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**CABINET**

**SUPPLY EXPENDITURE**

**MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER**

We came into office pledged to reduce expenditure. Events since October 1951 have only made it abundantly clear that our whole economy depends on a reduction in expenditure and a lightening of the burdens of taxation on industry. Unless industry is given the freedom and the resources to re-equip itself and to keep in the van of progress, we cannot hope to support the standard of life and the position in the world which we now enjoy.

2. We made a start on incentives in last year's Budget. These were mostly personal. Now we are faced with the slackening of production and the need for broader incentives.

3. In October last I sent a letter to all Ministers describing the alarming budgetary prospects for 1953-54, and calling for a close review of all expenditure, not excluding major questions of policy. I am grateful to my colleagues for the help they have given me in securing reductions in expenditure so far as is consistent with approved policies. But it is in the realm of food, partly owing to the removal of further subsidies in the process of decontrolling eggs, feeding-stuffs, &c., that I have had the main response.

4. Although I am pressing on wherever possible both with the study and with the implementing of administrative changes which contribute to economy, we must recognise that no really substantial savings remain to be achieved by administrative savings alone. Changes in policy can bring administrative measures in their train, and a number of proposals are being worked out which will yield some worth-while reductions. But reductions in expenditure of the order which we had in mind in our election pledges and which many of our supporters in the House of Commons want to see, can only be effected by big changes in policy.

5. Changes in important Government policy, however necessary, cannot be effected without much thought and preparation. As my colleagues are aware, consideration is being given to the possibility of making changes in a number of fields. For example, in the field of defence the Cabinet agreed that a radical review of the pattern of our defence effort in the years after 1953 should be put in hand.

In the field of health, the Minister of Health and I as explained in C. (53) 30 have it in mind to set up an enquiry into the cost of the service as a whole.

In the housing field some lightening of the burden on the Exchequer should be a natural consequence of the new proposals on Housing Policy which the Minister of Housing has put before the Cabinet (C. (53) 23, 24, 25 and 26).

Expenditure on education in schools is going up rapidly owing to the heavy increase in the birthrate immediately after the war. Next year's estimate at £259 millions shows an increase of £16 millions over this year. In 1954-55, I expect a further increase of £11-£12 millions. I attach importance to balancing our statement on a Health Enquiry by some indication that we have in mind steps designed to keep the Education Estimates under control. I am still discussing this problem with the Education Ministers.

6. We cannot hope that changes of policy in these fields can be made in time for the results to be embodied in next year's budget. But as stated in paragraph 2,

the budget for 1953-54 must show that we are doing everything possible to effect reductions in expenditure. It is in this spirit that I invite my colleagues to consider the following table, which sets out the comparison between supply expenditure in 1952-53 and in 1953-54 on the basis of the Estimates as they stand at present.

	1952-53*	1953-54
	£m.	£m.
<i>Defence Preparations</i>		
Defence Budget...	1,462	1,637
Other Defence Items (Civil Defence, industrial capacity (defence), strategic reserves) ...	172	147
Total Defence Preparations ...	1,634	1,784
<i>Social Services</i>		
National Health Service ...	393	410
Education ...	259	286
Other Social Services (including housing, national insurance, national assistance, pensions) ...	455	491
Total Social Services ...	1,107	1,187
<i>Food Subsidies</i> ...	277	200
<i>Other Services</i>		
(Including Exchequer contributions to National Insurance Funds, supply and trading services) ...	593	618
Total Supply (other than Post Office self-balancing) ...	3,611	3,789
Increase ...	£178 millions	

7. Of this increase of £178 millions defence preparations account for £150 millions and civil expenditure for £28 millions.

8. Ministers will recall that the Defence Programme for 1953-4 was considered by the Cabinet last autumn. It was then decided that the defence budget should be restricted to £1,610 millions with whatever addition was necessitated by increased wages in the engineering industry. This addition was assessed at £26.75 millions making the defence budget in round figures £1,637 millions.

