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paying for the social services

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Herbert Morrison
memorial lecture



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paying for the social services

It is a great honour that I should have been asked to give the first Herbert Morrison Memorial Lecture. It was only after a good deal of thought that I chose as the title *Paying for the Social Services*. Some of you may think this is a humdrum problem but I am quite sure that Herbert Morrison himself would have recognised it as one of the central issues which will always confront a Labour Government. Long before J. K. Galbraith published his famous book, *The Affluent Society*, British Socialism was condemning the contrast between private affluence and public squalor which was the most shameful characteristic of capitalist democracy. And we have always realised that a truly democratic society cannot be achieved without shifting the balance between private and public consumption in order to provide as of right to every citizen those essential services which for far too long remained the privilege of a small economic class. That the working class can achieve this shift painlessly by taxing the rich in order to pay for the social services is a fallacy which Herbert Morrison did his fair share towards exploding. However much you increase the taxes on unearned income or on wealth it will still remain true that a major part of the cost of an adequate system of social services will have to be raised by reducing or postponing the spending power of those at work. Poverty among the old, the sick and the lower paid workers with large families cannot be abolished without a deliberate act of redistribution which affects all classes, including the better paid worker. I remember Herbert Morrison as a socialist administrator of genius, first in the LCC and then in the Labour Government. As such he combined a passionate belief in the rapid expansion of the social services with a shrewd understanding of the limits to public expenditure which working class attitudes would set. He saw clearly enough that the expansion of the social services under a Labour Government depends very largely first on keeping the expansion within limits the economy can sustain and secondly on evolving methods of financing which are felt to be fair and tolerable.

Five years' experience in the Labour Government have increased my respect for Herbert Morrison's peculiar combination of the dedicated public servant and what Ernest Bevin once called the Tammany Hall politician. If the sense of dedication fails us we lose our sense of direction and with it our power of leadership. But it is just as important for a Labour Government to remember the danger of losing contact with its own supporters because it has failed to communicate to them the why and the wherefore of its actions.

Why social services must cost so much and are paid for by the present complex system of taxes and contributions.

Let me make clear from the start that I shall keep fairly closely to this single issue. I will be discussing neither the broader issues of economic policy (whether, for example, the balance between social services expenditure and defence expenditure

is right) nor yet the narrower priorities between one social service and another. As the Minister responsible not only for a huge new spending Department but also for co-ordinating all the social services, I want to concentrate on the most important problem we have to face—the ever increasing cost of the social services and the ever increasing resistance to paying for them.

the four ways of paying

The number of ways of paying for the social services is very limited.

1. You can pay for them by taxation—by central taxation, by local taxation or by a mixture of both.
2. You can pay for them by contributions—by employers' contributions, by employees' contributions or by a mixture of both.
3. You can pay for them by charges.
4. Finally you can reduce the burden on the taxpayer, the ratepayer and the contributor by transferring the cost to the private sector.

Let me say just a word about each of these methods.

Taxation. I find it surprising how many people tend to assume that taxation is necessarily a more progressive way of raising money than contributions. Certainly income tax is a more progressive levy than earnings related contributions and much more progressive than flat rate contributions. But income tax is not the only way a Government raises money. Modern governments rely on a mixture of direct and indirect taxes, some of which are hardly progressive at all and may even be regressive. Taxes are increasingly being paid by the ordinary worker and even income tax can no longer be thought of as mainly a tax on the better off. This means that the widespread belief that taxation is necessarily more progressive than contributions may need to be re-examined.

This argument is strengthened when one realises how much a Chancellor now tends to rely on local taxation. I once observed that the fact that rates were invented by Elizabeth I does not justify their being perpetuated in the reign of Elizabeth II. Resort to rates is a more unjust way of increasing revenue than either income tax or contributions. Nevertheless the rates are here and to judge from the views expressed by the Maud Commission they are likely to be here to stay.

Contributions. There are also a surprising number of illusions about contributions.

How often have I heard it argued that the best way to relieve the pressure on working class budgets is to follow the example of the Swedish earnings-related pension scheme and rely entirely on employers' contributions? Of course, as the CBI always points out when you put them up, employers' contributions are in the first instance a burden on industry. Nevertheless it is my impression that, like similar burdens, they are for the most part pushed on to the cost of the product. In the end the burden falls chiefly on exports abroad and on the cost of living at home. Those who recommend paying for the social services by means of the employers' contribution should be careful lest they are in fact paying for them through the housewife's shopping basket. Countries which rely extensively on these contributions for raising the cost of social services include at one extreme those where the employer pays 70 per cent or more of the contributions. Among these countries are France, Austria, Holland and Belgium. It is no accident that the cost of living in all these countries is unusually high since they put the cost of the social services onto the housewife's shopping basket via the employer.

Employees' contributions really are paid for by employees. They are deducted from their wage packets, and are a genuine deferment of enjoyment, unless the employee forces up his wages to enable him to pay the increased contribution. Thus an employee's contribution, if it becomes too big, can cause an inflationary increase of wages.

Charges. I thought it would be useful to remind you what charges we levy now in our social services. In education there are charges for school meals and fees for further and higher education. In the welfare field, which is the responsibility of my department, charges are made for people living in old peoples' homes, hostels for the mentally handicapped and in other accommodation. Thirdly, there are the health services charges, that is teeth and spectacles, prescriptions, as well as amenity beds and private beds.

Transference to the private sector. In practice this would mean: cutting down on council house building and stimulating owner-occupier building; more reliance on occupational pensions and less on national insurance pensions and, in the Health Service, an increase in BUPA and the other insurance schemes. In addition there are various devices, such as Peacock and Wiseman at York have been talking about for a long time, including a voucher system for paying for education. Everyone with a school age child would be given a voucher for the cost of education at a State school. This voucher could be used to pay part of the bill at a private school. This would help those citizens, who wished to do so, to transfer their children from the public to the private sector. There is also the Independent University proposal.

