CHAPTER 8

Possible Future Trends in Government Expenditure

IN this study, we have tried to present the statistics of British government expenditure in a fashion that might be of value in the study of public expenditures in other countries or during other periods. We are conscious that the structure we offer does not have the formal symmetry or analytical rigor that might be obtained, for instance, by use of welfare economics. But, as we have pointed out, welfare analysis applied to the problems of government economic activity involves highly unrealistic assumptions about the nature of the aims of governments and consequently is of negligible value as a means of explaining the facts of history. We would claim for our approach that any sacrifice of rigor is more than compensated by the realism it makes possible, and indeed that flexibility is essential for any approach that is to be of value outside the immediate context of one country or period. We do not wish to establish a new "law," but we do hope to have evolved a method that will be of use to others interested in similar problems. At the same time, we believe our approach is not restricted to the interpretation of history. It can also contribute to our understanding of the processes that determine the size and character of public spending, and hence interest those whose concern is with economic policy and with the development of the public sector in the future.

At first sight, the last claim may seem implausible. We have placed great emphasis in earlier chapters upon the operation of the displacement effect and the concentration process. Our general argument would therefore seem to suggest that forecasting the future of public expenditures requires prediction of the dates of future wars or other social upheavals. But the policy maker and the student of economic policy cannot abdicate their task because they do not know whether or when there will be a war or an earthquake. They must postulate such an occurrence, or its absence. And it is within this context that our approach is relevant; it can help us make projections of public expenditure of a kind that provide information about the broad range of possibilities that are likely to face the government, and about the relation between these and the possible evolution of particular kinds of public spending, in the absence of major social disturbances.

The contribution of our study to projection problems has two aspects, one general and the other specific. The general contribution concerns the use we have made of the concept of the tolerable burden of taxation. If we assume that there will be no social disturbances during the period for which a projection is made, then our earlier argument and the historical evidence would suggest that we might expect to find some broad relation between the growth of community wealth (GNP) and the size

of the total taxes that the government might feel itself able to raise. We do not suggest that the relation is a very precise one; it depends, for example, upon the form taken by people's views about tax burdens, and upon such things as the nature of the tax structure. For example, a progressive income tax and surtax will produce a tax yield that grows faster than money GNP, with constant tax rates. This may or may not be accepted by the community, depending upon whether those who find growing proportions of their real income being taken in tax are stimulated to protest. But while such matters affect the precise relation over time between GNP and government revenues, they are unlikely to be important enough to make it pointless to use the broad constancy of that relation as an indicator of the potential scope for public spending.

The second, and specific, contribution is more directly concerned with expenditures. Our historical study has provided us with information about the development of public spending for particular purposes, and there seems no reason why this material and method of classification should not be used as the basis for statistical speculation about future possibilities. Thus we can make explicit assumptions as to the evolution of particular groups of expenditures, and show what would happen to public spending over the period under review on the basis of those assumptions. Many of the difficulties that we have encountered in offering an *ex post facto* explanation of the development of government activities will be found to be equally relevant to the problem of analysing future growth.

Both of these procedures, of course, are intended to do no more than give an indication of possibilities of a kind that might inform discussion; we cannot emphasize too strongly that we do not believe ourselves to be forecasting what British Government expenditures are actually going to be in the future. With this proviso, the most interesting method of presenting the projection would seem to be first to derive expenditure estimates directly, for groups of services and on defined assumptions, and then to see how the totals compare with the scope for expenditure that GNP estimates suggest to be likely.

In the next section, then, we offer a projection of government expenditure for years up to 1981, and a detailed explanation of the specific assumptions on which it is based. The projection is limited to the magnitude and broad composition of current government expenditure, excluding nationalized industries. It is not offered as a prophecy, but rather as a means of narrowing the discussion of public expenditures and directing attention to the issues of significance for policy purposes.[1] We

[1] If we appear to labor this point, the experience of others who have made similar projections justifies that emphasis. How often must Nicholas Kaldor (Appendix C in

[*footnote continued on page 136*]

start out from the fundamental assumption that the period of the projection will be free from random disturbance by wars or other social upheavals; we do not concern ourselves, at least in our statistical projection, with any potential displacement effect. On this basis, we proceed by dividing up expenditures into three groups (expanding, contracting, constant), the division being dictated by our historical findings in earlier chapters, as modified by such specific considerations as seem to us relevant in respect of individual types of expenditure. Within each group, this fundamental assumption leaves us free to examine such "permanent" influences upon expenditure as changes in the size and structure of population as the possible determinants of the future size and composition of government spending.

