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BRITISH PUBLIC EXPENDITURE
1921-1931

BY THE SAME AUTHOR

THE AMALGAMATION MOVEMENT IN ENGLISH BANKING,
1825-1924

JOINTLY WITH T. S. ASHTON .

THE COAL INDUSTRY OF THE EIGHTEENTH CENTURY

BRITISH PUBLIC EXPENDITURE 1921-1931

BY

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PREFACE

THE many changes which have occurred in the British system of taxation in the post-war period have received a fair measure of attention from domestic economists. Until recently, however, not so much attention has been given to changes in expenditure. In consequence, and because questions of expenditure have come to assume large importance, I have attempted in the present volume to record the more important changes occurring during the decade 1921-1931 (March), and to trace their more obvious economic and social consequences. In doing this, my aim has been to do no more than to consider critically the actual expenditures undertaken—so that theoretical principles have only been discussed incidentally. I reserve for another volume a separate consideration of theory and alternative schemes of spending.

I wish to take this opportunity of thanking many who have helped me in various ways and to acknowledge the kindness shown by my publishers in undertaking the issue of a work which has, for its restricted aim, largely exceeded the bounds of moderation in size and cost.

JOSEPH SYKES.

EXETER,
November, 1932.

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INTRODUCTION

THE statistics of national and local expenditure for the ten-year official financial period 1921-1931 show a net national expenditure amounting to £8,048 m., and a net local expenditure of about £1,740 m.—giving a total public expenditure of £9,788 m., or an annual average of £979 m.¹ Precise statistics of the national income during the period are not available, but this may be approximated at an annual average figure of £4,000 m. It follows that the proportion of the national income appropriated for public expenditure is in the neighbourhood of 24·5 per cent. By contrast, since net expenditure in 1913 amounted to £170 m. for national purposes and £79 m. for local purposes—a total of £249 m.—and the national income may be put at approximately £2,300 m., the proportion of the national income taken for public uses was under 11 per cent. Compared with the last pre-war year, therefore, public expenditure in the decade 1921-1931 has absorbed a considerably larger share of the annual volume of resources available to the community. The questions arise, then, as to what causes have brought about this change, how far these have originated in deliberate policy or have been the outcome of relatively uncontrollable circumstance, and what sort of effects have followed from these causes.

To attempt an answer to these questions, it is necessary to undertake a somewhat detailed analysis. Thus, it is first desirable to take each expenditure group in turn, to find out how it has altered in the period, to trace the history of the alterations, and to seek to account for them. It is next desirable to review the changes with particular

¹ "Net national expenditure" includes all expenditure except that of the self-balancing Post Office expenditure. "Net local expenditure" includes total expenditure falling to be met out of local rates.

regard to the pre-war position and the opening and closing years of the period, and finally to endeavour to trace out the many-sided effects on the community's economic life. By doing all these things, it may become possible to make an appraisal of, and to frame a judgment on, the national and local policies of expenditure pursued during a period in which has been written a varied, novel and indeed remarkable chapter in the financial history of this country.

In considering how to divide up and classify the many kinds of public expenditures so as best to meet the needs of such a survey, it has to be borne in mind that the outstanding aim is to analyse the nature and extent of the economic and social changes induced by the altered post-war scheme of expenditure as contrasted with the pre-war scheme. Hitherto, in works dealing with public finance, it has been customary to separate national from local finance and to treat them as distinct from each other. For this arrangement there is much to be said, since the basis of national taxation is different from that of local taxation, and problems of expenditure also differ. To follow the more usual practice in the present volume would undoubtedly be advisable for these main reasons and also because the treatment of the various topics would be simplified. There are, however, reasons against this. During the period 1921-1931, national and local expenditures have frequently come to overlap where formerly they were distinct, and where before they were in some measure conjoint they have become much more so. In consequence, first, it is sometimes found difficult accurately to distinguish the expenditures undertaken by the two kinds of authority. Second, even though this obstacle is by no means insuperable when it is desired merely to discuss expenditure policies, owing to the lack of a suitable arrangement of local authority statistics, it is impracticable to apportion local expenditures accurately under the appropriate headings. As an example it may be mentioned that it is not found possible to distinguish between expenditure made by local authorities on various local works out of normal

revenues and out of special revenues provided by the exchequer in the shape of unemployment grants.¹ Again, local authority accounts do not indicate what amounts or proportions of general administrative expenses are chargeable against the various separate outlays. Third, since it is not the purpose of this volume to make a detailed and meticulous survey of every kind of post-war expenditure but rather to attempt to understand the policies upon which the expenditures have been based and to assess their economic consequences, the precise separation of local from national expenditures is a matter of less importance than their total effects on the community. Fourth, to seek throughout to separate the two kinds of expenditure would lead to a not inconsiderable amount of duplication both of narration and analysis. For these reasons, therefore, it seems preferable to arrange the inquiry to exhibit the various categories of both national and local expenditure in their order of importance as factors contributing to the enlarged post-war expenditure and to make this the *fundamentum divisionis*. Where national and local expenditures are devoted to similar purposes this entails their simultaneous consideration; and where they are devoted to different purposes they must perforce be discussed separately. While this may tend to obscure the relative sizes of local and national expenditures, both regarded separately and as a whole, it will be possible in subsequent analysis to remove this disability, and, moreover, to give separate attention to topics deemed to be of sufficient importance to merit this.

Looking at the public expenditure of the period as a whole, it is possible to divide it up into categories, and to arrange these according to their order of importance as causes of the augmented post-war expenditures compared with those prevailing in 1913. The figures for this latter year are stated, not because it is intended to use them strictly as a basis of comparison so much as because, to the

¹ Advice on this particular problem was sought from the appropriate government department, but the department was unable to solve the difficulty.

INTRODUCTION

extent that they are representative of the immediate pre-war years, they are useful for purposes of perspective and measurement.

NET NATIONAL EXPENDITURE IN 1913-1914
AND 1921-1931 (AVERAGE)¹

(£ millions)			
Category.	1913-1914.	1921-1931 (Average).	Increase.
National Debt Services	24.6	366.2	341.6
War (Aftermath) Services	—	92.4	92.4
Social Services	33.2	119.7	86.5
Defence Services	78.1	122.7	44.6
Unemployment and Economic Development	5.7	47.3	41.6
Other Services	26.4	53.8	27.4
Miscellaneous Grants	2.4	2.7	.3
	<u>170.4</u>	<u>804.8</u>	<u>634.4</u>

NET LOCAL EXPENDITURE FALLING TO BE MET OUT OF (A) LOCAL
RATES, (B) NEW LOANS² IN 1913-1914 AND 1921-1930 (AVERAGE)

(£ millions)			
	1913-1914.	1921-1930. (Average).	Increase
Local rates	78.8	173.6	94.8
New Loans	24.1	108.1	84.0
	<u>102.9</u>	<u>281.7</u>	<u>178.8</u>

¹ In addition, minor borrowings were made for certain specific expenditures which are referred to in the text.

² "New Loans" consist of current expenditure met out of new capital borrowings. Loan charges on debts previously incurred are included in the charges falling on local rates.

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