CABINET

NATIONAL HEALTH SERVICE

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

On 22nd January the Cabinet approved, in principle, the proposal to increase the National Health Service (N.H.S.) contribution by 8d. They invited me to consider, in consultation with the Ministers concerned, the apportionment of this increase between the employee and the employer; and to submit detailed proposals for the implementation of this increase. (C.C. (58) 8th Conclusions, Minute 2.)

2. Annexed is a memorandum prepared by my officials, using facts agreed with the Departments concerned, to provide a basis for discussion between Ministers. This sets out the alternatives, and the various considerations which may be taken into account.

3. Decisions are required on three points:
   (a) The amount of the increase for women and juveniles.
   (b) The apportionment between employer and employee.
   (c) The treatment of the self-employed and non-employed (Classes II and III).

No difficulty arises about (a). I have discussed (b) and (c) with the other Ministers concerned, with the results shown below.

Apportionment between Employer and Employee

4. In my view the Health Service contribution ought to be paid mainly by the employee, since the benefits are enjoyed by him and his dependants. Politically it is easier to defend an increase which adheres to the principles laid down by the Labour Government. If we are to adhere as closely as possible to the present proportion of 5 to 1, or to the original Labour Government proportion of nearly 6 to 1, the right way to split the extra 8d. is 7d.: 1d.; a 6d.: 2d. split is slightly less accurate, and fractions of a penny are not feasible. Moreover, as the table annexed to the memorandum shows, every penny which is put on the employer reduces the annual net yield to the Exchequer and increases the Government's own expenditure.

5. There are also the presentational aspects to be considered. The Minister of Pensions sees some advantage in a 50/50 split. He takes the view that the proposed increase, coming as it does so soon after that which came into force last September, cannot be presented, as last September's change was, simply as a bringing up to date of the 1946 position; and that in these circumstances a new position has arisen which can only be justified on the grounds of financial necessity. He thinks, therefore, we should find it politically more acceptable to follow the Retirement Pension principle of dividing the increase equally between employers and employees.

6. The Secretary of State for Scotland and the Minister of Health, who will be piloting the legislation through the House, would find difficulty in arguing for 50/50, which shows an apparent divergence from earlier precedents. But they would prefer 6d.: 2d. to 7d.: 1d., partly because the latter would mean a total employee's contribution of 10s. and there is thought to be some advantage in keeping it below that figure.
7. Though I would still prefer 7d.: 1d., I am prepared to accept 6d.: 2d. as a compromise and so, I understand, is the Minister of Pensions, in the context also of the proposals in the next paragraph.

Self-Employed and Non-Employed

8. The present legislation charges self-employed and non-employed the whole N.H.S. contribution: this suggests that they should be charged the whole of the extra 8d. But my colleagues have represented that there is a case for tempering the wind to these classes, for which our Party traditionally have a warm regard; and that in the National Insurance field proper—apart from the N.H.S. contribution—the increase in the contribution under the National Insurance Acts, 1954 and 1957, was deliberately tempered in this way in favour of the self-employed and the non-employed. I am prepared to acquiesce in the suggestion that the increase to be imposed on these classes should be limited to the increase being imposed on employed contributors.

Conclusions

9. We are agreed therefore in recommending for the Cabinet's consideration:

(i) that the contributions in respect of women and juveniles should be increased by 6d. and 2d. respectively;
(ii) that the adult male employee's contribution should be increased by 6d., the woman's contribution by 4d. and the juvenile's by 2d. The increase for the employer would be 2d. in each case;
(iii) that the self-employed and the non-employed should pay the same increase as the employee.

10. This would produce a total National Insurance and Health Service stamp of 18s. 2d. for the employed man, split 9s. 11d. employee and 8s. 3d. employer, of which the N.H.S. element is 2s. 4d. split 1s. 10½d. 3½d. The total net financial benefit to the Exchequer from these proposals would be £28½ millions in a full year and £23·2 millions in 1958-59.

11. I hope that it will be possible for the Cabinet to have before them, when they discuss this, the time-table of events—announcement, Ways and Means Resolution, Second Reading, &c.

D. H. A.

Treasury Chambers, S.W. 1,
ANNEX
MEMORANDUM BY OFFICIALS

The Cabinet have decided in principle on an increase of 8d. in the National Health Service Contribution payable by an adult employed man. This paper sets out the subsidiary matters on which decisions are required.

Rate of Contribution in respect of Women and Juveniles

2. To maintain the existing relativities the contributions payable in respect of women and juveniles should be increased by 6d. and 4d. respectively.

The Apportionment of the Increase between Employee and Employer

3. At present the employee pays Is. 6d. and the employer 3½d. of the weekly adult male contribution. This 5:1 ratio follows the split between employer and employee in the original 10d. element of the N.I. contribution. This element was derived from the Beveridge recommendation which was based on the concept that it was reasonable for the insured person to make a direct contribution in respect of the free health service which was to be made available to him and his dependants. As the employer was at that time paying 1½d. a week towards the cost of medical benefit under the old National Health Insurance scheme this was continued and incorporated in the 1946 legislation. The 1½d. was in fact a survival from the pre-1948 insurance scheme and represented not an assertion of the principle that the employer should contribute towards the cost of the N.H.S. but rather the continuance of an existing obligation.

4. If the further increase of 8d. were to be apportioned in the same way as the existing Is. 6d. the most exact split would be 6d. employee, 1d. employer, with comparable provision for women and juveniles. Since additions to the present stamps involving odd halfpennies are impracticable, the amounts can be rounded up or down without departing significantly from the original ratio and thus maintain the existing apportionment. The alternatives, on this basis, would be 7d. employee, 1d. employer, and 6d. employee and 2d. employer. The second of these would keep the total employee, N.H.S. and N.I. contribution at less than 10s. (i.e., at 9s. 1½d.).