These then are the four available means of meeting the ever increasing bill for

social services. Extra money can be found either by increasing taxation (central or local), or by increasing insurance contributions (either the employers' or the employees' contribution or a mixture of both), or by transferring more of the cost of the social services from the public to the private sector. There remains the possibility of increasing charges of which I shall have more to say later on in the lecture.

how we pay now

It might be helpful if I next remind you how we pay for the social services at present. The division is as follows: 69 per cent of the cost is borne by central and local taxation; 28 per cent by contributions; and 3 per cent by charges. In terms of tax burden we are in the middle range. People often complain that this country is overtaxed, by which they presumably mean that tax and social security payments take too much of our national product. It is interesting, therefore, to see where we actually stand in the league table. Sweden leads with 46.6 per cent of tax and social security contributions expressed as a percentage of national product, France comes second with 45.7, Norway third with 42.6, Austria fourth with 42.2, Holland fifth with 41.2, Germany sixth with 40.9, UK seventh with 37.7 going down to the USA with 30.8, Switzerland with 23.6 and Japan at the bottom with 20.3. So we are just about in the middle. We are certainly not an overtaxed country in terms of the total amount taken in taxes and contributions. We are below Germany, and of course far below Sweden, and far below France. But we are substantially above the United States, Switzerland and Japan.

the rising cost of the social services

Next let us take a look at the size of the problem which faces us and ask why it faces us and whether it must face us forever. Between 1959-60 and 1968-69 the total cost of the social services went up by about 137 per cent. All the services shared in the increase. Housing went up from £426 million to £1,094 million, and education from £917 million to £2,292 million, health and welfare from £830 million to £1,770 million, child care from £24 million to £63 million, and social security from £1,410 million to £3,307 million. Now these really are fairly formidable figures, and if you take out the inflation of money values and show only the real increase of costs they are still formidable. The percentage increases in real cost between 1963-64 and 1967-68 have been housing 42 per cent, education 26 per cent, health and welfare 23 per cent, social security 29 per cent and child care 31 per cent. And if you translate these figures into graphs and extrapolate the curve the prospects before us are truly terrifying. The really sharp rate of increase began after Harold Macmillan perpetrated his St. Bartholomew's Day massacre and got rid of Selwyn Lloyd. Since 1967, however, the graph indicates the effect of bringing all public

expenditure under severe control and fixing an annual limit for the increase in total expenditure.

reasons for rising costs

With the figures before us let me try to summarise the main reasons for these increases in the cost of social services. First in importance is the demographic reason—an increase in the number of people who make the greatest demands on the social services. I will first give the figures for workers in retirement. At the time of the 1931 census there were 4.3 million elderly people in Britain who had stopped working. By 1961 the total had risen to 7.7 million. This year it is 8.5 million and in 1975 it will be 9.2 million—more than 14 per cent of the whole population. At the other end of the scale we are facing a youth explosion as well. In 1931 there were 10.6 million children under the age of 15. Now that 10.6 million has swollen to 12.8 million and there may be 14.7 million under 16 (the new school-leaving age) by 1975. With this increased population of retirement pensioners at one end and of school children at the other, the cost of the social services must rise automatically if we are not to see a reduction of standards. We have to run extremely fast in order to stand still.

The second reason for increased costs is the levelling up of living standards. In the period since 1931 we have seen not only a fantastic improvement in living standards but a *revolution of expectations* among working people. Notice I am not talking about wealth or economic power but only about the way people live and the way they expect to live. Up to the end of the 1920s Disraeli's two nation concept still held good. The British people were divided into a privileged minority enjoying a high standard of living and economic security, and at the other end a majority who were poor or only just above that level and also expected to remain so. During the period since I became an active socialist, Britain has been transformed into a community where the majority are affluent and only a minority are poor—and where everyone expects to share in the constantly rising standards of living. Of course I am not suggesting that there are not still gross inequalities of affluence—after all poverty is a relative concept and in certain ways it is worse to be poor in the affluent climate of the 1960s than in the 1930s when poverty in certain regions was a mass phenomenon. But when Harold Macmillan remarked “You have never had it so good” he was tactlessly calling attention to a change which was already taking place. Judged in terms of consumer durables—what is in the woman's kitchen and in the man's garage—we are now an affluent society. Certainly there is still far too much poverty amidst plenty; but the nation as a whole enjoys living standards immeasurably higher than those of the 1930s. Every day a solicitous anti-socialist press assures the British people that under a Labour Government its living standard is falling as taxes and prices soar.

Nevertheless if we measure the standard of living by the American test of affluence—the possession of consumer durables—we shall find that the British people has improved its living standard year by year since 1964. Measured by the number of people who bought cars for the first time and registered them, or bought television sets or refrigerators or washing machines, we observe that during the five years of Labour rule we have completed the transformation of Britain from a nation of minority privilege to a nation of minority poverty. Telephones and central heating are still privileges of a few but it will not be long before the majority of people enjoy them also. In the home, consumer durables are the substitute for (largely female) domestic labour. In terms of transport they provide a substitute for the horse or for your own legs.

PERCENTAGE OF HOUSEHOLDS WITH CONSUMER DURABLES OR AMENITIES

	1964	1968
television sets	80½	85½
washing machines	54	63
refrigerators	35	55
cars	38	49
telephone	21½	28
central heating	13	23

But science and technology have not only hoisted our living standards: even more significant they have unleashed a revolution of expectations. I always think of this as the “m and s” revolution, thanks to something Sir Simon Marks said to me over lunch in his office in 1948 or 1949. Having been presented with a particularly delicious and exotic fruit salad, I couldn’t resist remarking on it to the Chairman of Marks and Spencer. He looked at me with those huge gentle brown eyes and observed with great seriousness, “That fruit salad you ate was not only good but extremely expensive. It is the aim of this organisation, my dear Dick, within the next ten years to make it possible for the average citizen to eat that fruit salad at Marks and Spencer. Life for me consists of noticing what is really worth having among the pleasures of the rich and enabling everyone to get them.” What Sir Simon said was not only relevant to his own firm, it expresses a truth about the technological revolution in which we live. With each succeeding decade what were once the exclusive luxuries of the rich become available for cash at a price which the average citizen can pay.

The expansion of ever improving living standards has been accompanied by a less dynamic but nevertheless important demand for improved social services. The housewife whose domestic gadgets provide the equivalent of four maids’ work, and the husband whose car puts him on the level with the owner of a coach and four,

(not to mention the coachman), already feel in their own lives that material living standards which were once the privilege of a small property owning class are being transformed into the legitimate expectations of every reasonably industrious citizen. Very soon the ever increasing expectations extend from physical goods and material well-being to such concepts as health, education and security in old age. Democratic equalisation is simply the demand that these services, which were previously a perquisite of wealth and position, should become the right of every citizen. That demand has been growing ever since the turn of the century but the technological revolution has made what was once an extremist political demand seem like a self-evident right.

