CONCLUSIONS of a Meeting of the War Cabinet held at 10 Downing Street, S.W.1, on Thursday, January 14, 1943, at 12 noon.

Present:

The Right Hon. C. R. Attlee, M.P., Deputy Prime Minister (in the Chair).

The Right Hon. Anthony Eden, M.P., Secretary of State for Foreign Affairs.

The Right Hon. Ernest Bevin, M.P., Minister of Labour and National Service.


The Right Hon. Oliver Lyttelton, M.P., Minister of Production.

The following were also present:


The Right Hon. Sir Archibald Sinclair, Bt., M.P., Secretary of State for Air.

The Right Hon. James Stuart, M.P., Joint Parliamentary Secretary, Treasury.

The Right Hon. William Whiteley, M.P., Joint Parliamentary Secretary, Treasury.

Sir Edward Bridges, Secretary.

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Parliamentary Business.

1. The War Cabinet again discussed Parliamentary Business on the re-assembly of Parliament, and agreed to the following arrangements:

   (1) Statement on the War Situation.

       The Notice issued from the Whips' Office should include a sentence to the effect that "A statement will be made on the war situation."

   (2) After Question time on Tuesday, the 19th January, as soon as the Deputy Chairman of Committees had announced his intended resignation, the Leader of the House of Commons would announce that the House would go into Secret Session in order to make a statement in regard to Business. The terms of the statement to be made in Secret Session were also discussed and settled.

   (3) Man-power Debate.

       The Secretary of State for Air suggested that the Minister of Labour and National Service might include in his speech a statement to the effect that the Government were now making certain reductions in our defensive power in order to achieve a greater concentration on our offensive striking power. The Secretary of State undertook to submit a draft paragraph to the Minister of Labour and National Service on these lines.

   (4) Post-war Finance and Economics.

       The Chancellor of the Exchequer said that he hoped that in the course of this Debate he would be able to say that preliminary discussions had now started between our Advisers and those of the United States Government on post-war economic problems, and that, when these had been completed, discussions would take place with the other United Nations. The Chancellor added, however, that the responsibility for handling discussions on certain of these matters had passed from the State Department to the United States Treasury, and that it looked as though the United States Government were not now disposed to make rapid progress in this matter.

   (5) Beveridge Report.

       The discussion is recorded in Minute 3 below.

2. The Chancellor of the Exchequer said that Mr. Stettinius, the Lease-Lend Administrator of the United States, had indicated that the Lease-Lend Administration wished to delete from the forthcoming appropriation, provision for the free supply of tobacco to the United Kingdom. They would for the present continue to supply Australia and New Zealand with free tobacco, because of special agreements, and would supply the tobacco to the United Kingdom for the troops.

   The Chancellor of the Exchequer added that, in connection with Lease-Lend as a whole, recent calculations had been made showing that the Reciprocal Aid given by this country to the United States represented a far higher proportion than was generally understood. The figures were so striking that it was proposed to send a telegram to the Treasury representative at Washington, asking him to represent to Mr. Stettinius, who was already in possession of most of the figures, that the extent of our Reciprocal Aid might be regarded by the Administration as a strong defence against any attacks in Congress, either upon the item of tobacco or any other item in the appropriation. It would also be emphasized that tobacco had always been regarded as essential for the war effort and that the necessary shipping space
had been allocated accordingly. Although the decision about the inclusion of tobacco in the appropriation was a matter for the Administration, the Treasury representative was being asked to put the question in a friendly way whether the item might not be included in the appropriation and, if necessary, withdrawn if in fact it were strongly criticised by Congress.

It was emphasized that in explaining the extent of the Reciprocal Aid, we had no intention of permitting the pound and dollar sign to come into the matter.

The Chancellor said that he proposed to refer to the extent of Reciprocal Aid in his Budget speech.

The War Cabinet took note, with approval, of the above statement.

3. The War Cabinet were reminded that the Minister without Portfolio, speaking in the House on the 1st December, 1942, had said that he hoped that early in the New Year Members of the House would be in a position to discuss the main questions raised in the Report, and that when the Government had had the advantage of hearing the opinions expressed in Debate they would be able to indicate to the House their general attitude.

The question was raised whether, now that the Debate on the Beveridge Report was not going to take place until the third week in February, the Government would not be expected to express on that occasion their general attitude towards the Report.

