John Maynard Keynes
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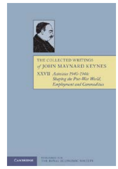

THE BEVERIDGE REPORT

In June 1941, after pressure from the Trades Union Congress, Mr Greenwood, the Minister without Portfolio, announced in the House of Commons that he had arranged for a comprehensive survey of existing schemes for social insurance and allied services by an inter-departmental committee under the chairmanship of Sir William Beveridge. The survey of existing schemes was essentially complete by September, but owing to other commitments Beveridge did not then give his full attention to the problems raised by the survey. When he did so, he began to develop a comprehensive scheme going beyond the improvements in administrative detail that Ministers had expected. This put the officials on the committee in a difficult position, for being civil servants they could not sign a report, without consulting their Ministers and having them answer questions that would be asked of them later. If they did consult their Ministers and then signed a report, they would commit their Ministers individually and, given the number of departments involved, the Government, before the report was completely available. As a result, the Treasury successfully managed to reconstruct the committee so that the departmental officials became technical advisers and any eventual report became the sole responsibility of the chairman who would sign it alone.

As the reconstructed committee moved beyond its departmental enquiries, receiving evidence from outside bodies, Keynes became involved in several ways. Initially his contacts were with Beveridge himself, who sent him in March 1942 two memoranda outlining the heads of a possible scheme and the problems it would solve and his list of principal questions. After a formal acknowledgement that the subject was fascinating and a failure to keep a lunch engagement on 9 March, Keynes replied

To SIR WILLIAM BEVERIDGE, *17 March 1942*

My dear Beveridge,

I am very sorry to have to put off our lunch. But I had a minor infection, now got rid of, which led me to stay away from the office last week. This week I have been so busy that I have not cared to suggest a meeting. But could we meet next week. What about lunching with me before the Council Meeting of the R.E.S. on Monday, the 23rd, say at 1 o'clock, at the United University Club? We must lunch early if we are to have a talk, since the Council is called for 2.30. Meanwhile, let me say that I have read your Memoranda, which leave me in a state of wild enthusiasm for your general scheme. I think it a vast constructive reform of real importance and am relieved to find that it is so financially possible. From rumours which had previously reached me, I feared that it was much more expensive.

My only comments, prior to our conversation, are on the following points of detail:-

(1) Unless I have misunderstood you, you are not making any adjustments for changes in the post-war value of money, though whether you are dealing in pre-war values or current values I am not quite sure. Obviously some appropriate adjustment will have to be made in all the figures, both of contributions and of benefits. But I suggest that this may give an opportunity for adjustments. It is much easier to leave a benefit where it is than to decrease it. Thus, in any case in which benefits are a little higher than the merits of the case require the adjustments might be less than in proportion to the change in values, thus leaving more money over for adjustments greater than the change of values in other cases. As a matter of drafting, the whole question of adjustments to the value of money needs perhaps to be made a little clearer. It is also important to make it clear, I think, that it is not intended in future to have frequent adjustments of this kind or put the benefits and the contributions on a cost of living sliding scale, but only to make such adjustments when there have been major disturbances as, for example between pre-war values and probable post-war values.

(2) If the scheme, one way or another, is so expensive as to be too severe a burden on the Budget, I do not think there will be anything wrong in principle in charging only current pensions on the year's outgoings and not setting aside accumulations to meet prospective pensions. It is a severe burden to

meet simultaneously pensions against which no funds have been accumulated and to accumulate funds for future pensions. The future can well be left to look after itself. It will have more resources for doing so than the immediate present. It might be interesting to have a calculation made as to how much money would be saved if the fund is charged only with pensions currently payable and is not called upon, at any rate in the early years, to accumulate against prospective liabilities. Otherwise, we put the maximum financial burden on ourselves when we can least support it, and at some later date, when the funds have been duly accumulated, the contributions will diminish.

(3) I am very keen on your proposed dimissal tax. But the details need a good deal of thinking about, especially the relationship to short-time. I should have thought the outright dismissal tax might be a good deal higher than you are suggesting. Where a man is temporarily laid off the employer might be asked to contribute say 5*s*, for any week in which he is laid off for two days or more. However, as I have said, the details of this need a good deal of thought,—more than I have given it so far.

(4) I feel you have been a little weak-kneed about voluntary industrial insurance. I should like to be much more drastic about this, thereby releasing substantial working-class funds. Indeed, I should like to see the new state fund take over employers' liability insurance by employers and industrial insurance by employed. I agree with you, on the other hand, in wanting to encourage Friendly Societies and similar organisations by which a man makes provision for more than his minimum relief in cases of sickness or disability.

Yours ever,

J. M. KEYNES

Keynes did have lunch with Beveridge on 23 March.

There matters rested for the time being. However, Keynes seems to have retained an interest, for, after looking at some of the papers circulated on the matter, Keynes also became involved in discussions with James Meade over the finance of the scheme.

To J. E. MEADE, *8 May 1942*

My dear James,

I should like to have a talk with you and Robbins about Beveridge's social insurance proposals. Will you ring up on Monday morning and fix a time? I do not look like being unduly occupied either on Monday or Tuesday—afternoons or early evenings.

Personally I am very much in favour of something on the lines of Beveridge's proposals, as I gather you are. My *prima facie* comments on one or two of the points you deal with in your paper are the following:

(1) I agree in theory that employees' and employers' contributions towards social insurance are inferior to a charge on general taxes. On the other hand, it seems to me essential to retain them, at any rate in the first stages of the new scheme, in order that the additional charges on the Budget may not look altogether too formidable. I think that Beveridge reached a very fair compromise in this respect by providing materially increased benefits whilst leaving the contributions broadly speaking at their present figure. I am sure it would be a mistake to aim at getting rid of the contributions, if one wants the thing to happen in the early post-war future. Proposals for abolishing or materially reducing them would only be in place after the post-war Budget problems had been satisfactorily solved and there is a margin of taxable capacity to dispose of.

(2) There are, I think, narrow limitations to the plan for stabilising consuming capacity in dealing with depressions, which are due to fluctuations in investment demand. One can prevent perhaps an aggravation of the falling off in effective

demand by stabilising consumption, but that is the best one can hope for.

(3) I am very much attracted by Beveridge's proposal for dismissal charges. In so far as the employers' contribution can be collected in this way, it would not run counter to the considerations I have mentioned under (1) above.

(4) I doubt if there is enough to be gained by fluctuating the rate of the contributions according to the state of trade. Quantitatively the effect would be hardly large enough to justify the complication. In your paragraph 15 you ought, I think, only to take credit for the employees' contributions in this context; I doubt if much would be gained by excusing the employers from their share. I do not dissent from the theoretical advantages claimed for the proposal, but I am a little doubtful about its quantitative efficacy.

(5) I agree with what you say about pensions and withdrawal from work. If, as is not unlikely, there is some sort of minimum wage provision, a good plan would be to diminish the amount of this minimum wage by a considerable proportion of pensions, thus allowing elderly people to be maintained in some form of usefulness at a rather cheaper cost,—corresponding to the lower rate of remuneration of juveniles.

I wonder if I could be put on the the circulation list for the E.C.S. papers. I often see them sooner or later, but they do not reach me by routine.

Yours,

J. M. KEYNES

Keynes met with Robbins and Meade on 12 May. The upshot was that the Economic Section went back to revise their proposals. When Keynes received the revised draft, he wrote to Meade.

To JAMES MEADE, *16 June 1942*

My dear James,

Over the weekend I read your revised draft on Social Security (E.C.S. (42) 14).

I am converted to your proposal in paragraph 30 for varying rates of contributions in good and bad times. If, under the Beveridge scheme, the amount involved is as much as £m230 a year, I agree there is something to play with. On the other hand, if 5 per cent is the minimum practicable rate of unemployment, this ought not, I should have thought, to be the dividing line. Something more like 8 per cent would be better as a standard with increasing contributions below that and fairly steeply declining rates above it.

I notice that *passim* in this document you have adopted the figures of £m6,500 for the national income, etc., appearing in the first draft by Stone and myself, copies of which were sent to you and Robbins. Please remember that this is only a draft and is at the moment a matter of high contention. Thus, this paper of yours should not perhaps receive wider circulation with these figures in it until the estimate of the Treasury document has been definitely agreed. I do not myself expect, when it all comes out in the wash, it will differ very materially from the present range.

Yours sincerely,

J. M. KEYNES

After the letter, the correspondence continued.

From J. E. MEADE, *17 June 1942*

My dear Maynard,

Many thanks for your letter of 16th June, 1942. I enclose a copy of the final version of our document on the economic aspects of the proposed reforms of social security. We are to give evidence to Beveridge's Committee on this subject on Wednesday, 24th June at 2.30 p.m.; and I do hope that the Treasury may be strongly represented at the Committee on this occasion.

The final version of our document was circulated to the members of the Committee yesterday before I received your letter. We are taking full responsibility for the figures of national income etc. in our document, and are putting the post-war estimates forward as our own guesses; and if the Treasury, at a later stage, submits that we have erred in our guess, I do not feel that this need cause any embarrassment. We have not suggested, and certainly shall not suggest, that the Treasury is responsible for our post-war figures. As a matter of fact, we have made it clear on page 3 (paragraph 9(*c*)) that we consider the figure of the post-war national income to be very uncertain. As the numerical example in that paragraph shows, the effect of a change in the estimate of the post-war national income is quite surprisingly small; and I do not think that any probable revision of this figure would greatly alter the line of our argument and conclusions.

I am glad to hear that you are in agreement with the proposal for varying rates of contributions in good and bad times. Our proposals in this connection are still very vague; and what I am hoping is that we may be asked by the Committee to formulate them a little more precisely. It seems to me personally that the rate of contributions should be capable of quarterly adjustments. The application of the scheme might take, I feel, either of two main forms. (i) Assuming 5 per cent to be the lowest practicable rate of unemployment, 'normal' rates of contribution for employers and employees would be fixed which (together with normal state contributions) balanced the fund at say, 8 per cent unemployment. Higher rates of contribution would be fixed on an increasing scale for unemployment between 8 and 5 per cent and on a scale decreasing to practically zero between 8 and, say, 12 per cent or more. In this case the idea would be that the fund would balance over an average of good and bad years. (ii) I, at present, favour a second alternative, which is to make the fund balance at the lowest practicable rate of unemployment of, say, 5 per cent. This is then considered to be the 'norm'. Rates of contribution are not raised above this level in any circumstances; and other measures must be used to prevent excessive booms. Employers' and employees' contributions are, however, levied on a scale declining to practically zero as unemployment rises to, say, 12 per cent. In order to maintain the balance of the fund, *special* state contributions are made to the fund from time to time to make up for the difference between the actual amount of employers' and employees' contributions and the amount which would have been so collected at 'normal' rates of contribution.

Yours sincerely,
[copy initialled] J.E.M.

To J. E. MEADE, *18 June 1942*

My dear James,

Thank you for the final version of your document on the Beveridge schemes.

In reference to your last paragraph, I much prefer (i) to (ii). It seems to me that it would be a great mistake to start the unemployment fund on the basis on which it was avowedly insolvent from the start, when the rest of the scheme would be already putting such heavy burdens on the Budget. I should have thought that this would greatly prejudice the prospects of the general idea you have in view.

