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Chapter Title: Government Expenditure by Economic and Functional Categories

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## CHAPTER 5

### Government Expenditure by Economic and Functional Categories

WE have now established that the secular growth in British government expenditures relative to GNP, and the pattern of displacement in that growth, cannot be completely explained by the "permanent" influences affecting government spending, or by the direct effects of war in making increased expenditures continuously necessary, or by these two influences operating together. We shall next examine the data from other points of view, in order to discover what further characteristics of the displacement effect have been important to the nature and timing of expenditure growth. To do this, we shall have to examine the statistics of government expenditure classified by economic categories (capital and current expenditure, goods and services, and transfer expenditure) and according to function, and try to account for the behavior of the statistics when so classified.

We hope with these reclassified statistics to learn something about the indirect effects of wars on government expenditures. However, the indirect character of these effects makes for difficulties in interpretation. The statement that an increase in war pension payments after a major war was "caused" by that war is unlikely to mislead anyone seriously. But can we say with equal clarity that the British Health Service, for example, was the consequence of World War II—inviting the inference that had the war not occurred, the Service would not have come into existence?

This difficulty was explained in Chapter 2. The impact of social disturbances upon the enduring level of public expenditures must be seen as the consequence both of the displacement effect generated by the disturbances (in releasing governments from the "bonds of the revenue," in creating new social ideas, and in stimulating innovation in the fiscal system) and of the pre-existent socioeconomic environment in which the disturbances occur. That is, the consequences of wars, for example, are dual in nature; they change the society in which they occur, but are themselves conditioned by the existing characteristics of that society. It is clear, therefore, that we must place our statistics against a background which brings out the relevant facts of history, bearing particularly upon the control of public expenditures and upon the attitudes of government and people to the functions of government and hence to the mechanics of such control.

#### *"Expenditure Depends upon Policy"*

We believe that the displacement effect of wars upon government expenditures, insofar as it is not explicable by changes of the kind dis-

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cussed in the last chapter, must be the consequence of the wartime weakening of checks that inhibit the rate of growth of public spending in more normal times. Clearly, therefore, the importance of the displacement effect at any time depends partly upon the government's attitude toward public expenditures, which will influence its willingness to take advantage of the opportunities for expansion created by war, and partly upon how war affects the government's permanent ability to raise revenues, either by the changes it induces in the ideas of citizens as to what is tolerable or by its effects upon the technical scope of the government's revenue-raising activities. Associated with these influences, but distinct and important enough to require separate consideration, is the fact that the growth and pattern of expenditure may also be affected by changes in political organization which touch upon the control of expenditure. In each of these three respects—attitudes toward public expenditures, war-induced changes in social ideas about tax burdens and in technical revenue-increasing possibilities, and changes in political organization—the British economy has seen important developments over the last century.

The secular rate of growth of government expenditures relative to GNP during our period is in striking contrast with the relative rate earlier in the nineteenth century. Perhaps the contrast can be explained in part by the absence in the earlier period of major social disturbances, other than the Napoleonic Wars, and by the fact that the rapid rate of growth in community output in the second half of the century gave scope for increasing the absolute size of government expenditures without the need to increase the share of the public sector in total output. But this leaves unexplained the apparent failure of even the Napoleonic Wars to cause any observable permanent increase in the share of government. It might be argued that a displacement effect did occur but cannot be seen in the global statistics because of the great importance of debt interest payments in that period. Thus, when debt payments were later reduced after being inflated by the Napoleonic Wars, there was no equivalent fall in total expenditure, but some of the "slack" so created was taken up by increases in expenditures of other kinds. In the light of the statistics and reasoning set forth in Chapter 3, such an argument is plausible. But it does not provide a complete explanation of the difference between the periods. There have also been important developments in the attitude of the government to public spending. Minimization of expenditures was an aim widely accepted in Parliament in the nineteenth century, and Parliamentary differences were concerned rather with the methods to be used to raise revenues. This attitude to expenditures, exemplified in the view held by Gladstone and others that it was "a rule of finance that governments should reduce their expenditures," stemmed from a particular

interpretation of the concept that "expenditure determines policy."<sup>1</sup> This statement, admittedly a truism, has been of great importance in the practical development of the British system of public finance. Its application as a doctrine of policy falls into two distinct periods, in which it was interpreted first as a concept of retrenchment and later as a doctrine of expansionist public finance. There was of course never complete agreement with either interpretation. On the one hand, there was always some opposition to the philosophy of retrenchment from those who gave at least limited support to what Harcourt castigated as "the fatalistic doctrine of progressive taxation." On the other hand, as late as the third decade of the twentieth century, when Harcourt's views had fallen generally into disfavor, Hilton Young (Lord Kennet) could still write in a well-known book that "all the financial operations of the State are an unmitigated evil which is, unluckily, necessary. It is an evil, although a necessary one, that the State should have to collect and spend a revenue. A tax is a bad thing and not a good thing . . . . Could we do without taxes altogether, we should all be better off."<sup>2</sup> But despite these exceptions, it is reasonably clear that until about the 1880's "expenditure determines policy" was for practical purposes a doctrine of retrenchment, and that it thereafter became a justification for the expansion of the public sector.

The doctrine of retrenchment did not, however, derive simply from an objection to "wasteful expenditure"; it was an operating principle of public finance and depended upon a particular theory of employment and the conclusions of that theory for tax policy.<sup>2a</sup> Incomes should be left large enough for people to meet their needs; taxes (i.e., indirect taxes) impose a burden upon productive industry and in so doing induce unemployment and poverty. Such a view, dependent as it is upon a deficient theory of the economic consequences of taxation and public expenditures, led naturally to the proposition that government expenditures should be kept to the minimum, and that economy rather than any conception of efficiency should be the yardstick for deciding upon any change in tax and expenditure policy.<sup>3</sup> In Gladstone's words, "the cost of any policy would generally be about the sole element in deciding its desirability."

<sup>1</sup> It is also well illustrated by Bright's abortive motion of 1870 that the budget should have an absolute limit of £70 million.

<sup>2</sup> E. Hilton Young, *The System of National Finance*, London, 1924, Chapter X, p. 221.

<sup>2a</sup> See B. A. Corry, "The Theory of the Economic Effects of Government Expenditure in English Classical Political Economy," *Economica*, February 1958.

<sup>3</sup> There is evidence that the notion of efficiency was considered as a positive threat to wise administration. Thus, Sir Winston Churchill writes of expenditure on military services "It may begin in all individual earnestness in a simple demand for the reduction of expenditure. That is the first stage. But in the process of the controversy, the movement has been insensibly and irresistibly deflected from the original object. It began in a cry for economy; it has become a cry for efficiency. That is the second stage. The third stage becomes an agitation in favour of an increase of expenditure and a more lavish establishment." *Lord Randolph Churchill*, new ed., London, 1952, Vol. II, p. 313.

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Together with this general attitude, the doctrine of retrenchment incorporated a special element which is of peculiar interest from our point of view. This is the importance attached by the proponents of retrenchment to the consequences of war. They saw the possibility that the large expenditures necessitated by wars would be continued afterwards, because the government could always find uses for the extra money, and they regarded this as a danger to be guarded against. The doctrine of retrenchment thus not only helps to explain the slow secular growth of government expenditures when ideas of retrenchment prevailed as compared with later years, but also provides a reason why the displacement effect of wars should be less marked than it has since become; there was a demand in Parliament for restriction of the extent to which government revenues and expenditures should be allowed to be permanently influenced by war.

Dissatisfaction with the doctrine of retrenchment, and a new interpretation of "expenditure depends upon policy," developed in the 1880's, at the beginning of our period. Retrenchment was itself becoming a less plausible doctrine intellectually with the growth in importance of the income tax. This "temporary," almost accidental by-product of the repeal of the Corn Laws drove those who continued to inveigh against growing taxes and expenditures to shift their ground, first to the unsatisfactory effects of the income tax on enterprise and then to the wider discussion of concepts of taxable capacity. At the same time, a philosophy of expansion was being positively encouraged by the growth of the idea that government spending might actually generate incomes. This, in turn, was clearly related to the growth of "popular democracy" following the widening of the franchise in 1884, and to a wider interpretation of the functions of government. By the 1890's, Harcourt, whose support for retrenchment persisted, was saying that "a Chancellor preaching against extravagance is the voice of one crying in the wilderness," and Goschen could dismiss objections to the growth of expenditure simply as "bunkum." The era of "social socialism" had begun; there could be no more complete contrast with Gladstonian finance than Lloyd George's assertion in 1908 that "No one need be afraid of any taxes being taken off in my time." Prophetically, some Fabian socialists saw these developments in state activity as a danger to the growth of "industrial" socialism.<sup>4</sup>

The development of doctrines of expansionist finance did not mean, of course, that all desire to limit the size of government expenditures disappeared. Criticism of the new doctrines was continuous, and further evidence of disagreement is to be found, for instance, in the 1922 Committee on National Expenditure, which suggested (unsuccessfully) a scheme for rationing government departments to keep expenditures in

<sup>4</sup> Cf. Hubert Bland, "The Outlook," *Fabian Essays in Socialism*, 3rd ed., London, 1931.

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check. More important, while policy was becoming more generally regarded as the significant matter and expenditure as its passive consequence, governments still had to take account of what citizens would tolerate by way of taxation. The important change thus lies in the government's attitude to public expenditures, in the relaxation of its desire for retrenchment for its own sake, and in the consequent shift in the effective restriction of the size of public expenditures away from what the government wished and toward what the electorate, broadened by the widening of the franchise, would allow (by tolerating the implied tax burden). From the 1880's, then, the notion of taxable capacity began to replace the doctrine of retrenchment as the effective curb on government expenditures. But it was a less concrete concept than retrenchment and hence a less severe curb—particularly in that it provided no similar check upon the upward displacement of expenditures by wars. In consequence, the secular rate of growth of government expenditures became much faster and continued so throughout our period. Wars, which were seen earlier as dangerous invitations to later extravagance, now became simply the periods in which community ideas about the tolerable burden of taxation underwent enforced revision. As Ursula Hicks puts it, "the high level of taxation which can be established in wartime, almost without protest, conditions taxpayers to permanently higher exactions."<sup>5</sup>

This revision of ideas is to be clearly seen over the period of the two World Wars. Sir Bernard Mallet has recorded that before World War I Sir Robert Giffen was thought by some authorities to be taking an extreme view in suggesting that 10 per cent of national income was a reasonable proportion to appropriate for public purposes.<sup>6</sup> After that war, as Mallet points out, an actual proportion of between two and three times that size did not excite general disapproval; the famous Colwyn Committee of 1927, for example, took the view that "the present taxation . . . is not one of the main causes of industrial difficulty."<sup>7</sup>

Since World War II, the proportion has approached 40 per cent, and while (as always throughout fiscal history) there has been no lack of complaint that the burden of taxation is too heavy, the objections have not yet persuaded any British government drastically to reduce the scope of its activities. It is consequently not easy to find an answer to Mallet's wry comment that "percentages are never so convincing as practical experience."<sup>8</sup> During this later period, indeed, the doctrine of expan-

<sup>5</sup> Ursula K. Hicks, *British Public Finances, 1880-1952*, Oxford, 1954, p. 13. See also A. M. Cartter, *Redistribution of Incomes in Post-War Britain*, New Haven, 1954.

