

THE ECONOMIC ASPECTS OF THE PROPOSED REFORMS
OF SOCIAL SECURITY

Memorandum by the Economic Section of the War
Cabinet Secretariat

1. In the following memorandum we comment on certain economic problems which are raised by a consideration of the Memorandum by the Chairman entitled "Basic Problems of Social Security with Heads of a Scheme" (S.I.C.(41)20) and of the Memorandum by the Government Actuary entitled "Finance of the Chairman's Draft Proposals" (S.I.C.(42)33). We have not considered ourselves technically competent to make any detailed criticism or proposals, but have confined ourselves to an examination of the broadest issues which are raised in these papers. The following list of the headings of this paper will serve to indicate the nature of these issues:-

- I. The Burden of Increased Expenditure on Social Insurance and Assistance.
- II. Social Security and the Mobility of Labour.
- III. Social Security and the volume of employment.

I. THE BURDEN OF INCREASED EXPENDITURE ON SOCIAL
INSURANCE AND ASSISTANCE

2. On the basis of the Government Actuary's Memorandum (S.I.C.(42)33) and of work done in connection with the preparation of the White Paper on National Income and Expenditure (Cmd.6347), we have examined the financial burden of the proposed extensions of social security in relation to the total national income. A more detailed statistical account of this examination is attached as an Annex to this Memorandum.

3. It is estimated (see Statistical Annex) on the basis of the Memorandum of the Government Actuary that the proposed extensions of Social Insurance and Assistance will involve an increase in expenditure of some £300 millions. Will this involve a heavy or insupportable burden on the country's resources? If we regard the welfare of the beneficiaries of the social services equally with that of the taxpayers who finance these services, the only way in which these services can impose a net burden upon the community as a whole is through their effects on national productivity. Thus the question might be reformulated thus: will the transfer through the national exchequer of an additional £300 millions from taxpayers to beneficiaries cause rates of taxation to be raised to unduly high levels, or in any other way exercise an unduly adverse effect on national productivity? Many factors have to be taken into account before this question can be answered:-

- (i) What is likely to be the general trend of the national income in the post-war years?
- (ii) What are likely to be the total demands of public expenditure on the national income, in the way of social services, debt, repayment, etc?
- (iii) What effect will the raising of the extra money have on the ability and willingness to work and invest of the contributors?
- (iv) What effect will the payments of new or increased benefits have on the ability and willingness to work of the recipients?

4. (i) General trend of National Income in post-war years

The maintenance and growth of the national income in the immediate post-war years will depend on the satisfactory solution of two problems: the restoration and increase of our export trade and the avoidance of large scale unemployment. If we

assume (a) that prices are some 30 per cent, higher than in 1938 and (b) that unemployment can be prevented from rising higher than 5 per cent. of the labour force, it may be estimated that the net national product of the community's productive factors would amount to some £6,500 millions a year after the immediate post-war dislocation had been surmounted. This would compare with a net national income of £4,595 millions in 1938.

5. Total incomes are however, greater than this; for total incomes include national debt interest and social security benefits as well as the net product of the community's factors of production. On the same assumptions as in the previous paragraph (i.e. a 30 per cent. rise in prices since 1938 and a 5 per cent. level of unemployment) and on the assumption that social security benefits increase in accordance with the proposals now under discussion, total incomes would be £7,525 millions in the first settled post-war years, as opposed to £5,094 millions in 1938. (See Table III of the Annex).

6. As a result of continuing technical progress, the national income is likely to rise - perhaps by about £100 millions a year - in the post-war years if large scale unemployment can be avoided.

7. (ii) Total post-war demands on the National Income.

In 1938 public expenditure on goods and services, and subsidies was £848 millions. If we allow for a 30 per cent. rise in prices, the 1938 level of public expenditure on goods, services and subsidies would amount to some £1,100 millions. After the war however, we may have to incur a considerably greater cost than pre-war for armed forces to police Europe, for reconstruction, for subsidies and for any extension of social services (such as housing and education) which have not been included in Social Insurance and Assistance payments. If we allow £1,400 millions for the post-war total of expenditure on goods, services and subsidies, the ratio of total public expenditure to total taxable income would rise from some 26.4 per cent. in 1938 to some 32.2 per cent. in 1944. Of this increased proportion, Social Insurance and Assistance would account for an extra 2.2 per cent. and National Debt Interest for an extra 1.6 per cent.