9. Civil expenditure shows an increase of £28 millions. This is after taking into account savings amounting to £50 millions from the removal of the subsidies on eggs, feeding-stuffs and flour used in confectionery; even the achievement of savings of this amount assumes that there will be a substantial measure of under-recoupment to farmers of their increased costs at the forthcoming Annual Review. But for these savings the increase in civil expenditure would have been £78 millions, *i.e.*, almost exactly the increase of £80 millions on social services. These services increase inexorably year by year. We cannot much longer offset this increase by reductions of food subsidies.

10. My colleagues will agree that this is not good enough, and it is essential that civil supply expenditure should be lower than last year's figure. In the ensuing paragraphs I set out various further measures of economy which I recommend to bring this about.

#### (A) National Health Service—Increase in Prescription Charge

11. In agreement with the Minister of Health I propose a change in the form of the charge for Health Service prescriptions, which (on assumptions which I think are reasonable) will save about £6 millions. (I understand that the Secretary of State for Scotland, on the other hand, feels some doubt about the proposal.)

\* The 1952/53 figures are the original Estimate for the year as modified by the changes announced in the Budget.

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12. At present patients who are given prescriptions by their Health Service doctors are required to pay 1s. 0d. per prescription form, even if more than one prescription is written on the form. The balance is paid by the Exchequer. Patients' payments are estimated on the present basis to amount to over £7 millions for 1953-4. I propose that in future the charge will be 1s. 0d. per individual prescription, so that if two prescriptions are written on the same form the patient will have to pay 2s. 0d.

13. The average cost per prescription at the present time is about 4s. 5d. so that the change will still mean that the patient is paying, on the average, less than one-quarter of the cost of each prescription. It is not unreasonable these days to expect a patient to pay 1s. 0d. for each prescription that he is given—as the large number of patients who receive forms bearing a single prescription do already. The change will, moreover, defeat a tendency—which has begun to manifest itself—for doctors to write several prescriptions on a single form in order to reduce the charge to the patients. Since charges were introduced, the number of prescriptions per form has risen in England and Wales from just over 1½ to 1½ and in Scotland from 1.4 to 1.5.

14. The change can be made without legislation, though amending regulations will be required; they will be subject to a negative resolution. Details of the change have been worked out and they can be given effect speedily. To yield a full year's saving of £6 millions the change would have to become effective by the 1st March; each month's delay would reduce the saving by £½ million.

15. There are no exemptions from the prescription charges (it was found impracticable to make them). But arrangements already exist, and would, of course, continue (and slightly offset the expected saving) for full repayment to all persons in receipt of National Assistance, or for whom the charge means hardship, and to all those whose prescriptions are supplied in connection with treatment for a war disability.

**(B) Food Subsidies**

16. In the table at paragraph 6 food subsidies are shown at a total of £200 millions next year. As already explained, this figure takes account of the savings resulting from decontrol of eggs, feeding-stuffs and cereals, which reduce the subsidy total from the £250 millions level which I announced in my Budget. Even to get down to the £250 millions level, however, will require some cuts in other food subsidies since increases in the purchase prices which the Ministry of Food will have to pay for certain commodities would, in default of such cuts, put the total subsidies level at somewhere between £265 millions and £270 millions. The subsidy cuts which the Minister of Food proposes to achieve are the following:—

<i>Butter</i>	<i>£ millions</i>
Increase price by 4d. a lb.	
Subsidy saving ... ..	9
(I should myself prefer to increase the price by 6d. a lb., thus saving some £14 million.)	
<i>Margarine and cooking fat</i>	
Increase price by 1d. a lb.	
Subsidy saving ... ..	5
<i>Milk</i>	
Avoid the reduction of ¼d. a pint which would naturally take place in the flush months of April, May and June.	
Subsidy saving ... ..	4
Total saving ... ..	18 (23)

This saving of £18 millions or, as I should prefer, £23 millions, will enable us to get the subsidy total down first to the £250 millions level and then, with the decontrol decreases to £200 millions

