

PREM 19/1348

CONFIDENTIAL FILING

PM'S MEETING WITH THE LORDS VAIZEY
HARRIS AND THOMAS ON "A NEW BEVERIDGE"
AND THE FUTURE OF HEALTH AND SOCIAL
SECURITY.

PRIME MINISTER

JANUARY 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
11.1.84.							
20.1.84							
2-2-84.							

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SUBJECT
C. MASTER SET

NOTE FOR THE RECORD

VAIZEY/CPS STUDY OF WELFARE STATE

Lords Thomas, Harris and Vaizey came to see the Prime Minister yesterday to talk about the study which the latter was proposing to make into the social security system and poverty. Lord Vaizey explained that he wanted to conduct a study which was independent of Government, and which would as a result not cause embarrassment to the Prime Minister, but whose results the Government could draw upon in formulating policy. He wanted the study to reflect the judgement of a single individual rather than be a compromise of the views of a working group. Although he would call on others for help, his report would be his own responsibility. The CPS would fund the work and act as publisher. His aim was to show the inadequacies of the present provision for helping the poor and to set out ways in which this could be done more effectively. He would put forward options rather than issue a single blueprint.

He was proposing to exclude the Health Service from the study as he had already written a book on this recently. He noted that the low percentage of GDP devoted to health care in this country was an indication that there were obstacles preventing private individuals from devoting their own resources to health care other than in rather marginal ways such as pay beds.

He would need help from Government in providing facts and in checking his material. As a member of the House of Lords he was entitled to use the mechanism of Parliamentary Questions but it would be much better if he could deal direct with departments through correspondence. The Chancellor and the Secretary of State for Social Services were aware of the proposed study and were sympathetic to the idea of providing factual information.

The Prime Minister said she very much welcomed the project. It would be raising very relevant issues. She was particularly concerned about the growing liability represented by the State Earnings Related Pensions Scheme which was to be financed entirely

/ on a pay-as-you-go

on a pay-as-you-go basis. She thought it would be interesting to discuss the way in which thinking about pensions had shifted from flat-rate entitlement to earnings-related entitlement via the graduated pensions scheme. Lord Vaizey suggested that this change in thinking had come about on account of the growth of occupational pension schemes in the private sector, fuelled by tax incentives, and of the growth of public sector pension schemes. This created irresistible pressures to raise the standard of pension provision for those not covered by occupational pensions.

Lord Harris supported the project and offered, through the IEA, to provide any intellectual support which Lord Vaizey required. He commended an IEA paper which was to appear shortly by Victor Morgan on the history and future of pensions. Lord Thomas was happy to support the project through the CPS. He thought it would make a greater impact if published as one report rather than a series of documents though some of the results might be published as the study progressed.

The discussion then turned to timing. It was suggested that Lord Vaizey should aim to complete the study within two years which would allow it to be published in the middle of the Parliament. This would keep it clear of the next Election and would avoid conflict with Mr. Fowler's review of pensions which should be completed earlier.

Andrew Turnbull
2 February 1984

u Wafsa
Redwood





10 DOWNING STREET

Prime Minister

The purpose of the meeting is for the IEA / CPS Three to put you in the picture on their proposed study.

Attached are

- (i) their original proposal
- (ii) a synopsis
- (iii) a Policy Unit note.

Unlike the Redwood, I think it is a pity they are not covering health. Without it the claim of a "new Beverage" looks hollow. Alternatively they could explicitly confine study to social security.

Lord Harris has to leave after $\frac{1}{2}$ hour

AA

31/1

PRIME MINISTERTHE VAIZEY REPORT

The idea that Lord Vaizey should look into the workings of the welfare state and develop a new Beveridge is a good one. It is important, however, that it be made clear at the outset that:

- (a) it is quite unconnected with Government;
- (b) it is thinking about the longer-term issues;
- (c) it in no way means that your Government is wavering over the commitments it made in the Election campaign concerning the future of a public health service and public welfare benefits for the life of this Parliament.

There is a danger that the press will say that this is all taking place with Government connivance, and they will then turn to interpreting the run of minor news items from the DHSS as some great plot to shatter the welfare state within the next few years.

