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COPY NO. 5628th October, 1964CABINETPROPOSALS FOR EXPENDITURE:
AN INCREASE IN SOCIAL SECURITY BENEFITSMemorandum by the Minister of Pensions and National Insurance

We are all agreed that we should give priority to improvements in the social field. Our more radical plans for a fully graduated system and our proposals for Income Guarantee will take time to work out in detail. The need to make an immediate impact in this field has led me to conclude that we ought to proceed immediately with an all-round increase in social security benefits. This would be in accordance with the undertaking in our Manifesto that these benefits will be raised. There is in any event a good case on general grounds for an increase in these benefits. It is now about eighteen months since they were last increased, and the present rates are steadily losing value. For technical reasons, about four months is the minimum period needed from the presentation of a Bill to bring new rates of benefit into operation. In fact, the earliest date by which we can expect to get higher rates into payment is the beginning of April next year, which will be nearly two years after the last increase.

2. Another factor which we have to take into account is that under existing legislation national insurance contributions are due to go up at the beginning of next April without any accompanying increases in benefits. This is the first of the four quinquennial increases in contributions provided for in the 1959 Act to meet the growing cost of retirement pensions. Legislation would be necessary to avoid this happening. If we go now for an all round increase in benefits, we can deal with the contribution position at the same time in the way best fitted to our own plans.

The amount of a national insurance increase

3. The immediate question which arises is the amount of the increase to be made in the standard rate of national insurance benefit. I estimate that by next April the rise in the cost of living, as measured by the Retail Prices Index, since the last increase in May, 1963, will justify an addition of about 5s. on the standard rate of 67s. 6d. But in recent years increases in national insurance rates have been made by reference to the rise in average earnings rather than merely the rise in prices. It would be difficult for us to take a lower standard. The rise in earnings by next April since the last increase in benefits is expected to be about 13½ per cent which would justify an increase in the 67s. 6d. rate of very nearly 10s. This seems to me to be the absolute minimum increase we

could make next April. In fact, I propose that we should do a little better than this and provide for an increase of 12s. 6d., giving a new standard rate of £4 a week for the single person. This would provide us with a rate of benefit which we could reasonably expect to hold for a long enough period to develop our more radical plans. But I am not thinking only in terms of tactical advantage. In our Manifesto, we made a point of saying that social security benefits have been allowed to fall below minimum levels of human need and by doing rather better than would be necessary to match the rise in earnings we should be manifestly making a start to put matters right.

4. Although an increase of 12s. 6d. in the standard rate would be the largest increase in cash terms since 1948, it would not be as big a percentage as the 10s. increase on £2 to £2. 10s. in 1958 so that we could hardly be accused of profligacy. Moreover the last of the Conservative Government's increases in May, 1963 set a precedent for improving benefits beyond the rise in earnings. The 10s. increase then introduced was about three times what the increase in the Retail Prices Index and twice what the increase in average earnings would have justified. The circumstances were special in that the increase followed the period of the pay pause, which had artificially limited the increase in prices and earnings, but even allowing for this an increase in benefits somewhat beyond the rise in earnings could be defended on this precedent.

5. I would propose an increase in the wife's pension of 8s. 6d. from 41s. 6d. to £2. 10s. This would give a married couple a joint pension of £6. 10s. a week. The increase for a child would be 2s. 6d. from 20s. to 22s. 6d. The amount for a widow's child would go up from 37s. 6d. to 40s. A corresponding increase in the 100 per cent disablement pension rate under the Industrial Injuries and War Pensions schemes would be 20s., from 115s. to 135s.

National Assistance

6. On this occasion I am convinced that an increase in national insurance benefits would have to be accompanied by an increase of the same amount in national assistance. Otherwise the poorest beneficiaries would not get the full benefit of the increases.

Widows

7. I would also propose that we should include in our legislation two improvements of widows' benefits.

(i) The 10s. widow's pension

We are committed to increasing this pension from 10s. to 30s. There is the possibility of repercussions on other benefits which have not been increased over the years to take account of falling values, in the industrial injuries and war pensions schemes. But I think we should be able to resist pressure for other improvements, at any rate for the present.

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(ii) The earnings rules for widows

We are similarly committed to abolishing the earnings rules for widows. This, too, cannot be done without the risk of repercussions. Nevertheless, we are so clearly committed to abolition of the earnings rules for widows that I think we must take this early opportunity to discharge our undertaking. We shall have to hold off pressure for further changes until we can produce our more fundamental proposals for reconstruction of the provisions for social security.