<sup>6</sup> See Sir Bernard Mallet and C. O. George, *British Budgets*, 3rd ser. (1921-22 to 1932-33), London, 1933, p. 464.

<sup>7</sup> *Report of the Committee on National Debt and Taxation*, H.M.S.O., Command Paper 2800, 1927. The detailed argument is to be found in the Majority Report, paragraph 702

<sup>8</sup> Mallet and George, *op. cit.*, p. 465.

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sionist finance has been further encouraged by the growing acceptance (connected with war, as we shall later show) of government action in directions formerly considered outside its scope, and by the encouragement given to ideas of "income generating" expenditures by the interwar depression years. Expenditure is now no longer a matter of defraying the expenses of government; it has become an instrument of economic policy. Finally, over the period of World War II, we find the doctrine of retrenchment being stood completely on its head, with the acceptance of the "new orthodoxy"—the Keynesian doctrine which sees government expenditure not as a source of unemployment but as a possible instrument for its cure.

It is clear, then, that changes in government attitudes have been of great importance in encouraging an increased rate of growth of British public expenditures. Also, this examination of the first of the three influences singled out for study on page 63 has thrown some light upon the second—the influence of war on the government's ability to raise revenues. Perhaps the most reliable of economic predictions at any time is that citizens will dislike being asked to pay more taxes. Nevertheless, we have seen that, once governments ceased actively to oppose the growth of government expenditures, the views of citizens about tax burdens were not alone enough to prevent such growth. Whenever wars effectively destroyed existing ideas about tax burdens, the government, now that it had a mind to, was able to increase the scope of its exactions. Also, the changing ideas about the role of government, already referred to, affected citizens as well as governments. Despite the ability of individuals to hold incompatible views about the scope of government activities and about the tolerable burden of taxes, these changing ideas can have made the acceptance of successively higher postwar tax levels at least no more difficult. In particular, the widening of the franchise increased the political importance of the group most likely to believe that public expenditures should be increased for their benefit, but that the necessary revenues should be raised from others (the richer) by such means as progressive taxation. Finally, revenue raising (and hence the growth of expenditures) has been facilitated by wars in a technical fashion, by the widening of the tax opportunities of governments and the consequent reduction of the difficulties of expansion. The tax system, indeed, provides a special and important instance of the "inspection effect" of war. The exigencies of periods of crisis make possible the general revision of the tax system, producing far-reaching permanent changes, and experimentation with new tax sources also becomes possible. In our period, the result has been to produce a considerable widening of the fiscal system, making taxes easier to raise and expenditures easier to envisage. To illustrate, experience obtained during World War I in the techniques and administrative

problems of assessing lower income groups for income tax provided the foundation for the permanent extension of that tax. Similarly, the pay-as-you-earn system, through which a considerable proportion of the population now has income tax deducted at source, was introduced during World War II. It was also during this later period that the purchase tax was first introduced—as a “temporary” expedient—and the revenue-raising potentialities of the tobacco tax came to be fully appreciated. These changes are merely illustrative and could be multiplied without difficulty.

It remains to consider the third influence on the nature and importance of the displacement effect, namely, the character of, and changes in, Parliamentary institutions and organization. Continental writers have interpreted the changes described so far as an illustration of a general development common to many countries; they are seen as the British manifestation of the evolution of the public sector from a “participating system” (*Anteilssystem*) into a “control system” (*Kontrollsystem*).<sup>9</sup> One of the reasons suggested for this evolution, to which Schmolders in particular pays attention, is the growth of a “favorable attitude of Parliaments towards spending.”<sup>10</sup> The position of parliaments (the representatives of the people) *vis-à-vis* the governments (the executive bodies) has been reversed, it is argued, by changes in the nature of the parliamentary decision-taking process. In their earlier manifestations, parliaments operated as a brake on the tendency of the sovereigns to increase expenditure. Nowadays, it is usually governments that need to try to prevent parliaments from introducing spending that would necessitate additional revenues. This is a not unrealistic description of what has happened in Britain, although the powers of the Sovereign in money matters had been considerably curtailed before the beginning of our period. Rather, what has now changed is the position of the Chancellor of the Exchequer in the government, and the position of Parliament in relation to both.

British Chancellors of the Exchequer have always complained that the House of Commons exercised its influence in favor of increasing rather than reducing government expenditures; it is natural that the propensity of individuals to consume public services should encourage their representatives in Parliament to press for such services.<sup>11</sup> So long as it persisted, however, the doctrine of retrenchment kept this influence in check. There

<sup>9</sup> See F. K. Mann, *Die Staatswirtschaft unserer Zeit*, Jena, 1929, and G. Schmolders, *Finanzpolitik*, Berlin, 1955, pp. 132–133. H. Laufenburger, *Finances comparées*, Paris, 1952, describes the evolution as from the “*État gendarme*” to the “*État providence*” and then to the “*État faustien*”!

<sup>10</sup> “*Ausgabenfreudigkeit der Parlamente*,” *ibid.*, pp. 138–139. On this point, see also Drees, *op. cit.*, pp. 67–69.

<sup>11</sup> See D. H. MacGregor, *Public Aspects of Finance*, Oxford, 1939, Part I, especially pp. 62–65.



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were few items of policy involving expenditure about which disagreement was possible, and in such circumstances close centralized control over the spending departments could be exercised by the permanent officials of the Chancellor's own department, the Treasury. Indeed, in the days of broad agreement about expenditure policy, Treasury control could be more continuous than the governments themselves, since successive Chancellors, even when of different parties, tended to accept the same permanent Treasury view.<sup>12</sup> At the same time, the Treasury and the Chancellor stood at the center of the system of cabinet government. "It used to be the distinguishing feature of the British administration," said Parnell, "that the Treasury was its heart . . . the other departments were necessarily subordinate." This placed the Chancellor in a special position, for "the control of the Treasury is neither more or less than the personal influence of the Chancellor upon the Cabinet."<sup>13</sup> Such a situation, possible while the public economy remains a participating system based upon the doctrine of retrenchment, meets difficulties as retrenchment is abandoned and a widening scope of public activities (the control system) becomes acceptable. Thus in 1919 Mr. Baldwin, Financial Secretary to the Treasury, could point out that a minister appealing to the Cabinet against a decision of Mr. Gladstone would have met a hostile Cabinet, ". . . which in nine cases out of ten would back the Treasury. The whole outlook to-day is changed . . . and all large items are controlled, not by the Treasury, but by the policy of the Government, and if the Chancellor raises objection, and the Minister takes the matter to the Cabinet, the natural bias will not be against the expenditure but in favour . . . the House of Commons itself would in nearly every case support the Government which was spending the money on purposes of social amelioration." That is, the "changed attitude of Parliaments to public spending" is really in the case of Britain a reduction in the powers of the Chancellor of the Exchequer to prevent such spending. Formerly those powers and the efficacy of the Treasury control which flowed from them could render any Parliamentary pressure for increased spending ineffective. To-day, while the Chancellor is still one of the most important members of the Cabinet, his prime duty is to propose the means by which the revenues needed to implement government policies should be raised. His authority over expenditures is limited to the support he can obtain in Cabinet discussion.<sup>14</sup> As a corollary, the nature of Treasury control has altered. It has become less concerned with "the saving of candle ends" and more with the "efficient" allocation of resources as between public and private

<sup>12</sup> Churchill, *op. cit.*, pp. 179-180.

<sup>13</sup> *Ibid.*, p. 184.

<sup>14</sup> The resignation of Mr. Thorneycroft in early 1958 is a case in point.

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uses,<sup>15</sup> thus remedying the deficiency complained of by Sir Robert Giffen.<sup>16</sup> This is not to suggest, of course, that the traditional functions of the Treasury have completely disappeared; they are still manifested, for example, in the Treasury examination of departmental projects to be included in the Annual Estimates so as to ensure "value for money." But the Chancellor and the Treasury no longer have their former authority or efficiency in curbing the growth of public spending; the only important obstacles to such growth now are the fear of political consequences of the concomitant need to raise more taxes, and the possible economic (incentive) consequences of that need. Clearly, such a situation enhances the possibility of upward displacements at times of social disturbance.<sup>17</sup>

In the light of this review of parliamentary and social history, we turn to the actual expenditure statistics, classified by economic and functional categories. Clearly, we cannot hope to see the changes in social ideas, in fiscal techniques, and in political control over spending reflected in neat and unambiguous fashion. We must expect them to affect both the secular behavior of expenditures and the displacement generated by periods of social disturbance, and the precise explanation of displacement in particular cannot be free from speculation. How far wartime displacement has been in some sense the fundamental cause of expenditure growth and how far it has operated only upon the growth's timing cannot be determined by statistics. The most we can hope for is that the data will lead us toward those further facts of history that are of relevance to an understanding of the growth in British public expenditures, and it is by its success in this that the displacement hypothesis should be judged.

### *Expenditure by Economic Categories*

Two broad divisions of government expenditure invite examination: expenditures on goods and services and upon transfers, and on capital and current account.

#### EXPENDITURE ON GOODS AND SERVICES AND ON TRANSFERS

Not all government expenditures imply the exercise of direct claims on the country's real resources, since some part of the expenditure consists of transfer and subsidy payments. Consequently, a study of "resource

<sup>15</sup> Sir Edward (now Lord) Bridges, in "Treasury Control," Stamp Memorial Lecture, 1950, p. 9, ascribes this change to the effects of World War I on traditional ideas about government spending.