The foundations of comprehensive social services were laid by the Attlee Government. Under the Wilson Government the edifice is nearly complete. It is one of our greatest triumphs to have achieved this in a period of almost continuous economic pressure. Despite these difficulties we have gone some way to ensuring that the improved living standards which can be bought with increased earnings, will still be available to the sick, the unemployed and the retired worker. Earnings-related sickness and unemployment benefit and redundancy payments have retained, for a period at least, a standard of living for the sick or the unemployed somewhere near what they were getting at work. We cannot yet claim a similar success for the retired worker, the pensioners are still far behind. But we can claim that to the existing pensioners we have assured a 20 per cent increase in the real value of their benefit; and for the next generation of pensioners we are assuring through national superannuation an escape from the threat of the means test. Nevertheless the re-distribution we are achieving between those at work and those who are retired is not sufficient: the process has not ended and this is another reason for the rising cost of the social services. Democratic equalisation is a revolution which cannot be stopped halfway.

the service creates the demand

So far I have talked as though services were created in response to effective demand. But in a wide area of scientific activity the reverse is true. It is not the demand that creates the service but the service the demand. Consider, for example, intermittent dialysis for patients with kidney disease. In 1965 my predecessor, Kenneth Robinson, decided to develop this as a service within the National Health Service and invested £1 million of capital in doing so. It was the money he spent that created the demand for its use. Before it was developed people who needed it died and dead people cannot demand. It is in the Health Service that we see this principle most clearly at work. The constant pressure of science and technology and medical skill is creating new and ever more expensive services which themselves then generate automatically an even more expensive demand. Kenneth

Robinson's £1 million capital investment, begun four years ago, has already produced an annual revenue expenditure of roughly £1.5 million. That is what it roughly costs us to look after the kidney disease patients for whom we can afford machines. If the kidney transplanters have their way there will be enormous new costs to be added to the kidney machines. This example illustrates one aspect of a free Health Service which no one, including its originator Aneurin Bevan, foresaw. When the service was launched in 1948 the costs were fantastically underestimated because the costing was based on the assumption that by improving the health of the nation a comprehensive service would reduce the demand for medicine. In fact the nation's standard of health has gone up and up but so has the demand for medical attention, for drugs, for hospital beds. If health standards have improved, so have the standards of treatment supplied by the Service—and their cost as well. Between 1949 and 1956 the annual cost of a hospital bed rose by 209 per cent while retail prices rose by about 84 per cent. Hospital services didn't simply become more expensive; what they provided to the patients became better. The hospitals had developed a completely new standard of doctoring and nursing which under the Health Service everyone can claim as a right.

But while Nye Bevan did not foresee the rapidly rising costs of the health service, he did fully appreciate that only in an organised health service can good medical care be given to the whole population—including the poor and inarticulate. This was true with the level of health technology of 1948. It is even more true with the much higher technology of today. In an unorganised system of health services, where doctors are paid a fee for each service, costs can escalate to such an extent that even a wealthy country like the United States cannot afford to pay the bill. Inevitably those that suffer are those who cannot afford to buy privately, either by insurance or otherwise, the medical care needed for themselves and their families. In an organised service, like our National Health Service, priorities of medical need can be made to override the priorities of the market place and costs can be kept within the capacity of the nation to pay.

We can see the same process if we look outside the social services and consider the cost of scientific research and development. It has often been pointed out that if we supplied all the research workers who could be usefully employed in research and development there would be no students available from our universities or colleges of technology for any other kind of scientific work. Here again research and development create their insatiable demands for new research and new developments.

And this of course creates demand in the outside world. First we are content to travel by a piston engined plane, then the jet became the standard until research and development have reached a point where it is feasible to go supersonic. No

politician or businessman takes a decision to do this. The technological revolution requires us to spend hundreds of millions of pounds on breaking the sound barrier in order that London passengers can arrive in New York a few hours earlier. And the moment the Concorde is there the demand is created for travelling supersonic. The demand comes second. Science creates it just as faithfully as it creates the demand for kidney machines.

Another example of this principle that the service creates the demand is to be found in higher education. In 1954 there were 122,000 students in higher education in the whole of Britain. By 1962 the number had slowly risen to 216,000. Yet we still had the smallest proportion of students to general population among the Western democracies. Then suddenly in the six years between 1962 and 1968 the number of students jumped from 216,000 to 403,000. This astonishing increase was caused by two factors. First came the publication of the Robbins Report and its uncritical acceptance by a Conservative Government faced with an imminent election. This was followed one year later by the election of a Labour Government pledged to end educational privilege and to provide higher education as of right to any boy or girl who could benefit by it. No one had foreseen the explosion which would follow once it was assured that those with sufficient "A" levels had the right to higher education. Not even Robbins foresaw this. Look at the difference. Robbins said that our *target* ought to be 335,000 people in our universities and colleges by 1968. Actually we had 403,000. So if you hear a little about student disorder and unrest, you'll know what kind of forces have been at work, suddenly changing the whole structure of the university, indeed its whole nature. Here was a case where quantity really did change quality. I'm not sure in which direction it changed it. But it *did* change it in a very remarkable way. And meanwhile just to add to the problem, the rate of government recurrent grant to universities, when expressed in terms of grant per student, rose between 1962 and 1968 by over 50 per cent in money terms.

Having listed what seemed to me the three major causes of the rising cost of the social services I would like to draw one general conclusion from the analysis. Quite a number of people (and there are as many conservatives as socialists who suffer from this delusion) believe that the Treasury straight-jacket into which we have had to constrict the social services since 1966 is a product of this Labour Government's special economic difficulties. If the economy were rapidly expanding, I have often been told, this ruthless annual pruning of the estimates would be unnecessary and there wouldn't be any need for the organised rationing of priorities which is now forced upon us. This view to my mind completely disregards the dynamic effect of the three factors I have just described. The pressure of demography, the pressure of technology, the pressure of democratic equalisation, will always together be sufficient to make the standard of social services regarded as

essential to a civilised community far more expensive than that community can afford. It is a complete delusion to believe that if we had no further balance of payments difficulties social service Ministers would be able to relax and assume that a kindly Chancellor will let each one of them have all the money he wants to expand his services. The trouble is that there is no foreseeable limit on the social services which the nation can reasonably require except the limit that the Government imposes.