Our projection is also based upon another general assumption, sufficiently important to require careful explanation. This is that there will be no major changes in public policy affecting the broad general scope of government spending. The justification for such an assumption is not simply that there are no policy differences between the major political parties, though in recent years there has in fact been a wide measure of agreement about the scope of social services and (to a lesser and decreasing extent) defense requirements, both of which are important from an expenditure point of view. Quite as important is the fact that the volume of "irrevocable" expenditure, at least in money terms, is such that even radical changes in government policies might take a considerable time to become effective in their influence on expenditures. A government that decided to discontinue subsidies to local housing projects, for example, could hardly stop payment of existing subsidies, to which it might be committed for as long as sixty years. Indeed, in recent years we have seen a considerable weakening in Britain of the principle that "no government can bind its successor." Postwar governments have introduced services, notably in the field of national insurance, in respect of which such officials as the Government Actuary are obliged to make projections of expenditure for as far ahead as twenty-five years. The planning period of the education and health programs is no longer identical with the expected period of office of the government in power. This development, in our view, makes our general assumption a reasonable one to use as the basis for our projection.

W. H. Beveridge, *Full Employment in a Free Society*, London, 1945) have been quoted in terms that suggest he was making a forecast?

To be quite clear: We do not expect our estimates of particular magnitudes for particular years to be borne out by events. Other qualifications apart, our assumption of constant prices would make such an outcome unlikely. Our figures are intended solely as a means of setting out the important issues and relative magnitudes, and we would not wish to have them quoted in any other context.

It may be objected that this assumption prevents us from taking account of actual plans and proposals that have been made for the extension of public services and expenditures in particular directions; influential proposals have been made, for example, for extended public education and health facilities. We have two answers to this objection. First, it is in the nature of political life that there are always in existence plans for the provision of more and better public services of a wide variety of kinds. If we assumed that all such plans would be implemented, and estimated the expenditure involved, we should get a total indicating a very much more rapid rate of growth than the one given by our actual projection. But we have discussed the political aspects of expenditure growth in earlier chapters; it should be enough to say here that, while we would agree that there has been a weakening in the procedure by which control over public expenditure has traditionally been exercised in Britain, we are still far from a position in which governments regard the growth of such expenditure as a matter of no concern at all: they are still aware of the need to raise the necessary taxes. This being so, to proceed simply by adding up the expenditures implied by existing proposals to extend government services would in our view be quite unrealistic: no one expects all such proposals to be implemented.

Second, we would refer yet once again to the nature of our exercise. We are concerned to make a projection, on assumptions that are explained. We may in the process ignore possibilities of expansion, and so on, in particular directions that other economists believe to be important. If so, they can modify our estimates, and perhaps our conclusions, accordingly. We shall be satisfied if our statistical exercise can be used to provide the theme around which others interested can furnish their own variations.

A Projection of Current Government Expenditure, 1953–81

Table 23 presents our projection. All figures are expressed at 1956 prices, and types of expenditure are classified according to whether they will expand, remain stationary, or contract.

The method of compilation is most easily explained by considering the questions that must be answered in order to make such a projection, and then giving the answers that we have used as the basis for this one—i.e., the specific technical and operational assumptions that we have made. The important questions are concerned with technical coefficients of production, with the standards of provision of public services, with changes in the size and composition of population, and with the future behavior of expenditures for a miscellaneous (but not insignificant) group of services that do not lend themselves easily to the general method of treatment adopted for the rest.