The Welfare Problem

The argument on welfare is not as heavily biased against the Government as it first appears. The table beneath sets out the main spending items on welfare:

	<u>£ billion</u> (1983-4)
Pensions	14.7
Health and Personal Social Services	14.6
Other Non-Contributory Benefits & Admin.	19.7
Education	12.6
Housing	2.8

In a way, the debate will be better conducted and furthered by splitting it up into these compartments rather than treating the problem as a whole. In the case of housing, the 1979-83 Government made substantial advances in encouraging home-ownership, and in reducing the burden on public funds. In 1979-80, net expenditure amounted to £4.5 billion, and this had fallen to £2.8 billion by 1983-4. More importantly, the Government is winning the argument on housing. People do have a marked preference for owning their own home wherever possible, and measures have been taken to bring

that dream nearer to reality for many people. The pressure should not be abated, but there is no need for a new Beveridge to cover housing.

In the case of pensions, there is a very real chance that as a result of the semi-open debate taking place with the Fowler Enquiry, the most obvious injustices of private sector pension schemes (namely their unfairness to early leavers and their ability to dissociate the individual from the ownership of the assets) can be solved following the portability enquiry; and there is also the prospect that as a result of investigating the cost and nature of the state earnings-related pension scheme, the Government could move towards its abolition and its replacement by a private sector freer alternative. That debate is going well, and again, there is no particular need for a major upheaval in the way the discussion is going.

In the case of health, the Government has already taken the initiative, and has associated itself with the need to curb spending and gain better value for money. Recent polls show a modest increase in support for the policy from the extremely low level of support it was achieving towards the end of 1983. If the new Griffiths management structure can deliver, delivering both a better-quality service and better cost control, the Government could see its support on that subject pick up quite rapidly. In the meantime, the private sector in health is growing, and many people accept the case for private health insurance. All is not lost in this area either.

In the case of education, many people do opt to pay for their children's education or would like to if it could be brought down to a realistic price. This wish should be built on with the Government assisting in the formation of new direct-grant institutions, which can channel a mixture of state and private monies into an educational middle way.

It is vital that in both the education and the health debates the Government is in no way seen to be - or associated with those who are seen to be - attacking the fundamental principle that everybody has a right to a decent standard of service provided free by the state. To attempt to challenge this right directly

would be to court unpopularity, and would be to misjudge the public mood. Instead, it is acceptable for the Government to find ways of helping those who wish to help themselves.

The remaining area of non-contributory benefits is the one where no progress has been made in either opening up the debate or in winning it. Lord Vaizey should concentrate on exposing churning, the breakdown in the contributory idea and the complexity of the benefit system. Adequate insurance against unemployment, sickness, death of the breadwinner and other misfortunes could be reaffirmed in a new Beveridge.

In conclusion, Vaizey is right to exclude health care and education. It would be right to channel thoughts on pensions into Norman's enquiry. The main aim for a new Beveridge should be to answer the difficult question of how do you make adequate provision for those at the bottom of the pile, without undermining every incentive to climb up for those who have the energy and the capability to do so. There is a desperate need to define poverty and to treat it in a way that is compatible with our relatively affluent society.



JOHN REDWOOD

From: Lord Vaizey

CUMBERLAND LODGE

THE GREAT PARK WINDSOR

BERKSHIRE SL4 2HP

Tel. EGHAM 32316 and 34893

V/DHW

20th January, 1984

- ① cc Mr ~~Tambull~~
Ms ~~Redwood~~
- ② B/H for meeting.

Dear Mr Barclay

DHB
23/1

I enclose the more detailed sheet for our meeting with the Prime Minister on 31st January.

Yours
Vaizey

David Barclay, Esq.,
The Private Secretary,
10 Downing Street,
London, SW1.

P.M. Mtg with local
varz emy 1/24

CAMBERLAND LODGE
THE GREAT HALL WINDSOR
SIXTH FLOOR 214 THE
THE COLLEGE STATION (MONT)

1/24
1/24
1/24

Outline of Proposed Work

1. There will be a full description of the existing 'welfare state', excluding health care and education:
 - a) old age: pensions, supplementary benefit, special concessions (travel) and superannuation and other tax-reliefs.
 - b) sickness and invalidity
 - c) childhood
 - d) unemployment
 - e) low income earners (apart from earlier categories).

This will include all benefits, transport, housing, tax concessions, etc., and charitable activities and an attempt to measure the black and illegal economies.

2. Attempts will be made to measure the numbers in the different categories and the total public expenditure, compared with private expenditure.
3. The questions will be asked as follows:
 - a) what will be the longer-term consequences of the withdrawal of the state (its positive and tax-concessions activities) from some parts of these activities?
 - b) If it is accepted that 'poverty', a term much devalued by the 'poverty lobby', should be replaced by a flexible notion of minimum expenditure levels, for individuals and family units?
 - c) Is it correct to argue as Rudolf Klein does that private provision will always be marginal? It is obviously false with regard to childhood and probably old age, and may also be for low income receivers if their low incomes are a temporary phase in their life cycle.
 - d) What will be the longer term consequences of giving people almost complete freedom to choose the level of provision for their children and their own old age?
4. The proposal will be for Lord Vaizey to do the work, with two fully qualified assistants, and for an advisory committee of appropriate experts, not from the civil service, to be set up.

