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THE GROWTH OF PUBLIC EMPLOYMENT  
IN GREAT BRITAIN



## CHAPTER 1

### THE MEASURE OF GOVERNMENT

DURING the last half century, governments nearly everywhere have become more powerful influences in economic life. As yet, however, little is known in quantitative terms about the size governments have attained, the rapidity of their growth, what functions they have assumed, how large these functions loom, and what differences can be observed among countries. This study is part of a larger investigation by the National Bureau of Economic Research, the general aim of which is to provide answers to these questions.<sup>1</sup> The purpose of the present study is more limited. It is based upon only one measure of the size of government, namely, the number of persons directly employed by government agencies, and it is for the most part concerned with but one country, Great Britain.<sup>2</sup> The information on employment is traced for a sixty-year period, from 1890 to 1950, in as systematic a fashion as we could manage; but we also include a less systematic survey of developments in the nineteenth century and a brief comparison of the broad features of the British experience with those of the United States.<sup>3</sup>

The ingredients of our study are of three broad kinds. First, there are the statistics of public employment in Great Britain, the compilation of which was the primary objective of the investigation. These are presented in the context of a brief account of economic and political changes and of the development of ideas and attitudes in Britain which we hope may help to illuminate the statistical record. This account may be taken to be the second ingredient. Finally, we have tried at convenient places to suggest

<sup>1</sup> An earlier publication has dealt with the United States (see Solomon Fabricant, *The Trend of Government Activity in the United States since 1900*, National Bureau of Economic Research, 1952). Alan T. Peacock of the London School of Economics and Political Science is now conducting a study of British government expenditures.

<sup>2</sup> By Great Britain we mean England, Wales, and Scotland, and so far as possible our data refer to those three rather than to the United Kingdom, including Ireland.

<sup>3</sup> The writers have made an earlier report of their work. See "The Trend of Public Employment in Great Britain and the United States," *American Economic Review, Papers and Proceedings*, May 1953, pp. 203-215. This was a summary of the investigation at an early stage. The present report is based on much additional work and reflects revisions in the underlying data.

certain hypotheses concerning the causes of the growth of public employment, which would otherwise be implicit in our work.

It is almost needless to point out that, in a book as short as this, the historical account we provide as a background for the statistical measures is necessarily far from complete. But we have tried to touch on the more important matters. Similarly, the causal hypotheses we entertain, whatever their plausibility, are not as yet well tested. On that account, they might have been permitted to remain unexpressed. Since some theoretical speculation, however, guides all historical accounts and even the selection and arrangement of statistics, we have thought it more candid and perhaps more interesting to state our tentative hypotheses. Whatever their value as guides to further research, however, these ideas still must be confronted with a much wider range of experience and, no doubt, be more or less extensively modified before they emerge as well-founded generalizations.

To appreciate the relevance of employment measures to the more general question of the role of government in economic life, we should recognize that the relation of the state to the economy has two aspects. First of all, governments act as economic agents. That is to say, they participate directly in the activities of the economy. They buy goods, hire labor and other productive factors, and organize them for the output of goods and services. Some of this output is sold, some given away, and much of it applied to public purposes of a more diffuse or intangible sort. The state's agencies raise revenue, borrow and lend, save and invest. Their operations are part of a nation's total production and part of its mechanism for the distribution of money income and of real goods and services. Through actual participation, therefore, states influence the operation of all productive processes and the working of all markets. In all these ways states are economic agents coordinate with other primary economic agents, such as individuals, households, and business firms and other private associations.

The second aspect of government in its relation to economic life is its more obvious influence as a regulator, that is, as a political agent. By fundamental law, by statute, by administrative order, and by judicial decree the state regulates to a greater or lesser degree the actions of the various economic agents, including the actions of its own agencies.

These two aspects are connected. Since regulation involves the

services of men and the raising and expenditure of income, the state becomes an economic agent if only with regard to the resources and revenues it needs to function as a political agent. And insofar as the state participates in economic life in order to produce goods and services of various sorts, it inevitably exerts an influence on every market in which it acts. As the importance of this fact becomes more widely appreciated, governments tend to plan even their productive operations with a view to influencing private economic activity. For example, investment in government enterprises in both Great Britain and the United States is, to some extent, pushed forward or held back in order to help stabilize the community's income and employment.