ESTIMATES OF PUBLIC EXPENDITURE AND TAXABLE INCOME.
(See statistical Annex)

	1938		1944 or early post war years	
	£m.	As % of taxable income	£m.	As % of taxable income
1. Public Expenditure on goods, services and subsidies	848	16.6	1400	18.6
2. Transfer Payments:				
(a) National Debt Interest	222	4.4	450	6.0
(b) Social Insurance & Assistance	277	5.4	575	7.6
Total Public Expenditure	1347	26.4	2425	32.2
Total Taxable Income	5094	-	7525	-

8. It would appear from the above table that on the assumptions stated total public expenditure would rise from some 26.4 per cent. of total taxable incomes in 1938 to some 32.2 per cent. after the war. In 1938 total public revenue accruing from taxation and from government income from property was 25.0 per cent. of total taxable incomes, and in 1941 this figure had risen to 40.4 per cent. It will be seen, therefore, that the 32.2 per cent. of taxable income necessary in the early post-war period, if all expenditure is to be met from current revenue, would involve a level of taxation which - in relation to total taxable incomes - was about midway between the 1938 and the 1941 levels of taxation.

9. It must, of course, be recognised that these post-war estimates are very uncertain, and must be regarded more as illustrations of possible developments than as definite forecasts. There are many ways in which these estimates may be falsified:-

(a) The post-war calculations have been made upon the basis of an unemployment percentage of 5. If there were a greater volume of unemployment, the ratio of total public expenditure to taxable incomes would rise both because the cost of unemployment benefit would rise and because the net national income would fall. Thus it may be estimated that a rise of the unemployment percentage from 5 to 10 would raise the ratio of total public expenditure from 32.2 per cent. to 34.3 per cent - a reminder of the importance in the post-war world of a successful policy for the prevention of large-scale unemployment.

(b) The level of government expenditure on goods, services and subsidies is also uncertain. If this figure should prove to be £1,500 millions instead of £1,400 millions, the ratio of public expenditure to total taxable incomes would rise from 32.2 to 33.6 per cent.

(c) Perhaps the most uncertain estimate is that of the post-war net national income, which has been estimated at £6,500 millions. If this figure were in fact only £6,300 millions, the ratio of total public expenditure to taxable income would rise from 32.2 to 33.1 per cent.

(d) It is possible that measures may be taken by some surgical operation once and for all to reduce the national debt; and a reduction of national debt interest would also reduce the ratio of total public expenditure to taxable income.

10. But to assess correctly the full meaning of the increased commitments now proposed, we must consider not only the immediate post-war years, but also the developments which are likely to occur subsequently. There are two outstanding factors which are relevant in this connection:- (i) the age composition of the population will undergo a very marked change and (ii) it is to be expected that the continuing process of technical improvement will raise the net national income in the course of time, if serious unemployment can be prevented.

11. One of the most marked (and most certain) social changes in the post-war period will be the ageing of the population as a result of past and present demographic changes. The following table summarises the salient changes as they are estimated (on probable assumptions as regard to future changes of mortality and fertility) in paragraph 17 of the White Paper entitled "Current Trend of Population in Great Britain". (Cmd. 6358).

Age distribution of population of Great Britain

Age Group	1937 Actual Population		1961 Forecast		1971 Forecast	
	Number of Persons Millions	Percent-age of total popula-tion.	Number of Persons Millions	Percent-age of total popula-tion.	Number of Persons Millions	Percent-age of total popula-tion.
0-15	10.2	22.1	8.4	17.9	7.6	16.5
15-65	31.9	69.5	32.3	68.3	30.5	66.4
Over 65	3.9	8.4	6.5	13.8	7.9	17.1
Total	46.0	100.0	47.2	100.0	46.0	100.0

12. On the assumptions made for this forecast the total population will be little changed between 1937 and 1971, but its age composition will be very different. By 1971 the number of children (aged 0-15) will be some 2½ millions less than in 1937 and will constitute only 16½ instead of 22 percent of the total population. Adults below the age of 65 will be some 1½ millions less in numbers and will constitute only 66½ instead of 69½ of the total population. On the other hand those over 65 years of age will be twice as numerous as in 1937 and will constitute 17 instead of 8½ percent of the total population.

13. In later years the total population would be likely to decline considerably unless there were a considerable rise in fertility; and the pre-war level of fertility was already probably some 25 percent below the standard necessary for full reproduction of the population. These facts suggest that measures are necessary to promote higher fertility; and social services - such as children's allowances, education, children's meals, etc. - would help to reduce the economic burden of parenthood. Extensions of social security which improve the position of the young are, therefore, desirable not only from the point of view of their effects on the health and training of future working population but also from the point of view of the future size of that population.