And if that conclusion is correct we have already found the answer to one of the most frequently reiterated complaints of the average citizen. Cannot the increasing cost of the social services be cut back, one is asked, or at least severely retarded? The answer to the first part of the question is a simple "no." In a highly developed industrial nation the dynamic of research and experiment will irrevocably commit more and more of the nation's resources to services and activities which cannot be financed by private enterprise or sustained by private demand. Inevitably the proportion of the nation's resources devoted to science and technology, to health, welfare and education becomes greater and the only way to stop the process is to destroy the scientific spirit which dynamises it and which forces us out of privacy and private enterprise into ever more complex and ever more universal forms of community activity. But if the process of expansion cannot be halted, it must certainly be planned with a far more articulate scale of priorities and far more sophisticated methods of comparative costing than we at present possess. And in this planning of social service expansion the decision on how they shall be paid for is of crucial importance.

housing and social security

We cannot decide how to pay for a social service before we know how much of it belongs in the public sector and how much in the private. It seems to me that the four main social services are divided for this purpose into two groups, housing and pensions on the one side, education and health on the other. In the case of the first two, housing and pensions, there is a natural partnership between public and private enterprise because without both of them you cannot give the consumer satisfaction. In the case of housing there is a clear division between two quite different functions—the function of clearing up the slums and improving the standard of obsolescent housing and providing cheap accommodation by means of a subsidised rent, and secondly, the function of facilitating home ownership for those who want it and can afford it. In the Labour Party we have from the first taken the view that slum clearance and the provision of houses for a subsidised rent should be a community responsibility, whether through local government or co-operatives or housing associations. And this view is confirmed by the discovery that the private provision of houses at working class rents is no longer a viable

profit making enterprise. But once the community has met this social need, there remains the second function of satisfying the rest of the population, the vast majority of whom want to buy houses for themselves. In recent years the Labour Party has reached the conclusion that in this field the local authorities have a secondary role to play, that the task of building the house should be left to private enterprise and that the main task of lending the money to the potential owner occupier should be left to the building society or the insurance company. But here too the central Government plays an important role. The owner occupier relies heavily on tax relief on his mortgage interest. Through the option mortgage subsidy scheme we have extended this help to house purchasers whose income is too low to pay tax at the standard rate and who previously had little or no benefit from tax relief. Seen as a single social service, therefore, housing must be a partnership between public and private enterprise.

I believe that the same principle applies to provision for old age. What people want when they are retired is not a single scale of state benefit mathematically calculated as providing an adequate standard of life. On the contrary what people really need (whether in retirement or in sickness or in unemployment), is an insurance system which prevents their standard of living when retired, or sick, or unemployed, falling much below the standard achieved when at work. Theoretically this could be achieved by a single comprehensive system of national insurance. But most people want to do some private saving and private insuring on their own and in industry the majority of employers, as well as employees, like to see part of the wage fund put aside for occupational pension schemes. To provide satisfactory provision in retirement what you need is surely a partnership between state provision, individual provision and collective provision by industry.

Let us see how the Government has applied these principles since 1964. In the case of housing what we did was to allow the private sector to go on building for the owner occupier at about the same level as before—at about 200,000 houses a year, while expanding the public sector as fast as possible. That is why the figures I gave at the beginning of this lecture showed housing as having the biggest increase of any social service since 1964. We deliberately and substantially altered the system of priorities we had taken over from the Tories. Because they did not believe in public enterprise they had not encouraged municipal housing. We decided to encourage it and the only way of doing so was to give the local authorities a financial incentive to expand their programmes rapidly. We carried out our election policy and insulated them from high interest rates. It cost a lot of money to do so. They are still paying roughly the equivalent of 4 per cent on a new house and the rest of the interest charges are borne by our new housing subsidy. This was deliberately done to stimulate municipal building—and it worked. The local authorities did build houses. Go to Birmingham and see what they did at

Chelmsley Wood. And the new housing estates went up where they were needed most, in and around our big conurbations, owing to the carefully planned priority system of loan sanctions which we imposed.

But our subsidy has not completely insulated local authorities from the impact of rising costs. Even with the subsidy the loan charges payable for a new house are greater than those for older houses, simply because building costs have risen so much during the last 40 years. Moreover where debt incurred on older houses has to be refinanced, authorities must pay the higher current interest rates. And of course the cost of repairs and management continues to rise. As a result councils have had to put up rents or increase the burden on the rates or both. The Government has controlled rent increases since the 1968 Prices and Incomes Act. But these trends have tended to turn both tenants and ratepayers against the increased housing programme.

These are real difficulties. What lessons should we learn from them? Many Conservatives have concluded that a subsidy paid to the council for the houses it builds is a waste of money and should be abandoned. I do not agree. If we need to replace slums with new rented houses only councils can provide them, and if this involves higher rents or higher rates the councils will need a financial incentive. Nevertheless a Labour Government must ask itself whether the present subsidy system should continue indefinitely. It does not ensure the most equitable distribution of subsidies either between councils or between their tenants. It altogether fails to deal with the flagrant inequity between various classes of tenant and is not consciously related to the help given to owner occupiers. The private tenant cannot be helped with his rent if he is in work and therefore not eligible for Supplementary Benefit. And whether a council tenant gets a rent rebate, and the size of that rebate, depends on his council. We need therefore to think very hard about the practicability of some arrangement whereby all tenants—and perhaps owner occupiers as well—can be helped with their housing costs if these costs are too high for their income and family commitments.

I now turn to the other service where we are planning a partnership between the private and the public sector—between the occupational pension funds and national insurance. I know there are a number of Socialists who regret that we have to work in partnership with the private insurance interests. In 1957 when we first published *National Superannuation* we had hopes that our great new scheme, though it would allow good private schemes to contract out, would be able to look forward to a dwindling amount of private insurance and be able to take over most of this field of activity. But in the decade before we took office and started work on national superannuation the situation had been transformed. Occupational pension schemes have grown to a point where some 65 per cent of all male employees

are members of some kind of occupational pension scheme, and something over half can look forward to a good pension from their employers. Moreover by the time we took office the occupational schemes had become the largest medium of personal saving, whereas the Government pension scheme we inherited from the Tories was not a saving scheme at all but a pay as you go scheme. The contrast was clear, the bulk of national insurance contributions are used to pay for benefits, two-fifths of all personal saving is done through occupational pension schemes.

We therefore realised that what the British people needed at this stage was a partnership between the good occupational schemes on the one side and a new system of national superannuation on the other. True this meant a departure from the plans we had first worked out. Our original scheme was to be partially funded and we planned to accumulate a big surplus for investment as the Swedes have already done. We abandoned this concept of partial funding for two reasons. In the first place it would have meant levying much higher contributions, and it was clear that the 6½ per cent announced in our White Paper is already very high in the view of many employees. And secondly the decision to fund our Government scheme would have produced not extra savings but merely a transfer of savings from the funds of the private schemes to the Government fund. We decided, therefore, that what was needed in the present situation was not competition for savings between a funded Government scheme and funded private schemes, but a partnership between the funded schemes of the private sector and the pay as you go of National Superannuation.

