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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.

PART I
THE DECADE 1921-1931: A SURVEY

CHAPTER I

THE NATIONAL DEBT SERVICES

A BEGINNING may be made with the largest single item, viz. the expenditure entailed by the national debt services.¹ In 1913-1914 the charges for interest and sinking fund amounted to no more than £24·6 m.; during 1921-1931 the annual average charges amounted to £366·2 m. as shown in the following table:

(£ millions) *

	1913-14	1921-22	1922-23	1923-24	1924-25	1925-26
Interest . . .	16·9	303·9	296·6	304·3	308·7	304·3
Sinking Fund .	7·7	70·7	126·2	88·3	48·7	36·0
	24·6	374·6	422·8	392·6	357·4	340·3

	1926-27	1927-28	1928-29	1929-30	1930-31	Total.
Interest . . .	314·3	309·0	311·5	312·1	304·6	3069·3
Sinking Fund .	23·3	65·0	57·5	33·2	43·6	592·5
	337·6	374·0	369·0	345·3	348·2	3661·8

* *May Committee on National Expenditure* (Cmd. 3920, App. I.)

How did this increased burden arise, and how has it altered during 1921-1931? In answering this query it is scarcely necessary to say more than that it arose as a result of governmental borrowing operations resorted to for the purpose of financing the war of 1914-1918. The deadweight debt,

¹ The figures which follow are taken from the *Annual Finance Accounts*, and the *Report of the Committee on National Debt and Taxation* (Cmd. 2800, pp. 37-67).

which stood at £649,770,000 at 31 March, 1914, reached its peak at the end of 1919. Since the figure at the close of the financial year, 31 March, 1920, was virtually identical, this may be given for the purpose of comparison, viz. £7,831,744,000. Not all the obligations for contractual payments arising out of the war operations were actually settled by this date, but as in the budgets of 1920-1921 and subsequent years taxation largely increased and debt redemption occurred, despite increases in nominal debt due to conversion operations, recapitalisations and miscellaneous borrowings this total was never again exceeded.

The composition of the deadweight debt at 31 March, 1920, was as to £6,553 m. internal, and as to £1,279 m. external. The preponderant part of the External Debt was owed to the U.S. while the remainder—some £193 m.—was made up more largely of loans obtained principally from certain Allied governments, and as to relatively small amounts from Canada, Sweden, the Straits Settlements and Mauritius. Against the total of External Debt there ranked at the same time a total of £1,852 m. which was owed to this country as to the greater bulk by Allied governments (and outstandingly France, Russia and Italy) for war loans made to them, by the Dominions and Colonies for war loans, and by various foreign governments for relief loans made after the Armistice. A further potential offset existed in the shape of claims on account of Reparations. In summary, the external capital assets of this country then largely exceeded her external capital liabilities.

Since 1920 the nominal debt total has been affected by various factors, some of which have operated to increase and some to reduce it. Of the former, conversion and re-borrowing operations are important examples. Conversions on a relatively large scale were rendered necessary as a result of the existence at 31 March, 1920, of £4,955 m. of unfunded debt. This total (which does not include Floating Debt) consisted as to a substantial sum of debt due to mature in the ensuing few years—up to and including 1928-1929, £1,842 m. As a rule, however, monetary and finan-

cial conditions were not favourable in the period to debt conversions and reborrowings, and often were very unfavourable. This, combined with generous conversion offers, militated against debt reductions—as an instance there may be cited the 3½ per cent Conversion Loans initiated in 1921 which involved exchanging securities of a nominal value of £463 m. for new securities having a nominal value of £693 m., while £129 m. of the same stock only realised approximately £100 m. when issued by tender. Another item which served to increase the nominal debt total was the result of a recapitalisation of External Debt. In the case of the American debt, for example, the Baldwin Settlement of 1923 involved the capitalisation of accrued and outstanding interest which added more than £108 m. to this item.

As opposed to these adverse factors, a favourable factor of substantial importance is seen in the provision made for debt reduction by means of budgetary surpluses and sinking funds. Dating from the 1920–1921 budget these produced a contraction of about £844 m. Another favourable effect resulted from cash repayments derived principally from non-recurrent sources such as repayments to the Exchequer occasioned by a reduction of the Civil Contingencies Fund, repayments of loans made for Land Settlement, interest and premiums saved by the surrender of Victory Bonds and Funding Loan for payment of Death Duties, and composition payments for annual taxes such as Land and Stamp Duties. Reductions of debt were also rendered possible by capital repayments from certain recurrent and quasi-recurrent sources, e.g. repayments of loans by Allied, Dominion and Colonial governments, and Donations and Bequests. From the first two of these sources of cash repayments a sum of roughly £50 m. was derived in the period 1920–1931.