<sup>16</sup> See Chapter 3, first section.

<sup>17</sup> Further and illuminating discussion of the development of political and ideological views in Britain, and of the changing character of British government, is to be found in Moses Abramovitz and Vera F. Eliasberg, *The Growth of Public Employment in Great Britain*, Princeton University Press for National Bureau of Economic Research, 1957.

TABLE 5

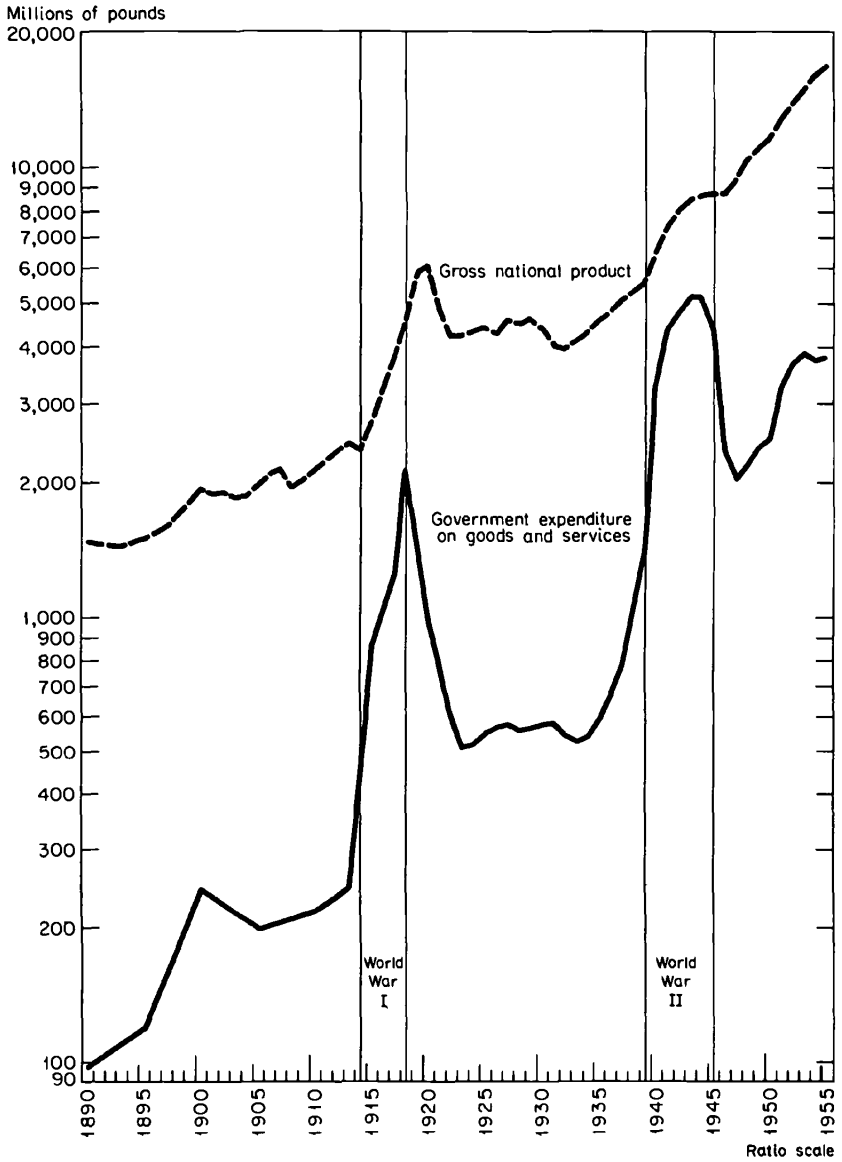
GOVERNMENT RESOURCE USE AND GROSS NATIONAL PRODUCT, AT CURRENT AND 1900 PRICES,  
SELECTED YEARS, 1890-1955  
(amounts in millions of pounds; index, 1900 = 100)

Government Expenditures	1890	1900	1910	1920	1928	1933	1938	1950	1952	1955
1. On goods and services										
Money, current prices	96.9	244.6	216.9	989.6	560.6	527.4	1,041.4	2,508	3,689	3,810
Index	40	100	89	405	299	216	426	1,025	1,508	1,558
Real, 1900 prices	98.9	244.6	211.1	348.6	285.1	306.4	556.3	646	819	796
Index	40	100	86	143	117	125	227	264	335	325
2. On transfers and subsidies										
Money, current prices	33.7	36.2	55.1	602.5	534.1	538.6	545.6	2,031	2,088	2,333
Index	93	100	152	1,664	1,475	1,488	1,507	5,610	5,768	6,445
Real, 1900 prices	34.4	36.2	52.5	216.7	269.7	309.5	294.9	549	492	513
Index	95	100	145	599	745	855	815	1,517	1,359	1,417
3. (1) as percentage of GNP										
Money	7	13	10	16	12	13	20	22	26	23
Real	7	13	10	16	12	13	20	21	26	23
4. (1) as percentage of total expenditure										
Money	74	87	80	62	51	50	66	55	64	62
Real	74	87	80	62	51	50	65	54	63	61

Source: Appendix Tables A-11 and A-12.

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CHART II  
Government Expenditure on Goods and Services, and Gross  
National Product, at Current Prices, 1890-1955

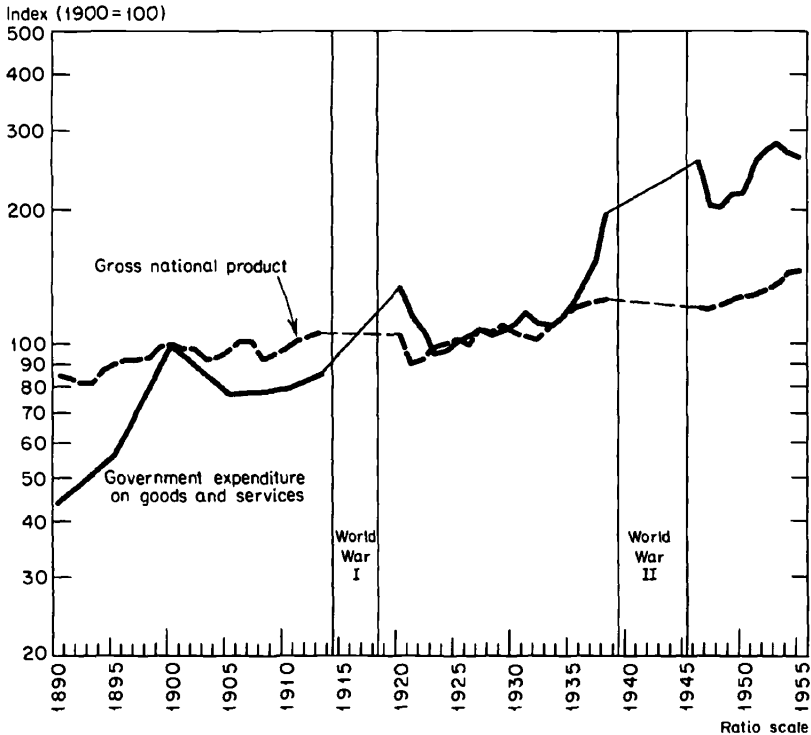


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using” and other expenditures is a useful first step toward elucidating the residual elements of the displacement effect.

The relevant material is contained in Table 5 and Charts 11 to 14 and in Tables A-11 and A-12. From these, it is clear that the secular rate of growth of the government's direct claims on community product (as measured by its expenditures on goods and services) is still impressive, if somewhat less than the rate of increase in government expenditures as a whole. The index of money expenditures on goods and services per head of population rose from 43 in 1890 (1900 = 100) to 381 in 1920 and 1,258 in 1955. In real terms, a similar index moves from 100 in 1900 to 263 in 1955. Over the whole period, this rate of increase is a good deal faster than that of GNP; the proportion of expenditure on goods and services to GNP was 7 per cent in 1890 and 23 per cent in 1955. Further, the statistics and Charts 11 to 14 also suggest that expenditure on goods and services at least shared in the upward displacement of wars, although

CHART 12  
Indexes of Government Expenditure on Goods and Services, and  
Gross National Product, per Head of Population, at 1900 Prices,  
1890-1955



it did not of course account for all of it. Government expenditure on goods and services was taking about 7 to 10 per cent of GNP up to World War I and 12 to 15 per cent between the two wars (until the rearmament campaign in the late 1930's which preceded the outbreak of World War II). Since World War II, the proportion has risen to well over 20 per cent for most of the years recorded. The effect of social disturbance upon spending on goods and services, that is, was less marked at the period of World War I than at that of World War II.