There was a second change which we made in our original plans. Whereas our original scheme would not have produced full pensions for 50 years our new scheme will reach maturity in 20 years. This means that anyone who is 45 when the new scheme starts in 1972 will receive the full pension rate when he retires at 65 in 1992. The early maturity possible under our new scheme will enable us to achieve its major social objective far more rapidly—the provision even for the lower wage earners of an adequate pension above the level of supplementary benefit. Today, after more than 20 years of national insurance, there are still 2 million retired pensioners with so little means that they are forced to apply for supplementary benefit. For people retiring twenty years after our new scheme starts supplementary benefit will have become what it was always intended to be, not the normal method of making up an inadequate national insurance pension, but a safety net to provide for a tiny minority who, by misfortune, have failed to qualify for an earnings-related pension. When it is linked with earnings-related unemployment benefit, earnings-related sickness benefit, each for the first six months, and long term sickness benefit to follow, and redundancy payments as well, I think we shall be able to claim that we have provided a new standard of economic security to every citizen in this country in illness, unemployment and eventually old age.

I am well aware that the most contentious part of the new scheme is the method by which it will be financed. Many people wanted us to increase the Exchequer contribution on the ground that this would increase the share paid by the wealthier taxpayers. But with education and health mainly financed by taxation we decided that the pension plan should be financed equally by employers' and employees' contributions with the Exchequer paying 18 per cent to the new scheme as it did to the old. For the higher paid worker this will mean bigger contributions. Among lower paid workers there will be little complaint since they will obtain greatly improved benefits for slightly decreased contributions. In the eyes of the higher paid worker, however, his increased contributions will probably loom larger than the increased benefits they will earn. Indeed I have been told that the new scheme will put an undue burden on those whose earnings lie between average earnings and one and a half times average earnings, which is the ceiling of the scheme. "Why haven't you followed the Swedish example?" I have been asked. Now it is quite true that the basis of the Swedish scheme is a universal flat rate pension with a generous system of supplementary benefit without a means test for every citizen over 65. On top of this flat rate pension financed out of taxation the Swedes have recently built an ambitious earnings-related scheme financed exclusively by employers' contributions. 10 per cent of earnings are paid by the employers each year into three funds run for the Government by independent groups of trustees. This scheme will provide on top of the flat rate pension, an earnings-related pension bringing the total pension up to something over two-thirds of average earnings in the last three years of work.

Before we finally decided how the contribution burden should be divided I went to Sweden to see how their scheme worked. I talked to the trade unions, I talked to the employers, and I talked to the insurance companies. They all agreed that despite the fears of the employers and the insurance companies, the effect of the new scheme on the economy had been healthy because it had kept down wage demands. Since the employers were paying 10 per cent of earnings each year towards their workers' pensions they could each year tell the trade unions to exercise wage restraint in order to avoid inflation. And when I asked about the trade union reaction to this request there was general agreement that wage restraint had been faithfully observed. Would that happen here if our plan for National Superannuation had imposed a contribution of $9\frac{1}{2}$ per cent on the employers instead of splitting it equally between the two? I fancy we are not quite Swedish enough to be confident that the big trade unions would deny themselves a big wage claim because of the wonderful pensions they were due to get.

Have any practicable alternatives been propounded to our proposals for paying for the social services. Recently Sir Paul Chambers has come forward with what he regards as a simple solution. He proposes that contributions should be abolished

and that, like the Swedes, we should have a universal flat rate pension without a means test, financed by taxation. But there he departs from the Swedish precedent by recommending that the building of pensions on top of the State foundation should be left to private insurance and to occupational pension schemes. But more recently the National Association of Pension Funds has come up with what they claim to be another alternative to our plan. Unlike Sir Paul Chambers they agree that we should substitute earnings related for flat rate contributions but having gone this far they propose that, while we should all pay contributions according to our means, we should all receive the same flat rate State benefit and rely on private pensions to top it up. The common fault of both these proposals is their implicit assumption that a combination of flat rate State pension with earnings related private pensions can raise the pensioner above the level of supplementary benefit and abolish poverty in old age. Alas the truth is very different. However much occupational pensions are encouraged there will always be about one worker in four who is not covered by them. Unless the State provides an earnings-related pension there will be nothing but the flat rate benefit for many building trade operatives, for most people employed in small shops and for casual workers all over the country. Far too many pensioners therefore will be forced to have recourse to supplementary benefit just as they are today.

2% to self employed?

poverty—incomes guarantee

I now turn to the role of the social services in the attack on poverty. As Socialists we care more about this than anything else and I have already shown how we have dealt with it in terms of national insurance benefits. But what are we to do about people who are not at work but aren't adequately covered by national insurance? As you know we abolished the National Assistance Board and replaced it with the new Supplementary Benefits Commission. But I must make it clear that we did this partly as a substitute for a plan we were unable to realise—the Incomes Guarantee, for the widowed and the retired, included in our 1964 election manifesto. True the Supplementary Benefits Commission does provide a very real and very humane guarantee of minimum income. But it is not quite what we meant in the manifesto. At that time we were convinced that we had found a way of cutting through the administrative and fiscal tangle by a simple device, a single income tax form which would be used for recording both the right to benefit and the liability to tax. All those widows and retired who were poor and in need of benefit would fill in their forms and all those who were prosperous and in need of fiscal slimming would fill in theirs. And then the forms would go to the Inland Revenue where they would be fed into a computer and out would come the net result. "You, Sir, pay £20,000 and receive nothing." "You, sir, pay nothing and get £6 a week." We wanted to stop all those multiple overlapping payments from the citizen to the State and from the State to the citizen by combining into a single computerised system the outgoings

of social service cash payments and the intake of taxation. There were three reasons why we have not implemented our Incomes Guarantee as we planned it in opposition. First, the tax people do not need to know what capital people have, nor do they need to know what they spend on their housing. You obviously cannot work out what money people need unless you know how much they have to spend on rent and rates. Of course, if we had then had a housing allowance scheme, such as I mentioned earlier, it might have been different. But this could not have been introduced in time to meet the urgent needs of many of these old people. Secondly, we found that the income tax machinery, through which we hoped we could pay people in order to bring their incomes up to the minimum level, did not in fact cover a large number of old people who might have been eligible for this payment. And finally we discovered that our Incomes Guarantee might often have to be based on information for the previous year. With this kind of lag, in hundreds of thousands of cases, people's incomes and other circumstances would have changed and since you cannot leave people to survive on an income which may have been sufficient a year before but which is totally inadequate today, we would still have had to keep a Supplementary Benefits Commission to look after all the people whose circumstances had changed. So having introduced an Incomes Guarantee in order to abolish the bulk of the work of the Supplementary Benefits Commission we would have been forced to retain the Supplementary Benefits Commission to look after the people the income tax machine cannot cope with.