14. On the other hand, the number of old-age pensioners will grow as the number of young workers declines. Except in so far as increased productivity raises the national income and the basis of taxation, the maintenance of the old is bound to place an additional burden upon the young. By 1951, the total expenditure on old age pensions must be expected on the basis of the newly proposed rates to rise to some £285 millions (which is £45 millions greater than the figure assumed in the previous calculations of this memorandum). After 1951, further heavy increases must be expected, as the number of persons in the population aged 65 or over may be expected to increase from 5.5 to some 7.9 millions between 1951 and 1971. As the population comes to consist of a larger and larger population of elderly persons, it will become increasingly important to ensure that the social services for the old are not over-weighted at the expense of those which benefit the young.

15. The net national income is, however, likely to rise as a result of continued improvements in technique; and it is

quite possible that such improvements may amount to as much as £100 millions a year. If we allow for an increase of £45 millions in old age pensions between an early post-war year (e.g. 1944) and 1951, and for an increase in the net national income from £6,500 millions to £7,200 millions in the same period of seven years, the net effect would be to reduce the ratio of total public expenditure to total taxable income from 32.2 to 29.9 percent. Against the growing burden of old-age pensions we must, therefore, set any possible increase in the national income.

16. In considering, however, the ratio of public expenditure to total taxable income, the following points must be borne in mind:-

(a) Expenditure on social insurance and assistance, like the payment of interest on the internal National Debt, is an internal transfer. Income is transferred from one set of persons to another set - from the rich to the poor; from the workers to the unemployed and sick, from the young to the old. These payments do not constitute a loss of resources to the country as a whole.

For this reason, it is not sufficient to look merely at the expenditure side of the account. Total taxable income includes both the net national income received in wages, profits and rents and also the total of transfer incomes, since these transfer incomes are also a source of tax revenue. Interest on the National Debt is liable to income tax and sur-tax, and the old age pensioner and the person receiving Unemployment Benefit will pay duty on his purchases of sugar, beer, tea and tobacco.

In so far, however, as the increased or new benefits will go to the poorest classes, they will represent a smaller increase in taxable capacity. In this narrow sense, therefore, the burden will probably be greater than a corresponding increase in the payment of interest on National Debt.

(b) The existence of a proper scheme of Social Security can, if administered with this aim in view, make a substantial contribution to the maintenance of full employment. The maintenance of a minimum level of purchasing power is, in itself, a great stabilising element in a country's economy. If, in addition, the finances of the Fund could be adjusted from time to time, as is suggested in paragraphs 34 and 35, the Scheme would be helping to maintain and increase the national income.

(c) The proposals involve the socialisation of some expenditure which is now covered by private insurance and voluntary effort. The inclusion of Death Benefit, for example, in the Social Insurance Scheme, means that the amount is now included in Public Expenditure and the contribution thereby becomes a form of taxation though the change is administrative rather than financial. Similarly, the increase in the cost of old age pensions will in some degree be counterbalanced by the reduced financial obligations of those at present voluntarily supporting the aged. Before a final assessment can be made of the burden of the proposals, an allowance would have to be made for the amount which is already being incurred privately for these pensions, benefits, etc.

(d) In some cases, the socialisation of expenditure which is already covered by private effort may mean that the same or a better service is provided at a much reduced real cost to the community. In this connection, we should support any suggestion (cf. section Q, page 14 of S.I.C. (41) 20) for eliminating any waste involved in the present organisation of industrial assurance by societies using collectors.

(e) Some considerable part of the social security expenditure is self-financing in the sense that it is covered by employers' and employees' contributions - a type of levy which, whatever may be its economic effects, is at least widely accepted and does not fall upon the central budget. Social security benefits and assistance were 5.4 per cent. of taxable incomes in 1938 and are likely to be some 7.6 per cent. in the early post-war period; but that part of social security benefits and assistance which is not covered by compulsory contributions was only 3.3 per cent. of taxable incomes in 1938 and is likely to be only 4.5 per cent. in the early post-war period.

17. These considerations go some way to reduce the seriousness of the proposed increase in public expenditure. Had the Social Insurance proposals been the only item making for an increase in the post-war Public Expenditure it would be possible to contemplate them without apprehension. But Public Expenditure will be increasing in other fields and it is the aggregate effect which must be considered. This does not mean that increased provision for Social Security should not be made because increased money is being paid out in other ways. It only means that if there is at any given time an upper limit to the share of the national income which can be taken by Public Expenditure, there will have to be a choice between different forms of expenditure. In so far as this might involve a choice between social services for the young and for the old, we consider that those which benefit the young should obtain due preference.