In this connection, attention was drawn to the Memorandum which the Chancellor of the Exchequer had circulated to the Committee on Reconstruction Problems (R.P. (43) 5) setting out the many claims which would be made on the Exchequer in regard to international security, the need to secure full employment, and other matters such as agriculture, housing, education, colonial development, &c., and urging that these claims should be assessed and some order of priority determined.

The War Cabinet was also informed that the Committee of Officials, which had prepared a report on a number of points submitted to them, had reached the conclusion that the proposals in the Beveridge plan were closely inter-related; that any decision of the Government must therefore deal with the plan comprehensively; and that, owing to the number of difficult issues involved, some time must elapse before this could be done.

The general view of the War Cabinet was that all this ground could not possibly be covered before the third week in February. The Government should, however, be able to make a satisfactory statement in general terms on the occasion of this Debate, provided that consideration of the Report by Ministers was taken in hand forthwith and that the Government spokesman in the Debate was in a position to explain the complexity of some of the questions which had to be determined, before an authoritative pronouncement could be made on the Beveridge plan as a whole.

In this connection, the War Cabinet reviewed the arrangements for consideration of Reconstruction problems.

A stage had now been reached at which there was a much closer linkage between current issues which must come before the War Cabinet and Reconstruction problems. In these circumstances it was suggested that certain of the larger aspects of Reconstruction problems should be considered by a new Committee of Ministers before consideration by the War Cabinet.

The War Cabinet—

Decided that consideration of the Beveridge Plan, together with the general review of other substantial claims to financial assistance, set out in the Chancellor of the
Exchequer's Paper (R.P. (43) 5) should be remitted to a Committee constituted as follows:

- The Lord President of the Council (Chairman).
- The Minister of Labour and National Service.
- The Minister of Production.
- The Home Secretary and Minister of Home Security.
- The Chancellor of the Exchequer.
- The Lord Privy Seal.
- The Minister without Portfolio.

A number of other Ministers would be closely associated with the work of the Committee, by virtue of their departmental or other interest in the subject matter, and arrangements would be made for them to be supplied with the proceedings of the Committee, and, of course, to attend when matters affecting their interests were under discussion.

*Offices of the War Cabinet, S.W.1,
January 14, 1943.*
WAR CABINET.

Committee on Reconstruction Problems.

THE FINANCIAL ASPECTS OF THE SOCIAL SECURITY PLAN.

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER.

My colleagues will no doubt expect me to make some comments on the attached Treasury Paper, with which my chief advisers in the Treasury are in agreement, which I am circulating in accordance with paragraph 5 of the Conclusions of R.P. (42) 14th Meeting, of the 3rd December, 1942.

2. Certain assumptions made in the Paper are of necessity tentative. Whilst I believe we can look forward with confidence to the future of our Country, it is obvious that in the post-war period we shall be faced not only with many difficulties, but in certain respects with problems even more anxious than in time of war itself. It would, therefore, be but prudent to avoid at this time large and continuing commitments unless there is an overwhelming case for them.

3. We have obviously to consider the Beveridge Report, which has much to commend it, not only in relation to our present commitments, but in relation to other strongly pressed claims which have considerable force on their merits, and some of which we must at any rate do our best to meet.

4. First and above all, we must make adequate provision for our contribution to the armed forces that will be necessary after the war for international security, to insure, so far as we can, against any repetition of the evil and aggression which twice within a generation has brought such disaster to the world. This is rightly demanded above everything else. It cannot be done without considerable cost, and in our estimate of this we had better be on the safe side.

5. Secondly, it is paramount that if we are to live after the war, even at our present standards, and still more if we are to secure any social advancement, we have so to direct and shape our policy as to secure the fullest employment for our people. We have, moreover, lost most of our dollar assets and are incurring very heavy sterling liabilities in various countries of the world; even with the most careful arrangements our post-war exchange position, itself vital to full employment, must be one of great anxiety. We have, therefore, to secure the full restoration of trade and business and, in particular, we must increase the volume of our export trade at the least by 50 per cent. over pre-war. The State will no doubt have to help actively. In this connection the incidence of taxation plays an important part.