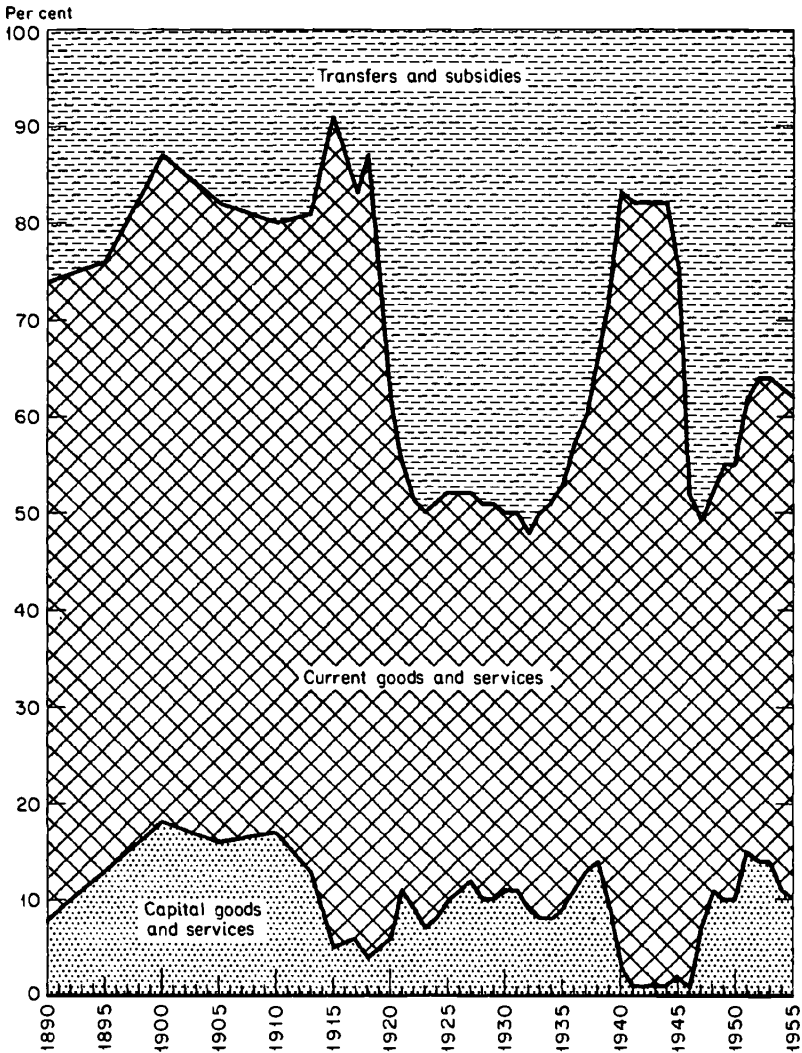
The reason for this contrast is to be found in the changing relative importance of government expenditures on goods and services and on transfers. We have already observed the great importance of transfer payments (chiefly interest on the national debt) during the nineteenth century. Such payments had begun to take a smaller part of total expenditures, however, well before the turn of the century, as debt interest payments began to decline in relative importance. This growing importance of spending on goods and services continued between 1890, when such spending accounted for 74 per cent of all government expenditures, and 1900, when the proportion was 87 per cent (Table 5, Chart 13). Thereafter, transfers became of rather greater significance once more; by 1913 only 81 per cent of all expenditure was for direct government consumption. Following this, there was a quite marked increase in the relative importance of transfers over the period of World War I. As against 19 per cent of total government spending going to such purposes in 1913, as much as 45 per cent of government expenditure was for transfers in 1921 and a half of all spending was of this kind in 1923. That is, the time of World War I saw an important growth in government activities involving transfers, since these took less than one-fifth of all spending before the war and around one-half after it. It is not difficult to identify some of the kinds of expenditure that must have helped cause the change. One cause we have observed earlier and discuss further below: debt interest payments again became a significant part of total expenditure. But to a considerable extent, also, the change must have been due to the great extension in the coverage of unemployment insurance, from two and one-quarter million workers before 1914 to nearly twelve million after the Unemployment Insurance Act of 1920, and to the increased scope and higher real benefits of health insurance which became relevant around the same time. This in turn provides an interesting commentary upon the effects of unemployment on public expenditures. Periods of depression may have changed social ideas, but it is after a period of war that we see those ideas translated into effective social action.

By way of contrast, the pattern since World War II shows the share of expenditures taken by goods and services as being similar to that of the interwar years up to 1950, and higher and more variable thereafter.

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Certainly there has been no change comparable to that after 1918; the displacement effect in this later period implied a general increase in the claims of government rather than a relative growth in either transfer or resource using activities. This difference is partly but not completely

**CHART 13**  
**Percentage Distribution of Total Government Expenditure, by**  
**Economic Category, at Current Prices, 1890-1955**

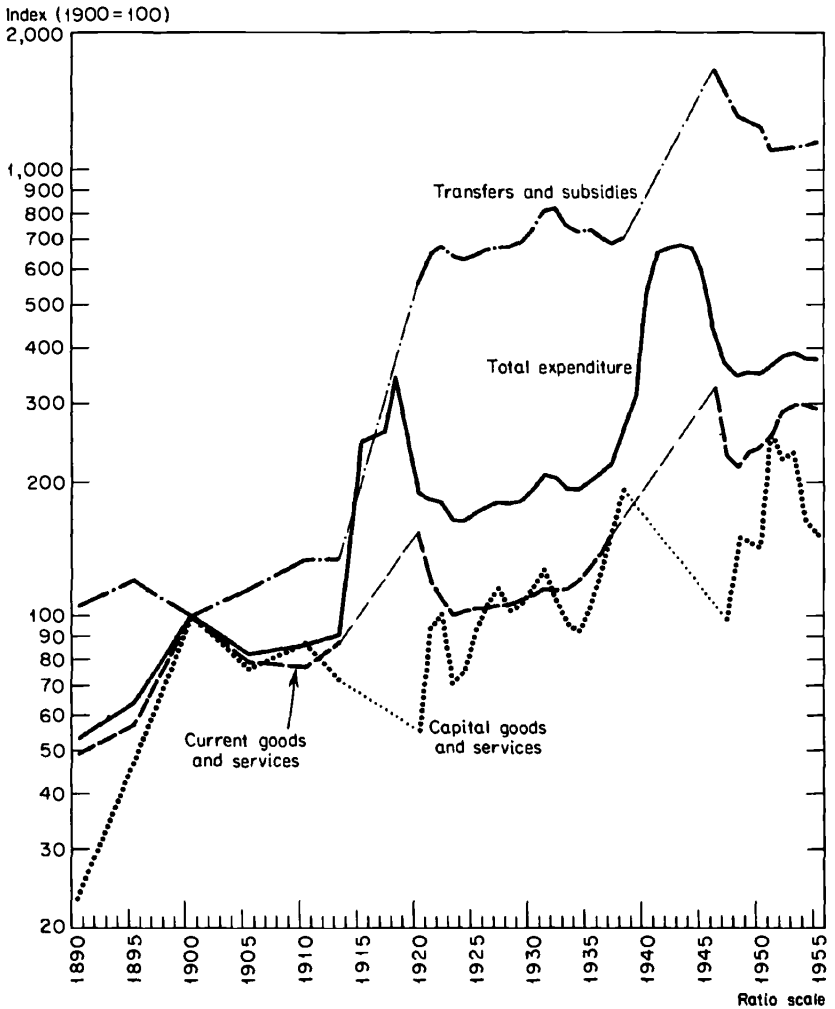


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explained by the continuous full employment that Britain has experienced since World War II, with the consequent minimization of unemployment transfer payments.

Finally, from a secular point of view, resource-using expenditures, while much larger in absolute size, constitute a smaller proportion of all government expenditure at the end of our period than at the beginning.

**CHART 14**  
Indexes of Total Government Expenditure, by Economic Category,  
per Head of Population, at 1900 Prices, 1890-1955





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### EXPENDITURE ON CURRENT AND CAPITAL ACCOUNT

Table 6 and Charts 13, 14, and 15 show that government expenditure on current account, both in total money terms and in real terms per head, rose during our period at a much faster secular rate than GNP. Such expenditures were 8 per cent of GNP in 1890 and 35 per cent (in real terms) in 1955. Chart 15 also shows clearly that the rise follows the now familiar pattern of displacement: the share of government current expenditures was between 8 and 11 per cent up to 1913, 22 to 26 per cent between the wars, and 38 to 35 per cent after World War II.

Capital expenditure behaved rather differently. During the period 1900-55, when the index of real current government expenditure per head was rising from 100 to 425, a similar index of expenditure on capital account rose only from 100 to 152, not much faster than that of real GNP. But the comparison is a little misleading; four years earlier the index of capital expenditures had been 70 per cent higher, at 258. In fact, capital expenditures followed a less regular trend than expenditures of other types, and changes in their importance bear a less neat relation to the incidence of wars. This is clearly brought out in Chart 13, in the curve showing the percentages of total government expenditures devoted to current and capital purposes.

This irregularity of capital spending suggests that expenditure on current account explains most of the phenomenon of displacement; this was in any case inevitable since current expenditures have at no time accounted for less than 82 per cent of all government spending. The irregularity of expenditure on capital account is itself not particularly surprising. By definition, capital expenditures create durable assets, and such expenditures must, therefore, tend to occur irregularly. Also, the well-known phenomenon of "bunched investment" can affect public as well as private investment, and there are two sorts of reasons for expecting it to do so. First, the idea that spending on capital projects might help the unemployed did not begin with Keynes, though he gave it intellectual plausibility. The direct effects of capital spending are obvious enough, and after the breakdown of the doctrine of retrenchment there was no overwhelming argument against such spending. Consequently, over most of our period we find growing pressure for capital spending in time of unemployment. When such spending occurs it tends to reduce the volume of investment spending required later. In contrast with current relief payments in time of unemployment, for example, it is a transfer of expenditure in time rather than a simple addition to the total of government spending. Thus, investment spending shows a fluctuation over time, and this may then be perpetuated by the periodicity with which the assets so created require replacement.

TABLE 6

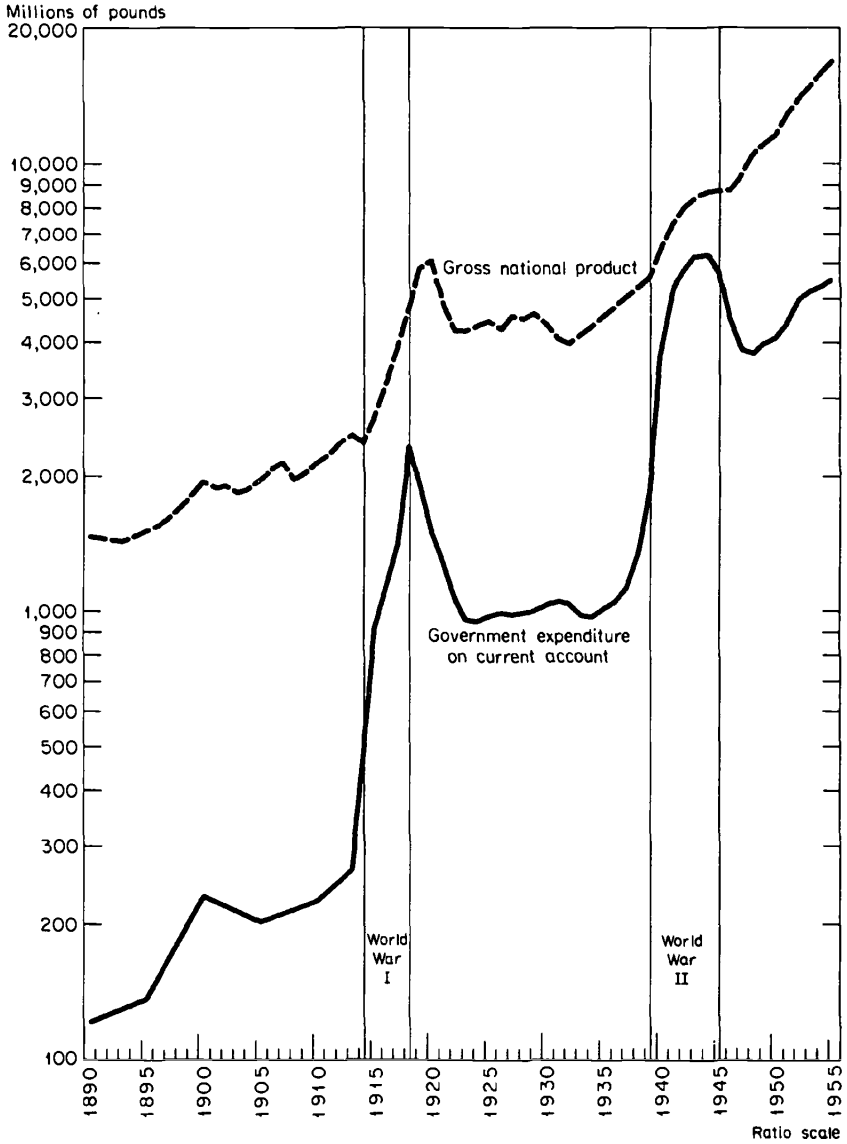
GOVERNMENT EXPENDITURE ON CURRENT AND CAPITAL ACCOUNT, AND GROSS NATIONAL PRODUCT,  
AT CURRENT AND 1900 PRICES, SELECTED YEARS, 1890-1955  
(amounts in millions of pounds; index, 1900 = 100)