Yours sincerely,

J. M. KEYNES

From J. E. MEADE, *19 June 1942*

My dear Maynard,

Many thanks for your letter of June 18th. I have been considering further this question of the variation of social insurance contributions with the state of trade activity; and I have come to the conclusion that I was confusing two problems in my letter of June 17th.

(1) Suppose that the total contribution per man employed required to balance the fund is 6*s* a week. This may be split into three equal contributions of 2*s*, payable by state, employer and employee. We may then apply the principle of variation of contribution according to the state of trade activity in either of two ways: (i) We may rule that the state contribution should stay constant at 2*s* and that the employers' and employees' contributions should rise above 2*s* when unemployment was less than, say, 8 per cent, and should fall below 2*s* when unemployment rose above 8 per cent. By a correct choice of sliding scale, we could hope to keep the fund in balance; but this would always be a matter of uncertainty which might upset those who thought it of great importance to keep the 'insurance' fund in balance in the long run. (ii) We would, however, rule that as employers' and employees' contributions rose (fell), so the state's contribution fell (rose) in such a way that the total contribution remained constant at 6*s* per man insured. In this way the introduction of the sliding scale could not at all affect the balance of the fund, and the uncertainty would all rest upon the amount of burden that, over an average of good and bad years, would fall on the state. I feel

that this type of arrangement might have certain advantages in so far as it was desirable to preserve the 'insurance' character of the schemes.

(2) I now see that the above choice is really quite independent of the choice as to the absolute level, on an average over good and bad years, of the state's contribution as opposed to the employers' and employees' contributions. If it is desired on an average of years to get the total contribution to fall in equal thirds on each of the three parties, under both 1 (i) and 1 (ii) it will be necessary to choose sliding scales designed for this purpose. The distinction is that if the choice is not correctly made, under 1 (i) the surplus or deficit will accrue to the insurance fund, while under 1 (ii) the state alone bears the risk of a miscalculation of the sliding scale. Either of the alternatives under 1 could be so devised that, over an average of years, the state bears any required percentage of the total cost of the benefits.

What I had in mind, I think, was that I would prefer 1 (ii) to 1 (i), if it is administratively practicable.

Yours sincerely,
[copy initialled] J.E.M.

After the Economic Section draft had gone to the Beveridge enquiry it was the subject of some discussion in the Treasury. After a meeting with Keynes on 25 June, Meade wrote to Keynes.

From J. E. MEADE, *25 June 1942*

My dear Maynard,

I am writing this letter (as a purely personal one which does not in the least commit Robbins or any other member of this section to any particular view), as a result of the conversation in the Treasury last Tuesday on our document on Beveridge's social security proposals. I wanted to take the opportunity of seeing what you would think of certain points which, on consideration, I should like to raise as a result of that discussion.

1. I agree that in certain ways, particularly in the drafting of the summary, our document probably gave an over-optimistic emphasis, although most of the points of substance are in fact introduced at one point or another in the text of the document. I agree that our document was at fault in failing to point out that the 'revenue' of 1941 included E.P.T. and N.D.C., income tax levied against deferred income-tax credits, and premiums and contributions for war risks insurance and war damage; and we should, I agree, have investigated how far the removal of these charges would have brought the revenue down to the necessary level (although I would deprecate any form

of words which suggested that the removal of such charges did not in fact represent a very considerable reduction of tax burdens!). We made these points very clearly and with great emphasis when we gave evidence to Beveridge; and I think that we must have removed any misapprehensions to which the drafting our our document may have given rise. We have promised to produce for him a revised version of that part of our document, and we shall consult the Treasury on this when we have had time to prepare a draft. We also made it very clear to Beveridge, in conversation, that as a result of uncertainty regarding the post-war world, we thought his proposals should be made in an order of priority, and not in a form which implied that they must all be accepted or all be applied at the same time.

I would, however, on this point, like to suggest that, for a number of reasons, the arguments presented to us at the Treasury last Tuesday were over-pessimistic.

(*a*) Has it not been forgotten (e.g. in the minute of Brittain to Gilbert which you gave to us) that if you remove E.P.T., N.D.C. and war risks insurance premiums (commodity and marine), just so much more income is liable to income tax and surtax? With income tax at 10*s* in the pound and with present rates of surtax, I should have thought that one was faced with a very much smaller net loss of revenue from these sources than was suggested to us.

(*b*) I have a feeling, if I may say so, that the Treasury was 'trying to have it both ways' on the subject of interest on the national debt in our conversations last Tuesday. A very large part (some £230 million) of the increase in total public expenditure for which we made allowance in our document between 1938 and the post-war period, was an increase in interest on the national debt. Surely at present rates of income tax, surtax and death duties, a very large proportion of this should represent an automatic increase in revenue. I don't think that Brittain's minute to Gilbert makes any allowance for this fact; and yet when one raised the question of relieving the position by a capital levy (of which more anon), one was met by the answer that it wasn't worth while as practically the whole of the gross savings would be taken up by a reduction of revenue.

(*c*) The transition from a war-time to a peace-time economy will be one in which personal consumption (sooner or later) represents an appreciably increased proportion of the total national expenditure. It must be remembered that indirect taxes on consumption will for this reason automatically increase at current tax rates and without any inflation of the national income. I have in mind particularly purchase tax, motor-vehicle duties, petrol duty, and certain import duties, although it may well be that more will also be spent on drink and tobacco. I do not think that Brittain's minute makes any allowance for this development.

(*d*) A small point. May not the Government end the war in ownership of quite considerable amounts of property of one form or another, from which it may be able to receive either an annual income or a lump sum with which debt can be diminished? I do not stress this, as I imagine that its numerical importance may not be great.

2. I would very much like to take up with you this question of a capital levy. I do not wish to dispute (e.g.) Hicks' arithmetic about a capital levy. But there are two points which I should like to add, and both of which seem to me to be of major importance.

(*a*) As I understand it, the reasons why the net saving from a levy is small is that both income taxation *and* the levy are extremely progressive. I very much favour the idea of very progressive income taxation and very much less progressive (or even proportionate) taxation on wealth. This seems to me to be in line with the views which you were putting forward on an annual tax on capital. In short, I feel that we ought to be prepared to consider the merits of a less progressive post-war capital levy.

(*b*) The reduction of debt which results from a progressive capital levy may considerably lessen the disadvantageous 'incentive' effects of a given level of rates of direct taxation, even though it does not result in any great net saving to the budget at the given level of rates of direct taxation. From the point of view of incentives, the important question is what are the average and, above all, the marginal rates of taxation which workers, 'enterprisers' and 'investors' have to pay on their earnings? The capital levy will give only a small net budgetary saving only in those cases in which *both* the levy *and* direct taxation of income are very progressive. But it is precisely in this case that the average and marginal rates of direct taxation on the rich will be reduced significantly (without any reduction in the existing schedule of taxation), because the levy will move the rich down from higher to lower tax brackets. I do not think that the utility of a capital levy of a given degree of progression can be judged solely from figures of the net saving to the budget. What is also wanted is a table of figures giving (at pre-levy rates of direct taxation) the distribution of taxable income before and after the levy among different levels of marginal rates of taxation. For example, we should find that, whereas before the levy x per cent of the taxable income of the community was subject to marginal rates of direct taxation of, say, more than y shillings in the pound, after the levy with the same schedule of taxes only x–z per cent of total taxable income would be subject to such high marginal rates of taxation. Is it not worth while initiating such an investigation?

I would like to put my views on a capital levy rather more generally in this way. (I hasten to add that I do not put what follows forward as my ideas on a practical policy for the immediate post-war years.) Let us suppose that, owing to a high level of public expenditure which we consider for obvious reasons to be very desirable, we reach a state of affairs which involves such high rates of taxation as to involve really serious 'incentive' effects on the community. Apart from abandoning the desired level of expenditure, there is only one form of relief that I can see,—namely the socialisation of property so that some part of the income from property can go 100 per cent to the state without involving high rates of taxation elsewhere. If one wants to do this without raising the question whether socialisation of property is desirable on other grounds, then one should go out for the socialisation of rentier property where income from property is mixed up as little as possible with income from work and enterprise. Clearly one would start with the national debt on these principles. I would, however, reveal that my personal El Dorado is one in which not only has the national debt disappeared; but the state also owns a considerable amount of other property (? railways, agricultural land, public utilities), from which—together with moderate but fairly progressive taxes—it raises revenue for a large volume of public expenditure.

3. Finally, I think, that we should investigate the possibility of finding other forms of taxation which have less adverse incentive effects than very high income taxes; and in this connection an annual tax assessed on capital seems to me to be one of importance. I felt, therefore, very much in sympathy with what you said on this subject. But does not this suggest that an enquiry into national capital (e.g. value, types of property, types of owners, etc.) almost as extensive as Dick Stone's present National Income Enquiry is wanted?

Yours sincerely,

[copy initialled] J.E.M.

Keynes replied on 30 June, at the same time sending a covering note on the exchanges of letters to Sir Richard Hopkins.

To J. E. MEADE, *30 June 1942*

Dear James,

Your letter of June 25th on the Beveridge proposals.

I agree with you that we have not yet got final or reliable estimates on either side of the balance sheet.

On the credit, i.e. revenue, side I agree that we have to take account of the points you raise in 1 (*a*) and (*c*). But I should have to look into it more deeply to know just how much adjustment has to be made. As regards (*a*) there is danger of counting it twice, since in alleging that we can get through after the war without any significant subsidies to stabilise prices, we are already taking credit for the absence of the War Risks Insurance premiums as one of the reasons why there is a margin on the price front. (*c*) clearly takes one into the realm of guess work.

As regards your point in (*b*) no negligible part of the national debt takes the place of genuine assets which have been vested or sold and does not represent an increase of taxable income. The rest of the increase in taxable income ought to be taken account of in our figures of post-war national income. I think this has been done. But, whilst you are right that this part of the increase in taxable income is a good yielder of tax, some other parts are of the opposite character, and I should have doubted whether, on balance, there was much to take credit for.

I should like to put off discussing the capital levy issue at present. But there is one point perhaps worth making at once. One of the reasons in favour of a capital levy is that it might enable a level of taxation which was better from the point of view of incentive. But this is only the case if the proceeds of the capital levy are used to reduce other direct taxation. In so far as it is used to finance further social reforms, we are certainly no better off as regards incentives.

Turning back to the Beveridge proposals, we ought, I think, to be able to reach a rather closer balance sheet with a little more work.

Yours,

J. M. KEYNES

To SIR RICHARD HOPKINS, *30 June 1942*

Although Meade calls the letter of his below purely personal to me, I am sure he would not mind your seeing it. So I pass it on with my rejoinder.

As I have said in my last paragraph, I think we can get closer to this with a little more work. But my present impression is that some of the figures in your note to the Chancellor go too far. I should feel much more inclined to stress the point of not counting too many chickens before they are hatched, whilst holding out reasonable hopes that, if all goes well, we could manage to do a great deal.

Take our recent discussion about the size of the post-war national income. Stone and I guessed it as £m6,500 ± £m200. Henderson thinks even the lower limit of £m6,300 too high. Since we are talking of 1946 or later, Stone and I would not be at all surprised at its reaching the higher figure of £m6,700, at any rate after a short time lag, and increasing thereafter by £m100 a year or more, measured in terms of prices 30 per cent above 1938. Now it will make all the difference in the world which of these forecasts turns out right. With a national income rapidly approaching £m7,000, we could afford all kinds of things which would be impracticable at £m6,500. For the purpose of progress it is the marginal £m500 which counts.