Taking favourable and unfavourable items together, the net reduction of debt achieved in the period March, 1920–March, 1931 was £418 m., of which £212 m. were in respect of External Debt and £206 m. in respect of Internal Debt. Compared with a total of deadweight debt of £7,832 m. in 1920 the total in 1931 (March) was therefore £7,414 m.

It should be remarked, however, that since the national accounts only state the liability for National Savings Certificates at the issue price, while the debt interest estimate does not make full provision for interest payable on National Savings Certificates encashed, and as the accounts do not take cognisance of the small premia payable on National War Bonds or of borrowings by the Unemployment Insurance Fund, the latter total is actually an understatement. At 31 March, 1931, the total of accrued interest on National Savings Certificates not provided for had grown to £124.5 m., while the indebtedness of the Unemployment Insurance Fund was, on 1 April, 1931, £75.4 m.

To pass now to the interest burden, in view of the relatively small debt reduction achieved, this might be expected to show no more than a small *pro rata* decline. Actually, however, from a maximum of £326.0 m. in 1920-1921 it fell to £304.6 m. in 1930-1931, and during the period 1921-1931 the average was no more than £306.9 m. Analysis shows that, as no relief in interest charges was received during 1921-1931 from conversion operations, but indeed the interest burden was increased thereby, the reduction was due to the lower rates of interest payable on the Floating Debt and Ways and Means advances, and the savings due to debt repayment. The charges on the Floating Debt fell not only because reductions occurred in its amount, but also because of a substantially lower average rate of interest than the £6.95 per cent rate ruling in 1920-1921; the charges on the other two items were curtailed by the decline of borrowing at the Bank, and by actual debt repayments. It is important to notice, moreover, that the actual decline in the annual burden of interest was greater than appears from the above figures. For in 1920-1921 only £289,000 was paid as interest on the debt due to the U.S., while during 1923-1931 the annual charge was in the neighbourhood of £33 m. Again, the charges for interest due on National Savings Certificates brought for encashment—which were only £2.5 m. in 1920-1921—were in each subsequent year larger than this, and in 1930-1931 amounted to about £15 m.

Nevertheless, if favourable conversions had occurred, the interest charges would have registered a greater decline. It is therefore necessary to recognise, first, that the conversions and repayments made were largely involuntary, the necessity for them arising out of the terms and conditions arranged at the time the loans were raised—during war years. Second, the high rates of interest prevalent after 1920 and at the times when conversions, reborrowings and repayments had to be made, were in large part the outcome of the adverse financial conditions generated by the war—some, at least, of which were little amenable to domestic control. Thus, besides other causes, the unique destruction of capital occasioned by the war, the dislocation of normal borrowing and lending due to war-deranged monetary systems and to the megalomania of war debts and Reparations, and the long-drawn-out struggle engaged in by this country to return to the pre-war gold parity and to maintain it subsequently in face of a violent storm of deflation, led to abnormally high interest rates.

Nevertheless, these explanations need to be modified in the light of the Colwyn Committee's finding that a determined and consistent policy of debt reduction would doubtless have so largely inspired confidence as to enable debt interest rates to be lowered.¹ This, in turn, would have called for a more vigorous and insistent taxation policy over the period than was indeed followed, e.g. taxation was specifically reduced by successive post-war Chancellors up to Mr. Churchill's second budget in 1926. There would seem, nevertheless, to be more weight in the further point that adverse effects on national credit followed the capricious acts of individual Chancellors of the Exchequer possessed of widely dissimilar views on correctitude in budgetary policy. There is no doubt that the vicarious sinking fund policy pursued, including the absence of a proper and systematic arrangement until 1923, the budgetary deficits of 1925-1926, 1926-1927, 1929-1930 and 1930-1931, and the consequent "raids" had harmful effects on confidence.