Computers really don't solve all problems. They can add up, they can calculate, they can multiply, but they can only process the information they are given. I am sure more ways will be found in the future of making computers serve us in the battle against poverty. But unless we had been prepared to accept a ruthless rough and ready system, computerised income tax could not under present conditions be an adequate substitute for a humanely administered supplementary benefits scheme. I think that the work which Peggy Herbison did in creating the Supplementary Benefits Commission was one of the best pieces of practical Socialist change in the whole of our five years. As a result of what she did, 600,000 people who had not applied for benefit under the National Assistance Board came forward and applied to the new Commission. 600,000 people were discovered who had been too proud to apply. This was a tremendous social change and though we haven't completed the process and though the sense of stigma is still there, the Supplementary Benefits Commission is beginning to work. People do feel an entitlement as of right.

poverty claw back

I now come to the area of poverty which we found most difficult to deal with. It is fairly easy to deal with people out of work, the old, the sick, the unemployed, if

you are prepared to find the money. Then we have only to raise the level of benefit. The really difficult problem is to help those at work who are in poverty because of a large family, a high rent or a low wage. They may need help even more than those who are out of work. But under our system of social insurance, because they are earning, they are not entitled to benefit. In an essay written over 10 years ago Professor Titmuss pointed to the relative affluence of the middle class caused by what he called the "fiscal" part of the Welfare State—tax allowances. The value of the tax concession which a person gets with four children and an income high enough to be charged at the full standard rate, he argued, was much higher than the family allowance received by a man with the same sized family and a low wage. I remember that essay very well and to deal with the problem it raises we designed the claw back in early 1968 when we came to implement the Prime Minister's pledge that those in greatest need should be sheltered from the effects of devaluation—a device designed to make a universal give away a selective social service. The family allowance was increased for everyone by 10s. But it was paid to the wife and for anyone paying tax at the standard rate we neatly cancelled the payment out by deducting £42 of the allowances the husband got in his income tax. So the wife gets 10s which she spends on her children, and the man has 10s less to spend on himself. I have always thought that this was one of the most ingenious pieces of legislation passed under this Government.

We were told that claw back would be very unpopular. Actually as we explained more clearly what was behind the scheme (I think we felt a little ashamed of it at the beginning) people saw more in its favour. Some of the younger people objected least of all that the wife should get more money for the children and the man should have it taken off his pay packet. More education is certainly needed to get wider acceptance. Nevertheless from the start it was recognised as an attempt to evolve a new social service which is selective without the disadvantage of a means test. Remember that we had been under pressure from the Tories to put family allowances on a means tested basis which would mean that people could only qualify for a family allowance if they were prepared to go to the Ministry of Social Security and plead their poverty. Instead of a means test imposed on the poor, we chose to have a means test imposed on the better off. Cuts in tax allowances are a very different type of selectivity from a means test under which you have to prove your poverty to the Ministry of Social Security before you get an allowance. Moreover the means tested family allowances which the Tories were asking for would have been a major disincentive for the worker. Every time he earned more money there would have been a deduction in his family allowance. We fought resolutely against this notion that the way to handle family allowances is to impose a direct means test and deny help unless poverty is demonstrated first.

There was another objection which we never expected but which hit us very hard.

Many of our own supporters objected in principle to raising family allowances precisely because it would help the people it was designed to help—low paid workers with large families. “If they have all those children it is their own fault” we were told. “Instead of increasing their family allowance you should teach them to practice family planning.” Another objection was even more peculiar. The worker was blamed not only for having a large family but for the inadequate wage he earned, and often he was assumed to be a work shy coloured immigrant who, within a few weeks of arrival, was living on supplementary benefit. “Why pay family allowances to those wastrels?” it was asked. None of these objectors seemed to realise that if supplementary benefit had been raised after devaluation, with no corresponding increase in family allowances, the result would have been to increase the number of the work shy among lower paid workers. Already the fact that national insurance and supplementary benefit is payable for the first child whereas the first child of a man at work earns no family allowance had produced a dangerous disincentive before November 1967. If family allowances had not been raised along with National Insurance benefits that disincentive would have been perilously increased. Not only was there, therefore, an impregnable moral case for the 10s increase: the economic case in terms of incentives to work was equally strong. By introducing the claw back and thereby transforming a universal into a selective increase the last rational objection was removed.

the health service

Having dealt with housing, social security and family allowances I come finally to the Health and Welfare Services. Let me remind you once again that the cost has risen from £830 million to £1,770 million in the years from 1959-60 to 1968-69. And in the five years since we took office the increase has been £658 million (from £1,112 million to £1,770 million). Out of this total, taxation pays for 85½ per cent, contributions for 9½ per cent and charges for 5 per cent. Most Socialists would like us to go back to Aneurin Bevan’s idea of a Health Service financed exclusively from taxation which we pay out of money earned in good health with the result that it costs nothing when we are ill and can’t afford to earn. But this is largely a Labour Party view. Among the general public (as we confirmed in a Government Social Survey the other day) 60 per cent believe that they pay for the whole Health Service through their national insurance contributions! And an increasing number of people are becoming convinced that since extorting more and more from the taxpayer will merely cause a revolt we must look for alternative sources of revenue. The two most commonly recommended are increased charges on the one hand and increased reliance on private insurance on the other.

The idea that charges can be substituted for taxes as the main source of Health Service revenue can be dismissed out of hand. The present charges in the hospital

and family practitioner services bring in only £60 million out of the total cost of £1,600 million. Recently I asked the Ministry officials to calculate the maximum yield if a boarding charge were introduced for hospital in-patients. The highest possible charge per person would be £4 a week. It would bring in £45 million gross, of which a large slice would either be refunded or lost through exemptions. A charge for visits to general practitioners—which is often recommended despite its obvious demerits—might bring in at 2s 6d another £15 million gross with corresponding reduction for refunds and exemptions.

It is therefore in my personal opinion extremely difficult to raise a figure even approaching 10 per cent of total National Health Service expenditure by new or existing charges. Charges vary greatly both in the administrative difficulties they involve and as ways of raising money. Those for teeth and spectacles can be distinguished from those for prescriptions as they are normally paid by people who are at work and earning. The basic reason for keeping these charges is because they reduce public expenditure by £45 million each year, and no responsible Minister can readily dispense with such measures unless better alternatives are available. In practice each case should be considered on its merits; and I have no doubt that, if I could spare £25 million for the purpose—£15 million to replace the net saving from the charge and £10 million to pay for removing its deterrent effect—I should give high priority on merits to abandoning prescription charges, even in their improved form.