Now I think it would be the greatest mistake in the world to be too pesimistic about our approaching £m7,000 in a reasonably short time. But that does not prevent me from feeling that to commit ourselves here and now or in the near future to what we could only afford on the assumption of a national income comfortably in excess of £m6,500 would be very imprudent.

When considering how far the Beveridge scheme lends itself to several stages, I should be interested to know whether I should be right in supposing that it makes a great difference to give the higher pensions to those who have not paid for them in their contributions or to require that, at any rate, they should have contributed for (say) five or ten years before becoming eligible. Some provision of that kind might be very serviceable in giving us the necessary time lag. Thus contributions might be raised to a figure which takes account of a higher rate of benefit than is allowed forthwith to those who have not in fact parted with the higher contributions either at all or, at any rate, for a minimum number of years.

Look at it in this way:

	£m
Pre-war tax contribution raised to correspond to prices is	170
Family allowances, which is more or less inevitable anyhow	100
	270
Balance of cost of Beveridge Proposals (680 – 270)	=410
Contributions from employers and employed as proposed by him	=310
Deficit	100

If Beveridge economised £m100 on pensions, he would have a pretty plausible tale to tell. He asks nothing from the Budget proper except £m100 for family allowances. Employees contribution is balanced by benefits to be received. The increase in employers' contribution would not add above $1\frac{1}{2}$ per cent to costs.

[copy initialled] J.M.K.

On 30 June, Meade sent Keynes an even more detailed version of his Beveridge scheme for variations in the rate of social security contributions, as well as another memorandum on the post-war use of deferred income tax credits to stabilise demand, which he had drafted simply to try the idea on others. To these, Keynes replied

To J. E. MEADE, *1 July 1942*

My dear James,

Thanks for letting me see the more detailed version of your schemes for varying the rate of social security contributions. As I said before, I am converted to the general principle of this. It does not seem to me to present any particular difficulties in working out, and this is made obvious by your scheme, which is quite a simple one. I can express no opinion on the question of administrative difficulties, but I should not have supposed that these could be insuperable, and are perhaps better left for the special experts on those matters to carry out in detail.

But the main point is that you are able to show fluctuations in income of an order of magnitude which is significant in the context. Indeed, I think you might have expressed your argument more strongly in the first section. So far as employees are concerned, reductions in contributions are more likely to lead to increased expenditure as compared with saving than a reduction in income tax would, and are free from the objection to a reduction of income tax that the wealthier classes would benefit disproportionately. At the same time, the reduction to employers, operating as a mitigation of the costs of production, will come in particularly helpfully in bad times.

Your second paper on the use of post-war income tax credits for the same purpose is interesting and might be useful. But I should keep it in reserve for the time being. It is not so good, I think, as your other proposal, which is quite big enough an experiment along these lines until we have more experience, both of what is needed and of what is practicable.

Yours ever,
J. M. KEYNES

By this time, as a result of the internal discussions hinted at in Keynes's covering note on his letter to Meade of 30 June,[1] it appears that the Treasury was worried by the financial implications of the Beveridge proposals. As a result, Meade was warned that his revised scheme for varying social insurance contributions had best be kept separate from Beveridge.

[1] See also below pp. 219–22.

To J. E. MEADE, *3 July 1942*

Dear James,

Thank you for sending me the final version of your paper on variations in the rate of social security contributions. I take it that, at the present stage, this is a document for purely domestic circulation. I note that in your covering paper you speak of it as part of the further draft for Beveridge. As you will probably have heard from Robbins, Hoppy had a word with him yesterday to the effect that this scheme will have a better chance if, for the time being, it is kept separate from the main Beveridge discussion.

Yours,

J. M. KEYNES

Given the developing Treasury worries over the Beveridge proposals, Keynes attempted to get a copy of the scheme from its author.

To SIR WILLIAM BEVERIDGE, *25 June 1942*

My dear Beveridge,

Can you spare me a copy of the authentic latest version of your proposals? Copies seem very scarce in this building. I have not had one in my possession long enough to know really what it is all about in the latest phase. On the other hand, I am receiving and having to deal with criticisms of it, which is awkward if one really does not know what is in the original.

From the criticisms made, I am rather alarmed lest it is being overweighted by the pensions part, for it seemed to me the least interesting and least essential of the whole.

Could you come to lunch with me again to talk it over? I suggest the Athenaeum on July 1st, at 1 o'clock.

Yours ever,

J. M. KEYNES

On 30 June, Sir Richard Hopkins wrote to Beveridge suggesting a discussion on the broader financial implications of the scheme in the context of reconstruction before he sent his proposals to the Departments for comment. Beveridge agreed readily to the suggestion. As a result he met Keynes on 6 July and had lunch with him the next day. After the second meeting Keynes minuted.

To SIR RICHARD HOPKINS, *7 July 1942*

NOTES ON CONVERSATION WITH SIR WILLIAM BEVERIDGE

(1) Sir William Beveridge wants to circulate his Part IV[2] with the rest of the documents. But he proposes to modify that part of it dealing with the security budget so as to emphasise the tentative character of this and to indicate the possibility of a pensions scheme at much lower rates.

(2) He would like to circulate this to the Ministry of Agriculture as well as to the members of his Committee, because there is an important proposal about agricultural insurance, of which they have not yet heard and which should not be kept from them any longer.

(3) He expressed himself as conscious of being in need of guidance and informed criticism over the wider financial aspects of the scheme, as distinct from the departmental details. It was obvious that, apart from any other discussions that go on, he would welcome an informal committee on what he calls the social security budget, with whom he could talk things over and discuss generally the methods of bringing the scheme as a whole within the financial possibilities, such committee to consist of representatives of the Treasury, the Economic Section and the Government Actuary with no-one else.

(4) He is by no means opposed to an economy by which

[2] Part IV of the draft Report under discussion, entitled 'Social Security and Social Policy', dealt with children's allowances, a comprehensive health service, maintenance of employment, a separate social security budget and post-war aims.

children's allowance is only paid, at any rate to start with, in respect of children in excess of one. Indeed, I understood him to say that he himself was personally actually in favour of that. This would be all the more necessary if the amount of the allowance is greater than 5*s*. He told me that he was being pushed hard by the nutritional experts to raise it to 6*s* 3*d*. This, however, would be on the assumption that the Board of Education was doing nothing for children's meals etc. Thus it might still be possible to keep to 5*s*, supplemented by an extension of the Board of Education's activities in the nutritional direction.

(5) He has by no means closed his mind to pensions on a much lower scale, such as 15*s* single and 25*s* double. Indeed, he said that he had started with that sort of figure in mind himself. The higher figure is to produce uniformity with the other social security weekly payments, and in order to reach the alleged subsistence level. This subsistence level is admittedly based on the payment of a rent of 10*s*, on the pensioner having no savings whatever, no assistance from members of his family and no capacity to earn anything. He admitted that it was a matter for argument whether it was right to assume this as the normal situation. Where all these conditions were satisfied, the pensioner would probably have to have a supplementary pension in any case, just as he does now. Thus, the difference between the low and high scale of pensions would only mean that the scope for supplementary pensions would be larger or smaller. I do not think it would be difficult to persuade him to come down to the lower figure, which would make a vast difference to the financial side, since the 15*s* would compare with 26*s* assuming a price level of 30 per cent above 1937. The higher rate is, however, associated in his mind with the retirement conditions, the arguments for or against which I am not well acquainted with, but by which he is much attracted.

(6) He declared himself as definitely in favour of the principle that pensions should not be paid to those who have paid no

contributions and do not need pensions. He agreed that, if his own transitional arrangements were not practicable, either other transitional arrangements must be substituted or the proposal to give pensions to those who have not contributed should be dropped. Here again he is quite open, I am sure, to argument and modifications.

(7) It is evident that the above suggestions, namely those relating to family allowances, to the normal pension scale and to pensions for those who have not contributed, are capable between them of reducing the total cost by a very large sum indeed. This is all the more necessary if there is to be any talk about raising children's allowances to 6*s* 3*d* and in view of the uncertain cost of the national health service. Sir William Beveridge says that he is in no position to give any kind of reliable estimate at present of the latter, but he is sure that £35 million is far too low. It might be nearer £m100. All this goes to show that it is very important to get clear on the social security budget before opinion becomes crystallised on the various items making it up.

(8) I explained that the proposal for a sliding scale of contributions according to the state of employment was closely bound up with other proposals for off-setting the trade cycle, and obviously ran into the question of alternating between a sinking fund and a deficit on the budget. For this reason Sir R. Hopkins deprecated any extensive discussion of what was essentially a separate subject. Sir W. Beveridge said he would be content with the brief reference to this possibility which is in his present draft without seeking to amplify it or enter into the details.

[copy initialled] J.M.K.

Following the meeting, Beveridge circulated his draft Report for departmental comment, after revising Part IV to reduce the number of illustrative figures for the social security budget and to leave 'large numbers of cracks suitable for the insertion of Treasury wedges'.[3]

[3] Beveridge to Hopkins, 9 July 1942.

During the subsequent Treasury discussions, Sir Richard Hopkins circulated a note raising the question of the wisdom of maintaining the fiction of the fund principle, which in the past had linked contributions and benefits closely, and suggesting that the Beveridge proposals be treated for what they were, a scheme for social benefits financed in part by contributions from the potential beneficiaries but primarily by general taxation. On receiving this, Keynes replied

To SIR RICHARD HOPKINS, *20 July 1942*

THE BEVERIDGE PROPOSALS

I

Contribution or Tax. Intellectually and on its merits what you write is unanswerable. The fixed weekly contribution is a poll tax on the employed and an employment tax on the employer —both very bad kinds of taxes as soon as the amount is high enough to be significant. But the formal conversion of the contribution into a tax should have, unless it was purely formal, far-reaching consequences, in particular a reform of the income tax. I make a preliminary excursion into the field of these consequences in III below.

I hope that we shall soon be ready to accept such consequences. But it may be that this is to move too far ahead of the political and even of the administrative climate. If so, then there is more to be said than you have admitted in favour of accepting the existing fictions for the time being. I call attention to the following arguments in favour of the 'fiction' of a contributory system:

(i) There is something to be said for regarding the cost of social security as a genuine ingredient in the costs of production and, therefore, properly paid for (in part at least) by the employer as such, though a poll tax on numbers employed may be a bad technical method. This is particularly arguable in the cases of seasonal and cyclical unemployment, accident and industrial sickness benefits, but also even of pensions. Should not the employer meet the total cost of providing him with a healthy worker? If the unemployed were allowed to starve what would employers do when the demand for employment, seasonally or cyclically, increased again? Why should the general taxpayer pay for a pool of available dock labour? One can easily slip into a sophistry here—but there is *something* in it. The State does not meet the cost of repair, depreciation or care and maintenance of non-human machinery and other factors of production.

(ii) You imply that there is a deficit to be met by the State over and above a one-third contribution. Is this just to Beveridge? He excludes family allowances and health services from the fund. But contributions are to be such as to make the fund solvent on the basis of a 40 per cent State contribution when the scheme is fully operating and (presumably) a smaller State contribution meanwhile.

(iii) Here is a *de facto* source of revenue, accepted by the public as reasonable apart from the general corpus of taxation. Why merge it and risk losing its separate identity at a time when one needs every possible source of revenue?