As between these two aspects in which the state appears in relation to the economy, this study is only indirectly relevant to the government's role as a political agent. True, we measure the number of persons engaged in regulatory functions, but we have no way of gauging the influence of their work. The study is more directly concerned with the question: How large have British governments grown in the performance of the various functions in which they participate? But even to this question we can give only a qualified reply. The nature of the restrictions upon the significance of our data becomes apparent if we consider some of the measures which are relevant with respect to the importance of government as economic agent.

If we want to know the value of the resources which the state causes to be devoted to its own purposes, we must measure the total expenditures of all governments in that country, after deducting transfer payments. Such a comprehensive measure would take into account not only the resources employed directly by agencies of the state but also those employed by private contractors—and their subcontractors—in supplying goods or services purchased by the state. Employment of labor by government agencies may be some indicator of this total, in the same way that aggregate employment is sometimes used as an index of the national income. It would be a faulty index, however, for not only may there be changes in the ratio of labor to other resources employed in the production of goods for government, but there may also be changes in the ratio of goods directly produced by government agencies to goods purchased.

We may also be interested in knowing how large a share of all resources is directly used in the work of government agencies as

compared with the share used by private producers. A complete answer would require information not only about the labor employed, but also about the capital and land used. Labor employment data used alone are presumably better indicators of the direct absorption of resources by government than of total absorption, but they will still be at fault to the extent that there are changes in the ratio of labor to other resources employed. Differences in this ratio will also throw doubt on the usefulness of labor data as an indicator of the value of all resources employed directly by governments when we use them in international comparisons or in comparisons among different functions.

These limitations on the significance of our data are serious. We can only warn the reader about them and urge him to await the appearance of supplementary information.<sup>4</sup>

Measures of labor employment by governments, however, have substantial intrinsic interest. Governments are peculiar employers with their own characteristic criteria for employment and advancement. They offer special conditions of work, of discipline and reward, and they bring to the labor market an element of demand whose structure and pattern of change are different from those presented by the private sector. As employers, governments are subject to the peculiar influences of politics. Their operations are exempt from the test of money profit, but they must normally operate within the rigid pecuniary framework set by legislative appropriations. Their workers' status and advancement are commonly guarded by legislation and administrative decree, but they are also threatened by the pressure of party and personal favor. For many of their workers, in some cases for the bulk of them, governments offer secure careers through established grades to pensioned retirement. But many officials also face the danger of arbitrary discharge or unmerited neglect for causes unique to public service. Government work, therefore, provides its own characteristic blend of security and risk.

The special functions of governments make the sex, occupational, and educational compositions of their staffs different from those of private industry. Moreover, since government output has its own special trend, this is imparted to the demand for the kinds of workers governments wish to hire. And since the bulk of government output is financed by taxes rather than by sales

<sup>4</sup> See the reference above to the study by Alan T. Peacock (note 1).

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revenue, government demand for labor responds to business cycles in ways peculiarly its own.

It is clearly desirable that the many special characteristics of governments as employers should, as soon as possible, be described with the accuracy and detail they deserve. Meanwhile we can be confident of the existence of pervasive differences between government and private employment and between the influence of governments and those of private employers on the labor market. It is, therefore, well to know how large a segment of the labor force is now working for governments compared with former years and why the segment has grown so rapidly.

The order of our argument is, briefly, as follows: In the next chapter we survey the major developments in the growth of the British government in the nineteenth century. Although quantitative information is scant, the survey furnishes an extended background which helps to clarify the period since 1890, for which we have prepared a statistical record. The third chapter presents a general view of the expansion of government since 1890 in terms of labor employment data. More detailed treatments of the central government, the local authorities, and the nationalized industries follow. The final chapter compares some of the main trends in the size of government in Great Britain with those in the United States.