BUPA

Another escape route is to increase the scope of private insurance. And here I thought you would like me to give you as many facts as I have been able to collect about the situation of private insurance. In the last year for which we have figures 650,000 people were registered as members of BUPA. And if we add all the private insurance schemes together, about 800,000 people were registered. The income of BUPA was £11.2 million in that year and they paid out £9.6 million in benefit. The income of all these private insurance schemes was £14 million and they paid out £12 million. So quite a large number of people visited consultants privately or went into hospital as a private patient and had their insurer pay the bill. The number of beds associated with BUPA is 440 in 13 different nursing homes. A reliable source reckons that 60 per cent of these patients used private beds under the National Health Service.

The unplanned growth of these private insurance schemes is a disturbing element within the Health Service. The blunt truth is that anyone who pays for private insurance expects to buy an advantage for himself; if he doesn't get it he won't pay. These schemes are growing because they enable their members to choose the time for an operation and to choose a consultant by name and guarantee that he will

himself look after the patient. BUPA buys a name and buys time, or to put it plainly, facilitates queue jumping. I have heard it said that it would solve the financial problems of the Health Service if we got 4 million people into these schemes even at the cost of tax concessions to them. The answer to this claim is twofold. In the first place judged in terms of scarce skill and scarce resources BUPA solves nothing. In the second place judged in terms of social values it introduces two standards into the Health Service, a top level and a second level. Encouraging these schemes might be mildly convenient for a Chancellor concerned to limit the total public expenditure. But the economy would be achieved at a heavy cost. They cannot provide an alternative to paying for the Service out of taxation—without undermining the principle of the free Health Service.

health service contributions

There is another solution which interests me a great deal more. As you all know we have a small National Health Service contribution now. Although it is something of an anomaly we shall continue it under our new earnings-related scheme. At present it contributes about £180 million a year, or 10 per cent of the cost of the Health Service. Once it is earnings-related it should provide a little more.

If we have to look for an alternative source of revenue I am quite sure that enlarged contributions would be infinitely preferable to reliance on increased charges. But I must warn you that there are serious difficulties in this proposal now that we are substituting earnings-related for flat rate contributions.

In our new pension scheme, by paying a higher contribution you earn a higher pension, just as you get a better house if you pay more for it. Housing and social security are the two areas where as Socialists we say that people should be able to buy themselves something better. We think it doesn't do social damage in the case of pensions or housing for people to be allowed to do this. But we are pretty sure that it would do social damage in the case of health if, within a free State provided service, people were able to purchase privileges by paying fees. So an earnings-related Health Service contribution raises a difficult question. Would not the higher paid worker claim that if he pays more into the Service he should get more out of it than the lower paid contributor? As a partial answer to this objection I should add that there are four countries where a unitary Health Service is financed by earnings-related contributions. One is New Zealand where they have accepted the principle for years of a special earnings-related tax to finance their Health Service. You all pay according to your means and you all get the same in hospital. An alternative proposal is to raise the money largely through the employers' contribution. This, as we have seen, is a method adopted by a number of European neighbours including France. We might underline the seriousness of

our conversion to European ideas by adopting the plan. After all it can be argued that the employers have much to gain from a service which promotes the health of their workers and it is therefore not unreasonable while financing the present level of the Health Service out of taxation, to finance the necessary future increase out of a levy on industry. Having said this, however, I must repeat my warning that if you step up the employers' Health Service contribution too drastically or too suddenly, they might turn it into a levy on the housewife.

summary

1. I am certain that we are right to switch to earnings-related contributions and benefits as the basis for social security, if only because this makes pension entitlement a semi-contractual right and so protects social insurance and national insurance against the raids of a greedy Chancellor. Moreover in terms of worker resistance a contributory system of this kind is a lesser evil than flat rate benefits financed by heavy progressive taxation.

2. Though I am pretty sure that we must maintain taxation as the main basis for the Health Service we should not be afraid to look for alternative revenue less dependent on the Chancellor's whims. BUPA type insurance and charges will never provide the answer. Indeed prescription charges, which were re-imposed to meet a particular economic crisis should be got rid of sooner rather than later. I should not rule out obtaining a higher proportion of the cost of the service from the Health Service contribution.

3. In dealing with poverty among those at work I see no alternative at present to family allowances and, since I am opposed to a means test on earnings but recognise that we cannot or should not afford the expansion of universal family allowances, I am delighted by the relatively small resistance to claw back. But it is dangerous to believe it can solve all our problems and if we push it too far we shall soon discover its limitations.

4. In discussing the inadequacy of housing subsidies I mentioned the possibility of a housing allowance. Certainly we should have learnt by now that until we can work out a system which gives equal help to people in a private landlord house, a council house, or a mortgaged house, we shall not have begun to tackle the problem produced by the vagary and illogicality of housing costs. Our aim should be to ensure that the burden of housing never falls too heavily on the three main poverty areas of the affluent society: the retired people, the lower paid workers with families, and the chronic sick. The introduction of housing allowances which achieved this objective would be a major advance in our system of social security.