Cost

8. The approximate cost of these proposals in the first year would be as follows -

<u>Extra cost</u>	<u>£ million</u>
National Insurance	271
Industrial injuries	13
War pensions	16
National assistance	24
	—
	324
	—

Of these costs, those for war pensions and national assistance would fall on the Exchequer, and the national insurance and industrial injuries costs would be met mainly from contributions, with Exchequer support.

Contributions

9. Since 1959, higher benefits have been financed partly by development of the graduated scheme of national insurance contributions and benefits. We have strongly criticised this scheme in the past, and we must examine it closely before we see exactly how we want to develop it in the future. On this occasion, therefore, I am convinced that we ought to look for our extra income to the flat-rate contributions, with the usual Exchequer support.

10. Another factor is the quinquennial increases in contributions referred to in paragraph 2. The number of pensioners will be growing steadily up till about 1980, and under the pay-as-you-go system the extra cost of these pensions was to be met by putting up contributions at five-yearly intervals between 1965 and 1980. The result would have been to put the Fund in surplus in 1965-66, and to achieve an approximate balance of income and expenditure over the following 5 years until the next quinquennial increase. The increases in contributions were to include 5d. a side (that is 5d. each by the employer and employee) on the general flat-rate contribution, and $\frac{1}{4}$ per cent a side on the rate (at present $4\frac{1}{4}$ per cent a side) at

which the graduated contribution is now collected on earnings between £9 and £18 a week. I propose that the 1965 quinquennial increases should be absorbed into the higher contributions which will be needed next April to finance the higher benefits. Most of the income we should get from them will in any case be needed because of the growing number of pensioners, if we are to keep the Fund in balance over the following 5 years, but for the reasons given in the previous paragraph I would not propose to increase the rate of graduated contribution on this occasion.

11. To achieve a balance over 5 years by a conventional increase in the flat-rate contributions, with Exchequer support according to the formula in the 1959 Act, would mean raising the man's national insurance contribution by 2s. 8d. a side. (Under the 1959 formula, the Exchequer would then contribute about £70 million extra to the National Insurance Funds as well as meeting the cost of higher war pensions and national assistance.) In my judgment, 2s. 8d. on top of the man's present contribution of 11s. 8d. would be too heavy a burden to place on the individual contributor, particularly the low wage earner. I do not think his contribution should be increased by more than about 2s. Even this would be a good deal sharper increase than we have had in the past, apart from 1958 when the contribution also went up by 2s; but I think it would be tolerable to finance the kind of benefit increase I am now proposing. The woman's contribution would be increased in proportion by 1s. 9d. to become 11s. 5d.

12. The contribution increases could be kept down to these levels and the Fund maintained in reasonable balance over the next 5 years if the employer's contribution were put up rather more than proportionately, that is by 3s. 3d. If this were thought too great a burden on industry at the present time, it would, I think, be possible to mitigate it to some extent. The present increase in benefits is a holding operation until we have time for a more radical examination of the national insurance scheme. This will necessarily mean examining its contribution structure and the sources of income. We could, perhaps, therefore justify raising only sufficient extra income to maintain the Fund in balance over the next 2 to 3 years while we develop our future plans. On this footing, the increase in the employer's contribution could be kept down to something like 2s. 6d. This would mean, however, that we should be getting by merely for a short period with the prospect of correspondingly bigger contribution increases next time.

13. I think that on merit there are good reasons for asking the employer to pay a bigger share of the stamp. At present employer and employee pay roughly equal amounts towards the cost of national insurance and industrial injuries. However, the Health Service contribution, which is also part of the stamp, falls preponderantly on the employee, who in the case of a man pays 2s. 8½d. to the employer's 7½d. Therefore, my proposal to put more weight upon the employer means that we should be moving some way towards a more equal distribution of the cost of the stamp. One way of achieving this aim would be to increase the

insurance contribution for a male worker by about 2s. 8d. a side but shift 8d. of the employee's National Health Service contribution onto his employer. Before we finally decide the new contribution structure I should like to explore this device with my colleagues directly concerned.

CONCLUSION

14. I seek the approval of my colleagues for my proposals. I would remind them that, if the requirements of the timetable I have suggested are to be met, we must take decisions quickly.

M. H.

Ministry of Pensions and National Insurance, W. C. 2.

28th October, 1964