TABLE 23

PROJECTION OF TOTAL UNITED KINGDOM GOVERNMENT EXPENDITURE ON CURRENT ACCOUNT, AT 1956 PRICES, SELECTED YEARS, 1953–81
(amounts in millions of pounds; index, 1956 = 100)

Type of Expenditure	*Recent Years*		*Projection*		
	1953	*1956*	*1961*	*1971*	*1981*
Expanding					
Education	473	543	557	535	545
National health	584	618	632	664	687
National insurance benefits	618	680	770	928	1,053
Other	589	640	654	688	712
Total	2,264	2,481	2,613	2,815	2,997
Index	83.2	100.0	105.3	113.5	120.8
Contracting					
Family allowances	125	116	117	113	115
National assistance	177	165	140	130	120
War pensions	87	84	80	73	55
Agriculture and food subsidies	306	254	210	285	185
Other	127	105	100	90	80
Total	822	724	647	591	555
Index	113.5	100.0	89.5	81.6	76.7
Stationary					
Defense	1,827	1,662	1,662	1,662	1,662
National Debt	738	725	725	725	725
Housing	106	107	107	107	107
Other	155	150	150	150	150
Total	2,826	2,644	2,644	2,644	2,644
Total current expenditure	5,912	5,849	5,904	6,050	6,196
Index	100.1	100.0	100.9	103.4	105.9

SOURCE: For 1953 and 1956 statistics, see *Blue Book*, 1957.

TECHNICAL COEFFICIENTS OF PRODUCTION

To project the future course of government expenditure, we need to know what it is going to cost at any time to maintain any specified standard of service for a given number of people. There is no reason why the cost should remain constant, or why the provision of the same "real" standard in a particular service for the same number of people in 1956 and in 1981 must involve the same amount of expenditure at constant 1956 prices. As pointed out in Chapter 2, statistical and other difficulties are created by the fact that relative scarcities of resources can change over time as a consequence of changes in technical coefficients of production and in the character of demand. The significance of these changes in the present context is that they may change the nature and cost of the "input mix" needed to produce a service or to increase its output.

As a result, changes over time in the volume of consumption of a service may not imply equivalent changes in the amount of expenditure at constant prices.

These changes in the technical coefficients of production are likely to be of special interest over periods when the process of technical change has different significance for the private and the public sector. But the changes are not easy to predict, for obvious reasons, nor does a projection of our type lend itself to the use of very complex propositions about them. It therefore seems best to assume fixed and constant technical coefficients, so that doubling the amount of a service provided implies doubling the amount of labor, materials, and so forth, purchased. Put in another way, the expenditure on a service, if standards of provision remain constant, is assumed to increase proportionately with the number of individuals for whom it is provided. This assumption is operationally convenient, but it will clearly call for further comment when we come to evaluate the projection in which it is used.

STANDARDS OF SERVICE

The volume of expenditure upon any government service must depend upon the standard of service to which the government commits itself. We have assumed for the projection that the standards of service provided in 1956 will be maintained. At first sight this might seem a simple matter to define. For transfer payments it is; we need only assume that such payments as retirement pensions and family allowances will be maintained at a level providing constant purchasing power for their recipients. This procedure involves us in some of the conceptual difficulties already discussed, but is otherwise unambiguous.

The difficult problems arise in dealing with government services given in kind rather than money, such as health and education. These provide a special and extreme case of the problems of technical coefficients and demand, just explained. What does the maintenance of a given standard mean in the context of services of this kind? Consider the case of health expenditures. Maintaining the same standard of service should really be discussed in terms of maintaining the health of the community as reflected in such things as mortality and morbidity rates. To try to reflect such a constant standard in, for example, a constant expenditure at 1956 prices per qualified individual for each year being studied is a dubious procedure. Tuberculosis is a good illustration. Twenty-five years ago it was one of the major causes of death. To-day many tuberculosis hospitals in Britain are closing down. Thus the real expenditure per individual necessary to maintain the same "output" of health from this particular point of view has declined; there is a changed relation between factor input and product output, in a wide sense of those terms. However, we have no satisfactory

means of establishing a relationship through time—of a kind that might be used in our projection—between real expenditures per head and standards of provision in such services as health and education. For these two services (the major items of current expenditure for services in kind), therefore, we must fall back on the formula that maintaining the 1956 standard of service per individual can be equated with maintaining real expenditure per individual (1956 prices) at the 1956 level. That is, the fixed coefficients assumption explained above is applied here also. Some such assumption is unavoidable; we are aware that it is unsatisfactory and that this will need to be borne in mind when we assess our results.

