I accept the conclusion in the report of officials, circulated with the Chancellor of the Exchequer's memorandum C. (57) 31, to the effect that, assuming that a further contribution is to be made to the finances of the National Health Service by contributors to the National Insurance Fund, the only practicable method is to increase the value of the present stamp and attach to it an indication that part of the cost of the National Health Service is being financed from this source. I entirely agree with the Chancellor that the reasons for rejecting a separate stamp or card are conclusive.

2. This method is, however, in present circumstances politically the most difficult to use by itself. For the ordinary employed contributor, who only sees his National Insurance card when he changes jobs, will, in general, only see the result of the change in an increase in the deduction already made from his pay in respect of his National Insurance contribution.

3. The question, therefore, of the relationship between the timing of both the announcement and enactment of such proposals and of changes in National Insurance contributions and benefits, which is referred to in paragraph 5 of C. (57) 31, assumes increased importance.

4. It may assist my colleagues in coming to a conclusion on this issue if I set out the present position of the National Insurance Fund and of the benefits and contributions paid from and to it.

5. The outlook for the Fund on the present basis is set out in paragraph 4 of C. (57) 31. Under present legislation the annual deficit on the Fund, which begins to run heavily into the red next year, falls on the Exchequer. In addition, however, to the sums referred to in that paragraph, the Exchequer is liable to contribute under the established formula an Exchequer contribution at an annual rate of approximately £95 millions a year.

6. As the Chancellor points out, pressure on the existing rates of benefit is high and rising. This is particularly true of retirement pensions. Outside Parliament, the various organisations of pensioners and their supporters are organising demonstrations and petitions and putting such pressure as they can on Members of Parliament. They
have obtained a considerable volume of trade union support, including the Scottish Trades Union Congress. A considerable number of Parliamentary Questions are put each week and my own assessment is that pressure will in any event rise considerably in the next few weeks. My colleagues will appreciate the political dangers of a loss of initiative by us in this matter to the Opposition. There are at present 4½ million retirement pensioners; next year there will be about 5 millions, and the figure will rise steadily thereafter.

7. On the merits of the matter, the present National Insurance retirement pension dates from 1946. Its value then in terms of purchasing power was bettered for the first time by our National Insurance Act, 1954, which brought the present rates into effect in April, 1955. Subsequent rises in prices, however, have now reduced the current rates of benefit for the single person in terms of purchasing power to a level 1s. 3d. below that of 1946, and 3s. 3d. below the real value to which we raised it in April, 1955. These calculations are based on the Index of Retail Prices figure for mid-December published in January.

8. These calculations take no account of the view now widely held that it is not sufficient merely to stand on the standards of 1946. There is a strong view that pensioners, widows and the sick should have some share in the improved standards which the great mass of the wage-earning population has achieved since that date.

9. The National Insurance benefit rates are also frequently judged by their relationship to National Assistance rates, which are themselves closely related to the subsistence level. The National Assistance scale rate for a single person is 40s. a week (i.e., the same as the National Insurance benefit rate) but plus an allowance for rent which, in the case of a single householder, averages about 13s. a week. Similarly, the Board’s scales for children are higher than National Insurance plus family allowances for children. While the Government, for reasons which are upheld by the Report of the Phillips Committee on the Economic and Financial Problems of the Provision for Old Age, have never accepted an absolute relationship between subsistence and National Insurance benefit levels they have, again for reasons supported by the Phillips Committee, recognised the need to watch closely the extent to which National Insurance pensioners have recourse to National Assistance. The number of retirement pensioners whose pensions require to be supplemented by National Assistance, which fell following the improvements in benefit rates in April, 1955, is now rising again. This increase would be still more marked if, as may be the case, it becomes necessary to make a further increase in National Assistance rates.

10. Despite the facts set out in the four preceding paragraphs, I think there would be distinct advantages, if it proved to be possible, in holding the inevitable increase in National Insurance benefits and contributions to be effected by a Bill to be introduced next session.

11. It is, however, very much a matter of judgment, and of the forecast that one makes of the trend of prices, whether in any event that would prove possible.
12. I think it is clear that an increase in the contributions paid without any accompanying increase in benefits would accentuate the pressure for an early improvement in National Insurance benefit rates. The most effective argument with responsible opinion for deferment of an increase in benefits has been and is that such an increase must under a contributory scheme involve an increase in contributions. If contributions are in fact to be increased, though for another purpose, it seems to me evident that the argument will be raised, both on the proposed legislation and outside it, that if any contribution increase is possible it should be used to finance an increase in National Insurance benefits.