(iv) It is politically impossible to release the employers from an *ad hoc* contribution and not the employed. Yet if both are transferred to general taxes, the employed will tend in the long run to escape their proper share.

II

The 'fund' also is, admittedly, to some extent a 'fiction'! Certainly it is not a fund in any actuarial sense. Nevertheless, it has, surely, most important advantages. We need to extend, rather than curtail, the theory and practice of extra-budgetary funds for state operated or supported functions. Whether it is the transport system, the Electricity Board, War Damage or Social Security. The more socialised we become, the more important it is to associate as closely as possible the cost of particular services with the sources out of which they are provided, even when a grant-in-aid is also required from general taxes. This is the only way by which to preserve sound accounting, to measure efficiency, to maintain economy and to keep the public properly aware of what things cost.

The social security budget should be one section of the capital or long-term Budget. It is important that there should be a level charge on the ordinary Budget revised at longish intervals; and if Mr Meade's proposals are adopted, it will be doubly important to keep it out of the ordinary Budget. For the ordinary Budget should be balanced at all times. It is the capital Budget which should fluctuate with the demand for employment.

But there are secondary reasons why the fund is in present circumstances a valuable fiction—to put it at the lowest. Firstly, we can hope to start with good employment and relatively low pension charges in the first quinquennium and accumulate a surplus. Extra-budgetary funds accumulating surpluses are exactly what we shall pray for in the early period. Secondly, the existing Funds will end the war with a large surplus which can be appropriately transferred to the new fund, but not so easily paid into the Exchequer.

No, I am all for an extra-budgetary social security fund. The suggestion that to express the full consequences of the Beveridge proposals in terms of additional taxation as such is the best way of bringing their cost home to the public, involves sacrificing administration and long-term efficiency to what is essentially a political and short-term argument (which would, very likely, not prove sufficiently convincing).

I suggest below that the right solution is to make not a step back, but another step forward.

III

The objection to the contributory system and the Fund is not really, I suggest, to the *principle* of contribution to a Fund, but partly to the particular method of a poll tax and partly to the inevitable inadequacy of the contribution so long as it is a poll tax. For everyone knows the objection to a poll tax of significant amount, which is unrelated either to profits or to earnings. But to have a better and more adequate contributory system leads us straight to a far-reaching reform of the income tax—which we all know is needed anyhow.

I venture a highly preliminary sketch below, without stopping to calculate whether or not the actual figures given (on a post-war basis) for the purpose of illustration, are anywhere near right. If we are not yet ready for something on these lines, then we had better keep to old-fashioned contributions on Beveridge lines, until we are.

In place of income tax, surtax and all existing or proposed social security contributions, substitute the following—

(1) *A Social Security Contribution* of (say) 2*s* 6*d* in the £ on all wages, salaries and Schedule D profits (before deduction of interest paid out), deductible at source, without any exceptions or any allowances.

(2) *A Corporation* (*or Profits*) *Tax* made up of (*a*) 2*s* in the £ on all interest paid out and profits divided or invested during the year outside the business, and (*b*) ¼ per cent annual capital tax on total capital invested in the business, beginning with an initial broad-brush valuation corrected annually by the addition of new gross investment in the business and the subtraction of depreciation and capital loss admitted by the Revenue. (Or if (*b*) is unacceptable or only practicable after a delay, substitute 3*s* for 2*s* under (*a*).)

(3) *A Property Tax* of 5*s* in the £ deductible at source from interest,* Schedule A income and income earned abroad (subject in the latter case to any agreements about double taxation).

(4) *A Personal Tax* on total taxed income from all sources (i.e. income after deduction of above taxes) with certain concessions to married men and bachelors with dependants, but

* Companies and other payers of Social Security Contribution and Corporation Tax out of gross Schedule D profits would retain the property tax on interest towards meeting the above.

with no other allowances whatever (deductible at source in the case of earnings) on (say) some such scale as the following on surtax principles, i.e. on the amounts of income between each of the following limits:

	Bachelor	Married
£	s	s
0–100	−2	−2
100–200	—	−2
200–500	+3	+2
500–1,000	3	3
1,000–1,500	4	3
1,500–2,000	4	4
2,000–2,500	5/-	
2,500–3,000	5/6	

Rising by 6*d* on each additional £500 of income up to a maximum of (say) 16*s* (i.e. a maximum of 17*s* for property tax and personal tax together).

No children's allowances necessary, since they are assumed to be paid separately. Earned income allowance and claims for expenses liberally (perhaps too liberally) met by the corporation tax and the difference between social security contribution and property tax. Insurance policies sufficiently subsidised by exemption of insurance companies from personal tax. Charges on personal income recoverable at property tax rate in the case of interest. Payments under covenant deductible only for calculation of personal tax. Charities exempt from property tax and personal tax, but not from corporation tax or social security contribution on Schedule B profits.

The social security contribution to be fixed for quinquenniel periods and paid into the social security fund. The state medical service, all social security allowances (except childrens's allowances), and all pensions (except war pensions) to be charged on this fund. Contributions to be fixed so as to keep the fund self-supporting.

IV

I have now read Beveridge's proposals in full. It is impossible to express a valuable opinion on the financial aspect until some valid estimate of the cost is available. Much also turns on whether the experts accept the practicability of his transitional proposals. But to do Beveridge justice he does not *intend* to overwhelm the Budget and is fully alive to this side of the matter. His own transitional proposals (or some alternative to the same general effect) and his own proposal to limit children's allowances to children beyond the first, are both large-scale economies. He *intends* to fix the contributions when he knows the total cost, at a figure which will limit the state subsidy to 40 per cent on the maximum when the new pension scales are fully operative.

The chief further economy to press for is a reduction of the pension scale to 15*s* and 25*s*, i.e. about two-thirds of Beveridge's proposal.

KEYNES

On reading Keynes's note, Sir Richard Hopkins tartly remarked[4]

> 'I do not feel equal to settling between now and the 15th August Lord Keynes' suggestions for a complete remodelling of the system of direct taxation in this country and I think that for the present we must think of the Beveridge Scheme in the setting of present general principles which he at any rate does not suggest should be altered.'

He also suggested that the phrase 'social security budget' disappear, as it did from the finally published report.

After further Treasury discussions, Keynes, Professor Robbins and Sir George Epps[5] made up the small informal Committee, previously agreed with Beveridge,[6] to advise on the financial implications of the scheme. Before

[4] T161/1129/S48497/2, 21 July 1942.

[5] Sir George Selby Washington Epps (1885–1951); Deputy Government Actuary, 1926–36; Government Actuary, 1936–44.

[6] See above p. 220.

the first meeting on 10 August, Keynes prepared a statement of the proposals to be made to Beveridge.

THE PLAN FOR SOCIAL SECURITY

(1) The estimated peace-time cost of the existing system is £315 million.

(2) The current cost of the full Beveridge proposals would be about £800 million, including universal general practitioner (but not institutional), dental and ophthalmic services and children's allowances (at 6*s* 3*d* per week for each child). This figure makes no allowance for a full national health service, for which no reliable estimate is yet available. Nor does it allow for the gradual increase of cost due to the growing proportion of the pensionable to the total population. On the other hand, the limitation of full increased pensions at the outset to retired persons who had paid contributions under the present contributory pension scheme, as suggested in the draft report, and the transitional arrangements for funeral benefit would save about £100 million a year temporarily, giving for the starting cost a round total of £700 million. Thus the full scheme, assuming that the transitional arrangements are judged to be practicable, can be put at £700 million, rising through a period of time to (say) £900 million.

(3) The object of this paper is, not to examine or criticise the full scheme on grounds of social policy or of administrative practicability, but to examine how far it can be divided into sections which would bring the initial stage within the range of financial practicability, pending the increase of the net national income to a figure which would allow a further margin for social services of one kind or another.

(4) If the draft scheme is adopted as it stands in all other respects, the following sums can be saved without severe disturbance, it would seem, of the main fabric of the proposals, by deferring certain parts of them or initiating certain other parts at a lower rate of benefit:

(i) If no immediate extension is made in the present scope of insurance of health, pensions and unemployment to persons not in the employee classes, and if there is no change in the position of civil servants and similar 'excepted' classes, taking, however, the opportunity to assimilate the special agricultural unemployment scheme to the main scheme, there would be a saving of £30 million.

(ii) To limit the immediate increase in the rates of benefit in health and unemployment for insured persons and adult dependents to the level of the pre-war unemployment benefit, increased by 30 per cent on account of the increase in the cost of living, and not to the full subsistence level (e.g. 22*s* for men over 21 in place of the full Beveridge rate of 25*s*), would save £28 millions.

(iii) To limit the immediate increase in the rates of pension for both contributory and means pensions to 15*s* a week for single persons and 25*s* a week for married couples, but without any change in the pension ages either for insured persons or for their wives and without any retirement condition, would save £90 million.

(iv) To grant children's allowances universally (i.e. not limiting them to the insured classes) at the rate of 5*s* a week for each child under age 15 (or, if over that age, at school), but excluding the first child in the family, and at the rate of 5*s* a week in place of 6*s* 3*d* would save £100 million (made up of £70 million due to exclusion of first child and a further £30 million owing to the reduction of the rate of allowance to 5*s*).

The above would give an aggregate saving of approximately £250 million in round figures, as compared with the initial cost of the full scheme, on the assumption of the proposed transitional arrangements being put into force; and a saving of £350 million, as compared with the current cost of the full proposals apart from the transitional savings.

(5) The full annual expenditure in the first year (say 1944) on social insurance benefits as thus enlarged would be approximately as follows:—

	£m
Pensions (contributory and means)	160
Unemployment insurance	77
Sickness benefits (including dependents' allowances)	46
Industrial disability benefits	4
Maternity benefit	3
Funeral benefit	4
Medical treatment for insured persons and their dependents	29
Dental and Ophthalmic treatment for insured persons	11
Administrative expenses	15
	349
Supplementary pensions (say)	20
Unemployment assistance	22
Universal children's allowances (excluding 1st child)	58
Total expenditure	449

(6) The above makes the same assumptions as does the estimate given above of the full plan as regards the immediate provision of medical benefit. That is to say, it assumes medical benefit free of cost to the dependents, both adult and juvenile, of insured persons instead of, as at present, to insured persons only, and the extension of this benefit to the wives and widows of insured men who have passed age 65 and to the widows of insured men; and also dental and ophthalmic treatment free of cost as a statutory benefit to insured persons.

(7) If we assume that the industrial disability benefits are paid for by special contributions from employers, and if supplementary pensions, unemployment assistance and children's allowances be regarded as non-contributory services, the cost of the contributory services included in the proposed first stage would be £345 million. From this there falls to be deducted an annual income of about £11 million, being the

Comparative weekly rates of benefit

	Pre-war			Now		
	Health		Un-employment	Health		Un-employment
	Sickness*	Disablement*		Sickness*	Disablement*	
	s	*s d*	*s*	*s*	*s d*	*s*
Men (over 21)	15	7 6	17	18	10 6	20
Women (over 21)						
Spinsters and widows	12	6	15	15	9	18
Married women	10	5		13	8	
Dependents						
Adult	—	—	10	—	—	10
Juvenile						
First child	—	—	3	—	—	4
Second child	—	—		—	—	4
Others	—	—		—	—	3

Comparative weekly rates of benefit (cont.)