21 JAN 1984





10 DOWNING STREET

From the Private Secretary

11 January 1984

The Prime Minister is looking forward to seeing you and Lord Harris on 31 January to discuss your proposals for a new Beveridge.

The note which you enclosed with your letter of 28 November provided a most helpful analysis of what has happened to Beveridge's schemes. As an additional input to the meeting the Prime Minister wondered whether it might be possible to expand a little on what is said on page 3 and provide a synopsis of the project as currently envisaged - indicating for example the ground to be covered, the information that would need to be assembled, and so on.

BF // If you agree that such a note would be helpful, could we please have it by Wednesday 25 January.

DB

The Lord Vaizey

MR. TURNBULL

Mr. Barclay

Can you take this
back from me
CR.

What briefing should be commissioned, and 9/2.
from whom?

→ CR.

- (i) Lords Vazgely and Harris could be invited to
to put a synopsis of the project and
perhaps a report on progress to date. This
could serve as the agenda for the meeting.
- (ii) Policy Unit (John Redwood) could provide
a commentary on (i) above.

AT

5 January, 1984.

Mr. Turnbull



10 DOWNING STREET

From the Private Secretary

5 January, 1984.

Further to our conversation on the telephone yesterday, I am going to try and go firm for 0930 on Tuesday, 31 January, for a discussion on "a new Beveridge". I have also written today to Lord Vaizey and Lord Harris, and Andrew Turnbull and a representative of the Policy Unit will also be present at the meeting.

Caroline Ryder

The Lord Thomas of Swynnerton

c.c. Andrew Turnbull
John Redwood



Jee l

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Caroline Ryder

The Lord Thomas of Swynnerton

Centre for Policy Studies,
8 Wilfred Street,
SW1. *



File

10 DOWNING STREET

From the Private Secretary

5 January, 1984.

Lord Vaizey has no doubt told you that the Prime Minister wishes to have a meeting to discuss "a new Beveridge".

This is scheduled for 0930 on Tuesday, 31 January, and I am writing in similar terms to Lord Thomas.

Caroline Ryder

The Lord Harris of High Cross

IEA,
2 Lord North Street,
SW1.



J. H.

10 DOWNING STREET

From the Private Secretary

5 January, 1984.

When the Prime Minister replied to you on 23 December she said that she would like to discuss "a new Beveridge" with you, Ralph Harris and Hugh Thomas.

This meeting is scheduled for 0930 on Tuesday, 31 January, at 10 Downing Street, and I am writing in similar terms to the others.

Caroline Ryder

The Lord Vaizey



10 DOWNING STREET

THE PRIME MINISTER

23 December 1983

Dear John

Many thanks for your letter of 28 November and the stimulating suggestion you make of 'a new Beveridge'. I am sure that you will, as always, produce an original and highly readable report which will be of great value to us. I understand that Nigel Lawson and Norman Fowler would be glad to let you have reasonable access to official material in their Departments.

I shall await your conclusions eagerly. It will be wonderful to have an independent report of such high academic standing.

I should also be pleased to meet you and Ralph Harris and Hugh Thomas in the New Year to discuss the project.

Yours ever
Raymond
—

The Lord Vaizey.

JVF

TUE 31 Jan

MR BARCLAY FOR ACTION

2.30

Caroline

Could you please fix this
(no-one around this week).

Subject: "A new Beverage"

People : John Vaizy
Ralph Harris
Hugh Thomas
Policy Unit
AT.

Brief : Ask AT what should
be commissioned from who

Time : 3/4 hr to 1 hr : no great work.

21 December 1983

MR BARCLAY

JOHN VAIZEY

GR

Please type letter to Lord Vaizey as at X-X
for PM's sig

Done
2/12

I have cleared the question of access with the Chancellor and the DHSS, but both are keen to make it clear that the Vaizey project would be an entirely independent venture. I suggest a reply on the following lines:

X "Many thanks for your letter of 28 November and the stimulating suggestion you make of 'a new Beveridge'. I am sure that you will, as always, produce an original and highly readable report which will be of great value to us. I understand that Nigel Lawson and Norman Fowler would be glad to let you have reasonable access to official material in their Departments.

"Your enquiry will, of course, be entirely independent of Government, although I for one will be eager to read your conclusions.