13. Of the alternatives posed in paragraph 5 of the Chancellor's paper it therefore seems to me that the most advantageous course is to carry through the legislation imposing an additional charge for the Health Service and increasing National Insurance contributions and benefits at the same time.

14. On this basis it would be open to us either to enact both provisions in the spring or at the beginning of next session. In the light of present uncertainty as to price movements, there is something to be said for leaving that question open for the time being.

15. In the latter part of paragraph 5 of his paper, the Chancellor sets out possible objections to doing the two operations at the same time. As above indicated, there is no reason why, as suggested in his (i), any delay should result if the decision of the Cabinet were to proceed with both measures earlier rather than later. So far as (ii) is concerned, the effect on the Exchequer must depend on whether, as I would propose, the increase in contributions is larger than that actuarially computed to correspond with the increased benefits. A number of other factors working in differing directions (e.g., war pensions, tobacco tokens, National Assistance) would also have to be taken into account in assessing the effect on the Exchequer. With reference to (iii), while I do not, for the reason mentioned above, necessarily accept the figure there given for the increased amount of contribution involved in the joint operation, I must point out that the combined increase in the stamp made in 1954 was 2s. for an employed man and his employer. I would add with reference to (iv) that I am bound to say that it does not seem to me to follow that the position with respect to a separate Health Service contribution is in any way altered by timing its coming into existence to coincide with improvements in the National Insurance scheme itself. In either event, what the Chancellor describes as the essence of the original conception, that people using the Health Service should be required to pay more for the same service, would be preserved.

16. Further to the question posed by the Chancellor's 5(iii), i.e., as to what is the acceptable increase in National Insurance contributions, I agree that this is very much a matter of judgment. I am not sure, however, that two increases, spaced at the best a few months apart, would necessarily be more acceptable to contributors than a single increase. And from our own point of view there is a good deal to be said, before deciding finally on the increase to be exacted from the contributor for National Health, for having in our minds also what both the improved benefits under, and financial condition of, the National Insurance Fund are going to cost him in the near future.
17. I append to this paper a summary of the main rates of National Insurance contributions. Politically, the most important figures are the employee's Class 1 contribution and the rate of Class 2 (self-employed) contribution. For the sake of simplicity, I am not including a number of reduced rates for certain categories of insured persons, such as young people.

J.A.B.-C.


13th February, 1957.
### APPENDIX

#### MAIN RATES OF NATIONAL INSURANCE CONTRIBUTIONS

<table>
<thead>
<tr>
<th></th>
<th>National Insurance</th>
<th>Industrial Injuries</th>
<th>Total Stamp</th>
<th>Exchequer</th>
<th>Total Weekly</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employer</td>
<td>Employee</td>
<td>Employer</td>
<td>Employee</td>
<td></td>
</tr>
<tr>
<td><strong>Employed men</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>over 18</td>
<td>5s. 6d.</td>
<td>6s. 4d.</td>
<td>6d.</td>
<td>5d.</td>
<td>12s. 9d.</td>
</tr>
<tr>
<td><strong>Employed women over 18</strong></td>
<td>4s. 7d.</td>
<td>5s. 3d.</td>
<td>4d.</td>
<td>3d.</td>
<td>10s. 5d.</td>
</tr>
<tr>
<td><strong>Self-employed men over 18</strong></td>
<td>8s. 5d.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8s. 5d.</td>
</tr>
<tr>
<td><strong>Self-employed women over 18</strong></td>
<td>7s. 2d.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7s. 2d.</td>
</tr>
<tr>
<td><strong>Non-employed men over 18</strong></td>
<td>6s. 6d.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6s. 6d.</td>
</tr>
<tr>
<td><strong>Non-employed women over 18</strong></td>
<td>5s. 2d.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5s. 2d.</td>
</tr>
</tbody>
</table>

**NOTES:**

1. The Fund is required by S. 37 of the Act of 1946 to pay over to the Exchequer a sum in respect of each contribution collected, and this sum is applied to the National Health Service. The sums laid down are 10d. for men over 18, 8d. for women over 18, and 6d. for persons under 18. These sums are accordingly included in the calculation of the contributions. Of the 10d., 8½d. is assigned to the employed person's contribution and 1½d. to the employer's share.

2. The total amount payable by an individual employed person is 6d. 9d. a week for men and 5s. 6d. for women.