18. The financial burden of increased expenditure on Social Insurance and on Public Services generally results from the facts that such expenditure involves the raising of rates of taxation or of compulsory contributions and that high rates of taxation are liable to have adverse effects upon incentives for work, investment and enterprise. The payment of benefit may also have effects - both favourable and adverse - upon the ability and willingness of the beneficiaries to work.

19. (iii) "Incentive" effects of raising the necessary revenue.

The revenue for the increased measure of Social Security will be raised in three ways, from (a) Employees, (b) Employers, and (c) the State.

20. (a) The employee's contribution is a poll tax which does not vary with the employee's ability or willingness to work. It should have no adverse effect on incentive.

21. (b) The employer's contribution is a tax levied according to the number of persons in employment. A compulsory levy of this kind on employment may restrict the demand for labour and may thus impede the prosecution of a policy designed to prevent unemployment. The higher the rate of contribution the more serious would this factor become.

22. This argument might be used for suggesting that the whole of the cost of social security benefits should be made a charge upon the general budget, so that - as in the case of other forms of state expenditure - the necessary revenue may be raised in the manner which is considered most appropriate, on general grounds. It may however be desired on other grounds to preserve the contributory element in social insurance, both because this system of finance is already widely accepted and understood and also in order that the beneficiary from social security may feel that he or she is not getting something for nothing. Moreover, in the immediate post-war period, expediency may outweigh all other considerations and it may be essential to retain the present accepted form of tax rather than increase the charges on the Budget. It will almost certainly be easier in the reconstruction years to raise the necessary funds by employees' and employers' contributions than by general taxation.

23. Any adverse effects of employers' contributions upon the demand for labour might be greatly mitigated, if not entirely removed, by an alteration in the basis of assessment of employers' liability. Thus the suggested employers' "charge for dismissal" (see paragraph 27 of S.I.C.(41)20) provides an alternative basis for collecting some part of the employers' contribution in a way which will encourage stability, (at both high and low levels of employment). A tax of this kind would, however, have to be paid at a time when employers were least able to bear it. An alternative suggestion, which would have a stabilising influence, is that the employers' contribution should vary with the length of contract for service, the charge for employing casual labour, for example, being considerably higher than that for employment on a monthly basis. It might also be possible to raise any remaining part of the employers' contribution by means of a small levy on profits (possibly collected by the Board of Inland Revenue as a small supplement to Schedule D income tax). There can be little doubt that a levy on profits would have a less adverse effect upon the demand for labour than a levy on employment.

24. (c) The State's contribution will be met either from general taxation or from borrowings. Public borrowing has no direct effects on incentives. Whether or not any particular level of general taxation will have serious effects upon incentives must depend upon the types of taxation used. Thus there are probably sound reasons for believing that a tax assessed on capital values has less adverse "incentive" effects

than a tax assessed on income. If this view is correct, and if it were possible appropriately to change the basis of assessment of part of our direct taxes, the community should be able to sustain a given volume of public expenditure with less adverse effects. We do not, however, consider that it is appropriate in this paper to develop in detail an analysis of the "incentive" effects of various forms of general taxation; but such an investigation is clearly needed, since public expenditure in the post-war world is likely in any case to be considerably higher than before the war. In this memorandum we should merely wish to point out that the proposed post-war extension of social security reinforces the need for such an examination of different forms of taxation.

25. (iv) The effects of benefits upon ability and willingness to work.

The receipt of social security benefits may reduce the incentive to work, if - for example - unemployment or sickness benefit were easily obtained without due safeguards against malingering or if the receipt of old age pensions were to force or to persuade the recipients to give up work earlier than they would otherwise have done. It is to be hoped, therefore, that in the administration of social security, duly strict safeguards will be taken against the possibility of misuse of benefits and that no measures will be taken to enforce or to encourage the retirement of old age pensioners from work. This consideration gains added weight when regard is had to the probable growth of numbers in higher age groups.

26. There are, on the other hand, a number of ways in which the payment of social security benefits or the extension of closely related social services may increase the productive power of the working population. The maintenance of standards of living during sickness and unemployment may prevent malnutrition. Such benefit, together with the extension of health services, will diminish the economic losses of ill-health. A better fed, better housed, better clothed and better educated working population will be more productive. Such advantages are likely to accrue most of all from benefits which affect the young - such as children's allowances and the health, feeding and education of children. Apart, therefore,

from the advantages to be gained from the better distribution of the national income which may be brought about by social security transfer payments, there may be substantial gains in economic productivity, to be set against the financial burden of such payments.