"I should also be pleased to meet you and Ralph Harris and Hugh Thomas in the New Year to discuss the project."

X I have also spoken to John Vaizey and told him to approach the Private Offices of Lawson and Fowler when he needs information, in order to keep the enquiry as low-profile as possible.

Would you like to fix up the suggested meeting?

FERDINAND MOUNT

fm

Personal & Confidential.



The attached note is not, I hope, a
betrayal of what you told me. You win

With the Compliments

of

ADAM RIDLEY

Special Adviser

See the Ch's approval is given
subject to "outsider" conditions!

Treasury Chambers,
Parliament Street,
S.W.1.

AR 9/12.

Mr Ridley

Tom Mount. Asst of Min
9/12

PERSONAL AND CONFIDENTIAL

X is N
K...
must be @
...
on the ...
...
...
OK. M.

E.12 LTPE

FROM: ADAM RIDLEY
6 December 1983

CHANCELLOR

LORD VAIZEY AND THE FUTURE OF HEALTH AND SOCIAL SECURITY

Ferdy Mount rang me yesterday evening to seek informally your view on the following proposition.

2. Lord Vaizey has suggested to the Prime Minister that he might be able to make a useful contribution to the debate about the future of these two programmes, no doubt seeing himself to some extent as doing a "Beveridge" 35 years after. The Prime Minister, with the support of the No 10 Policy Unit, is inclined to think that there is no harm in letting him do so - it would mean that there was one more outside voice raising the issues, who is not directly associated with the Cabinet or the Government. To that end it will, of course, be necessary to ensure him reasonable access to official statistics and information, provided of course that it is not confidential or otherwise embarrassing. I think it is intended that if you and other key colleagues like Mr Fowler are happy with the idea, Andrew Turnbull should write to a few Departments asking that Lord Vaizey be given reasonable access and assistance - though at some kind of arms length.

3. Mr Mount would like to know soon whether you are content with this proposition. My own reaction is to approve the idea in principle, but to ask one or two practical questions which you may want to satisfy yourself about before you say yes. First, Vaizey is a slightly difficult figure these days, and one can never be quite sure what will be the outcome of something he is involved in. [Lady Young warned me at some length earlier in the year of the difficulties which he caused in the House of Lords on their special committee on unemployment.] There is, equally, always the risk of odd things going wrong in the search for data and approaches he may make to Departments, though I would have thought that the risks here are relatively small. Finally, one wants to make sure that the output of his work comes to the Prime Minister, you and other Ministers responsible in the first instance, and is in no way likely to leak elsewhere. Ferdy tells me that that is the present intention; but if so, we should obviously underline it.

X/

✓✓✓

Y/

PERSONAL AND CONFIDENTIAL

4. If you could let me know your views in the next day or two, I think that would help No 10 greatly.

AN

A N RIDLEY

Ferdie
We agreed you would
clear X on Special Adviser
network.

AT
5/12

PRIME MINISTER

John Vaizey wants:-

- i) Help from Departments with statistics
(mainly checking rather than production
of analysis).
- ii) Assurance that you will not allow
an establishment Beveridge which will:-
 - a) produce the wrong answers
 - b) devalue his study into evidence
to the larger study.

Agree a letter as suggested by Ferdie?

x | But out of courtesy to the Chancellor
and SS/DHSS we ought first to clear access
to their officials. Agree?

Agree a meeting?

2 December 1983

Yes
mt.

AT

2 December 1983
Policy Unit

PRIME MINISTER

JOHN VAIZEY

John Vaizey wants to carry out a "new Beveridge" with the backing of the CPS and the IEA.

He does not seek public funds. What he wants from us is access to official material and perhaps some assistance with checking calculations. I think it would be easy enough to give him this much help without seeming to endorse whatever conclusions he may come to.

His other point is that it might be counter-productive to carry out such an exercise within government or by means of a Royal Commission. This may well be true. However, Norman Fowler has at present no intention of carrying out a review of health and social security on anything like such an ambitious scale.

The principal features of Beveridge were:

- (a) the he was a one-man enquiry; and
- (b) that he was responding to a general consensus at the time that health and social security schemes should be brought together and rationalised in a national framework.

There is, I think, no such consensus operating today about how the present system should be reformed. So the best thing to create a climate is for independent investigators like John to go ahead and make their own reports. I suggest that you might like to reply to John welcoming his proposal to carry out an independent enquiry into health and social security, and saying that the relevant government departments would of course be glad to make available the necessary statistical material to a researcher of such distinction.

John also says that he would like to come and see you with Hugh Thomas and discuss the proposal, which you might find helpful.

