on expenditure in 1950–51; but it was pointed out that other services had to keep within their Estimates, despite changes in costs, and that in Votes as large as those of the National Health Service it should be possible to balance unexpected expenditure in one field by savings in another, provided there was adequate financial control from the centre.

The future safeguards which the Chancellor of the Exchequer wished to announce need not imply any admission that the Service in the past had been out of control, since there had inevitably been difficulties in making precise financial estimates of expenditure in the early stages.

The Cabinet agreed that it was not necessary to decide, before the debate on the following day, whether charges should be made for any of the facilities provided under the Service. Some Ministers thought that a rigid control of expenditure would provide all the savings that need be sought, and that a system of charges was undesirable. It was suggested, however, that the public might reasonably be required to buy their own supplies of things like cotton wool and aspirin.
It was also suggested that further consideration should be given to the remuneration of specialists, especially in the junior grades.

The Cabinet—

(1) Agreed that the Chancellor of the Exchequer, in the debate on the Supplementary Estimates for the National Health Service on the following day, should announce that there would be a ceiling on expenditure on this Service in 1950–51, and that the Government would take appropriate steps to enforce effective financial control, on behalf of the responsible Minister, over the expenditure of regional hospital boards and hospital management committees.

(2) Agreed to resume at a later date their discussion of the finances of the National Health Service.

Cabinet Office, S.W. 1,
13th March, 1950.