17. I do not think, however, that with the budgetary prospect such as I have described we can be satisfied to leave the food subsidy total at as high a level as £200 millions. I have discussed with the Minister of Food the directions in

which further reductions might be secured. The biggest elements in this total are the Bread (baking) Subsidy and the Milk Subsidy which in 1953-54 will account for some £40 millions and £36 millions respectively, apart from the special welfare subsidy of about £37 millions for mothers and children. These are vast amounts which, as Chancellor of the Exchequer, I find it difficult to disregard in my search for economies, but I recognise that they are awkward items to tackle from the political point of view. The Minister also regards milk as of great nutritional importance and, on bread, he hopes that the exercise of consumer preference for white (unsubsidised) bread may be found to reduce the burden of the subsidy on the national loaf. We have agreed, therefore, that if further savings on food subsidies are to be secured we should consider first the following two commodities:

<i>Sugar</i>	<i>£ millions</i>
Increase the price of domestic sugar by 1d. lb.	
Saving ... ..	9
 <i>Meat</i>	
By a rearrangement of price schedules, involving increases in the more expensive qualities averaging over all meat $\frac{1}{4}$ d. a lb., achieve a saving on the subsidy of ... ..	8

### (C) Strategic Reserves

18. During the present financial year we have spent some £70 millions on strategic stockpile, 15 per cent. of it on food and the rest on industrial raw materials. The total value of our strategic stockpiles at the end of this financial year will be about £200 millions, 35 per cent. in food and the rest in raw materials. I would not for one moment claim that this is a safe level for our strategic stocks. Precisely what our targets should be in the light of the recent reassessment of the dangers by the Chiefs of Staff is now being worked out. But it will certainly be higher than the present stocks, including those we have in sight. I am very much afraid that it will be higher than we shall ever be able to afford.

19. The Minister of Materials, who has a major responsibility for stockpiling, has urged upon me the desirability of making a significant volume of purchases during the coming financial year. Reluctantly I have felt bound to ask on general economy grounds that our expenditure this year should be considerably reduced below the level of last year. I propose, accordingly, that new purchases for the stockpile in the coming financial year shall be £32.7 millions, made up of £15.2 millions for food and £17.5 millions for industrial raw materials. There is very little room in these amounts for manoeuvre, since a great part of the expenditure is committed. I feel it is the maximum we can afford and I have, therefore, not been able to find room to allow a start to be made with the civil oil stockpile. In addition, I am making a contingent provision of some £12 millions in order to buy for the stockpile the trading stocks of one commodity which, if we are able to revert to private trade during the year, we shall probably be unable to dispose of.

20. In the totals I have quoted in paragraph 6 provision for strategic reserves stands at £55 millions. My proposals for limiting new purchases would reduce this figure to approximately £46 millions.

21. To summarise, the possible savings I have indicated above are:—

	<i>£ millions</i>
Revised prescription charge ... ..	6
Sugar subsidy ... ..	9
Meat subsidy ... ..	8
Strategic raw materials ... ..	9
	32

If these are all achieved, the position would be that next year's total Supply expenditure would be higher than this year's by £146 millions, while Supply expenditure other than on Defence preparations would be higher by £5 millions. This outcome will, it is clear, be a disappointment to our Party, even when it is pointed out that the prospects of economy have been adversely affected by increased costs. It is plain, I suggest, that we must at least decide to achieve the savings I have summarised in this paragraph.

22. The question remains whether these further reductions should be incorporated in the Vote on Account figures due to be published on 23rd February and in the subsequent Estimates, or should be reserved for announcement in the Budget. The publication of Estimates totals at a higher level than we ultimately intend may expose us to some unnecessary additional criticism between the Vote on Account date and the Budget, and there is also the fact that if the announcement and, therefore, the effective date of the changes is delayed, the amount of the saving in the next financial year will be reduced. Against this there is the consideration that further cuts in the food subsidies (additional to those arising from decontrol and from the need to keep the level at the previously announced total of £250 millions) may be more readily accepted against the background of the next Budget than if they are disclosed at an earlier stage. In particular I have more chance in a Budget of setting the rough against the smooth. I should welcome the views of my colleagues on the merits of these alternatives. The Minister of Food will state his reasons for preferring to reduce the sugar and meat subsidies at the time of the Budget.

R. A. B.

*Treasury Chambers, S.W. 1,  
29th January, 1953.*