Reference is next called for to the war debts owed by this

¹ Cmd. 2800, gg. 967-72.

country to foreign governments and obligations to this country of Dominions, Colonies and Allied countries and on account of Reparations. In so far as the latter were at 31 March, 1920, potentially much larger than the former, it might reasonably be expected that they would have operated to reduce the total burden entailed by the debt. What, during the period, was actually the outcome of events? ¹ Taking the debt owed by this country to the U.S., this was dealt with by the Baldwin Settlement of January, 1923. The original total of the debt was \$4,277 m. Interest was added to, and previous payments subtracted from this figure to cover the period up to the end of the preceding December—making the actual total \$4,604 m. It was agreed that this should be repayable in a sixty-two-year period by annual instalments which would include both interest and principal repayments. During the first ten years (1923–1933) the rate of interest was fixed at 3 per cent, and thereafter 3½ per cent. By contrast with this arrangement, which amounted to approximately a four-fifths fulfilment of the original contract, the terms of settlement of debts owed by foreign countries to this country were not higher than a little over two-fifths (Roumania) and were actually as low as under one-sixth (Italy). The nominal value of these debts was £1,423 m.,² but, under the various arrangements, repayments both of interest and capital over the sixty-two-year period are only designed to produce £1,147 m. The pivotal basis of these agreements was that, under the terms of the Balfour Note of 1922, this country was willing to forego all claims to debt repayment and Reparations receipts other than a total sufficient to offset her annual liability in respect of the American debt. During the ten-year period 1923–1933 the liability was equal, at parity of exchange, to about £33 m., and it was expected that this would be met as to rather more than £18 m. from Allied war-debt repayments and as to the balance from Reparations receipts. Owing to delay in

¹ The following summary takes account only of the larger items of External Debts owed to, or by, this country.

² Not including the Russian debt of some £483 m.

reaching settlements, however, during the period 1921-1931 the total of Allied repayments of principal and interest was no more than some £115 m., representing an annual average of some millions less than had been hoped. Reparations receipts, too, were somewhat smaller than was expected, the total being about £102 m., while the annual average during 1923-1931 was under £13 m. From 1923 to 1931, then, while about £269 m. fell to be paid to the U.S. under the settlement with her, no more than some £217 m. were received from Allied debtors. It cannot be said, therefore, that the large potential counter-claims existing at the beginning of the period matured to offset adequately the burden imposed by the American debt. Fortunately, however, this country derived other external revenues in the shape of repayments of principal and interest payments made by her own Dominions and Colonies—certain of which, as in the case of India, were *ex gratia* payments. These totalled some £87 m.

If now the whole of the major payments¹ received and made on account of external indebtedness are summarised, it appears that this country paid out during 1921-1931 a total sum of approximately £365 m. The bulk of this was on account of the American debt, but other payments were made on account of the private loans received from U.S. nationals, from the Argentine Railways, the Straits Settlements, and Mauritius. She received from Reparations about £148 m., and from Allied debtors some £115 m. She also received repayments and gifts from her Dominions and Colonies (including the Isle of Man) of about £87 m. Altogether her payments totalled some £365 m., and her receipts about £350 m. Taken as a whole, therefore, it may be concluded that ingoings and outgoings for External Debt were roughly in balance over the period.

¹ As pointed out earlier, various minor transactions have been excluded from this general analysis.

CHAPTER II

THE SOCIAL SERVICES.

AFTER national debt services, the category of national expenditure showing the next largest expansion in the period compared with 1913-1914 consists of that range of services which is conveniently grouped under the heading of Social Services. In strictness such a grouping would include other services additional to those which it has become customary to rank under this heading; for the term "social" has such a wide connotation that it might conceivably be applied to most, if not all of the services undertaken by local authorities as well as to other national services. In adopting the narrow scope of the term which has become established in recent years it is proposed to include thereunder only those services which are in the direct interest of distinct categories of the population, and but indirectly—however largely so—in the interest of the whole community. This procedure will serve to adapt the present survey more easily to the available public statistics—and indeed it would in any case be dictated by the official classification, because otherwise the various statistics would prove irreconcilable. To the official classification, however, an exception can, and will be made—the item of War Pensions. As this is palpably an aftermath cost of war, even though it is, like many of the social services, an *ex gratia* payment, there is no reasonable ground for preferring its inclusion here. The items dealt with are, therefore, Unemployment Insurance; National Health Insurance; Widows', Orphans' and Old Age Pensions; Old Age Pensions (non-contributory); Education; Poor Relief; Housing; Maternity and Child Welfare; Hospital Services (for infectious diseases, tuberculosis and venereal disease);

Reformatory and Industrial Schools ; and Lunacy and Mental Deficiency.¹

Although, as explained earlier, national expenditures are to be treated of first, since a sizable part of the outlays on social services falls on local authorities and on personal contributors, in order to give a clear idea of the total costs of each service, their expenditures or contributions are included also. A secondary reason for doing this is that duplication of the analysis of these services may be avoided. Furthermore, in the later chapter assigned to Local Expenditure, it will be feasible to show the relationship between local expenditures on social services and all other expenditures.