27. It is clear from the preceding paragraphs that no easy answer can be given to the question whether the finance of the proposed extensions of social security will involve too great a burden upon the community. Post-war public expenditure is likely to involve high rates of taxation which may have adverse effects upon incentives; but on the other hand the payment of social security benefit, if wisely planned, may greatly improve the health, welfare and productivity of the beneficiaries. Whether or not the proposed extensions of expenditure on social security are to be regarded as too onerous, will no doubt depend upon what other extensions of public expenditure it is desired to undertake. But in any case the burden of such extensions would be mitigated, if (i) unemployment can be kept at a low level and the national income thus maintained and raised, (ii) means are found to reduce the burden of national debt interest, and (iii) care is taken to ensure that taxation is of a type that will have the least possible adverse effects upon incentives.

II SOCIAL SECURITY AND THE MOBILITY OF LABOUR

28. It will be particularly important in the post-war period to ensure that labour is as mobile as possible both between different occupations and between different regions. For demobilised men from the armed forces and the munitions industries will need to be transferred to civilian occupations; and at a later stage men will need to be transferred from the work of physical reconstruction to more normal peace-time occupations. Moreover, there is no reason to believe that technical changes which require the contraction of certain industries and the expansion of others will not continue to take place after the war at least as quickly as in the pre-war period. As has been argued in paragraph 16 above, in the post-war world the community's labour force is likely to contain a higher proportion of older people and the numbers in the population are likely to decline. For both these reasons it will be important to take measures to stimulate the mobility of labour, for older people are naturally less mobile than the young; and with a declining population greater mobility of labour is required to prevent structural unemployment than in a period of rising population, when the diversion of new entrants from declining to expanding industries may often suffice to preserve a proper balance between them.

29. For these reasons, it is of great importance to ensure that schemes of social security are so devised as not to discourage mobility of labour. A sufficient incentive to find or to accept another job must remain. That is, benefit must not be so high that there is no net financial gain from work. Cases of this kind have occurred under the present unemployment assistance schedule where assistance included allowances for a large number of dependent children. For this reason we desire to stress the great advantage in promoting mobility which would accrue from a system of family allowances. If there is a universal system of family allowances, as assumed in the report, (S.I.C.(41)20, page 2, Section B) unemployment benefit need not include any allowances for children and the gap between benefit and wages would be increased. The relative financial advantages of working would be greater than under the present system and the incentive to work increased.

30. While relatively low benefit may be an advantage from the point of view of mobility, there are very strong economic arguments in favour of a generous scale of benefits. In particular, it will be argued below that the receipt of generous allowances by the unemployed will help to sustain purchasing power in times of trade depression, and will thus help to prevent the further growth of unemployment. But the more generous is the scale of benefit, the more necessary it is to stimulate mobility by direct means and to provide administrative safeguards against malingering.

31. Apart from Family Allowances any measures designed to increase labour mobility must depend primarily on improved organization of the labour market. In this connection there might be increased training facilities and allowances, the payment of lodging allowances to workers taking jobs away from their homes, and the payment of removal and settling-in costs for families. (These facilities might be available to employed as well as unemployed wishing to transfer from declining to expanding industries. Those who have managed to hold on to their jobs may be more suitable trainees than the less efficient or perhaps older workers who have become unemployed).

32. Mobility may also be increased by reducing disincentives. A pension fund run by particular firms tends to tie a man to a particular job. Greater mobility would result if claims to pensions could be transferable from one fund to another. A state pension scheme, by offering competition, might reduce the effect of these private schemes.

III SOCIAL SECURITY AND THE VOLUME OF EMPLOYMENT

33. Any system of social security may have far-reaching effects upon the volume of unemployment, not only by affecting the mobility of labour and the willingness of the unemployed to work, but also by affecting the demand for labour. In particular the payment of unemployment benefit on the most generous scale compatible with a preservation of the mobility of labour and of the willingness of labour to work will preserve the purchasing power of the workers if a trade depression starts to develop and will thus mitigate the severity of any such depression.