	Proposed			Pensions		
	Health					
	Sickness	Disablement	Un-employment	Pre-war and now	Proposed	Beveridge rates for all benefits
	s	*s*	*s*	*s*	*s*	*s d*
Men (over 21)	22	15	22	10	15	25
Women (over 21)						
Spinsters and widows	20	13	20	10	15	25
Married women						20†″
Dependents						
Adult	13	13	13	10	10	15
Juvenile						
First child	5	5	5	5	5	6 3§
Second child	5‡	5‡	5‡	3	5‡	
Others						

* Increased by additional benefits’ (averaging 3*s* 3*d* a week sickness benefit) for nearly two-thirds of insured men; about one-quarter of insured women have additional sickness benefits averaging 2*s* 3*d* a week.

† The Beveridge proposal for married women is 20*s* for health and unemployment and 15*s* for pension (but 25*s* if she has retired from a gainful occupation and her husband is not a pensioner).

‡ The allowances for second and later children in family would be payable under a scheme of universal children’s allowances.

§ Under the Beveridge proposals allowances for all children would be payable under a scheme of universal children’s allowances.

interest from the accumulated investment funds (viz: National Health Insurance funds, about £220 million; balances of the pensions accounts over £50 million; and balances of the unemployment funds about £130 million) thus leaving a net cost of £334 million. On the basis of contributions of 6*s* a week (men) and 4*s* a week (women) payable jointly by insured persons and their employers, the annual income from contributions would be £223 million, or exactly two-thirds of the cost of the contributory services, leaving a contribution to these services from the Exchequer of £111 million.

(8) If to this contribution from the Exchequer there be added the cost of the non-contributory services, namely £100 million in round figures, the total net cost falling to the Exchequer would be about £40 million a year more than at present.

(9) Thus the effect of the above analysis is to produce a bedrock scheme, the cost of which does not exceed the present cost by more than a moderate figure, and at the same time to indicate the additional cost of each successive extension of the scope of the scheme and improvement of the scale of benefits which might become financially possible hereafter.

(10) The comparative weekly rates of benefits are given in an Appendix [above, pp. 232–3]: (*a*) pre war; (*b*) now; (*c*) as proposed above for the first stage; (*d*) the full Beveridge proposals.

10 August 1942

After the first meeting of the committee, Keynes reported.

To SIR HORACE WILSON, *11 August 1942*

THE BEVERIDGE PLAN FOR SOCIAL SECURITY

We paid our first visit to Sir William Beveridge yesterday and spent two hours with him. It was arranged that we should meet him again in a fortnight's time and that he would probably have a further conversation with myself in the interval. We came away feeling that there had been quite as much progress as we could have hoped for.

I began by handing him the enclosed paper, which I had prepared on the basis of material supplied by Epps and which had been agreed by him, and we went through it clause by clause. I pointed out that I was partly concerned to suggest ways in which expense could be economised, but was also concerned with the method of presentation, so as to distinguish what one might call the bedrock scheme from further extensions of it or increases in rates of benefit and pension, so as to indicate what could be detached from the rest, if the scheme as a whole is financially impossible.

Taking the suggested methods of economy in turn, Sir William Beveridge's first reaction was as follows:

To 4(i), namely the proposal not to extend the scheme beyond the present insured categories, his feeling was adverse. I pointed out that this was not merely a question of saving money, the sum involved not being very large. It was a case where by taking two bites at the cherry he could immensely reduce his initial administrative complications. Would it not be wiser to unify the existing insurance schemes before taking on the further task of extending them to new classes? I also pointed out that pensions were already provided for civil servants and for most of the other 'excepted' classes, so that he was in danger of throwing money away for no very substantial purpose.

As to 4(ii) he was ready to agree that something might be saved here and that he had not come to a final conclusion that the standard rate of benefit need be quite so high as 25*s*. In the same way he agreed that his full proposal for pensions was capable of being abated, but not so low as the figure mentioned in my text. He thought, however, that he could certainly save £35 million on these two heads together.

As to 4(iv), namely children's allowances, he agreed to the first saving, namely the exclusion of the first child, but not to the reduction of the rate of benefit from 6*s* 3*d* to 5*s*. He added that we should be lucky if we got away with anything so low as 6*s* 3*d* and that this might well be 7*s* 6*d* before he had finished.

The net result of the above is a saving of £100 million, or a little more, compared with the saving of £250 million in my paper. At the same time, Sir William Beveridge expressed himself as agreeing that the additional cost to the Exchequer compared with the present cost must be kept below £100 million. He proposed to effect this by raising the 6*s* contribution, for which I had taken credit, to 7*s* and adding a further 1*s* for health services in particular, making 8*s* in all. Thus he would be saving the Exchequer, including contributions, £205 million compared with my £250 million, so that the net additional cost to the Exchequer would still be kept at not more than £85 million. He asked us to agree that this was not an unreasonable expense.

I replied to this that it made all the difference whether the saving was arrived at by methods that were politically possible and politically stable. Proposals which seem to have some measure of finality (at least for the time being) and political stability in them would have to be regarded quite differently from proposals which reached a given result on paper but were of such a character that they were very unlikely to last, even if agreed to temporarily. That led us to a discussion of the objections to the way in which Sir William Beveridge proposed to bring his result about:

(1) We all pointed out to him emphatically that a contribution of 8*s* would be extremely difficult to obtain and that the contributory system pushed to such a length was in fact a bad form of taxation, inasmuch as it was a poll-tax related neither to the amount of wages earned nor the the amount of profits earned. We thought that so high a contribution would be unpopular and could not be relied on. To this Sir William Beveridge had two replies. The first was that, if the existing heavy expenditure by the working classes on industrial insurance

and outside medical benefits could be brought to an end, they would not be paying any more than at present. We agreed that this was so, but rejoined that that did not affect the employers' contribution; and in so far as the employees were concerned the termination of the existing outside contributions could not at best be brought to an end for several years to come. Secondly he argued that he was strongly in favour of making the high rate of benefit proposed by him contingent on the high rate of contribution. He was strongly of the opinion that the benefits must be paid for. In that case, I said, the scheme should be put forward in an alternative form, showing that contributions of 8*s* a week would provide a certain level of benefit, and contributions of 6*s* a week a lower scale, closely linking the one with the other and making it apparent that, if the lower rate of contribution was preferred, that carried with it the lower rate of benefit. Sir William Beveridge did not react strongly against that suggestion.

(2) We pointed out that the exclusion from children's allowances of the first child, although that was also a feature of my suggested economies, was politically unstable; that there was in fact a much stronger case for bringing in the first child than for very high pensions for the old; that public opinion might justifiably prefer to spend more on the young and less on the old; and that, if we gave priority to expenditure on the old, contrary both to the merits of the case and to popular sentiment, we should very soon have to concede the additional expenditure on the young as well. He was not entirely unmoved by this, but is himself decidedly against children's allowances to the first child on its merits.

(3) We pointed out that his pension proposals, taken in conjunction with his transitional clauses, were likely to be very unpopular, and that he had devised a pension scheme which would succeed at the same time in spending the largest amount of money and obtaining the smallest amount of popular satisfaction. In particular, we argued that to have for twenty years

to come, different classes of people having the same degree of need receiving widely different pension scales would not be felt tolerable. According to his proposals, those in the present contributory scheme would receive the full pension rate of 25*s*, even when they had not paid the additional rate of contribution for anything approaching enough years to pay for it; whereas the new classes brought in would have as a class to pay contributions for twenty years before they had any pensions at all. He had made a particular point of the hardship to persons not in the employee class and yet he proposed to do nothing for them, except exact contributions, for twenty years. Thirdly, he did nothing whatever for non-contributory pensioners and did not provide, for example, a single penny to satisfy the demands made in recent debates in the House of Commons. He proposes to leave the non-contributory pensioners with a basic 10*s* a week, with the existing system of supplementary pensions unchanged. Finally, in order to have his retirement provision, he introduces for the first time what is in effect a drastic means test for contributory pensioners, who have to sacrifice out of their pensions half of any of their future earnings. This means test is particularly objectionable in that it would apply only to earned income and not to unearned income. For these reasons we did not believe that those pension economies he himself was taking credit for were practicable. You could not leave the non-contributory pensioners where they are. You could not have such inequitable treatment between those who are now in the contributory class and those who will in future be in the contributory class. Indeed, it was hard to see how one could avoid having the same basic pension rate for everyone. Surely public opinion would demand that and, in that case, all his economies had gone west, and the total cost would be at a level which he would agree is appalling.

On the other hand, in favour of the economies suggested in my paper is the argument that all pensioners would then have the same basic pension at an improvement of 50 per cent above the present figure *plus* supplementary pensions when required. (He himself does not get rid of the system of supplementary pensions for at least 20 years in any case). If hereafter we had more money to spend on social services, we could gradually raise the basic rate to everybody. But it was a hopeless system to try and get your economies by different basic rates to classes whom the public would rate as equally deserving or undeserving.

It was evident at the end of the discussion that Sir William Beveridge was considerably impressed by these arguments, and he promised to think over the whole case again carefully in the next fortnight. Obviously the major point, and we all agreed about that, is the future level of contributory pensions. If Sir William Beveridge could bring down his rate to the neighbourhood of what is proposed in 4(iii) above, there would not remain a great deal between us on the financial issue. The real reason why he is reluctant to agree to this is that the high basic rate of pension is connected with his proposed retirement clause. If we could wean him from the retirement clause, he would, I think, readily give up the excessive basic rate of pension. This is the point we must concentrate on. There is no evidence that anyone except Sir William Beveridge is in favour of the retirement clause, which is plainly unworkable. His own adviser told us afterwards that he himself was in disagreement with Beveridge over this. The proposal by which whenever anyone over 65 does the slightest stitch of work he has to hand over half of his income to the state is about as fully charged with unpopularity as anything one could well conceive.

Perhaps I should add that the highly provisional estimate of the cost of the full health service is about £80 million above the medical items in the above paper. But this is a highly unreliable estimate, and such a scheme could, in any case, only come into force very gradually through lack of personnel to work it.

KEYNES

Keynes saw Beveridge again on 21 August and the informal sub-committee met him again on 24 August and 12 October. On each occasion, Keynes minuted the results.

To E. HALE, *21 August 1942*

SIR WILLIAM BEVERIDGE'S SOCIAL SECURITY PROPOSALS

1. I had a further conversation with Sir William Beveridge this morning. Professor Robbins, Sir George Epps and I will be having our final conversation with him on Monday. Meanwhile he has made various changes with a view to reducing the initial financial cost of the scheme. The most important of the revised provisions are the following:

(1) The classes not at present subject to insurance are to be brought into the scheme forthwith. But, as they will receive no benefits for six years, this will serve to reduce the financial cost of the scheme during the early period, as compared with my suggestion that this part of the proposals should be deferred for the time being. Under Sir W. Beveridge's revised scheme it will be some time before there is a net outgoing in respect of this class.

(2) The children's allowance is now increased to 9*s* a week less the estimated present cost of what children are receiving in kind (which might reduce the figure to 8*s* 6*d* or a little less). But this allowance is not to be given to the first child.

(3) The estimated cost of medical treatment in the early years is now put at £m100.

(4) The contribution is put at 7*s*.

(5) The standard benefit for unemployment, sickness, etc. is 24*s* for a single man and 40*s* for a married man.

