CABINET
NATIONAL INSURANCE SCHEME

Memorandum by the Chancellor of the Exchequer

1. The following table compares the cost of the proposals in the Lord Privy Seal's paper (C.P. (45)315) with that of the proposals in the White Paper. The first two columns of figures cover Social Insurance and Assistance and Industrial Injury Insurance. They exclude Family Allowances and the National Health Services. The third column covers the same services as the first two but includes also the contribution of £37 million a year which is to be paid from Social Insurance funds towards the cost of the National Health Service. This column takes no account of the Lord Privy Seal's proposals on contributions.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Expenditure</th>
<th>Cost of Exchequer</th>
<th>Contributions of Insured Persons and Their Employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>£486</td>
<td>£210</td>
<td>£292</td>
</tr>
<tr>
<td>1948 Present Proposals</td>
<td>562</td>
<td>165</td>
<td>393</td>
</tr>
<tr>
<td>1958</td>
<td>661</td>
<td>383</td>
<td>393</td>
</tr>
<tr>
<td>1968</td>
<td>765</td>
<td>383</td>
<td>393</td>
</tr>
</tbody>
</table>

2. The new proposals thus involve, as compared with the White Paper proposals, extra expenditure of £76 million in 1948, met by an increase of contributions of £101 million offset by a decrease of Exchequer charge of £25 million. But the Exchequer carries the whole of the increasing cost and the Exchequer charge rises by about £100 million over each of the two decades from 1948. Nor is 1968 by any means the peak. An increase of £10 million each year for the next twenty is a most formidable prospect for the Exchequer.
5. In two respects, I am not in agreement with the Lord Privy Seal's proposals on benefits. First, the unlimited duration of unemployment benefit is fraught with possibilities of abuse sufficient to involve a real risk of bringing Government administration into disrepute. I am anxious to see that benefit is given to all those who are in the industrial field and unable, through no fault of their own, to obtain work. But we must recognise that the long term unemployed include some who have made no adequate efforts to get work and others, particularly married women, who are not really effectively in the industrial field. I should be reluctant to see the abandonment of the automatic termination of benefit after a generous period until we have a satisfactory administrative control of the cases of long term unemployment. Such control no one has yet been able to devise. The principle should be, I think, that any man or woman, including any married women, who have drawn benefit for a certain period should be required, as a condition of drawing further benefit, to change either his occupation or his district of residence, or both. But I am told that this principle is difficult to apply in practice.

4. Second, as regards old age pensions, I question the necessity for conceding a pension of 26s/- a week to a single pensioner. Pensioners are accustomed to regarding a pension for a married couple as made up of two equal pensions one for each spouse. Indeed I think that method of division is generally preferred. I should stick to it now. I agree to the figure of 42s/- a week for the double pension but, on the view just expressed, the single pension should be £1s/—. This would mean an initial saving to the scheme of £27 million a year. It would save, in addition to this, £750,000 a year out of the formidable annual increase of £10 million a year mentioned above.

5. Further I strongly dissent from the proposal to pay a pension of 10s/- a week at 55 (60 for women) where the pensioner has not retired. This violates the principle of retirement pensions and is in conflict with the frequently declared policy of the Labour Party. It is of the utmost importance to induce workers to remain at work as long as they are efficient producers and the best way to secure this is to give higher pensions on retirement for those who postpone retirement. I agree that the addition proposed in the Beveridge report of 1s/- a week (2s/- for man and wife) for each year of postponement is inadequate, I am willing to give the maximum of inducement which the savings on postponement justify, and I am advised that we could make the inducement 2s/6d single and 5s/- double for each year. I do not think we need give much weight to the present expectation of an unconditional pension at 65, in view of the very large net advantages offered to contributors by the new scheme is by and large markedly more advantageous to the contributor than the present one.
6. The Lord Privy Seal proposes that the contribution of the workers should be brought down from 5s/2d a week to 4s/6d a week for a man in Class I and to appropriate figures for other classes. Before considering this proposal we must first settle what the benefits are to be. The limitation on the duration of unemployment benefit to thirty weeks and the reduction of pensions for a single person from 26s/- to 21s/- would each save about 7d a week on the total contribution (half on the worker, half on the employer). If, therefore, these two amendments were made, the workers' contribution would be reduced to 4/7. In any case, if the contribution is thought to be too high, we must consider some appropriate alteration in the basis on which the contribution is built up. I cannot contemplate merely an arbitrary transfer of so many pence a week from the worker to the taxpayer. This would soon lead to pressure for a bigger arbitrary transfer. The practical question is how heavy a burden can be imposed, without running grave future risks, on the taxpayer and on the contributor.

IV.

7. It has been clear from the time of the Beveridge Report that a comprehensive scheme of Social Insurance would involve major financial considerations both at once and, in increasing degree, in the future. Now we have reached the decision stage of incorporating proposals in a Bill.

8. Social Insurance on generous lines involves a substantial transfer of purchasing power from producers to non-producers. And this is in addition to many other large transfers of a similar character already being made. Whether the transfers involved will be accepted by the producers, whether in the form of contributions or taxation, depends partly on the volume of production out of which the transfers have to be made and partly on the amount of the transfer. The essential condition for a successful carrying of all these burdens is a high level of production i.e. full employment of the maximum number of potential workers with a high standard of productivity.

9. The present proposals have, however, the special feature that owing to the growth in the numbers of the population over 65 and (after a short term) the diminution in the numbers between 16 and 65, the burden will become significantly heavier as the years go on. This is, as I see it, a real danger point. The measures which may have to be taken from time to time cannot be settled now. But while we cannot foretell the future, we must try not to prejudice it. One particular measure which may help a great deal will probably be encouragement of workers to remain on the active list longer than they do now. It is for that reason that I should
especially deplore the underlining in the new scheme of the age of 65 as an age for pension and in particular the institution, alongside retirement pensions at the age of retirement, of a pension at 65 irrespective of retirement. Pensions should be given at retirement. The future can settle when retirement is to be.

H.D.

Treasury Chambers, S.W.1.

5TH DECEMBER, 1915.