34. A social security fund from which benefits are paid and into which the proceeds of a regular and frequent levy (such as the weekly contributions of employers and employees) are paid has certain distinct advantages in helping to stabilise the general demand for labour. The onset of unemployment will in this case involve not only a prompt increase in the expenditure of the fund but also a prompt decline in the receipts of the fund; and provided that no ill-informed

efforts are made to counteract this so as to keep the fund continually in balance, the borrowing of the fund in bad times and the repayment of its debt in good times will help to stabilise general demand. It is of the utmost importance in the post-war world that all stabilising devices of this kind should be used to the utmost. If therefore, the contributory principle is to be maintained after the war, it is worth while considering any devices which might reinforce its efficacy as a stabilising agent. It would be possible to vary the rate of employers' and employees' weekly contributions according to a sliding scale based upon a general index of the percentage of insured workers unemployed - the rates of contribution being automatically raised when unemployment was low and lowered when the unemployment was high. Such a device would increase the rate at which the fund repaid debt or built up reserves in times of low unemployment and at which it depleted its reserves or increased its debt in times of bad trade. The reduction of the rates of contributions of employers in bad times would help to stimulate their demand for labour; and the reduction in the rates of employees' contributions would increase their purchasing power over goods and services and thus indirectly stimulate the demand for labour. It is estimated that at the rates proposed in S.I.C.(42) 33 total post-war contributions would amount to more than £230 million a year. If these rates could be applied when the unemployment percentage was 5 per cent. or less and could be gradually and automatically reduced - (and replaced, if necessary, by increased state contributions) - until they were at merely nominal rates when the unemployment percentage was 10 per cent. or more, a very considerable stabilising influence might be exercised.

35. From the point of view of social insurance, alone such a device might be open to certain objections, since it would lead to some administrative complications and would modify the simplicity of fixed weekly rates of contribution. The general economic advantages of such a device are, however, very great. It is possible to attempt to stabilise by the proper timing of public works expenditure, and it is to be hoped that this will be done after the war. But capital expenditure of this kind is difficult to turn on and off promptly. It is possible to attempt to stabilise general demand by reducing (e.g.) income tax rates in periods of bad trade and by raising them in periods of good trade. The rate of income tax can, however, normally only be changed once a year, and the tax is collected at an appreciably later date. There is thus bound to be a considerable time lag between the onset of unemployment and the effect of any consequent change in income tax. But in control of trade fluctuations prompt action is greatly to be desired, since much trouble may be avoided if a trade depression can be stopped from developing into a spiral of deflation. Compulsory employers' and employees' contributions to social insurance constitute one of the very few, if not the only, form of tax or compulsory levy which not only raises a considerable aggregate amount but is also collected at frequent and regular intervals and should, therefore, be capable of prompt and automatic adjustment to variations in the state of trade activity.

SUMMARY .

36. It is estimated that on the basis of the proposed extensions of social security, total public expenditure in the early post-war years is likely to be some 32 per cent of total taxable incomes. This percentage is about midway between the pre-war ratio of 25 per cent between current accruing revenue and total taxable incomes and the 1941 percentage of 40 per cent. (Paragraphs 4 - 8).

37. In order that this may not lead to intolerably high post-war rates of taxation, it is desirable to effect any possible reduction in the national debt, and it is essential to ensure that widespread unemployment does not re-appear and that the national income is maintained at a high level. (Paragraph 9).

38. Later post-war years will be marked by a very considerable rise in the number of old age pensioners and by a reduction in the number of children and of young workers. This will lead to a very considerable rise in the burden of old-age pensions; while, at the same time, there will be great need to reduce the economic burdens of parenthood. These facts suggest that social security benefits which improve the position of the young should be greatly stressed and should not be overweighted by those which benefit the old. (Paragraphs 10 - 14).

39. It is to be hoped that this increased burden of old-age pensions will be accompanied by a progressive rise in the national income due to continued technical improvement. (Paragraph 15).

40. Social security benefits represent income transferred from one set of persons to another; they have a stabilising effect upon the economy; in many cases they represent merely a socialisation of existing private expenditure, often at a reduced real cost; and a considerable part of their expenditure is financed by social security contributions. These facts should be borne in mind in considering the extent to which they are in any real sense a burden on the community. (Paragraphs 16 - 17).

41. Employers' contributions to social insurance are a compulsory levy on the number of persons employed and may thus be expected to reduce the demand for labour. It is possible that an alteration in the basis of this contribution - by the substitution of a dismissal's charge, the graduation of the employers' contribution according to the length of contract given to the employee, or the substitution of a small levy on profits - would help to avoid this danger. (Paragraphs 21 - 23).