Government Expenditures	1890	1900	1910	1920	1928	1933	1938	1950	1952	1955
1. On current account										
Money, current prices	120.4	230.4	226.9	1,490.2	986.0	977.5	1,368.3	4,102	4,978	5,525
Index	52	100	98	647	428	424	594	1,780	2,161	2,398
Real, 1900 prices	122.9	230.4	216.1	536.0	497.9	561.7	739.6	1,109	1,174	1,214
Index	53	100	94	233	216	244	321	481	510	527
2. On capital account										
Money, current prices	10.2	50.4	45.1	101.9	108.7	88.5	218.7	437	799	618
Index	20	100	89	202	216	176	434	867	1,585	1,226
Real, 1900 prices	10.4	50.4	47.5	29.3	56.9	54.2	111.6	86	137	95
Index	21	100	94	58	113	108	221	171	272	188
3. (1) as percentage of GNP										
Money	8	12	11	25	22	24	26	35	36	33
Real	8	12	11	25	22	24	26	37	37	35
4. (1) as percentage of total expenditure										
Money	92	82	83	94	90	92	86	90	86	90
Real	92	82	82	95	90	91	87	93	90	93

Source: Appendix Tables A-13 and A-14.

ECONOMIC AND FUNCTIONAL CATEGORIES

CHART 15  
Government Expenditure on Current Account, and Gross National Product, at Current Prices, 1890-1955



## ECONOMIC AND FUNCTIONAL CATEGORIES

The second and perhaps less obvious possible reason for bunchiness is to be found in the phenomenon of displacement. There is evidence that new projects introduced over periods of displacement have their immediate effect on the level of current expenditures, but that in course of time such new current obligations involve the government in the need to undertake new capital projects also. Consequently, while capital expenditures do not follow the time pattern of other government expenditures, their own irregularity over time is probably influenced by that pattern. The growing problems of providing the requisite school and hospital accommodation in Britain to cope with the post-World War II expansion of these services illustrates the point.

### *Expenditure by Function*

The discussion in Chapter 4 of one important government service—defense—which might account for the displacement effect yielded the conclusion that no complete explanation was possible along such lines. This suggests that a classification of all government expenditure by functions, apart from illuminating further the process of economic change, is also necessary in order to provide further understanding of the influence of war on government expenditure. In this section, then, we classify expenditure in the following categories:<sup>18</sup> (1) general administration (including the costs of tax collection), (2) national debt service, (3) law and order, (4) overseas services (excluding defense), (5) military and defense, (6) social services, (7) economic services, and (8) environmental services.

**TABLE 7**  
**GOVERNMENT EXPENDITURE, BY FUNCTION AND ECONOMIC CATEGORIES,**  
**AT CURRENT PRICES, SELECTED YEARS, 1890–1955**  
 (millions of pounds)

<i>Year</i>	Total	<i>Goods and Services</i>		Transfers
		Current	Capital	
<b>ADMINISTRATION AND OTHER</b>				
1890	15.8	14.7	0.6	0.5
1900	16.5	13.6	2.0	0.9
1910	22.1	18.4	2.2	1.5
1920	71.5	64.2	4.7	2.6
1928	49.1	45.5	2.7	0.9
1933	44.3	40.9	3.0	0.4
1938	60.6	53.3	6.7	0.6
1950	175.0	118.0	18.0	39.0
1952	167.0	123.0	16.0	28.0
1955	182.0	138.0	18.0	26.0

<sup>18</sup>The exact content of these categories is explained in the Appendix under the same headings.

*ECONOMIC AND FUNCTIONAL CATEGORIES*

TABLE 7 (continued)

<i>Year</i>	Total	<i>Goods and Services</i>		Transfers	Subsidies
		Current	Capital		
<b>NATIONAL DEBT</b>					
1890	23.8			23.8	
1900	19.6			19.6	
1910	20.2			20.2	
1920	324.8			324.8	
1928	305.1			305.1	
1933	228.4			228.4	
1938	212.5			212.5	
1950	507.0			507.0	
1952	609.0			609.0	
1955	707.0			707.0	
<b>LAW AND ORDER</b>					
1890	9.0	8.2	0.3	0.5	
1900	9.8	9.2	0.2	0.4	
1910	12.9	12.1	0.2	0.6	
1920	33.3	32.3	0.4	0.6	
1928	30.8	28.7	0.4	1.7	
1933	30.9	29.0	0.4	1.5	
1938	38.7	35.4	2.0	1.3	
1950	79.0	72.0	7.0	—	
1952	96.0	85.0	10.0	1.0	
1955	115.0	103.0	10.0	2.0	
<b>OVERSEAS SERVICES</b>					
1890	0.4	0.2	—	0.2	
1900	1.0	1.0	—	—	
1910	1.1	0.9	0.2	—	
1920	2.5	0.2	—	2.3	
1928	1.3	0.5	—	0.8	
1933	1.7	1.1	—	0.6	
1938	3.0	0.7	—	2.3	
1950	179.0	39.0	—	140.0	
1952	77.0	40.0	—	37.0	
1955	80.0	41.0	—	39.0	
<b>MILITARY AND DEFENSE</b>					
1890	34.9	32.7	1.5	0.7	—
1900	134.9	118.0	16.2	0.7	—
1910	74.3	55.5	16.5	2.3	—
1920	519.7	499.1	10.6	8.0	2.0
1928	125.1	120.5	4.1	0.5	—
1933	112.4	107.0	3.5	1.9	—
1938	473.2	418.6	52.2	2.4	—
1950	836.0	822.0	5.0	9.0	—
1952	1,641.0	1,469.0	155.0	17.0	—
1955	1,606.0	1,523.0	59.0	24.0	—

ECONOMIC AND FUNCTIONAL CATEGORIES

TABLE 7 (concluded)

Year	Total	Goods and Services		Transfers	Subsidies
		Current	Capital		
<b>SOCIAL SERVICES</b>					
1890	27.3	17.6	1.9	7.8	—
1900	50.6	28.6	7.6	14.4	—
1910	89.1	52.4	6.6	30.1	—
1920	411.8	167.0	49.1	193.7	2.0
1928	434.8	161.2	54.3	218.8	—
1933	497.2	167.1	36.9	293.2	—
1938	596.3	206.7	85.8	303.8	—
1950	2,094.0	781.0	336.0	815.0	162.0
1952	2,438.0	896.0	442.0	989.0	111.0
1955	2,739.0	1,070.0	417.0	1,205.0	47.0
<b>ECONOMIC SERVICES</b>					
1890	14.4	10.2	4.0	0.2	—
1900	36.4	16.4	19.8	0.2	—
1910	37.8	21.6	15.8	0.4	—
1920	203.2	102.7	34.0	1.9	64.6
1928	117.1	71.3	40.4	0.8	4.6
1933	111.8	66.0	34.7	0.7	10.4
1938	151.4	72.6	59.7	1.8	17.3
1950	572.0	169.0	44.0	120.0	239.0
1952	629.0	194.0	139.0	76.0	220.0
1955	531.0	220.0	68.0	44.0	199.0
<b>ENVIRONMENTAL SERVICES</b>					
1890	5.0	3.1	1.9	—	—
1900	12.0	7.4	4.6	—	—
1910	14.5	10.9	3.6	—	—
1920	25.3	22.2	3.1	—	—
1928	31.9	24.2	6.8	0.9	—
1933	39.3	27.8	10.0	1.5	—
1938	51.3	35.4	12.3	3.6	—
1950	97.0	70.0	27.0	—	—
1952	120.0	83.0	37.0	—	—
1955	183.0	97.0	46.0	40.0	—
<b>ALL SERVICES</b>					
1890	130.6	86.7	10.2	33.7	—
1900	280.8	194.2	50.4	36.2	—
1910	272.0	171.8	45.1	55.1	—
1920	1,592.1	887.7	101.9	533.9	68.6
1928	1,094.7	451.9	108.7	529.5	4.6
1933	1,066.0	438.9	88.5	528.2	10.4
1938	1,587.0	822.7	218.7	528.3	17.3
1950	4,539.0	2,071.0	437.0	1,630.0	401.0
1952	5,777.0	2,890.0	799.0	1,757.0	331.0
1955	6,143.0	3,192.0	618.0	2,087.0	246.0

SOURCE: For totals, see Appendix Table A-15. From 1890 to 1918 subsidies are included in transfers.