(6) Pensions for those already in the contributory class are raised to 14*s* for a single man and 25*s* for a married couple. This is not increased hereafter for those already in receipt of pensions,

but those retiring after having paid two years of the higher contribution will have their basic pensions increased by 1*s* each, this figure remaining constant for the rest of their lives. Those who have paid four years of contribution will have a pension 2*s* higher than the minimum, and so on for each further two years. This will continue until pensions are at the same level as unemployment etc. benefits, subject to a discretion on the part of the Government to stop the increases when they have reached 20*s* a week, i.e. in that case they would not go up to the full figure of 24*s*.

(7) Persons within the present contributory scheme will only receive a pension in excess of the existing rate of 10*s* subject to a retirement condition, which means that 'from one-half to two-thirds of the excess of any earnings above £3 a month will be deducted from his pension for the ensuing quarter'.

(8) The scheme thus amended is estimated to cost the Exchequer £m100 more than the existing scheme in the first year. It is not yet clear how fast the cost will rise or to what maximum figure. But it would appear likely that the final cost of the scheme will be not less than £m150 in excess of the initial cost.

2. It will be seen that the retirement condition is retained in spite of the initial rate of pensions being at a reduced level. It will also be seen that as time goes on pensions will be in force at all kinds of different rates, dependent partly upon the year in which the pension starts and partly on the operation of the retirement condition. The treatment of existing pensioners is not clear, but it would seem that those in receipt of non-contributory pensions will remain at 10*s*, subject to supplementation. Those in receipt of contributory pensions will either remain at 10*s* or rise to 14*s*, subject to supplementation, but will neither now nor in the future go above that.

3. Sir William Beveridge had an interview with the T.U.C. a few days ago and believes that they will support his revised scheme as it stands. They did not quarrel with a contribution

of 7*s* nor with the proposal that pensions should start at a low level and only rise gradually towards full subsistence. But how far they fully appreciated the details of a very complicated scheme must remain uncertain.

(4) Sir W. Beveridge has also seen, or will be seeing, a number of other bodies with a view to securing their support for his scheme before publication. He is seeing Friendly Societies at Oxford this Sunday. Later on he is meeting the Social Research Section of the Conservative Party, also groups of the Liberal and Labour Parties.

5. He tells me he is asking permission to reprint his Report as a Penguin as soon as it is out.

6. The scheme is still subject to revision in detail. But I do not think Sir W. Beveridge will change his mind on the four questions of—

(*a*) bringing in the whole population forthwith;

(*b*) the high level of children's allowances (which will, by the way, also apply to the first child in the case of unemployment or sickness);

(*c*) a contractual right to a rising level of pension as time goes on; and

(*d*) a retirement provision.

But the costs of the different parts of the scheme are, I think, now adequately disentangled, and it is fairly easy to see the financial effect of taking only part of the scheme in the first stage or of applying benefits at a reduced level until we know better than we do now the scale of our future resources. Sir W. Beveridge regards the general principles of the scheme as independent of the exact rates of contribution and benefits. He would, I think, be prepared to agree within limits that the figures he inserts for these in his scheme are to be regarded as illustrative, the definitive figures to be fixed nearer the time in the light of the cost of living etc. at that date. He also holds that the rates of contribution are closely associated and should move together if there it to be any change.

KEYNES

To E. HALE, *24 August 1942*

A FURTHER NOTE ON SIR WILLIAM BEVERIDGE'S SOCIAL SECURITY PROPOSALS

Professor Robbins, Sir George Epps and I had our final conversation for the time being with Sir William Beveridge this morning, though he may be asking us to go again for a final talk in about a month's time.

There can be no doubt, I think, that Sir William Beveridge has made a manful effort to meet the financial criticisms which have been made, with the result that his proposals in their present form are not, in my judgement, open to serious criticism purely on financial grounds, provided one assumes that the paper scheme is politically practicable and stable.

On most of the points at issue I have nothing to add to my note of August 21st. But it is now easier to sum up the total effect, and there are also some further concessions to report.

(1) The initial cost to the Exchequer would be £m115 in excess of the present basis. But this includes an additional expenditure on the health service of £m100 (making £m170 on the health service altogether), although it is most unlikely that this figure can be in fact attained in the first year. Since the children's cash allowance will cost £m110, this means that the burden on the Exchequer will not exceed the cost of children's allowances, the whole of the rest of the additional cost, including all pensions and an additional £m100 for the health service, being met out of the additional contributions. To have made the scheme self-supporting, apart from children's allowances, seems to me as much as one could well have hoped.

(2) The transitional arrangements now appear to involve the Exchequer in a very slow rate of increase. For the classes which are not already contributory no pensions are proposed for six years, whilst he is willing to suggest that, if need be, the deferment of the grant of these pensions might be for ten years.

The contribution of 7*s* is to go up to 7*s* 6*d* (worth £m25) after six years in view of the health service being more complete by that date. The proposal by which the initial rate of pension depends on the number of years paid at the high rate of contribution and is never afterwards raised means that a very great number of years will have passed before the full cost of the scheme is reached. Even twenty years hence the increase in the cost above the initial figure will have only attained about half its eventual total. Put in figures, the increase in the cost after twenty years will be £m140 a year, from which has to be deducted the additional £m25 of contribution from the further 6*d*, making a net addition of £m115. This has not yet been divided by Epps between the first and the second decade. But I think the major part of it is in the second decade. So that, even ten years after the inception of the scheme, the cost to the Exchequer will not be very seriously increased.

(3) Thus, it is obvious that very large concessions have been made from the first version of the scheme. The main criticism to which it is open is that the proposal to saddle pensioners for life at the rate of pension prevailing in the year in which they first became pensionable is not politically stable. It will be interesting to know how much it would cost to substitute for this a progressive scale by which all pensions went up by stages over a period of years. Obviously there would be much advantage in this, but the cost would be materially greater and, if it were contractual, the risk of excessive cost that much more serious. But it is one thing to say that the Beveridge scheme costs too much, and another to say that a more expensive scheme is likely to be substituted for it by the politicians.

(4) The major part of the economy has, of course, been achieved by accepting pensions at the greatly reduced rate of 14*s* single and 25*s* double in the initial year. This rate of pension to those particular persons will never be increased subsequently. It is, I think, of great value that Beveridge should not be raising higher hopes than this in the early period. He will propound his

scheme as being a scheme for pensions of 24*s* single and 40*s* double, but in fact no one who is now above 45 years of age will receive pensions at this rate, and this will not be the generally prevailing rate of pension for thirty or forty years.

(5) The main extravagance of the scheme is in putting children's allowances at 8*s* a week in cash in addition to a further 1*s* a week through allowances in kind. I pointed out that it was entirely illogical to apply subsistence standards to all children, since it had not been intended even by advocates of allowances to remove the totality of expense from the parents. The arguments which might make a subsistence level appropriate to old-age pensioners or to the unemployed and their dependents are clearly not applicable. Beveridge agreed that this was so. He had no justification for going to so high a figure except that he must give the subsistence figure to the children of the unemployed and, if he did not give it all round, he was afraid that the earnings of a family man out of work would approximate too closely to what he could earn when in work. He agreed, however, to put in a clause pointing out that the children's allowances, except in the case of the unemployed, might be reduced to 6*s* instead of 8*s* without jeopardy to the main principles of the plan, which would save £m25. This is important if it is held that the withholding of children's allowances from the first child is politically unstable, since the cost of an 8*s* allowance to all children would be enormous. Many people might hold that it would be better to include the first child rather than have so high an allowance for further children, if the money runs to one or the other. I think the scheme would be greatly improved if the allowance were to be reduced to 6*s*, if not to 5*s*, since this would make it so much less prohibitive to include the first child subsequently, if public opinion were to press strongly for this.

(6) I should add that the scheme provides a discretion to stop pensions from rising above 20*s* if in 1960 the further increase to 24*s* looks too expensive.

We had no further discussion about the retirement provision.

I cannot believe that this will survive. But I do not think it makes a significant difference to the financial cost of the scheme whether or not it is included. It was much more important from the financial point of view when it was being used as a main justification for starting pensions at a high initial figure.

(7) Sir William Beveridge has promised to put emphatic passages in his report calling attention to the financial difficulties, arguing that the finance of the scheme stands or falls as a whole and that there is no room for further concessions except in return for increased contributions, and generally emphasising the contributory character of the plan so that the rights of those who have not contributed in the past will be legitimately limited.

There are, of course, innumerable details and complications which I have not touched on, some of them being in themselves of the first order of importance. Sir George Epps and Sir William Beveridge have, I think, a legitimate complaint against the difficulties caused by the statistical inadequacy of the Ministry of Health's information. One's impression is that this requires drastic reorganisation. It has not yet been possible to obtain a firm estimate from them of the existing expenditure of public authorities on the health services.

KEYNES

To SIR RICHARD HOPKINS, *13 October, 1942*

SIR WILLIAM BEVERIDGE'S PROPOSALS

I

At my last meeting with Sir William Beveridge yesterday (at which Professor Robbins, Mr Hale and the Government Actuary and his Assistant were also present). I mainly emphasised three points where some re-drafting of the proposals might help us:

(1) It is stated in the Report that the scale of reliefs and contributions proposed is illustrative and based on the assump-

tion of a price level 25 per cent above that of 1938. I pointed out that prices were almost certain to be 30 per cent above pre-war and might easily be as high as 35 per cent before we had settled down to equilibrium. Sir William Beveridge agreed that he would not in fact in this case and if prices did not rise higher than that wish to revise his proposed scheme of benefits and contributions. That being so, I pointed out to him that it might cause trouble to emphasise so much the 25 per cent, since it might be held that there was a case for having the scale automatically lifted if in fact 30 to 35 per cent proves to be nearer to the facts. As usual with his calculations, he is being dragged at the heels of the subsistence experts, and the calculation based on 25 per cent above the 1928 figure goes deep into all the quantitative aspects of his Report. He agree, however, that he would do his best to speak less precisely and to make it clear that he would not be in favour of any revision of the scale unless prices were materially higher than they are now.

(2) I pointed out that, whilst the ultimate benefits to those who would have paid the higher contributions for a long period were necessarily on a contractual basis, this did not apply to the proposed biennial increments during the next twenty years, since the recipients of such increments would be receiving something for which they would not have paid. He agreed that this was so and that it was the essence of his plan to make a sharp distinction between benefits which had been paid for and transitional benefits which had not been paid for. He promised to make this clearer. It ought to be made plain from the outset that there is no final commitment to the proposed scale of biennial increments, which might be temporarily suspended or spread over a longer period than at present proposed, if the financial situation seemed to make this inevitable.