A particular problem arises in the case of defense expenditure. Not only is it difficult, if not impossible, to define what precisely is meant by maintaining the 1956 standard of defense, but also it is impossible to attribute the benefits of defense to particular individuals in any meaningful fashion. Rather than attempt to define defense output and to allocate its benefits arbitrarily to individuals, we have chosen to adopt the assumption that defense expenditure remains fixed in real terms at the 1956 level. Once again, our projection must be interpreted and evaluated in the light of this procedure.

POPULATION

Given our assumptions about technical coefficients and standards of provision, the outstanding general determinant of the level of government expenditure becomes the size and character of the country's population, upon which it is reasonable to suppose that future expenditures on economic, environmental, and social services must depend. The problem thus becomes largely one of projecting future population and of relating expenditures on the various services to that projection. In economic and environmental services, we have ignored changes in population composition, writing up expenditures in proportion to changes in total population size. This procedure, unsatisfactory even for these services, would be much more so for the far more important social services. For these, a more complex procedure makes use of a previous study, adjustments being made for changes in standards of service since 1952, the year to which that study refers.[2] The statistical procedure is not described in detail here, since it is available in the cited paper. Essentially, it takes into account the fact that the expected aging of our

[2] See F. W. Paish and A. T. Peacock, "Economics of Dependence, 1952–82," *Economica*, November 1954. In this study detailed projections of the size and composition of population were based on Projection 14 of the Statistics Committee of the Royal Commission on Population. In our present study, we have adopted the projections of the Registrar General in the *Annual Abstract of Statistics*, 1957.

population, combined with a very slow rate of population growth, should bring with it a change in average expenditure on those services per head of population, because there is good reason to believe that the cost per head of social services may be higher for the retired population than for those of working age or for children.

EXPENDITURES REQUIRING DIFFERENT TREATMENT

There remains to be considered the treatment of certain other types of expenditure that cannot plausibly be assumed to be closely related to population changes, such as national debt interest, food and agricultural subsidies, and war pensions. The perplexing problem of debt interest is that it represents a commitment in money terms and not in real terms. The problem of projecting price changes so that one could express future debt interest payments in real terms is difficult enough, but there is another important factor at work. Even assuming no change in the size of national debt, conversion operations will be necessary, given the present structure of the debt. Debt interest payments will depend on future interest rates. When an earlier projection of government expenditure was made by one of us, it seemed at the time reasonable to assume that debt interest in real terms would fall.[3] Now it seems more satisfactory to assume a stationary total of debt interest payments in real terms. Like the previous estimate, this is pure guesswork. It will be recalled that a similar assumption was made in the case of defense. With food and agricultural subsidies, we have assumed that the remaining food subsidies will disappear, but that the various agricultural subsidies will remain constant in real terms. Housing subsidies are also assumed to remain constant in real terms. The real standard of provision of war pensions is assumed constant, which implies that, with the gradual reduction in the number of recipients, total real expenditure for this purpose will diminish. National assistance in the form of poor relief of various kinds is also likely, as assumed, to diminish in size, given constant standards of service, because of the increasing coverage of the contributory retirement pensions scheme after 1958.

Interpretation and Critique

The projection shows a 6 per cent increase in government expenditure at 1956 prices over a period of twenty-five years. At first sight, this may seem a surprisingly slow rate of growth, particularly in view of the fears often expressed about the potential growth of social service expenditures. True, the expanding types of expenditure (first group in Table 23) include such services, and on the assumptions of the projection they would

[3] See A. T. Peacock, "The Future of Government Expenditure," *District Bank Review*, June 1955.

increase by over 20 per cent in real terms over the period. But there are some forms of social expenditure that the projection shows to remain constant or to decline. More important, there are other great items of expenditure that are no more significant in 1981 than in 1956 (third group in Table 23). Consequently, the overall rate of growth in expenditures is very much less than that of the expanding social services.