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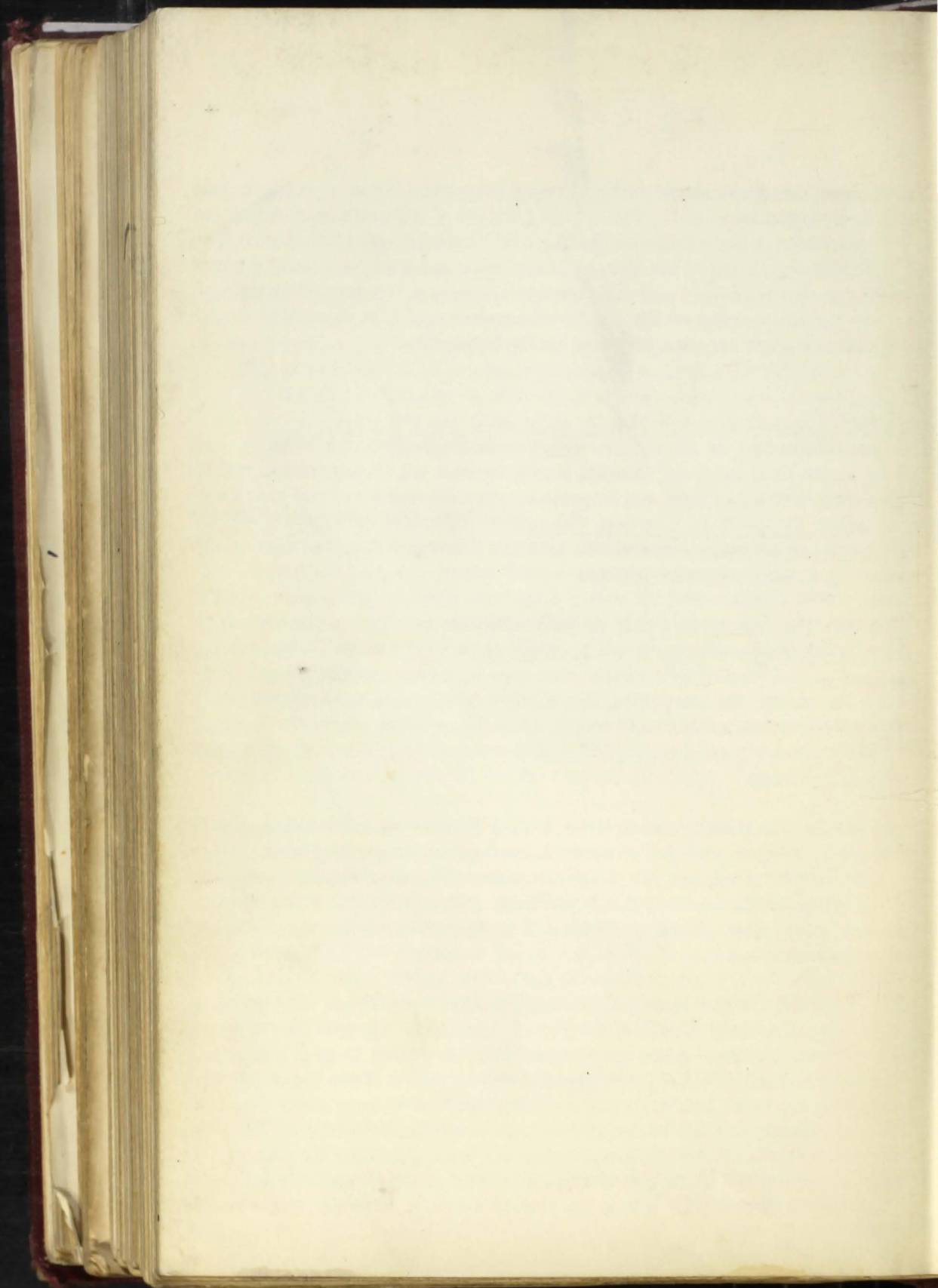
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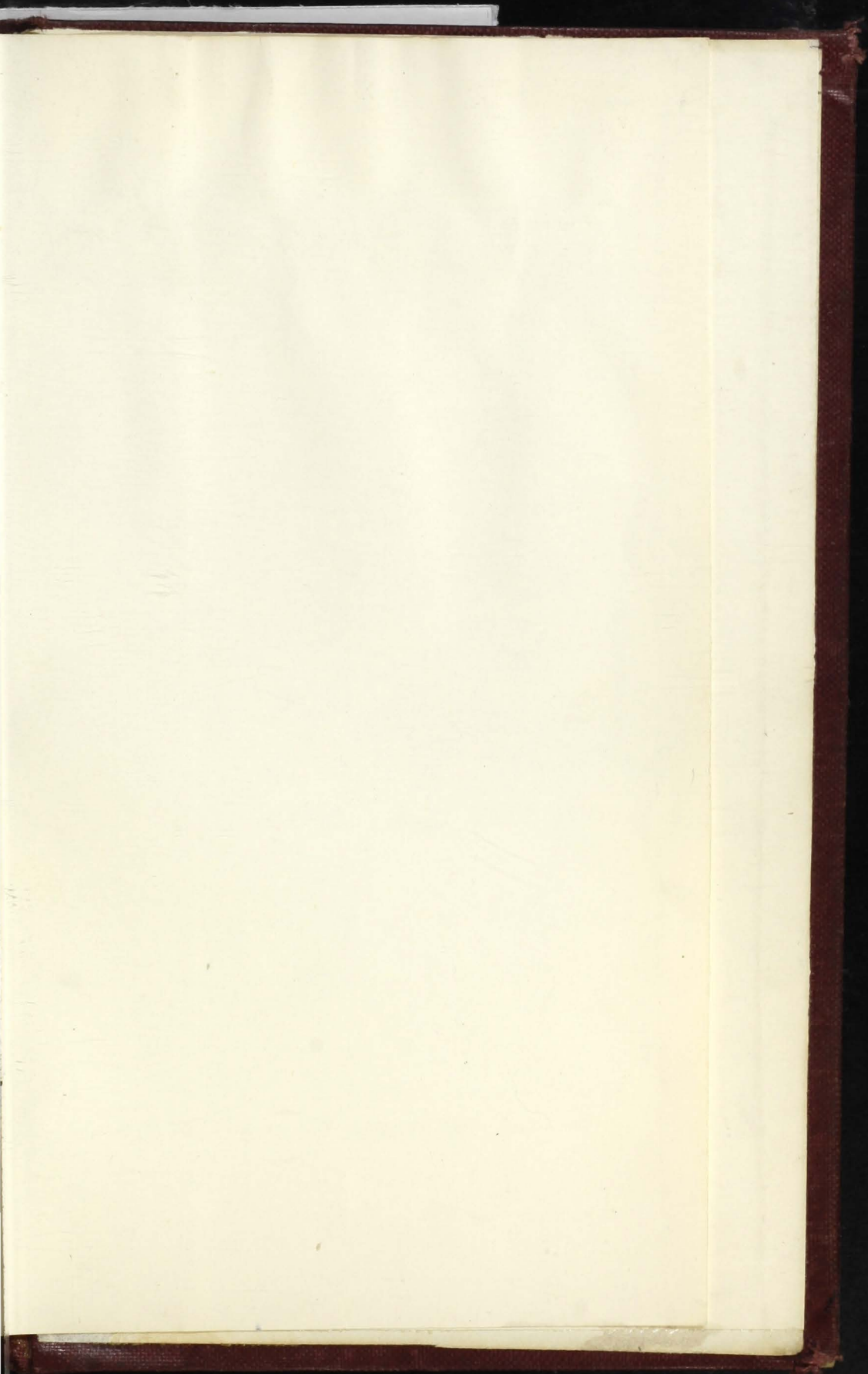
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