CABINET

SOCIAL SERVICES: POSSIBLE ECONOMIES

Memorandum by the Chancellor of the Exchequer

The Civil Vote-on-Account will be published on 20th February and will be the first public indication of the level of expenditure next year (1957-58). At present the Estimates submitted to the Treasury show an increase over the (revised) original Estimates for this year of no less than £280 millions. An increase of this magnitude will come as a great shock to public opinion both at home and abroad, for there is undoubtedly a widespread feeling that our present economic difficulties call for a tighter control of Government expenditure on the civil side as well as on defence. Since we cannot hope to avoid some substantial increase in civil expenditure, we must make it clear that we have made a determined effort to cut the increase to the minimum. Not only does our political future depend on this; but it can profoundly influence our external prospects. No single factor could prejudice foreign opinion about the value of sterling and our economic future so much as the feeling that Government expenditure was getting out of hand or that we were concentrating all our cuts on defence. It is particularly important that we should check any such feeling now when sterling, after its recent weakness, is on the turn.

2. I propose, therefore, just before the Civil Vote-on-Account is published, to make a statement about the Estimates in Parliament. I shall have to show the main reasons for the increase; but it is imperative that I should also be able to announce some concrete and substantial savings as an earnest of our intention to economise.

3. The ordinary Treasury scrutiny of the Estimates which is now going on will produce some cuts. Special attention is being given to the agricultural and food subsidies (with an eye on the forthcoming farm price review) and to civil defence. But the results of all this will not be anything like sufficient. Moreover, such cuts are not of the kind for which we can take credit publicly.

4. There is one big field in which no worthwhile economies can be made without deliberate changes of policy - namely, the Health and Welfare Services and family allowances. It is also the only field in which it is practicable to make changes which at the same time are justifiable on their merits and will yield a sufficiently impressive total of economies. Even though some of them require legislation and will take time to become effective, so that we benefit only partially in 1957-58, we shall be seen to have ensured the full saving in later years.
5. **Increase in the National Insurance Stamp**

It has been suggested that the simplest method would be to put 1s. or more on the insurance stamp and apply the proceeds to the Health Service. 1s. stamp would produce £48 millions. The following factors should be borne in mind.

(a) This is not a cut, it is a tax. It is a regressive tax applied to wage earners, a poll tax which would be applied to a limited class of people in aid of a service available to all.

(b) The National Insurance Fund will be in deficit next year by about £40 millions and thereafter increasingly each year. We shall need to raise the stamp as high as we can to cover these deficits, which threaten to undermine the insurance basis of the scheme. We must raise this; with all its difficulties it is the only way to meet the major problem which lies ahead. But there is a limit to the amount which we could put on the stamp without repercussions on wages.

(c) It might be difficult to contemplate such an increase at all without providing for some increase in benefit rates, in view of the present relationship of benefits to prices. This would increase the Exchequer contribution to the Fund and wipe out, not only for the first year but permanently, most of the savings.

(d) These difficulties are not reduced in any way by the proposal to have a separate stamp for the Health Service. It would in any case be mistaken to reduce the insurance stamp when heavy deficits are in prospect in the Fund.

6. I have come to the conclusion that we have to select from the following alternatives:

<table>
<thead>
<tr>
<th>Full year saving (G.B.)</th>
<th>£ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Abolish the dental service except for persons under 15, saving</td>
<td>25</td>
</tr>
<tr>
<td>(b) Abolish the dental service except for persons under 21 and expectant mothers, saving</td>
<td>20</td>
</tr>
<tr>
<td>(c) Raise dental charges. (Charge full cost for dentures instead of 45 per cent, saving £6 millions; and raise maximum charge for treatments from £1 to £3). There would be some loss through National Assistance - gross saving</td>
<td>10</td>
</tr>
</tbody>
</table>

/ (d)
(d) (Raise the charge for welfare)
(milk from 1½d. to 4d. i.e. (charge half the cost price) )
(saving £12.5)
(Savings)

| (Comparing charge for)
| producer |
| (national dried milk -)
| subsidy |

| 12 |

| Full year saving (G.B.) |
| £ millions |

(e) School milk - at present no charge charge 1d. per ½-pint bottle, saving -

| 4.5 |

(f) School meals - at present charge 10d; charge economic price with hardship exemptions, saving - about 12

| 12 |

(g) Orange juice, cod liver oil and vitamins; charge full cost, saving -

| 1.75 |

(Most of the supplies of orange juice for 1957/58 have been bought. If demand falls the savings may not be achieved in 1957/58).

(h) Hospital Boarding charges at 4/6d a day for the first eight weeks of stay with exemption for children. Saving (net of extra National Assistance) -

| 11 |

(i) Withdraw family allowance from the second child and raise the rate from 10s, to 14s, for third and subsequent children, net saving -

| 40 |

7. **The Dental Service**

The reduction in the scope of this service has the great advantage that it is a real cut. It is a cut only on the fringe of the Health Service, and if we keep the service for those under 21 and expectant and nursing mothers we shall have protected the most deserving people. Legislation would be needed, and three months' notice would have to be given to the dentists. We should therefore get no savings in the first half year. When the service is reduced in scope we may have to give to dentists an option to leave the service with a right to draw their superannuation contributions. The effect of this cannot be quantified precisely but it might well cancel the remaining savings in the first year. It will be argued against this proposal that it hits the middle classes, and that it is the first step to dismantling the Health Service. Nevertheless this cut would be a clear demonstration of our determination to curtail Government expenditure and the full saving of £20 millions would be achieved in the following year, when it will certainly be needed.