We shall later discuss the effects on our projection of some variations in our operational assumptions. For the moment, let us accept the conclusions as realistic and consider what they imply. For this purpose, we can adopt the procedure used earlier in the study of comparing the projected expenditure growth with the growth of GNP.

There is no easy way of assessing the likely size of GNP by 1981, but it is possible to make calculations of varying degrees of sophistication. One would be to extrapolate the rate of growth recorded over, say, the last ten years. At the other extreme, another would be to try to work out capital-output ratios in a large range of industries, make some assumption about the rate of capital formation and the growth of the labor force, and, after prodigious effort, produce the resultant growth rate. But, whatever degree of sophistication is indulged in, the difficult problem has to be faced that the rate of growth of national output is not independent of the size and character of the public sector. Ideally we should provide a separate calculation of GNP for each of a series of projections of public expenditures, based on different answers to the questions examined earlier. In this way, we could approach the policy problem by comparison and assessment of the results of these separate exercises. Such a labor seems hardly worth the effort, in the light of the conceptual problems in making projections, already discussed, and of the added difficulties that would arise in making the GNP computation—including the major difficulty that, while there is certainly likely to be a relation between the growth of the public sector and the growth of GNP, we do not know what the relation is nor can we assume that it will not change over a period as long as twenty-five years.

Since our object, as already stated, is simply to provide a framework for policy discussion, to indicate possible future developments, and to direct attention to the issues that our analysis suggests to be most significant for future policy, we have taken the view that a complex procedure such as the one just described could provide us with more statistics, but would scarcely make the interpretative problem any easier or more certain. We have therefore adopted a less elaborate procedure, which enables the expenditure projection to be interpreted without need for elaborate calculations about GNP. We ask simply: What rate of increase of GNP would be necessary to keep the share of government in GNP constant?

Given the slow rate of increase of total expenditures indicated by the projection, the rate of growth of GNP required for the share of government to be no larger in 1981 than in 1956 would be modest indeed; and any larger—and more likely—rate of growth would leave scope for reducing the relative burden of taxation. A rise in GNP of only 2 per cent per annum, which is not a fantastic rate of increase on any reasonable criteria,[4] would reduce the percentage of current government expenditure out of GNP from 33 per cent in 1956 to 21 per cent in 1981.[5]

Put in another way, the projection suggests a future degree of scope for maneuver on the part of the government—whether by way of reduced tax burdens, acceptance of increased defense commitments, or increases in the range of public services—much greater than is generally assumed in current discussion. It remains to be seen whether this conclusion will need modification in the face of further consideration of the operational assumptions upon which the projection is based.

The assumption of fixed technical coefficients has already been admitted to be dubious. This kind of blanket assumption is certainly going to be wrong in particular instances; for example, it is unlikely that maintaining given standards in education requires that the number of teachers must necessarily increase proportionately with the number of pupils, or the ratio of nurses to patients in hospital. Indivisibilities are bound to be important in the provision of some services of that kind. Against this, we have to remember that our projection is restricted to current government expenditure and therefore is not concerned with expenditure on such things as school and hospital building or on local authority housing. It seems reasonable to expect this to make the fixed technical coefficients assumption less seriously misleading. The fundamental question is whether the technical conditions of production in the public and private sectors are likely to change in the next twenty-five years in so drastic a fashion as to make a projection based on fixed coefficients completely implausible. From this point of view (and granted that the assumption may be inaccurate in particular instances), it is still plausible to argue that the assumption is at least as realistic as any alternative general proposition about the public sector as a whole.

[4] There are no officially accepted projections of GNP, but the Government Actuary, for his *Report on the Financial Provisions of the National Insurance Bill*, 1959, was asked to assume an increase in earnings of 2 per cent per annum in making his estimates of future wage-related contributions and benefits, under the proposed scheme. The report does not state whether the percentage related to money or real earnings.

[5] It is interesting to compare the results of this projection with those of Otto Eckstein in his *Trends in Public Expenditure in the Next Decade*, New York, 1959. Using similar assumptions about political attitudes and the internal situation, he finds that his "medium" projection would result in a rate of growth of federal expenditures of about 2.7 per cent per annum up to 1968, which would be "less than the expected growth of GNP on moderate assumptions (3 per cent a year)."