5. Another alternative would be to split the 8d. equally between employer and employee. This would be an obvious departure from the present basis which would require explanation. It would put on the employers by a direct levy rather than to the number of their employees, a larger share of the cost of the N.H.S. than they bear in this way at present. It could be argued that the maintenance of the health of his employees is an economic interest of the employer, but if this argument is held to justify a 50:50 split of the proposed increase, the question arises of why it does not justify a similar split of last year's increase or, indeed, of the original contribution. Moreover, the higher the employer's share is set, the greater the risk of affecting prices. There was, however, nothing sacred about the original proportion, and a 50:50 split would keep the employed man's contribution appreciably below 10s. (i.e., 9s. 9½d.). And the lower the employee's share is set the less would be the effect on wage claims. There is little variation in the gross yield (which will be shown in the National Health Service Estimates) of the addition under any of the alternatives but the net yield of the addition (i.e., after taking account of loss of tax revenue and the cost to the Government as an employer) is reduced the more the employer's share is increased.

Treatment of Self-Employed and Non-Employed (Classes II and III)

6. Hitherto the self-employed and non-employed have paid the full weekly N.H.S. contribution. If past precedent were followed this would mean that these classes would pay the proposed increases of 8d. for men and 6d. for women. Many self-employed and non-employed people are hard pressed and there is a case on hardship grounds for limiting the increase payable by these two classes to the amount paid by the employed person. If the 50:50 split were adopted the self-employed's weekly contribution would be left below 12s. On the other hand, the existing arrangements assume that the Health Service is entitled to receive as much altogether in respect of a Class II or Class III person as in respect of a Class I
person, since it provides the same benefits to all. If a concession is now made in regard to the proposed increase, this could give rise to pressure to make it retrospective, so that the total contribution paid by a Class II or Class III would be no more than the contribution of an employed person. It also opens the way to other claims for concessions on grounds of hardship—e.g., by low-paid manual workers.

Financial Considerations

7. The employer's share of the contribution would rank for tax relief and the Exchequer would lose about 30 per cent. of the total yield of the employer's contribution. The loss of tax for every 1d. of the contribution charged to the employer would be about £1-2 millions in a full year. If Classes II and III do not pay the full increase there is a loss of £0·3 million in respect of each 1d. which is added to the employer's contribution. Moreover, the Government, as an employer, both directly in regard to civil servants, the Armed Forces and the N.H.S. and indirectly in so far as grant is paid on other public services would have to meet from Departmental Votes substantially increased charges. This extra charge will amount to approximately £4 million for every 1d. which is added to the employer's share.

8. The attached statement shows the financial effects of the various alternatives. It will be seen that the gross yield does not vary greatly under any of them but the net yield does. Column V shows that as compared with Alternative A, Alternative B shows an annual loss of £1·2 millions or if the self-employed and non-employed bear only the same increase as the employees £1·5 millions. Alternative C shows an annual loss of £3·65 millions if employers bear half the 8d. increase and Classes II and III bear the full increase and £4·75 millions of the latter classes bear only the same increase as the employees.

APPENDIX

The following Table shows the financial effects of alternative ratios for dividing the proposed 8d. increase in the contribution between employees and employers on two alternative assumptions about the treatment of the self-employed and non-employed:—

i.e., (a) if the self-employed and non-employed pay the full increase of 8d.
(b) if the self-employed and non-employed pay only the employee's share of the increase (figures in square brackets).

<table>
<thead>
<tr>
<th>I</th>
<th>II Gross yield in a full year</th>
<th>III Yield in a full year after tax loss</th>
<th>IV Approx. extra cost to Govt. as a direct employer</th>
<th>V Net yield in a full year</th>
<th>VI Gross yield in 1958-59 9 months from 7th July*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative A</td>
<td>Employee</td>
<td>£m.</td>
<td>£m.</td>
<td>£m.</td>
<td>£m.</td>
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<tr>
<td>Man</td>
<td>7</td>
<td>32</td>
<td>30·8</td>
<td>0·5</td>
<td>30·3</td>
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<td>Woman</td>
<td>5</td>
<td>31·7</td>
<td>30·5</td>
<td>0·5</td>
<td>30·0</td>
</tr>
<tr>
<td>Juvenile</td>
<td>3</td>
<td>32</td>
<td>30·1</td>
<td>1·0</td>
<td>29·1</td>
</tr>
<tr>
<td>Alternative B</td>
<td>Man</td>
<td>6</td>
<td>32·5</td>
<td>30·1</td>
<td>1·0</td>
</tr>
<tr>
<td>Woman</td>
<td>4</td>
<td>31·9</td>
<td>29·5</td>
<td>1·0</td>
<td>28·5</td>
</tr>
<tr>
<td>Juvenile</td>
<td>2</td>
<td>32</td>
<td>30·1</td>
<td>1·0</td>
<td>29·1</td>
</tr>
<tr>
<td>Alternative C</td>
<td>Man</td>
<td>4</td>
<td>33·2</td>
<td>28·4</td>
<td>1·75</td>
</tr>
<tr>
<td>Woman</td>
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<td>27·0</td>
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<tr>
<td>Juvenile</td>
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<td>32</td>
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<td>1·75</td>
<td>26·65</td>
</tr>
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</table>

* The change must operate from the first Monday in a month. The 7th July is desirable for this reason. We shall still get three-quarters of the estimated annual yield and there will be no tax loss in this period.