6. Taxation must on this account, if no other, be mitigated as soon as it is possible if we are to have a fair chance of restoring trade and greatly increasing exports. All sections of the community will also certainly expect relief, and the cost of new social schemes and services, however beneficent and desirable, must be balanced against these facts.
7. We have, I would submit, to review and consider together, in addition to Beveridge, all the other substantial claims to financial assistance that have been and will be made and pressed, such as Agriculture, Housing, Education, Roads, Forestry, Water, Electricity, Colonial Development, Civil Aviation, as well as any necessary assistance to industry and any scheme which may result from the Uthwatt Report. Some of the charges on these items may be on capital as well as revenue account (the Treasury paper is concerned only with revenue expenditure), but clearly we have to consider the demands on the national resources for capital as well as revenue. Housing must be placed highest, I think, and there is Education, which we have promised in the King's Speech, while Agriculture no doubt has special claims also, and large figures have already been put forward in a Paper circulated by the Minister of Agriculture since the Treasury Memorandum was written.

8. In any event we shall, I would suggest, have—
(a) to assess these claims and determine some sort of priority, and
(b) in determining what shall be done in respect of any particular proposal to see to it that the financial assistance that is made available is directed to real need, particularly in respect of the social services.

9. So far as the Beveridge Plan is concerned—
(a) I welcome the value and importance of the strong emphasis which has been placed by the author of the Report upon the contributory principle and his insistence that high rates of benefit can only be assured by relatively high rates of contribution. There are, however, indications that though "the principles" of the Beveridge Report may be accepted, there will be many reservations as to particular portions of the scheme and pressure for benefits to be increased and conditions revised in favour of the contributor.
(b) But there is still left to fall on the Taxpayer and on industry what is described as "1s. for 3d.," and the Budgetary cost may well exceed the estimates in the Report.

10. There are these possibilities:—
(a) Unemployment may exceed the rate of 8½ per cent. allowed for in the Report.
(b) Rates of benefit may have to be increased to satisfy the National subsistence minimum.
(c) Contributions from new classes may not be forthcoming.
(d) There may be pressure from the employers to shift their contribution on to the general Taxpayer.
(e) The largely increased sum compulsorily placed upon contributors (which itself would have something of the nature of a tax) may make it more difficult to levy taxation from the large number of taxpayers in the lower income groups upon whom we must continue to rely if we are to maintain a budget of the size envisaged.

This last consideration is one which is bound to weigh heavily with the Chancellor of the Exchequer. The Treasury memorandum shows clearly that all our hopes, whether for social security or for other elements in our post-war planning, are inevitably bound up with the maintenance of the National budget at a high level, and that this means not only high rates of taxation, but a wide spread over the whole population.

K. W.

Treasury Chambers,
January 11, 1943.
THE SOCIAL SECURITY PLAN.

MEMORANDUM PREPARED IN THE TREASURY.

Notice.

(i) Any present estimate of post-war public expenditure is bound to contain considerable elements of conjecture. This memorandum should be read accordingly.

(ii) The finance of the years immediately following the cessation of hostilities is likely to be too confused for an estimate to be attempted. Assuming that the termination of hostilities in different parts of the world is not separated by a great interval of time, the following estimate of public expenditure may be regarded as directed to the third year after the cessation of the main hostilities and to the period immediately following.

(iii) The note proceeds on the assumption that the average post-war price level—an amalgam of wholesale and retail prices—will exceed the pre-war level by 30 per cent., a figure likely to under-estimate rather than over-estimate the increase.

(iv) The figures of cost given on page 112 of the Report include a sum of £m75 which represents rate-born expenditure of local authorities on hospitals, &c. In the present note this sum has been excluded except where otherwise stated.

I.

1. This note does not deal in any way with the social advantages of the social security plan. It concerns itself solely with its financial aspects, and deals in this way only with the plan as presented. It does not attempt to envisage alternatives or modifications which might be decided upon.

2. Acceptance of the complete plan involves a contract with many millions of beneficiaries, the continued fulfilment of which would properly have to be, in good or bad times alike, a prior charge upon national resources. The methods of tapping these resources for the partial redistribution of income which the plan provides, are by general taxation and compulsory contributions. The broad impression left by the report on the ordinary reader is that in the author’s view the general finance of the scheme can be carried without undue difficulty. There are, however, lying in the future, so far as it can at present be dimly discerned, doubts and uncertainties suggesting that large new financial commitments cannot at this stage be undertaken without misgiving. There are also doubtful questions to be weighed in connection with the financial structure of the plan itself. This note is designed to develop these points for the consideration of Ministers.