(3) Sir William Beveridge proposes no allowance in respect of the first child except in the case of a man who is out of work, but for all subsequent children the allowance is to be 8*s* a week. This figure is based on the estimated actual subsistence cost for

food, clothing, fuel and light, etc., but not rent, for each additional child. I argued that, whilst there was force in this subsistence argument for all unemployed men, few, if any, advocates of children's allowances had argued that the parents should be relieved of all expense whatever, and that there was no sufficient argument on subsistence grounds for giving the full amount to parents in employment. Sir William Beveridge agreed with this, which, indeed, fits in very well with his general argument on children's allowances. He said that he had in effect recognised this by providing no benefit for the first child, thus the average benefit per child for two children was 4*s* under his scheme and for three children 5*s* 4*d*, thus falling short of the full subsistence level. On the other hand he had to admit that he was giving full subsistence in respect of each additional child. Profesor Robbins pointed out to him that it would be fully in accordance with his principle and, indeed, more fully in accordance than his actual proposal, if he was to reduce the allowance for the second child (in the case of employed men) to 5*s*, retaining his 8*s* figure for subsequent children. This would mean an average allowance per child of 2*s* 6*d* for each of two children, 4*s* 4*d* for each of three children, 5*s* 3*d* for each of four children, and so on. At a rough shot it looked as if this modest amendation would save no less than £m20 a year on the cost. I doubt if Sir William Beveridge will actually adopt this amendment, but he will probably amend his draft so that it could easily be introduced, and he may mention it as one of the alternatives. I should add that the estimates of financial cost take no credit for any gain in income tax, either through the abolition of existing children's rebates or through treating the new children's allowances as part of taxable income. The proposals expressly reserve the taxation aspects. But, unless there is some change on the taxation side, the effect would be to allow in respect of additional children an actual profit to the parents, since the income tax rebates would be superimposed on the Beveridge subsistence allowance.

II

As set forth in the Report, the net additional cost to the Treasury is £m100. (It is not quite clear whether this comparison is with 1939 or with the present cost, but I believe it to be with 1939). The following notes on what lies behind this figure may be useful:

(i) As mentioned above, it takes no credit for gain in income tax as an off-set to children's allowances.

(ii) A reduction of benefit to employed persons in respect of the second child from 8*s* to 5*s* would be worth about £m20 a year.

(iii) There appears to be a large margin in the early years in respect of the figure put down for health services, namely, £m170. The present cost is about £m50. The increase has been arrived at by assuming that the whole of the incomes of the medical profession are received through the state under the health scheme, and that these incomes will be 25 per cent greater after the war than they were before. It seems most unlikely that so great a transformation of the medical services can be achieved immediately on the inception of the new proposals (assumed to be 1945). This figure is also bound up with the proposal to bring the whole population within the scheme. Certainly it would be a most surprising thing if the new proposals, even if they are accepted as desirable, could be brought so completely into force within a brief period. On the other hand, the figure of the cost 20 years hence is put at only £m10 above the initial cost. On my asking for the explanation of this, I was told that the practice of preventive medicine in the same period would have been so great as to abate illness sufficiently to off-set the otherwise growing cost. This seems optimistic, since, even assuming that the premises are fulfilled, standards of medical treatment will certainly rise proportionately.

(iv) If full allowance had been given to these possible savings, the cost to the Treasury in the early period might perhaps seem too small. This would not remain so in the long run, since the cost will rise at the rate of about £m7 a year during the first decade and £m10 during the second decade, whilst, even after 20 years, the maximum cost will not have been attained. Moreover, there are certain, perhaps inevitable, modifications of the scheme, referred to below, which would have the effect of increasing the cost to the Treasury in the early years.

(v) It may be thought advisable, quite apart from the merits of the case, and purely on administrative and legislative grounds, to limit the scheme in the first instance to the existing contributory classes. In the early years this would add to the cost of the scheme, since the financial provisions assume contributions from the new classes to be paid in whilst giving them less than equal benefits. I cannot estimate how much extra the scheme would cost at the outset if this part of it were deferred. It cannot be a large sum, but it is nevertheless sufficient to be worth mentioning.

(vi) Sir William Beveridge's retirement provisions are likely, in my opinion, to be unpopular, and it would not be surprising if they have to be dropped. They do, however, provide a fairly substantial economy, again especially in the early years; so that to drop them would somewhat increase the initial cost. At first I was opposed to the retirement provisions on merits and apart from their probable unpopularity. On second thoughts I begin to think there may be something in them, especially in connection with other features of the scheme as they have now developed. The retirement provisions are as follows:

If a man notifies that he desires to retire, half of the excess of any future earnings over 15*s* are deducted from his pension. If, on the other hand, he decides not to retire when he reaches pensionable age, the rate of his ultimate pension increases by 2*s* each year for a married man and 1*s* each year for a single man. This is a valuable inducement to keep men at work, and it fits in well with the other transitional arrangements for the following reasons: Take the case of a married man, who reaches pensionable age in the first year of the scheme. If he retires at once, he will receive 25*s* a week, rising by 1*s* 6*d* every other year. If, on the other hand, he puts off retirement for four years, his initial rate of pension will be 32*s* instead of 25*s*. Thereby he will have benefited both himself and the State.

(vii) The finance of the scheme essentially depends on the increased rates of contribution proving acceptable. These are 4*s* 3*d* for the employee and 3*s* 3*d* for the employer, making 7*s* 6*d* in all. Sir William Beveridge produces powerful arguments why this increase should be acceptable. He is able to point out that the increase is of the same order of magnitude as the sums which the average wage-earner is already expending voluntarily to obtain similar advantages to those now promised by the scheme. One may add that the children's allowance side of it (and that is an argument perhaps for bringing in the children's allowance simultaneously with the increased contribution, and not earlier or separately) means that any man with more than one child is actually from the outset substantially better off than he is now, the children's allowance being much larger than the increased contribution. I believe Sir William Beveridge is right in believing that this will not prove unacceptable to the employee. It is the very large sums obtained in this way which make so far-reaching a proposal practicable at such modest cost to the Treasury.

One must, however, face the fact that the employer's contribution is an ingredient in cost and must, sooner or later, be reflected in prices. Very roughly it would seem likely that it would raise prices by something like 1 per cent. This is not to be neglected. But it is really very small relatively to the advantages obtained and means no more than that scale of increase of wages which might happen any day for most insignificant reasons.

III

I have not seen the final version of more than mere fragments of the proposals as a whole. But they have been greatly improved as the result of discussion. From what I have seen, it looks to me that the document is a very fine one and will impress public opinion as at the same time moderate and far-reaching and argued in the most convincing and striking manner.

The question remains what can be done with it. I do not think it has to be regarded as an independent whole to the full extent that Sir William Beveridge himself believes and would argue. The central part of his scheme is a great simplification of what happens already and, whilst a great deal of existing legislation would have to be repealed, I should have thought that what would replace it would be so much simpler that it would not be a very overwhelming task to work it out or to get it through Parliament. This does not apply, however, to certain completely new features of the proposals,—in particular, the extension of the social security benefits and contributions to the whole population, and not merely to the present contributory classes. Worked out in detail, this will raise all kinds of personal difficulties and special cases. The legislator would be treading a new field with not nearly so much experience to guide him. The drafting would be far more difficult and the legislation (I should have supposed) much more contentious.

Moreover, it is from this extension of the services to the whole population that the immediate socialisation of the medical profession follows. If this further step was postponed, the medical profession could be dealt with by much more gradual and much less violent means.

Thus, irrespective of the merits of extending the benefits and contributions to the whole population (I should agree that there is a great deal to be said in favour of it), the postponement of this side of the scheme deserves the most serious consideration. The rest of it is so much a simplification of the familiar that the task should be relatively easy.

I daresay the same applies to the proposals about industrial insurance. I have not yet seen the final draft of this and do not clearly know what they amount to.

If some substantial parts of the Report were to be approved in principle by the Government, the question then arises what interim measures may be necessary. Probably it would be necessary to raise pension rates to the new minimum of 14*s* forthwith. It may be that there is also something to be said for raising unemployment, but perhaps not sickness, benefits to the new figure. Unemployment, at any rate, would cost very little currently and the provision of substantial unemployment relief might facilitate the demobilisation proposals. Indeed, the increase would have to be explained and justified on the ground that it would ease the transition arising out of demobilisation. If these increases are made, unquestionably they should be accompanied by a substantial increase in contributions. This would not be so easy pending the consolidation of the existing contributions into a single figure, but no doubt something could be worked out.

KEYNES

13 October 1942

On reading the final version of the Beveridge Report on its way to the printer, Keynes wrote to its author.

To SIR WILLIAM BEVERIDGE, *14 October 1942*

Dear Beveridge,

I have now read your Part VI and have no crititisms worth making, beyond such modifications of drafting here and there as you might be willing to make to meet the points I raised at our meeting, the other day. On the whole, the phrasing of this part of the Report seems to me to fit in well with what we were talking about. Now I see your whole discussion of children's allowances, it would seem very easy to graft Robbins's suggestion on to it. Indeed, it closely follows the lines of your own argument, and only means a certain modification of scale. Here certainly seems to me to be a case where we can start on the moderate side without any injury to the main principles of the scheme, whatever we may be able to afford later.

On the question of the post-war level of prices, your paragraph 38 seems to be put perhaps the wrong way round. It is certainly not the policy of the Treasury to allow prices to break loose after the war, and it is only if the continuation of the stabilisation policy now under consideration breaks down that anything of the short could happen. I should like to put the passage in question the other way round, somewhat as follows:

> The question of how the plan should be financed in terms of money can only be determined in the light of the level of prices after the war. If the present stabilisation policy is maintained, with the result that the post-war level of prices is not seriously in excess of what it is today, the money values used in the earlier parts of this report might be taken as definitive, for, although they are based on the assumption of a subsistence level costing no more than 25 per cent above 1938 prices, there are various uncertain elements, and it is certainly not the recommendation of this report that the scale of benefits and contributions should be thrown into the melting pot except in the event of a serious disturbance to the established level of prices. It should, however, be emphasised that, in any case, the plan for social security set out in this report is not primarily concerned with fixing in terms of money the precise level of benefits and contributions. It is concerned primarily, etc.

The same point arises in paragraph 46. This seems to me greatly to overstate the possibility of putting off decisions of the third kind. Surely they would have to be embodied in any Bill. Admittedly they would need revision in the event of a serious change in the level of prices, but it would be impossible to expect Parliament to discuss the scheme on a purely hypothetical basis of benefits and contributions. I should have thought that, if the reference to this matter is amplified in paragraph 38, you could be content in paragraph 46 with referring back, simply saying in paragraph 46:

Decisions of the third kind as to rates of benefits and contribution must depend on the considerations mentioned in paragraph 38.

After reading this further instalment of your Report, I feel confirmed in the feeling I expressed the other day, that it is a grand document. You can scarcely expect it will be adopted just as it stands, but it seems to me that you have got it into an extremely workable shape, and I should hope that the major and more essential parts of it might be adopted substantially as you have conceived them.

On further reflection I find myself becoming a bit more sympathetic than I have expressed myself hitherto about your retirement provisions. I do see that there is a good deal to be said for them. I still think that they are likely to prove unpopular and difficult to get through the House. But, on second thoughts, I should on the whole prefer to start off the proposals with the retirement provisions included on your lines. It will be worth emphasising when the Report comes up for consideration, that these retirement provisions do fit in extremely well with the latest version of your transitional provisions. There are important groups within the wage-earning classes where 69 is quite as plausible an age for retirement as 65. Take the case of a married man who reaches 65 in the first year of the scheme. If he retires forthwith he starts off with 25*s*. If he waits until he is 69, both sets of increments work in his favour and he starts off with 32*s*. Thus the postponement will have served to benefit both himself and the state. Nevertheless, there remains the difficulty of the abatement of pension to those who retire and continue to earn anything substantial. I cannot but believe that there will be a good deal of difficulty in getting that through.

Yours ever,

KEYNES

All this is, of course, my purely personal views.