*ECONOMIC AND FUNCTIONAL CATEGORIES*

In Table 7, the growth of expenditure by function at current prices is illustrated, and in Table 8 the real growth per head of population. Government expenditure, both in money terms and in real expenditure per head of population, rose for all categories of expenditure over the period 1890 to 1955. Moreover, as Table 9 shows, the rate of growth of

TABLE 8  
GOVERNMENT EXPENDITURE, BY FUNCTION AND ECONOMIC CATEGORIES,  
PER HEAD OF POPULATION, AT 1900 PRICES,  
SELECTED YEARS, 1890-1955  
(pounds per head)

Year	Total	Goods and Services		Transfers
		Current	Capital	
ADMINISTRATION AND OTHER				
1890	0.4	0.4	—	—
1900	0.4	0.3	0.1	—
1910	0.5	0.4	0.1	—
1920	0.6	0.5	—	—
1928	0.5	0.5	—	—
1933	0.6	0.5	—	—
1938	0.7	0.6	0.1	—
1950	0.9	0.6	0.1	0.2
1952	0.8	0.6	0.1	0.1
1955	0.8	0.6	0.1	—
NATIONAL DEBT				
1890	0.7			0.7
1900	0.5			0.5
1910	0.4			0.4
1920	2.7			3.4
1928	3.4			3.4
1933	2.8			2.8
1938	2.4			2.4
1950	2.7			2.7
1952	2.9			2.9
1955	3.0			3.0
LAW AND ORDER				
1890	0.2	0.2	—	—
1900	0.2	0.2	—	—
1910	0.3	0.3	—	—
1920	0.3	0.3	—	—
1928	0.3	0.3	—	—
1933	0.4	0.4	—	—
1938	0.4	0.4	—	—
1950	0.4	0.4	—	—
1952	0.4	0.4	—	—
1955	0.4	0.5	—	—

ECONOMIC AND FUNCTIONAL CATEGORIES

TABLE 8 (continued)

Year	Total	<i>Goods and Services</i>			
		Current	Capital	Transfers	Subsidies
<b>OVERSEAS SERVICES</b>					
1890	—	—	—	—	—
1900	—	—	—	—	—
1910	—	—	—	—	—
1920	—	—	—	—	—
1928	—	—	—	—	—
1933	—	—	—	—	—
1938	—	—	—	—	—
1950	1.0	0.2	—	0.8	—
1952	0.4	0.2	—	0.2	—
1955	0.4	0.2	—	0.2	—
<b>MILITARY AND DEFENSE</b>					
1890	1.0	0.9	—	—	—
1900	3.3	2.9	0.4	—	—
1910	1.6	1.2	0.4	0.1	—
1920	4.3	4.1	0.1	0.1	—
1928	1.4	1.3	0.1	—	—
1933	1.4	1.3	0.1	—	—
1938	5.4	4.8	0.6	—	—
1950	4.5	4.4	—	0.1	—
1952	7.5	6.9	0.6	0.1	—
1955	6.9	6.6	0.2	0.1	—
<b>SOCIAL SERVICES</b>					
1890	0.7	0.5	0.1	0.2	—
1900	1.2	0.7	0.2	0.4	—
1910	1.9	1.1	0.2	0.6	—
1920	3.3	1.4	0.3	1.6	—
1928	4.8	1.8	0.6	2.4	—
1933	6.2	2.1	0.5	3.6	—
1938	6.7	2.4	0.9	3.5	—
1950	10.9	4.2	1.4	4.4	0.9
1952	10.8	4.2	1.5	4.6	0.5
1955	11.3	4.6	1.3	5.2	0.2
<b>ECONOMIC SERVICES</b>					
1890	0.4	0.3	0.1	—	—
1900	0.9	0.4	0.5	—	—
1910	0.8	0.5	0.4	—	—
1920	1.6	0.8	0.2	—	0.5
1928	1.3	0.8	0.5	—	0.1
1933	1.4	0.8	0.5	—	0.1
1938	1.7	0.8	0.6	—	0.2
1950	3.0	0.9	0.1	0.7	1.3
1952	2.8	0.9	0.5	0.4	1.0
1955	2.1	1.0	0.1	0.2	0.9



ECONOMIC AND FUNCTIONAL CATEGORIES

TABLE 8 (concluded)

Year	Total	Goods and Services		Transfers	Subsidies
		Current	Capital		
ENVIRONMENTAL SERVICES					
1890	0.1	0.1	0.1	—	—
1900	0.3	0.2	0.1	—	—
1910	0.3	0.2	0.1	—	—
1920	0.2	0.2	—	—	—
1928	0.4	0.3	0.1	—	—
1933	0.5	0.3	0.1	—	—
1938	0.6	0.4	0.1	—	—
1950	0.5	0.4	0.1	—	—
1952	0.5	0.4	0.1	—	—
1955	0.7	0.4	0.2	0.2	—
ALL SERVICES					
1890	3.6	2.4	0.3	0.9	—
1900	6.8	4.7	1.2	0.9	—
1910	5.9	3.6	1.1	1.2	—
1920	12.9	7.3	0.7	4.4	0.6
1928	12.2	5.0	1.3	5.9	0.1
1933	13.2	5.4	1.2	6.5	0.1
1938	17.9	9.4	2.4	6.0	0.2
1950	23.8	11.2	1.7	8.8	2.2
1952	26.0	13.5	2.7	8.2	1.6
1955	25.7	13.8	1.9	9.0	1.1

SOURCE: For totals, see Appendix Table A-16.

expenditure per head has been higher than that of the gross national product for all categories except administration, whose share remained roughly constant. This is not to say, of course, that the growth has been regular or that its rate has been uniform for each type of expenditure.

As we see from Chart 16, the rate of growth of real expenditure per head on national debt interest and on social services has exceeded that for government expenditure as a whole. By the same measure, the rate of growth of economic services has roughly kept pace with that of expenditure as a whole, but the rates of growth of expenditures for military purposes, environmental services, and law and order have been slower. Expressing the most important of these categories as percentages of total government expenditure, as in Chart 17 and Table 9, we observe that social services expenditure did not fall below 30 per cent of total expenditure after 1910 and remained well above 40 per cent after 1930, apart

TABLE 9

PERCENTAGE DISTRIBUTION OF GOVERNMENT EXPENDITURE BY FUNCTION, SELECTED YEARS, 1890-1955  
(percentage of totals at current prices)

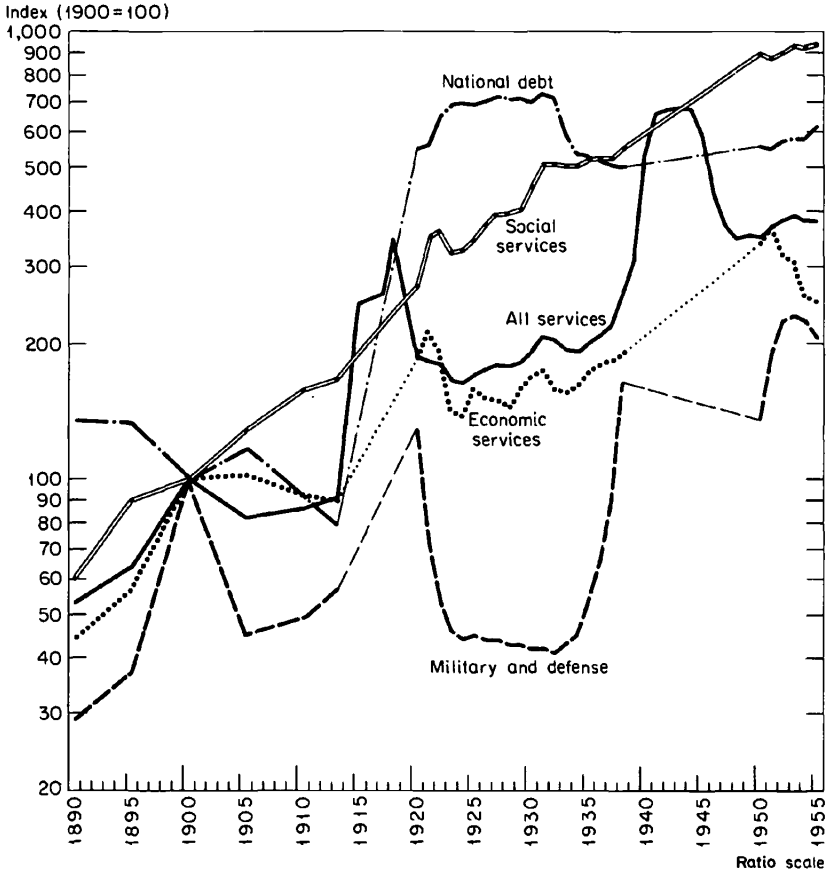
Year	<i>Administration and Other</i>		<i>National Debt</i>		<i>Law and Order</i>		<i>Overseas Services</i>		<i>Military and Defense</i>	
	GNP	Expenditure	GNP	Expenditure	GNP	Expenditure	GNP	Expenditure	GNP	Expenditure
1890	1.1	12.1	1.6	18.2	0.6	6.9	—	0.3	2.4	26.7
1900	0.8	5.9	1.0	7.0	0.5	3.5	0.1	0.4	6.9	48.0
1910	1.0	8.1	0.9	7.4	0.6	4.7	0.1	0.4	3.5	27.3
1920	1.2	4.5	5.4	20.4	0.5	2.1	—	0.2	8.6	32.6
1928	1.1	4.5	6.7	27.9	0.7	2.8	—	0.1	2.8	11.4
1933	1.1	4.2	5.5	21.4	0.7	2.9	—	0.2	2.7	10.5
1938	1.1	3.8	4.0	13.4	0.7	2.4	0.1	0.2	8.9	29.8
1950	1.5	3.9	4.4	11.2	0.7	1.7	1.5	3.9	7.2	18.5
1952	1.2	2.9	4.4	10.5	0.7	1.7	0.6	1.3	11.8	28.4
1955	1.1	3.0	4.2	11.5	0.7	1.9	0.5	1.3	9.6	26.1

Year	<i>Social Services</i>		<i>Economic Services</i>		<i>Environmental Services</i>		<i>All Services</i>	
	GNP	Expenditure	GNP	Expenditure	GNP	Expenditure	GNP	Expenditure
1890	1.9	20.9	1.0	11.0	0.3	3.8	8.9	100.0
1900	2.6	18.0	1.9	13.0	0.6	4.3	14.4	100.0
1910	4.2	32.8	1.8	13.9	0.7	5.3	12.7	100.0
1920	6.8	25.9	3.3	12.8	0.4	1.6	26.2	100.0
1928	9.6	39.7	2.6	10.7	0.7	2.9	24.2	100.0
1933	12.0	46.6	2.7	10.5	0.9	3.7	25.7	100.0
1938	11.3	37.6	2.9	9.5	1.0	3.2	30.0	100.0
1950	18.0	46.1	4.9	12.6	0.8	2.1	39.0	100.0
1952	17.5	42.2	4.5	10.9	0.9	2.1	41.5	100.0
1955	16.3	44.6	3.2	8.6	1.1	3.0	36.6	100.0

Source: Appendix Tables A-15 and A-17.