3. The plan continues and extends the existing contributory principle. The contributions of insured persons (a) pre-war, (b) under the plan at the outset, and (c) under the plan after 20 years represent respectively (a) 20 per cent., (b) 30 per cent.; and (c) 25 per cent. of the total cost. The corresponding proportions for the aggregate contribution of insured persons and of employers are 45 per cent., 55 per cent., and 41 per cent. respectively. Thus the general taxpayer is called upon at the outset to pay a rather less proportion of the total cost (though the total cost is greatly increased), while the absolute amount contributed by insured persons as such is increased heavily.

4. A material part of the total sum required comes from a continuation of contributions already made to the same object by insured persons, employers and taxpayers under a system now well-established. A further material part represents the broad equivalent of money now paid by individuals in respect of health services and certain types of small insurances without the intervention of the State. The Scheme, moreover, can be regarded as a redistribution of national income. The plan is estimated to require at the outset £m607 (including rate-born expenditure) representing, it may be, rather less than 10 per cent. of the national income. If viewed in isolation and suitably distributed, this total charge could easily be borne not merely by a national income of the amount which may be anticipated post-war, but by a much smaller one.
5. But, on the other hand, the contributory character of the scheme is limited. In terms of the debate which introduced national health insurance, the plan for social security for the employee represents not 9d. for 4d., but 1s. for 3d. (paragraph 257). And although this scheme is a continuation of existing established schemes, the sum required from industry is £187 per annum as compared with £168 per annum pre-war, and the sum required from the general taxpayer is some £2975 per annum at the outset, rising gradually through a period of 20 years to some £4985 per annum, as compared with some £2995 pre-war.

6. These increases cannot be judged solely by reference to the national income. The effects viewed in conjunction with the effects of other public charges need to be examined, and this entail some estimate of the future size of the national Budget.

II

7. The amount of the taxable national income in the given post-war year is dependent upon many factors. It may perhaps be put at £7,150. But this figure assumes continued active employment (as is assumed in the plan), and assumes also, therefore, the large expansion of the volume of exports necessary to achieve this measure of employment. It also assumes no reduction of peace-time working hours affecting output, and no relaxation of the ordinary peace-time intensity of individual effort.

8. If excess profits tax is abolished and that portion of the income tax which is now collected but becomes returnable as a post-war credit is no longer collected, but all other current taxation is kept in full force, the yield of taxation in the given post-war year with a national income of £7,150 may be estimated at £2,050* with a margin of error of £125 on either side.

9. The budgetary costs which are commitments under existing policy, exclusive of the cost of the armed forces and of sinking fund upon the war debts, may be estimated at £1,125.

10. This calculation would leave a surplus of £925 to meet—
(a) any correction required by a failure of the national income to reach £7,150;
(b) cost of the armed forces;
(c) sinking fund;
(d) new services and new commitments of all kinds;
(e) remission of taxation.

11. The post-war cost of the armed forces is at present entirely conjectural. The sum necessary to maintain forces (land, sea and air) of one million men with reasonably up-to-date equipment may be put at £500 per annum. It may be considered pessimistic to envisage the possibility of so great a sum being required, and it is true that if a figure in this region is thought of, and if at the same time the assumption is made that the enemy countries have been fully and effectively demilitarised, the corollary follows that the budgetary position of the enemy countries would in this particular respect be far better than that of the victors. But it is assumed that the necessary cost of international security, whatever it may prove to be, must be met; and until the Government are in a position to give guidance upon this subject it has not seemed to the Treasury to be prudent, either in the present connexion or in others, to frame post-war policy upon any confident hypothesis of a cost materially different from that indicated.

12. This country, in common with others, has managed without any regular sinking fund upon war debt since 1931. If the cost of international security in the early future proves to be very high the budgetary burden of this cost, combined with that of social expenditure, may of sheer necessity postpone the resumption of a sinking fund till happier times. Subject to that, £100 per annum is the smallest reasonable sum to make an impression upon the greatly swollen war debt with which we shall end the war.