Such a position is perhaps less tenable when we turn to the related proposition that the maintenance of real standards in particular social services can be equated with the maintenance of expenditures per head at 1956 prices. It is particularly so, if we admit the additional problem that the form of output required to maintain a given standard of health, for example, must be expected to change over time.

In any case, the whole treatment of standards of service can be objected to. In the light of our earlier arguments, it is unrealistic to assume that standards of provision will not change in the next fifteen years. As suggested in Chapter 2, there is a clear possibility that a rising real product per head will produce a rise in standards of service, affecting especially social service spending. This may come about through a "demonstration effect," operating through a desire to keep standards of provision in the public sector abreast of economic development in the private sector.[6] To illustrate: if standards of living improve in the private sector as the real national product rises, then the standards of provision in hospitals and schools, for example, are bound to be affected. If there are television sets in the home, there will be strong pressure to have them in hospitals—as indeed there is now. The gradual widening of the differential between wage rates and social security benefit rates has brought with it strong pressure from pensioners and from within the ranks of the Labour Party to make pensions proportional to income and to link benefits not only with price changes but also with productivity changes. Thus, under the National Superannuation Plan sponsored by the Labour Party, the assumption of a doubling of real national product between 1960 and 1980 would lead to an increase in the pensions bill in real terms from £775 million to £1,700–1,900 million, an increase of two and one-half times.[7] And if retirement pensions rise, unemployment and sickness benefits, war pensions, and workmen's compensation benefits cannot be expected to lag far behind. The demonstration effect is all the more important in Britain to-day because of the size of the welfare budget within the total of government expenditure. Finally, while the effect is brought about by taxpayers' comparisons of standards of services in the private and public sector, it is likely to be supplemented by the further desire, also discussed in Chapter 2, to improve collective services

[6] It is well known that the term demonstration effect was originally applied to the case of less developed countries, whose consumption standards are supposed to be a function of their contact with Western standards. This effect is supposed to explain the relatively high marginal propensity to consume of these countries.

[7] *National Superannuation: Labour's Policy for Security in Old Age*, 1957. As this passage was being written the Conservative Government introduced its own plan for wage-related contributions and benefits for old age, which, if it differs in financial scope from the Labour party proposals, accepts the same principle. See Ministry of Pensions and National Insurance, *Provision for Old Age*, Command Paper No. 538, 1958; and the National Insurance Bill, 1959.

such as roads, public health facilities, and so on, as standards of living rise. To the extent that such an advance in standards should occur, the projection must give too low a figure for future government expenditure, notably, the 20 per cent increase in the expanding sector would have to be written up. Such an increase must, of course, reduce the scope for other measures, involving increased expenditures, if the share of government in GNP is not to rise, and must reduce the possibilities of a reduction in the burden of taxation.

There is no way of deciding how important the rises in standards of services are likely to be, but we can establish their quantitative importance, and so indicate the range of possibilities, by a fairly simple exercise. Let us suppose that the standard of provision for the expanding services grows at the same rate as GNP. Thus if GNP in 1981 were 25 per cent higher than in 1956, the total expenditure for that group in Table 23 would be 25 per cent higher in 1981 than the figure in the table. This means an increase of roughly £750 million in those expenditures and in total government expenditure, and increases the total expenditure index for 1981 by about 13 per cent. Even on such a pessimistic assumption about the rate of increase of community output, we find that a rate of increase of expenditure on expanding services keeping pace with the increase in GNP still would leave total government expenditure expanding less quickly than output (19 per cent by 1981 as against the 25 per cent increase in GNP). If output should increase faster, as seems likely, the government's scope for increasing its activities without increasing its share of GNP would become greater.

Next we turn to the behavior of population. Keynes once remarked that population changes were the one thing we could predict with "reasonable safety."[8] It is doubtful if our experiences with population projections since Keynes wrote on the matter confirms his *obiter dictum*. We may be fairly sure that, short of some very large changes in immigration or emigration, our population will age, and to this extent we may be sure that the scales will be weighted in favor of larger social expenditures per head, as our projection assumes. However, even in the course of only six years the highest official estimates of fertility rates have proved to be too low. In the *Report of the Statistics Committee of the Royal Commission on Population*, sixteen projections were made for the period 1947–2047.[9] The highest projected figure for average annual births was 731,200 per annum for the period 1952–57. The recorded figure for average annual births for the same period was 838,000. Since these projections were published, single official projections have begun

[8] J. M. Keynes, "Some Economic Consequences of a Declining Population," *Eugenics Review*, April 1937, pp. 13–17.