8. **Charges for Existing Services**

We could get a saving of about £40 millions in 1957/58 from items (c) to (h) in paragraph 6 above. Much of this would be effective immediately. The dental charges and hospital charge require legislation. These charges could be defended on the ground that people
can afford to pay more than they do at present, and that there is wasteful use of these services. For school meals I have in mind a charge of 1/10d. with hardship exemption arrangements on a uniform national basis, which would take account both of income and the number of children in the family. These cuts would of course be controversial (like anything else in this field). We should have to face the argument that they hit the children.

9. The Family Allowance

Many people think this is a waste of money; it is certainly not all spent on children. There is much to be said for concentrating help on the larger families. If we abolished the 8s. allowance for the second child there would be a net saving of about £60 millions after allowing for loss of income tax, increased national assistance, and repercussions on war widows and national insurance allowances. To do this would worsen by 8s. a week the position of all families with two or more children. We should have to offset this to some extent. It might be sufficient to raise the 10s. allowance for the third and subsequent children to 14s. This would cost about £20 millions. A four-child family would then be in the same position as it is now, and a five-child family 4s. a week better off. This proposal requires legislation, and could probably not be effective before August so that only a proportion of the savings would be achieved this year.

Conclusions

10. We ought to make economies which everyone will see are big enough to affect the economic situation decisively. We should therefore look for savings of at least £40 millions in the Health and Welfare field in 1957/58, with a much bigger reduction in the year after. Some forms of expenditure will inevitably go up again in 1958/59, and we should do enough now to avoid the same situation arising in a year's time, with another round of irritating cuts.

11. Financial prudence, both short-term and long-term, therefore clearly indicates that we ought to take all the measures indicated in (b), and (d) to (i) in paragraph 6 above, yielding a total budgetary saving of £100 millions in a full year and about £55 millions in 1957/58. We should not be deterred by the fact that those measures which require legislation — reduction in the Dental Service and family allowances and the introduction of the hospital boarding charge — would give us comparatively little saving on the Estimates for the coming year. These measures would be recognised both at home and abroad as courageous steps which will strengthen our budgetary and economic position in the long term. They would thus contribute to the strength of sterling at a crucial time. If we have the courage, these are the policies which we ought to adopt.

12. For many years, we have had the sorry spectacle of a Government which spends too much, drifts into inflation, then seeks to cure the situation by fiscal and budgetary measures. These attempts in turn lead to flagging production, taxes are reduced, and demand stimulated: but we shrink from the measures necessary to cut expenditure decisively, and inflation starts again. There is only one way out of this unhappy circle, and that is to cut expenditure and not to increase taxation — whether by way of a poll tax or by normal fiscal measures — but to reduce it.
13. I have been considering what to do if we decide that, for political reasons, we dare not adopt the policy which I have outlined above. The risks of failure to grasp the nettle now are considerable. Yet I am a politician, and I am no more oblivious of the political hazards of firm action than I am of the economic hazards of inaction.

14. It is, in my judgment, just possible that we might get by economically if we decided to adopt something short of this programme, concentrating in the main on measures which will yield substantial savings in 1957/58, but at the same time expose clearly the dangers facing us in future if more drastic measures are not taken, and announce the Government's determination to avoid them. On this basis we would, for this year, prefer an increase in dental charges to an abolition of part of the Dental Service, and we would not touch family allowances. Instead, we would adopt all the remaining measures in paragraph 6, at a saving of £41 millions in 1957/58. We would say that these savings were clearly the minimum necessary (many would judge them entirely inadequate) in view of the very heavy increase in Civil Estimates which otherwise faces us.

15. How could be reconcile so limited a programme with our responsibility for the country's economic welfare? Only, I suggest, by making two things quite clear:­

(a) That we are able to set out in some detail the growing cost of the social services so that we can show the dangers to the economy which this growth involves. We would for example give warning of the very heavy deficits which are in prospect for the National Insurance Fund. We would explain that this does not mean that the Government intends "to dismantle the Welfare State"; on the contrary, it seeks ways of sustaining it without imperilling the whole economy of the country.

(b) That we intend to bring within bounds other areas of expenditure where at present the Government's control does not suffice to protect fully the tax-payer's interests. Of these, much the most important example is the grant-aided expenditure by local authorities. For this purpose an early announcement of the proposed arrangements for a general grant is essential.

16. The choices which I present to my colleagues are therefore:­

(1) The thorough-going policy outlined in paragraph 11;

(2) a less drastic policy this year (paragraph 14), accompanied by the announcements outlined in paragraph 15. Anything less than this would, in my judgment, involve us in risks, both at home and abroad, which no Chancellor of the Exchequer can reasonably be expected to face.

P.T.

Treasury Chambers, S. W. 1.

30th January, 1957.