FERDINAND MOUNT

fm

From: Lord Vaizey



K30/4

V/DHW

28th November, 1983

My dear Margaret

The Financial Times today discussed the possibility of a new Beveridge. I try not to push my own claims forward with my powerful friends, but I think you ought to know that Hugh Thomas, Ralph Harris and I have been talking this over and we have a proposal for me to conduct such an enquiry.

May I tell you what my fears are? The DHSS, for better or for worse is still imbued with the idea that the National Health Service and Beveridge represent the highest degree of wisdom. If the review is carried out from there I think we shall have another disaster on our hands like the Royal Commission on Health which just proposed more and more money from the Exchequer. If you go for an academic the name which will emerge will undoubtedly be that of some bland figure who will not come up with anything of any great significance. It seems to me that there is no use pretending that the debate on the future of the welfare state is not going to be a matter where the left and right will disagree. From our point of view then something conducted by the CPS and the IEA will be desirable, and if the left like to do something through the SSRC and NIESR that is their prerogative. I do beg you not to close any options till Hugh and I have been to see you.

Yours ever

John

The Rt. Hon. Margaret Thatcher, MP.,
No. 10 Downing Street,
London, SW1.

A New Beveridge

In 1909 Britain, though rich by the world standards of the time, was a country full of relatively poor people, 95% of whom lived in rented accommodation. There was a Poor Law which provided infirmaries for the indigent, old age pensions had just been introduced and there was a system of out-relief to supplement private benefit schemes run by trades unions and friendly societies. It was against this background that Beatrice Webb produced her Minority Report of the Poor Law Commission which sketched out a plan for what is now called the welfare state.

In 1942 Lord Beveridge was given the brief of working out a fully-fledged post war system of social security to replace the patchwork which had evolved in the year 1920 to 1939.

His one-man report harked back to the principles of 1909. In place of the patchwork it proposed two major schemes. The first was a universal national provision of health care, free of charge to the patients. This had two implications. All existing schemes were to be swept away, so that in place of the 'panel' system, which paid for medical care for most male manual workers, there was a universal panel system; and almost all the provision of medical care was made a state monopoly.

The other area of Beveridge's war on poverty was the proposed adoption of a system of national insurance which would embrace financial provision of old age pensions, sickness and unemployment benefit, without means test, at a

flat rate, in return for universal contributions at flat rates by employees and their employers.

With various adaptations the Beveridge schemes came into operation on 5th July 1948. In the 36 years since then major changes in the schemes have come about.

The NHS has proved a far heavier charge on the public finances than ever foreseen, and it now faces a squeeze between legitimate public expectations for medical care, based on medical advance, and the ability of the Exchequer to provide such care. An affluent population is increasingly driven to make provision for its own care privately. This problem will rapidly develop. A proposal for radical reform is contained in the present author's 'The National Health' (Martin Robertson, February 1984).

The national insurance scheme has been radically altered. The flat rate benefit has been replaced by a two-tiered system, of a basic benefit plus an income related payment. The setting of the basic rate of benefit was to have been above the so-called 'poverty' level. It has never been so, at any time. In consequence the safety net of National Assistance (since renamed Supplementary Benefit) designed for a few cases, has become an integral part of the scheme for many millions of beneficiaries. The insurance principle has been largely abandoned, in favour of a pay-as-you-go system for the main benefits. In addition a host of 'special' benefits, for rents and mortgage payments, the disabled, and other categories, have been added to the structure of public social security. The result is as complex and capricious as the system that Beveridge sought

to replace.

Alongside this public system of social security a vast private system of benefits has grown up, often aided by substantial tax-reliefs, including redundancy payments, pension arrangements and sickness cover. One of the major sources of income maintenance is the growth of property ownership.

The questions that pose themselves are:

1. Is it possible to describe the existing welfare state in all its complexity, simply and clearly?
2. Is it possible to describe not only income maintenance but health care and housing, so that a true picture is given of the distribution of costs and benefits?
3. Is it possible to analyse the work of the 'poverty lobby' to see whether it has adequately diagnosed the problem?
4. Is it possible to present a coherent reform of the ramshackle structure on an acceptable basis of financial viability, equity and compassion?

On the assumption that the answer to these questions is "yes", it is proposed to mount a two year project conducted by the present author. There will be no supervisory committee, from which agreement is sought, except that a group will be necessary to monitor progress and to keep the accounts.

The following two year budget is required: £

The investigator - professorial salary	40,000
Research assistant on health services	20,000
Research assistant on social security	20,000
Support costs	<u>50,000</u>
	150,000

It would be essential to gain the support of the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Social Services for access to official material.