42. The state's contribution comes out of general revenue, and the post-war basis of general taxation should be considered in order to determine whether forms of taxation may be devised which have less adverse effects upon incentives. (Paragraph 24).

43. The payment of benefits - particularly if due weight is given to benefits which improve the position of the young and if measures are taken to see that the payment of benefits do not discourage the recipients from working, - may be so arranged as to improve the health, welfare and productivity of the community. (Paragraphs 25 - 26).

44. There will be special need after the war to promote the mobility of labour; and it is argued that the payment of universal children's allowances might do much to promote this end. Beyond this, improvements in mobility must depend upon improved organisation of the labour market, of which improved facilities for, and inducements to training are an important example. (Paragraphs 28 - 32).

45. The finance of social security may be used as a stabilising influence in the economy, provided that no ill-informed measures are taken to keep the social insurance fund continually in balance. Moreover, it is a matter for consideration whether positive measures should not be taken, by lowering the rates of contributions in periods of unemployment and by raising them in periods of active trade, to extend still further the usefulness of social insurance as a stabilising influence. (Paragraphs 33 - 35).

Great George Street, S.W.1.

16TH JUNE, 1942.

STATISTICAL ANNEX.

1. This Annex shows the detailed working of the calculations of Transfer Payments etc. used in this Memorandum.

I.

2. Table I shows the transfer payments made in 1938 and 1941 which would fall within the scope of the Social Security Scheme outlined in S.I.C.(41)20, together with comparative figures based for 1944 on S.I.C.(42)33.

- (a) The S.I.C.(41)20 proposals postulate a National Health Service and a scheme of Children's Allowances as a preliminary to the Social Security Scheme but not part of it. Some allowances on account of children are included against Widowhood and Unemployment for 1938 and 1941 which would be excluded under S.I.C.(41)20. (This applies also to item (11) in Table II below).
- (b) Supplementary pensions in 1941 amounted to £25 m. If Pension rates had been at the S.I.C.(41)20 level in 1941, the Supplementary Pensions account would have been £18 m. less, and the difference included in the Pensions figures. For 1941, therefore, £18 m. has been added to the £108m. of Pensions against items (3) and (4) and only £7 m. recorded against item (10) in Table II below.
- (c) Pensions under S.I.C.(41)20 are estimated at £251 m. for 1941; £285 m. for 1951 and £307 m. for 1961, mainly due to the increase in the total population over 70. For 1944, therefore, £11 m. has been added to the estimate of £229 m. representing Old Age Pensions at S.I.C.(41)20 rates in 1941.
- (d) Unemployment in S.I.C.(42) 33 is assumed to be 8½ per cent with a consequent cost in payments at the S.I.C.(41)20 level of £65.4 m. in Unemployment Benefit and £18.7 m. in Unemployment Allowances. These figures have been proportionately reduced to £38.5 m. and £11 m. respectively (cf. item (11) of Table II below) on the assumption that unemployment is only 5 per cent. . The consequences of any higher figure are discussed in paragraph 4.

TABLE I

		£ Millions		
		1938	1941	1944
C	(1) National Health Service	13	12	34
	(2) Childhood	-	-	99
O and M6	(3) Old Age	94	126	240
M4 and M5	(4) Widowhood	-	-	22
U and M3	(5) Unemployment	52	9	38.5
D and M2	(6) Disability, Invalidity and Maternity	22	20	57
F and M8	(7) Funeral	-	-	12
L and M7	(8) Loss and Housewife's Incapacity	-	-	1
Sum of (3) to (8)		168	155	370.5
(9) Furnishing		-	-	2.5
Total of (1) to (9)		181	167	506

3. Table II shows the transfer payments outside the scope of S.I.C.(41)20 and the grand total of all transfer payments.

- (a) The figure for War pensions and service grants is necessarily somewhat arbitrary. The assumptions in its calculation are that 1914-1918 war pensions remain at their present level; that present war pensions increase at present rates to £12 m. and that service grants fall to zero.
- (b) Outdoor relief has been reduced to half its present amount on the assumption that the other half will be embraced in the proposed Social Security Scheme.
- (c) The estimates of National Debt and National Savings Certificate interest are made by the Treasury.

TABLE II.