13. Apart from the social insurances, new demands which can at present be foreseen include demands for agriculture, housing, education, roads; rural water supply, forestry, colonial development and civil aviation. In addition, there may

* Of this sum £150 represents Purchase Tax.
be new demands, at present unpredictable, for subsidies or other annual payments for the purpose of securing exports or maintaining full employment, and demands for new services such as a new nutrition policy. It is not at present possible to assign a definite figure to any one of these services but it would _prima facie_ be imprudent to assign to these ten or more purposes a less sum than £1m100 per annum rising as the years progress.

14. Taxation to-day, even after eliminating the excess profits' tax and that part of the income tax represented by post-war credits, stands at entirely unprecedented heights, income tax at 10s. in the £ against 5s. 6d. in 1938 (4s. 6d. in 1935) and with personal allowances substantially reduced in absolute amounts and even more materially reduced in relation to the changed price level; surtax advancing to a maximum of 19s. 9d. in the £ against a maximum of 13s. 9d.; tobacco duty 1s. 10d. an ounce against 9d.; beer duty at an average of 6·38d. per pint as compared with 1·67d. per pint; purchase tax, an entirely new tax, at rates rising from 16½ per cent. to 66½ per cent.

15. Under a closed economy in war, money goes round in a circle and taxpayers intent on the outcome of the war and deprived of ordinary opportunities of spending will, for the time being, bear even the heaviest imposts with equanimity. In peace-time the taxpayer is much more concerned with the size of his tax bill and not equally mindful of the benefits either to himself or to others which his tax payments or part of them may confer.

16. Taxation in 1938 took 3s. 5d. in the £ of the national income; in 1941, with the adjustment above indicated, it took 5s. 1d. in the £. In the post-war year, on the above estimate, it will at current rates similarly adjusted take 5s. 9s. in the £. Experience shows that over-heavy public levies have a depressing effect upon the community and an adverse reaction upon industrial activity and upon employment, more especially in times of uncertainty or at the onset and during the progress of any period of depression. It must be anticipated that large demands for reliefs from exceptional war-time burdens will be pressed by all levels of the community, and that the demand will be the stronger, especially from industry, in proportion as prosperity may elude us.* Income tax will produce roughly £m90 for each shilling. Beer and tobacco duties at current rates will exceed the pre-war yield by some £m380. Purchase tax—£m150 post-war—is likely to be the subject of special criticism.

17. It is not possible to reduce these various considerations to specific arithmetical terms, if only for the reason that at present two great uncertainties overhang the future of the Budget. Firstly, there is uncertainty as to the future cost of international security; secondly, there is uncertainty as to the success of the effort to achieve and maintain a state of active employment with the high national income that that state implies; as to the will there is no question, but the result can at this stage scarcely be guaranteed.

III.

18. As matters stand to-day, the post-war cost to the Exchequer (included in the foregoing figures) of the social insurance services will exceed the pre-war cost by some £m50 per annum. The taxpayer's further share of cost arising from the social security plan is estimated in the report at £m86 per annum at the outset. It may be thought that, having regard to the position outlined above and the many uncertainties overhanging the situation, this further £m86 is fully as large a sum as should be allocated to this one specific purpose. But in accepting the estimate in the report certain risks have to be run and certain difficulties to be faced.

* In judging the need to spread a Budget of the order indicated over a wide area the following figures taken from the Budget White Paper of 1942 are of interest:

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<th>Aggregate gross personal incomes, 1941/42 (impersonal incomes not included):</th>
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<tr>
<td>£m.</td>
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<tr>
<td>Less than £250 p.a.</td>
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<tr>
<td>£250 to £500 p.a.</td>
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<td>£500 to £2,000 p.a.</td>
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<tr>
<td>Over £2,000 p.a.</td>
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<td><strong>Total</strong></td>
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10. Firstly, the total increase in expenditure resulting from the social security plan is at the outset £2m585 per annum, divided between the three contributory bodies. But any excess or short-fall of cost of the plan as a whole falls upon the taxpayer; contributions being virtually stable unless and until the plan is amended. The cost of most of the services can be estimated with fair precision, but the cost of unemployment benefit is unpredictable. The figure of 11 per cent unemployment adopted in the report for the purpose of financial calculations may prove to give a sufficient margin for the early years of the transition period when once the temporary difficulties of demobilisation have been surmounted. Whether it will give sufficient margin in the period following depends upon success in continuously maintaining active employment. In the event of failure the whole extra cost will come upon the taxpayer. There may be an offset in the early stages in so far as there is unavoidable delay in bringing into force some of the health service provisions, especially if in the interim contributions are nevertheless levied at the full rates proposed.