After the Beveridge Report was published on 1 December 1942, the Government treated it with reserve. This reserve showed up clearly in the House of Commons debate of 16–18 February 1943. Keynes proposed to make his maiden speech in the Lords debate on the Report on 24 February. However the day before he warned his mother.

From a letter to F. A. KEYNES, *23 February 1943*

Do not be disappointed when you see no speech from me in the papers of Thursday. Great pressure has been put on me not to speak, and on Catto also. They have all got themselves into a hideous mess over this Report, and it has become a very sore political spot. They think, perhaps truly, that, if I make a candid statement of the position, it will not redound to their advantage,... [and] my general relations with the Treasury might become somewhat embarrassed. I am not convinced by all this. I think a few honest words generally do more good than harm; all the same, I have given way and agreed not to speak. Whilst I believe that my intervention on this occasion would have done good rather than harm, I do see that there are great advantages in making my first speech on some constructive, positive, good-tempered occasion rather than as part of the present imbroglio. Also I value too highly my present relations with everyone in the Treasury to want to run the risk of disobliging them.

Draft for House of Lords on 24 February 1943

My Lords,

I hope for the indulgence your lordships are accustomed to grant to those who address you for the first time. And, since I am closely associated with a Gov^{t} Dep^{t}, I ought, perhaps, to emphasise that anything I say to your Lordships to-day or on any other occasion is a purely personal expression of opinion. I speak because as a member of your Lordships' House who happens to be a close student of the matters under discussion

I feel it to be a duty to express the views I have formed for what they may be worth.

I shall not attempt to cover the very wide field opened up by this Debate. I propose to confine myself to a single aspect, the question whether the country can afford what we most of us agree to be desirable. It is this financial aspect, I think, which is the chief cause of anxiety to those whom apart from this the Beveridge proposals greatly attract.

I view the Budgetary prospects after the war with great concern. It is impossible to say how constrained the position will be until we know the cost of post-war defence. And it may be a considerable time before we know that with any confidence. We must therefore be very slow to burden the Budget with any avoidable and unnecessary charges especially in the early post-war period.

On the financial side, therefore, I approach the Beveridge proposals with the question whether there is a reasonable alternative before the country which would during this period cost the Exchequer significantly less. The strange thing is that during the lengthy debate in another place no one, neither Ministers nor their critics, seems to have asked this simple question—except on the special matter of children's allowances. On that matter the Gov^{t}, prudently in my opinion, proposed to substitute 5*s* for the 8*s* in the plan. 5*s*, particularly if it is supplemented as the Lord President foreshadowed by increased services in kind, is quite enough to begin with in a new social policy which if it is a success we may carry much further when our means increase.

But assuming that the plan is amended in this way, what *other* variations does anyone propose which would save a significant amount of money? In the early period, that is to say—I will consider later on in my remarks the position twenty years hence. —I know of none.

What are the economies open to us? To slow down the development of the National Health Service? The pace of progress will be limited for reasons outside our control by the shortage of available personnel. But neither the Gov[t] nor anyone else proposes to make any economy here by proceeding more slowly than we need. By offering lower rates of benefit for unemployment and sickness? I have heard no suggestion of this kind from Ministers or from anyone else. Indeed the Lord President was careful to make it clear that the Gov[t] have in mind 'rates not widely different from those in the Report'. By fixing a lower initial rate for pensions than the Beveridge figure? The Lord President has indicated that the Gov[t] contemplate a higher rate. These are the provisions which cost the money. There is only one other way of saving the Budget, namely by fixing higher contributions than those of the plan. No-one has suggested this, though it would be easy to risk the existing readiness to peg these increased contributions, and thus increase the charge on the Budget, if too much of the scheme is put into the melting pot. I am, therefore, at a loss to known how it is proposed to save money from the Budget by *not* having the Beveridge Plan. This is a very obvious question to ask. No-one so far has dropt even a hint how to answer it.

Allowing for the proposed economy on children's allowances and the inevitable delays in the development of the Health Service, it is not true that the Beveridge proposals involve the Exchequer in any serious expense beyond what is already inevitable.

It is, therefore, precisely because I am deeply concerned about the Budget position in the early years after the war that I welcome the Beveridge proposals. For these years there is no cheaper scheme on the map. On the other hand, it would be very easy, if we proceed piecemeal, to slip into a more expensive scheme with higher benefits in certain directions, and with a danger of some loss of the proposed contributions.

What I am saying is not a paradox. That Sir William Beveridge's scheme is a relatively cheap scheme for the early period is not an accident. He has deliberately designed it this way and that, in my judgement, is one of the great merits of the scheme which has not attracted the attention it deserves. That the Plan achieves its results at a low budgetary cost follows from one of its fundamental principles, namely that we collect to-day's pension contributions from a working population larger than corresponds to the number of today's pensioners, and we use these contributions, which are paid in return for future pensions, to defray a smaller number of current pensions. This means that the immediate financial problem is greatly eased.

But it also means that the future cost will increase progressively. The right question to ask therefore, is not whether we can afford the Beveridge Plan now, but whether the Plan brings immediate financial ease at the cost of future commitments which will prove too heavy.

This takes us into a speculative field where, admittedly, nothing can be proved certain. Speaking for myself, I can only affirm that I am not worried about the remotest future if only we can surmount our immediate post-war difficulties. On the average the cost of the Beveridge scheme will increase cumulatively by about £8 million a year as time goes on. But with merely normal technical progress such as we have experienced for many years past, the national income out of which to meet this should increase cumulatively by more like £100 million a year. Personally I expect a much greater growth of national income even than this. When the future looks black, I comfort myself with the thought that British industry can scarcely be more inefficient than it was before the war. I am confident that we could increase output both in industry and in agriculture by at least 50 per cent compared with 1938 merely by putting to work modern methods and techniques that already exist. Indeed in agriculture I fancy we have done it already. By taking on burdens we force ourselves to face the problems of organisation which it is our duty to face anyhow.

Nothing but a major reversal of fortune which would upset a great deal more than the Beveridge Plan can prevent our national income from increasing several times as fast as our obligations under the Plan.

The Gov^{t} has, therefore, done well to accept the Report. I have read carefully the speeches of the Gov^{t} spokesmen in another place. It is a gross travesty of what they said to represent it otherwise than as a substantial acceptance of the Plan. Nor do I see any indications of avoidable delay in putting it into force. Indeed it is obvious that we shall urgently need the Plan in operation to help us to get through the difficult period of transition from war activities. We can go into the demobilisation period without the higher contributions. We cannot go into it without the higher benefits. So how is delay going to help the Budget? I agree that there was a good deal of what the lawyers call 'without prejudice' about the Gov^{t} statements. But if I am satisfied with the substance of a statement, I do not bother too much whether it has pencilled at the bottom the letters O.K. or whether the family solicitor has recommended E. and O.E. The difference between the two sets of letters is more a matter of style and temperament than substance. I hope that the noble and learned Viscount on the Woolsack will, if he can frame his lips to so convey an expression, give us a little more of the O.K. and a little less of the 'without prejudice'.

My Lords, a refusal, if it had been made, to commit later years to this modest extent would have raised the whole question of our attitude to the future. The future will be what we choose to make it. If we approach it with cringing and timidity, we shall get what we deserve. If we march on with confidence and vigour the facts will respond. It would be a monstrous thing to reserve all our courage and powers of will for War and then, crowned with victory, to approach the Peace as a bankrupt bunch of defeatists.

Moreover, to make a bogey of the economic problem is, in my judgement, grievously to misunderstand the nature of the tasks ahead of us. Looking beyond the immediate post-war period, when our economic difficulties will be genuine and must take precedence over all else—perhaps for the last time—the economic problems of the day [that] perplex us, will lie in solving the problems of an era of material abundance not those of an era of poverty. It is not any fear of a failure of physical productivity to provide an adequate material standard of life that fills me with foreboding. The real problems of the future are first of all the maintenance of peace, of international co-operation and amity, and beyond that the profound moral and social problems of how to organise material abundance to yield up the fruits of a good life. These are the heroic tasks of the future. But there is nothing, My Lords, in what we are discussing today which need frighten a mouse.

However, Keynes did speak on the finance of the Beveridge scheme to the Watching Committee of both Houses at a private meeting at the Treasury on 23 March.[7]

Keynes's final involvement with the Beveridge proposals came in May 1944, as the authorities were drafting their White Paper on Social Insurance, in response to a letter from D. N. Chester.[8]

To SIR B. GILBERT *and* SIR RICHARD HOPKINS, *15 May 1944*

This letter from Chester is the outcome of a conversation he had with me last week. He came round to say how much upset he was at the line which the draft White Paper on Social Insurance was now taking. I have not myself seen this White Paper but am assuming that Chester has rightly understood it.

The reasons for his dismay are as I understand him the following:

1. The Treasury criticised Beveridge for extravagance and

[7] The Watching Committee was a group of peers and M.P.s of influence and seniority, which met confidentially on matters before Parliament.

[8] Daniel Norman Chester (b. 1907); Lecturer in Public Administration, University of Manchester, 1936–45; member, Central Economic Information Service and Economic Section of War Cabinet Secretariat, 1940–5; Fellow of Nuffield College, Oxford, 1945, Warden, 1954–78.

with some effect. Beveridge having been persuaded to produce as economical a plan as possible, then finds that it is not merely the distant cost but the immediate cost for 1945 which is inflated by £49 million by concessions which, when he was disposed to make them, were declared to be financially impossible. Chester feels that this inconsistency will need some defending and that the passage relating to it should be drafted with particular care.

2. The late Chancellor of the Exchequer, having strongly endorsed the contributory principle, and this having been regarded as the sheet anchor of the proposals, the Government now throw this principle entirely to the winds. So much so that they actually treat a man who has made no contributions whatever, better than they could treat future contributors. For the former will get the £1 without question whilst the latter will only get it if his contributions have been sufficient. Chester feels that the abandonment of the contributory principle will make the whole finance of the scheme vulnerable. In particular a further increase in the basic pension of 40*s* would be very difficult to resist.

3. Whilst the new proposals are exceedingly lavish on pensions, they are exceedingly mean in the matter of children's allowances, where the absolute minimum is given. He thinks that this will lead to great criticism and that the Treasury, having shown by their treatment of pensioners that money is no object will find sooner or later that they have a very weak case on which to resist further children's contributions—the case for which, on merits, many people will think vastly superior. (This particular point came out more clearly in conversation I think than in the attached note.)

Chester appreciates I think that Ministerial decisions have gone too far for it to be any use to criticise them. He is concerned that the relevant passages should be drafted with a full awareness of the above points of weakness so that at any rate the criticisms are anticipated and the case is presented in a way that will leave the case against further concessions as strong as possible.

My own feeling is that so great a concession on pensions is lamentable. But I do not think it would prove easy for Beveridge or anyone else to criticise them on the ground that they go beyond the original Beveridge proposals. On the other hand I do feel that the inconsistency between the lavishness on pensions and the meanness on children's allowances would prove very difficult indeed to defend. I also agree with him that what amounts to the abandonment of the contributory principle leads us into uncharted seas.

I always thought, it will be remembered, that the Beveridge scheme was by far the cheapest we ever had a hope of getting and I several times represented this to the late Chancellor. I am not therefore much surprised that a readiness to depart from these proposals immediately leads to largely increased expense.

KEYNES