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CABINET

NATIONAL INSURANCE CHANGESMemorandum by the Chancellor of the Exchequer

I would like to make some points on the paper by the Minister of Pensions and National Insurance (C.(57) 180).

2. If we are to have a general increase in National Insurance, National Assistance and War Pensions by Christmas with no public announcement until, say, October, and with the National Insurance Bill and the National Assistance Resolutions pushed through in November as soon as possible after the Debate on the Address, the best programme the Minister can devise leads to the following results -

- (a) Public leakage (including the precise new rates) by early September, if not earlier.
- (b) Public request for beneficiaries to put in the books for up-rating before the Bill's presentation.
- (c) Up-rated order books in the hands of the public before there is statutory authority for the new rates.
- (d) The risk of extra-statutory payments on an unprecedented scale should anything go wrong.

3. The risk of a hitch - with extra-statutory payments inevitably resulting - should not be overstressed, but we must take our decisions in full realisation of what would happen should it eventuate. The Accounting Officers, after drawing the position formally to the attention of Ministers, would have received their instructions to proceed: copies would go to the Comptroller and Auditor General, who would report to the Public Accounts Committee (P.A.C.). The P.A.C. would be certain to animadvert on all this in due course, and the Opposition could be expected to make the most of this "financial irregularity" or "financial irresponsibility" on the part of the Government.

4. Politically attractive though the operation is at first sight, I submit that, even if nothing "goes wrong", the constitutional improprieties which it involves are very serious and would not redound to the Government's credit. By printing the contribution stamps and uprating the order books before there is statutory authority either for the new rates of contribution or for the new rates of benefit, we would make it impossible for Parliament to do anything but rubber-stamp the Government's proposals in every particular. Ordinarily, all the details are open to amendment in Committee: none of them is protected by a Financial Resolution. We

should expose ourselves to severe criticism by the Opposition which might be very difficult to answer. Why had the Government not called Parliament back in time to deal with their proposals in the proper way? Had they, with their usual inefficiency, made up their minds so late that they were driven to a panicky scramble as the only alternative to public obloquy? Or had they just not dared to submit their proposals to the proper Parliamentary processes, because they knew they could not justify so low a benefit or so high a contribution?

5. All this would create a thoroughly bad atmosphere for the discussions on a Bill later in the session to implement a long-term plan, which is sure at best to be controversial in many respects. It would also have deplorable effects later on. Not only would we ourselves find it a very inconvenient precedent. It would be open to a future Labour Government to flout the established Parliamentary processes in the same way, or perhaps even worse, and to point to the present Government as their exemplar.

6. The future, immediate and long-term, of the National Insurance Scheme presents very difficult and very important problems. Our decisions must combine social generosity with financial and economic good sense. I believe we can reach such decisions. The more I think of it, the more sure I am that we should, with the courage of our convictions, present our decisions as a coherent whole and be prepared to defend them, and enact them, by the proper constitutional processes. Looking both to the general context and to the immediate inflationary situation, I see no good reason for a scramble to get new rates through by Christmas even if that could be done with constitutional propriety.

7. The proposed increase of 10s. in the National Insurance pension is very generous - the biggest increase made since the present scheme was introduced. It is correspondingly expensive - not at once, but increasingly so as the deficit emerges. I think we can justify it if, but only if, it is accompanied by three firm decisions - to abolish the tobacco concession, to have no further increase in this Parliament, and to bring in, by a later Bill in the 1957/58 session, a long-term plan which will put the finances of the Fund on a better basis.

8. The best course for the economy would be to announce all this in the late autumn, and to bring the intermediate operation into effect next March or April, as we previously planned. I recognise that a 2s. 6d. increase in National Assistance cannot be put off so long, and that the Board might well wish to propose a further 2s. 6d. increase to coincide with the new National Insurance rates in the spring. If my colleagues feel that this programme would be too tardy, then I think we are driven to the alternative of bringing the intermediate operation into effect in late January - which could be done if the Bill is introduced and passed early next session - although I recognise the administrative inconvenience which this date causes to the Minister of Pensions and National Insurance.

P.T.

Treasury Chambers, S.W.1.

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