CHART 16  
 Indexes of Total Government Expenditure, and Expenditure by  
 Function, per Head of Population, at 1900 Prices, 1890-1955



from war periods.<sup>19</sup> Military and defense expenditure in peacetime varied from about 25 to 30 per cent of total expenditure before World War I, dropped significantly in the 1920's and 1930's to nearer 12 per cent, but returned to well over 20 per cent after 1950. Of course, in wartime it rose significantly, although we cannot specify a percentage for World

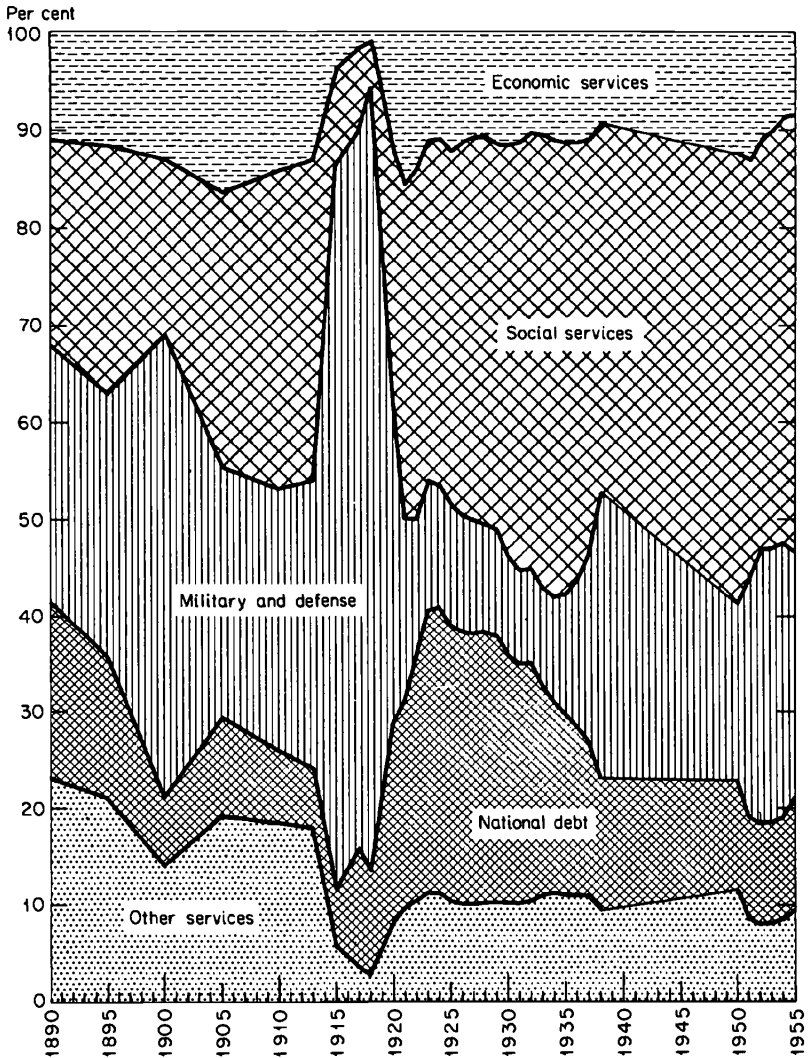
<sup>19</sup> During wartime the fall in percentage is rather misleading, because many forms of social service, such as hospital treatment and housing, would be undertaken for the armed forces and would appear under the category of military expenditure. All statistics of wartime expenditures by subclassifications need cautious handling, for similar reasons. Because of this, only intermittent statistics are given for such periods (Appendix, "Government Expenditure," 1939-45).

*ECONOMIC AND FUNCTIONAL CATEGORIES*

War II. The relative changes in the different categories can also be seen in Chart 18, which shows real expenditures in a block diagram.

The percentage of expenditure on debt interest shows some interesting variations. It fell significantly between 1890 and World War I, rose to

**CHART 17**  
**Percentage Distribution of Total Government Expenditure, by**  
**Function, at Current Prices, 1890-1955**



## ECONOMIC AND FUNCTIONAL CATEGORIES

over one-quarter of government expenditure in the interwar years, falling again in the 1930's after the important conversion operations in 1932 and 1934. Despite World War II, the percentage fell in the post-1945 period. These changes reflect the greater efficiency of war finance during World War II, and they illustrate once again why war-related expenditure is not sufficient to account for the displacement effect.<sup>20</sup> They also help account for the greater relative importance of transfer payments in that displacement effect over the period of World War I.

The only remaining category of significance covers economic services. Expenditure per head in real terms for this category rose five times between 1890 and 1955. Apart from periods of war, when such services were reduced, and during immediate postwar periods, when reconstruction was just beginning, the percentage of total government expenditure on such services varied very little, falling slightly over the whole period under review.

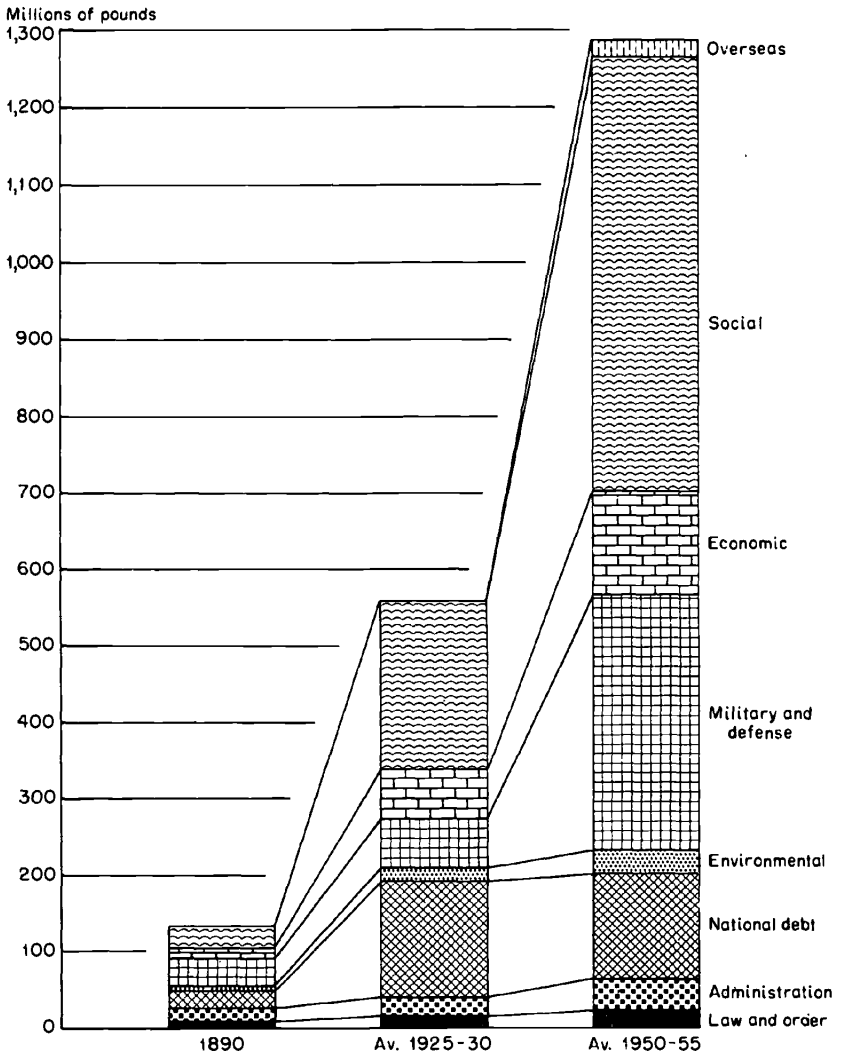
Next to be considered is the relation between expenditures classified by economic and by functional categories. Tables 7 and 8 give money and real per capita expenditures by both categories. Table 9 shows functional categories as a proportion of GNP. We find that the growth of social services is even more marked in the case of capital as distinct from current expenditure. In 1900, the capital expenditure on social services was about 15 per cent of total government gross capital formation. In 1928, it averaged 50 per cent, and reached about 67 per cent in 1955. Capital expenditure for military purposes and for economic services became relatively much less important; in the case of military and defense spending, gross capital formation fell from 32 per cent of government gross fixed capital formation in 1900 to around 9 per cent after World War II. The economic services were the most important category so far as government capital investment was concerned at the turn of the century, but by 1955 they had given way to the social services, their share in government gross fixed capital formation having fallen from about 39 per cent to 11 per cent over the period.

In the case of transfer expenditures and subsidies, only social services and debt interest payments are of major importance. Debt interest payments were more than half of total transfer payments in 1900, but less than one-third in 1955, while social services paid out around 40 per cent of all transfers at the turn of the century but more than half the total in 1955. We have here the explanation of the secular behavior of expenditures on goods and services and on transfers which we described earlier. The decline of transfers for debt interest has been offset by the growth in transfer expenditures on social services, so that the share of

<sup>20</sup> See R. S. Sayers, *Financial Policy*, 1939-45, London, 1956, Chapter I.

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**CHART 18**  
**Total Government Expenditure, by Function, at 1900 Prices, 1890-1955**



transfers in total government expenditures was larger in 1955 than at the turn of the century.

The picture of displacement that we are now left with is by no means simple. But we have seen, on our way through this chapter, how the successive classifications direct attention towards the most important

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characteristics of change. Now this final analysis (of functional and economic categories together) takes us one step further. Complex as the final picture is, it yet points clearly enough toward two kinds of expenditures, which by their magnitude and evolution must have been of fundamental importance in displacement.