20. Secondly, the social security plan quotes benefit rates on the provisional basis that the cost of living will be 25 per cent above the pre-war figure. The basis of 30 per cent, on which this note proceeds, is more reasonable, especially as it is related to an amalgam of price levels, wholesale and retail, and not solely to the cost of living. If the cost of living proves to have increased by 20 to 35 per cent, the provisional figures of benefit, unless increased, fall pro tanto to attain the national subsistence minimum as calculated in the report. But no concession could be admitted on this point without deranging the financial structure.

21. Thirdly, the plan introduces various new classes of insured persons whose benefits will be small in relation to their contributions or will be postponed; e.g., the five million new claimants to old-age pensions pay contributions for 10 years without receiving any pensions, although they may have reached the pension age, and only begin to reach full pension after 20 years. Omission of these new classes would involve an addition of about £m15 per annum to the Exchequer cost during the first 10 years of the plan.

22. Fourthly, in paragraph 287 of the report it is ominously emphasised that there is nothing sacred about the division of the burden there suggested, as between contributors and taxpayers, and that it is no more than a basis for discussion and argument. In such discussions the taxpayer is apt to come off worst. This would have to be avoided.

23. The question is of especial importance in connection with the employer's contribution. Employers are to pay 3s. 3d. a week for each man employed, for any part of a week (at present 1s. 1d. less in agriculture, and certain other industries). The aggregate cost will be £m137, against £m83 (including workmen's compensation) on the present basis. The increase can be represented as only about 2 per cent. on present wages. For products of high value in which labour costs are low this may seem unimportant, but for other products, e.g., coal, where labour costs form a high proportion, or for very competitive exports, it may be regarded as a dispiriting increase on the cost of production. Employers may well repeat, more forcibly, their argument that no part of the cost of the social services should be financed by a tax on employment; especially as part of the additional cost arises from the inclusion within the scheme of persons who are neither employers nor employed, and that the cost of such a scheme should fall upon general taxation. This argument would require also to be resisted.

24. Whatever the cost of the scheme to the Exchequer at the outset may be, it must be expected from a very early date to begin to distort the present incidence of general taxation.

25. The employer, the insured person and the taxpayer, all of whom are to contribute to the cost of the scheme, are not separate persons; everyone will contribute in two capacities (as taxpayer and insured person), and some people (i.e., employers) in all three. The report purports to distinguish between contribution and taxation; on the ground that benefits obtained by contribution are discernible and belong to the contributor as of personal right, whereas the advantages secured through taxation appear to be much more indirect. When
The reaction upon industrial relations of the proposed contribution both of employers and employees is outside the scope of this note.

* In this connection reference is made to the footnote to paragraph 16.

† The reaction upon industrial valuations of the proposed contribution both of employers and employees is outside the scope of this note.
28. Thus, in any attempt made at the present time to judge of the real weight of future taxation and the real additional weight thrown upon the taxpayer by the plan, upon the assumption that the initial cost is kept to the estimated £28S per annum, three principal uncertainties remain. These are—

(a) uncertainty as to the future cost of international security;
(b) uncertainty as to success in the effort to abolish unemployment;
(c) uncertainty whether the subsequent growth of the national income will keep pace with growing demands, including the growing demands of the plan.

29. In due course all of these uncertainties may be resolved in a favourable sense; but in the meanwhile they exist. In the meanwhile, also—as a matter not of conjecture but of certainty—conditions for some time after the war will be those of continuing deprivations, and there will be need of a public readiness for the time being to accept them rather than to expect immediate improvements in the whole standard of life.

30. Accordingly, if the Government, after examination of the plan, accept its principles, detailed consideration should proceed from the standpoint of curtailing any expenditures which may be held to be unnecessarily costly and of keeping the contractual element within proper limits. It would be prudent also that sections of the plan should be deferred for the time being or developed more gradually in such manner as Ministers may find practicable when the survey now being made in the Official Committee has become available.

Treasury Chambers,
January 1, 1943.