[9] Vol. II of the Papers of the Royal Commission on Population, H.M.S.O., 1950.

to appear in the *Annual Abstract of Statistics*, the first in 1956. The second, published in 1957, is the one used here; the notes to that projection table record that the second projection had to be modified to take account of the maintenance of the unexpectedly high birth rate over the preceding five years.[10] While no one would deny the usefulness of population projections, it is clear that they are not completely free from uncertainties. The most we can say is that the population projection we have used is the most satisfactory one available, and that on present evidence any change in it is most likely to be in a direction that would increase social service spending on the young in the intermediate years of our expenditure forecast. The nature of the changes that could occur before we reached 1981, however, is a good deal less certain.

Conclusion

It has become fashionable to argue that the test of the value of all economic analysis is its ability to predict accurately. By this test, the purpose of our survey of the factors governing the growth of public expenditure should be to find indicators of future trends which can be expressed in some model of economic growth capable of being tested by econometric techniques. This is not an argument we accept.

It follows that we would not justify our approach by adopting the standard defensive reply to the charge that economists cannot predict—that more refined techniques can be developed, given time. In the present context it would require the building of models which would enable us to predict wars, revolutions, and natural disasters. What we are prepared to say is that the *procedure* adopted provides a means of testing the consistency of assumptions made in any attempt to analyze the future. Moreover, since formulation of any consistent policy by a government or private economic organization requires forecasting of future developments, a procedure for this purpose cannot be developed and understood without knowledge of economic analysis. If all that our analysis of the evolution of government expenditures teaches us is that forecasting is likely to be supremely difficult, that forms a better foundation for judgments about future events than would an oversimplification of the issues.

However, our study as a whole suggests that we might do more than this; we hope that the present chapter has indicated some of the possibilities. We believe that the formulation we have used for the examination of future developments, and the conclusions derived from its use, should help those concerned with policy to avoid simple (but not uncommon) errors and to concentrate upon the issues of real importance. This can

[10] See *Annual Abstract of Statistics*, No. 94, London, 1957, p. 6.

be demonstrated by summarizing the position to which our projection and comment upon it has brought us, and by relating this to the earlier discussion (Chapter 5) of the evolution and present position of the control of public expenditures in Britain. The two together throw an interesting light on the problems of present-day expenditure policy, and upon the difficulties and scope of action of the Plowden Committee, which has been set up to make recommendations upon the Parliamentary control of expenditure.

The projection indicates the possibility of considerable growth in some types of expenditure (notably on social services) by 1981, given present standards of provision. Nevertheless, the importance of the contracting and stationary groups of expenditure is great enough to make this growth compatible with a much slower overall rate of growth in government expenditure. With any reasonable rate of increase of community output, that is, the overall rate of growth in expenditures might be expected to be compatible with either a reduction of the share of GNP taken by government or an increase in the scope of government activities without need to increase that share. If it is thought that standards of provision must increase, the "elbow room" is of course reduced, but our projection suggests that a rate of growth of expanding services as fast as the rate of growth of GNP would not remove all freedom of maneuver, even for a rate of increase of GNP as low as 1 per cent per annum. For faster (more likely?) rates of economic growth, the scope for a growing public sector would be correspondingly larger. Further, that scope seems adequate to meet foreseeable demands for increases in the range and standard of public provision. Although much can happen in twenty-five years, there is no present reason to expect (in the absence of social disturbances) the sort of rapid changes that, for example, produced a 50 per cent rise in the share of government in GNP between 1890 and 1910.[11] Failing radical changes in social ideas or technological requirements in the near future, it seems that demands for improved standards of provision, and so forth, may be well within the limits imposed by the burden of taxation which we have to accept.