£ Millions

	1938	1941	1944
(10) Supplementary pensions	-	7	7
(11) Unemployment allowances	35	5	11
(12) Evacuation and wartime distress	-	28	-
(13) War pensions and service grants	38	44	44.5
(14) Outdoor relief	23	13	6.5
Sum of (10) to (14)	96	97	69
(15) National Debt interest and interest on National Savings Certificates	222	273	450
(16) Total from Table I	181	167	506
Grand Total	499	537	1025

4. With the adoption of S.I.C.(41) 20 together with increases in National Debt interest, in interest on National Savings Certificates and in War pensions consequent upon the war and with unemployment no greater than 5 per cent., transfer payments would be likely to total about £1,025 m. in the post-war period as against £499 m. in 1938.

- (a) Payment of interest on the National Debt etc. would constitute approximately £450 m. of this total. If means were found in the immediate post-war period for liquidating part of the National Debt this item would be correspondingly reduced.
- (b) On the other hand, the £575 m. of social security payments (compared with £277 m. in 1938) include only a minimum allowance of 5 per cent. for unemployment. With any increase in unemployment above 5 per cent., this part of the total would be raised at roughly £10 m. for every 1 per cent. extra of unemployment.
- (c) With 5 per cent. unemployment, all but £69 m. of the social security payments would fall within the S.I.C.(41)20 scheme. On the assumptions of S.I.C.(42)33, for every 1 per cent. of unemployment above that amount, approximately £7½ m. would be added to the costs of the S.I.C. scheme and £2¼ m. would fall outside it.

II.

5. The net national income in 1944 with prices 30% above 1938 and with unemployment no greater than 5 per cent. of the labour force may be estimated at £6,500 m. If the total of transfer incomes is added to this sum the result gives the total sum of taxable incomes likely to be available in 1944, i.e. £7,525m. Transfer incomes would, therefore, represent some 13½ per cent. of total taxable incomes and total social insurance and assistance payments some 7½ per cent. Table III shows the comparable figures for 1938 and 1941 and the percentages of total taxable incomes which they represented.

TABLE III

	1938		1941		1944	
	£m.	%	£m.	%	£m.	%
(1) National Debt interest and interest on National Savings Certificates	222	4.4	273	4.0	450	6.0
(2) Social Insurance and assistance payments	277	5.4	264	3.8	575	7.6
(3) Total transfer payments	499	9.8	537	7.8	1,025	13.6
(4) Net national income	4,595		6,338		6,500	
(5) Total taxable incomes	5,094	100.0	6,875	100.0	7,525	100.0

6. A fall of 1 per cent in employment with an associated fall in other resources would reduce the national income, it may be estimated, by something like £60 m. Thus, with 10 per cent unemployment instead of 5 per cent, transfer payments would be up to £1,075 m. and national income down to £6,200 m. Transfer payments would then represent some 14.8 per cent of total taxable incomes and social insurance and assistance payments 8.6 per cent.

III.

7. Expenditure by public authorities on goods, services and subsidies was £848 m. in 1938. With prices 30 per cent higher and allowing some expansion in public authority expenditure in addition, a likely estimate for expenditure by public authorities on goods, services and subsidies in 1944 is something like £1,400 m. With 5 per cent unemployment this would give total public authority expenditure as just over 32 per cent of taxable incomes. With 10 per cent unemployment the figure would be 34 per cent. The offsetting of £233 m. in compulsory contributions* (S.I.C.(42) 33 estimate) would reduce these percentages to 29 per cent. and 31 per cent respectively.

* The actuarial contribution to unemployment insurance being on an 8½ per cent basis.

8. Table IV sets out ~~these~~ data for 1944 on the assumption of 5 per cent unemployment and the corresponding figures for 1938 and 1941. The method of raising the funds for this expenditure is also shown.

TABLE IV

	1938		1941		1944	
	£m	% of total taxable Incomes	£m	% of total taxable Incomes	£m	% of total taxable Incomes
(1) Current revenue ^φ	1,272	25.0	2,778	40.4
(2) Excess of current revenue ^φ over current expenditure	75	1.4	2,329	33.9
(3) Total current revenue and borrowing	1,347	26.4	5,107	74.3	2,425	32.2
(4) Transfer payments	499	9.8	537	7.8	1,025	13.6
(5) Expenditure on goods, services and subsidies	848	16.6	4,570 [*]	66.5	1,400	18.6
(6) Total current expenditure	1,347	26.4	5,107	74.3	2,425	32.2
(7) Total compulsory contributions to social insurance	108	2.1	130	1.9	233	3.1
(8) Total expenditure less compulsory contributions to social insurance	1,239	24.3	4,977	72.4	2,192	29.1

^φ Including the excess of current tax liabilities over current payments.

^{*} Including claims under Marine and Commodity War Risks Insurance Schemes and War Damage Act.