The first of these is war-related and military and defense spending. It was shown in Chapter 4 while such spending may be an important element in displacement (as e.g., debt interest undoubtedly was over the period of World War I), it cannot alone provide a complete explanation of the phenomenon. Examining the nature of military and defense expenditure in a little more detail will be useful here, however, as a means of illustrating the complications that lie behind the simple statistics of expenditure growth. At the beginning of the period under review, aircraft had not been invented; and during World War I, they were lightly built structures made of wooden frames powered by engines of some forty horsepower. That the airplane was an offensive force to be reckoned with was not demonstrated until the Spanish Civil War, and expenditure on the Royal Air Force first assumed importance during the rearmament campaign of 1936. By the end of World War II the picture was altered, and with it the proportions of expenditure between the different armed forces. Thus in 1920, 24 per cent of military expenditure was for the Royal Navy, 56 per cent for the Army, and 6 per cent for the Royal Air Force. In 1956 the percentages were 24, 33, and 30 respectively (the remaining 13 per cent representing expenditure by the Ministry of Supply on such items as weapons research, stockpiling of strategic raw materials).

The second group of expenditures that the analysis shows to warrant further study is social services. The wartime displacements in social service expenditures can be clearly seen in the statistics already given; not much more than 4 per cent of GNP up to World War I, social service spending accounted for at least one-twelfth of community output every year until World War II, and after that war experienced another upward shift, to take around one-sixth of GNP in the 1950's. The character of this change can be seen in greater detail by considering Table 10, which gives social service expenditures by types from 1920 on, together with the inferences already drawn from the statistics in the earlier section of this chapter about the period before 1920. The great increase after World War I must have been due in part to the considerable extension of social benefits of a "cash transfer" character (i.e., health and unemployment benefits), so that in 1920 we find insurance and assistance accounting for more than one-half of all social service expenditures. This proportion fell gradually up to the Great Depression, when the stimulation of these social transfer payments and the coincident checking or reduction in other

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TABLE 10

GOVERNMENT EXPENDITURE ON SOCIAL SERVICES, BY TYPE,  
AT CURRENT PRICES, 1920-55  
(millions of pounds)

Year	Education	Health	Social Insurance and Assistance	Housing	Food Subsidies	Total
1920	97.4	48.8	212.8	52.8		411.8
1921	106.8	55.8	227.2	100.9		490.7
1922	97.3	54.1	206.1	65.7		423.2
1923	91.4	52.2	183.2	31.9		358.7
1924	92.7	54.0	182.6	35.7		365.0
1925	97.1	56.7	185.7	49.8		389.3
1926	99.4	62.4	194.9	67.7		424.4
1927	101.9	67.1	190.3	76.7		436.0
1928	104.8	66.4	202.5	60.6		434.3
1929	108.0	69.0	207.5	53.5		438.0
1930	113.4	71.9	247.9	51.5		484.7
1931	115.7	74.3	272.8	54.0		516.8
1932	110.2	74.5	278.9	47.5		511.1
1933	107.5	75.2	268.7	45.8		497.2
1934	111.0	75.7	266.4	45.2		498.3
1935	118.3	78.8	271.4	50.7		519.2
1936	125.2	83.3	264.9	59.3		532.7
1937	131.8	90.1	262.1	70.5		554.5
1938	138.9	98.9	278.2	80.3		596.3
1950	440.0	478.0	674.0	340.0	162.0	2,094.0
1951	497.0	497.0	707.0	368.0	165.0	2,234.0
1952	552.0	510.0	825.0	440.0	111.0	2,438.0
1953	581.0	524.0	916.0	496.0	71.0	2,588.0
1954	621.0	542.0	923.0	472.0	53.0	2,611.0
1955	675.0	582.0	1,015.0	420.0	47.0	2,739.0

social service spending produced a new increase in their relative importance after 1929. This change is perhaps typical of the behavior of transfer and other social service payments between the wars. Their proportions were not changing sharply as the result of new government policies or of the operation of permanent causes, but were affected over short periods by the "built-in stabilizer" inherent in the social insurance schemes. Displacement over the World War II period had a different character. The post-1945 period has been marked by a relative decline in social security services to about one-third of total social service expenditure; in 1954, expenditure on unemployment benefits was almost the same



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*in money terms* as in 1938. To-day the bulk of social insurance benefit payments represents old-age pensions; the problem of poverty in Britain has become that of the old rather than of the unemployed or of the prolific. Inside the faster growing environmental social services, the most spectacular increase has been in expenditure on health. During the period 1920 to 1938, expenditure on health grew at about the same rate as for all social services, but between 1938 and 1954 expenditure in money terms increased nearly sixfold while that for all social services only increased about fourfold.

We have now discovered as much as possible by statistical methods about the association of the growth in British social service expenditures and the periods of war. It remains to seek a more qualitative answer to the question that this association invites: Why should wars affect social policy in such a fashion? Britain's wars since the turn of the century have more and more affected all sections of the community, both by way of the demands of military service and through the removal of the front line from foreign countries to the surrounding coast and air above the homeland. The conduct of war, therefore, has increasingly instituted a general inspection process for the whole population and economy, which has revealed much about social conditions. It has taken the catastrophe of war to bring home to those in power that economic progress does not automatically disseminate the benefits of education and health. As Titmuss has recalled, it was after the Battle of Waterloo in 1815 that Lord Brougham's committee was set up to consider "the Education of the Lower Orders."<sup>21</sup> The Crimean War of 1855-57 did much to improve conditions within the military services, but it was the Boer War of 1899-1902 that drew attention to the physical condition of the civilian population through medical reports on servicemen. Of course, investigators like Charles Booth, the Webbs, and later Seebohm Rowntree had quite independently confirmed these conditions, and Abramovitz and Eliasberg, in the companion volume on British government employment, have stressed the role of social statistics in drawing attention to social conditions.<sup>22</sup> But it has required major wars to stimulate public opinion and obtain general consent to the extension of social policy.

The evolution of public social services was again accelerated by the events of World War I; as we have seen, its conclusion brought a much wider scope of unemployment benefits and health insurance, the development of subsidized housing schemes with the Housing Act of 1919, and the extension of public elementary education. It is also noteworthy that

<sup>21</sup> Richard M. Titmuss, "Problems of Social Policy," *History of the Second World War*, U.K. Civil Series, No. 1, London, 1950, p. 507.

<sup>22</sup> See Abramovitz and Eliasberg, *op. cit.*, pp. 30-31.

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governments had become much more willing after World War I to commit their successors, by the introduction of social benefits which were payable as a right but which were to a considerable degree a charge on the Exchequer, and of housing subsidies—those “intractable items in the national expenditure,”<sup>23</sup> which, even if the service were to be discontinued at any time, would still require liquidation over many years. Despite warnings about growing expenditures from a succession of Parliamentary committees, notably the Geddes Committee of 1921 and the May Committee, the view that social services had a positive contribution to make to economic progress was too strong.<sup>24</sup> The latter committee was well aware that its suggested reduction in expenditure made in 1931 would be difficult to carry out “so heavily loaded are the dice in favour of expenditure.”

Titmuss carries the story to the present day in his penetrating analysis of the growth of social services during World War II. As he shows, the social services during this period were an integral part of the war effort.<sup>25</sup> We must look, for example, for the birth of the National Health Service in the aftermath of the bombing of London which brought about the development of emergency state health measures on a large scale. We must view the plans for reconstruction after the war, especially the famous Beveridge Plan, as a real part of the war effort.<sup>26</sup> Also, as our statistics have led us to expect, the emphasis and interest in this last period of displacement shifted away from the simple amelioration of poverty toward that provision of specific services in kind that constitute an important part of what is to-day popularly called the Welfare State.

We have shown the importance of the displacement effect to any explanation of the growth of British public expenditures, and we have now shown the importance of war-related and social service expenditures to the explanation of displacement. It would be tempting to conclude that, war-related expenditures apart, the wartime displacements have

<sup>23</sup> The words of the May Committee on National Expenditure, Command Paper 3920, 1931, p. 10.

<sup>24</sup> There was strong support for this view among Labour supporters in public life. Particularly noteworthy is Dalton's *Principles of Public Finance* (the first edition appeared in 1922), which criticized the negative attitude of previous British writers to public expenditure. His views have their counterpart in the minority report to the May Committee written by two Labour supporters, Mr. Pugh and Mr. (later Lord) Latham, who argued that the “growth in social services is a natural corollary to the development of industry and commerce and it cannot be denied that these have profited materially from services narrowly regarded as amenities, and it is not an overstatement of the case to say that improved health and sanitation, better education, wider and cleaner roads, quicker communications and even open spaces and playing fields are essential to modern large-scale industry,” Command Paper 3920, 1931, p. 226.

<sup>25</sup> Titmuss, *op. cit.*, Chapter XXV, *passim*.

<sup>26</sup> On this point, see also W. K. Hancock and M. M. Gowing, “British War Economy,” *History of the Second World War*, Civil Series, No. 1, London, 1949, Chapter XIX.

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been caused by the influence of wars upon social policy. Such a conclusion would be dangerous, in that we do not know what the level of spending on social services would have been had the wars not occurred. Further, we know of no statistical techniques that might throw further light on such a question. It is obviously very difficult to trace a particular social policy change to its exact time of origin. We have tried to make clear our belief that we should be on very shaky ground if we ascribed any new social service introduced after a war purely to circumstances occurring during that war. Moreover, there is a difficulty in defining what precisely is meant by a "new" service. In terms of organization the National Health Service was an innovation introduced after World War II, but it nevertheless embraces a variety of services and duties that were part of the public sector long before it existed. Yet again, after the wars the jump in social services expenditure often took the form, as in unemployment benefits after World War I and sickness benefits after World War II, of an increase in the scope and standard of service. How great an expansion of existing services should one take to constitute a new activity? In these circumstances, we cannot hope to carry our statistical analysis further by an extension of the method used earlier to eliminate war-related expenditures. We do not know what to eliminate as being in some sense the consequence of war, and what to retain as due to other causes. This is a difficulty that bedevils all attempts to reach precise conclusions about cause and effect in economic life when the "universe" under consideration involves the entire economy and the questions to be answered are concerned with "what might have been."

We shall be content, therefore, with a more limited conclusion. It would be difficult to deny that the climate of opinion during the twentieth century has been increasingly favorable to the extension of public and social services. But it would be equally foolish, in the light of our statistics, to ignore the influence of war in actually stimulating changes both in ideas and in actual policies. We would hope that our hypothesis of displacement, by bringing these two influences together, has helped us to illuminate the nature of expenditure growth as a whole and the role of the social services therein, and in doing so has directed attention to some neglected aspects of British fiscal history.