These results are, of course, subject to the views we have taken about technical coefficients and about population change, and to the absence of social disturbances during the period under survey. As to the first two of these, we believe that our discussion indicates that the margin of error to which our assumptions leave us vulnerable is not such as to affect our

[11] That period not only differed from the present in social climate (it was a period of growing acceptance of the need for policies requiring increased public expenditures) and in the much smaller share of GNP being taken by government; it was also affected by the South African War, which, while less far-reaching in its effects than the later world wars, must have eased the process of change and probably facilitated a rate of growth more rapid than would otherwise have been possible.

conclusions substantially. Social disturbances are assumed absent; the possible consequences for our argument should such disturbances occur will be discussed below.

Our projection invites the conclusion, then, that the scope for expansion of government expenditures in Britain in the next quarter-century may be much greater than is generally believed. Certainly, we are led to question the realism of the view that government revenues and expenditures have now reached some critical limit beyond which it would be impossible, or at best foolish, to go. But this does not imply that we ourselves are content with a situation in which the government continues to utilize (directly) a quarter of the national product, or that the community at large will wish it to do so. We have not demonstrated that expenditures *must* increase at the same rate as GNP, but only the scope for public activity that such a ("tolerable") rate of increase would provide. It remains to ask: Why should we not expect the future to bring a reduction in the burden of taxation rather than an increase in the extent and standards of public provision? This is not, of course, a question to which our projection provides an answer of itself; but considered along with the rest of our study, it provides a useful basis for "informed speculation."

Certainly, there is much concern about the present size of public expenditures; this is demonstrated, *inter alia*, by the very appointment of the Plowden Committee. There is a considerable body of opinion, for example, supporting the view that the income-leveling effects of progressive taxation produced much more severe disincentive effects after 1945 than after 1918, and that these effects still continue. Also, opposition already exists to that "cult of welfare" which was so important a part of the displacement effect during the Second World War, and there are signs that this opposition is growing in importance and influence.

Nevertheless, it seems to us likely that the growth of public expenditures will continue to be restricted by existing notions of what is tolerable rather than by deliberate attempts to reduce (or check the rate of growth of) the public sector. There is in the first place no general agreement as to the desirability of such deliberate restriction. The Labour Party in particular is committed, if returned to power, to schemes that must surely make for a rate of growth of spending as rapid as the community will accept—including a great increase in government aid to underdeveloped countries. The Conservative Party, though more concerned about the size of public spending, has not proposed a radical reduction in spending on any major service, and has plans that would require increased spending in particular directions. At best, they would probably be content with an overall rate of growth of spending that involved no major changes in tax rates. These arguments about current attitudes are reinforced by the conclusions reached by our earlier historical survey.

Concern about public expenditures is not new, nor is the Plowden Committee the first one to consider the matter. Neither the concern nor the earlier committees seem to have had any lasting effect on the growth of public spending. Furthermore, the practical problems of expenditure control are now more difficult than ever before in British history; we explained in Chapter 5 that the authority of the Chancellor of the Exchequer in expenditure matters has declined with the decline in agreement as to the economic rationale of public spending. Without agreement on objectives, Parliamentary control seems bound to be ineffective. At the same time, even simple control over the *efficiency* of public spending has become more and more difficult: the Treasury's task in "the saving of candle ends" has become a matter of keeping check upon expenditure on great projects of uncertain cost and length of life.

We would conclude, therefore, that the rate of growth of public expenditures is likely to be such as at least to maintain the share of government in GNP broadly at present levels. If the Plowden Committee can find ways to improve "the saving of candle ends," it will have achieved a notable public service; if it can find means, in existing British conditions, to restore or replace the former broad authority over expenditure policy of the Chancellor of the Exchequer and the Treasury, it will have achieved a miracle. Failing such a miracle, we must expect the opportunities for change that a rising GNP must bring to result in a growing public sector rather than a declining tax burden. Nor would we expect this conclusion to be changed by the occurrence during the period under examination of an important social disturbance (such as a major war or a runaway inflation). Failing some great change in social attitudes and institutions, the arguments adduced above also provide support for the view that any displacement effect of such a disruption would most likely be upward, and there is certainly no sign at present that the burden of taxation itself is likely to lead to revolution!