In the following table an analysis is given of the trend of expenditure over the period as compared with 1913-1914. Certain explanations of this are necessary. First, in order to permit of national expenditures being reconciled with those of the May Committee (on which all expenditures cited in other chapters are based) they are taken to be those contained in the Appendix to that report. Where details are required not available therein, recourse has been had to the Annual Finance Accounts and Statistical Abstracts. A second reason for preferring the May figures is that the official Annual Returns of Expenditure on Social Services are not at present available for 1930-1931 outlays, and for earlier years they are frequently based on expenditures for years previous to those to which the returns relate. A third reason is that it is difficult to adjust the statistics of local expenditure cited therein to the Local Taxation Returns necessarily used as the basis of a later chapter. It is further necessary to state that the statistics of local cost are net, i.e. allowance has previously been made for incidental receipts ; and they do not include administrative expenditures.² Finally, the term " Ordinary " expenditure,

¹ Owing to the insignificant amounts required by them in the period, expenditures necessitated by the Unemployed Workmen Act of 1905 and by the Inebriates Acts are excluded. Further, although sometimes included in non-official publications, it has been deemed inexpedient to include payments made for workmen's compensation.

² These are treated of in Chapter VIII.

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as applied to local authority outlays, includes in addition to current outlays charges on loans previously incurred ; for this reason, the contemporary expenditures defrayed out of the proceeds of fresh borrowings have been grouped under the heading of " New Loan " expenditure.

TOTAL SOCIAL SERVICE EXPENDITURE MET BY NATIONAL AND LOCAL AUTHORITIES AND FROM PERSONAL CONTRIBUTIONS IN 1913-1914 AND 1921-1931
(£ millions)

Year.	National.		Local.		Personal.	Total.
	Ordinary.	Loan.*	Ordinary.	New Loan.		
1913-14	33·20	—	37·07	5·70	18·60	94·57
1921-22	109·41	14·32	87·64	94·55	55·74	361·66
1922-23	102·23	+ ·99	87·87	37·94	59·05	288·08
1923-24	103·62	- 8·63	82·48	16·19	62·94	256·60
1924-25	107·81	+ 1·42	83·04	31·29	64·10	287·66
1925-26	110·81	+ 2·39	89·19	57·78	61·34	321·51
1926-27	117·28	+ 14·21	100·67	80·07	70·69	382·92
1927-28	123·20	- ·18	91·30	83·09	80·52	377·93
1928-29	123·62	+ 11·43	93·68	54·99	79·45	363·17
1929-30	133·76	- ·29	97·29	58·25	80·64	369·65
1930-31	164·86	+ 47·93	Not available		78·85	—
	1,196·60	83·59	813·16 †	514·15 †	693·32	3009·18 †

ANNUAL AVERAGE EXPENDITURE, 1921-1930, £334·35 m.

* This column records the end-year figures of borrowings made for unemployment insurance. The plus sign indicates the increase, and the minus sign the decrease as compared with the preceding year.

† Owing to non-publication of Local Taxation Returns, this total relates to the period 1921-1930 only.

This table points, first, to the substantially increased outlays made by the national as well as by local authorities and personal contributors both for ordinary and new loan expenditures in the period compared with the year 1913-1914. Second, of the ordinary expenditures, those of the national and local authorities increased by more than those of personal contributors, and national expenditures by most

of all. Third, it may be pointed out that new loan expenditures of the State were on account of borrowings by the unemployment insurance fund, while those of local authorities were mainly on account of housing schemes and education.

These general observations having been made, the question next arises as to why and how the increased post-war expenditures were incurred. To answer this necessitates a separate examination of each service with a view to considering the peculiar influences at work. In doing this, later analysis as well as present perspective will be assisted by discussing the services in the order of their importance as contributors to the larger national ordinary expenditure. The following table indicates the outlays made on Education—the service ranking first :

NET EXPENDITURE ON EDUCATION ¹
(£ millions)

	Ordinary Expenditure.			New Loan Expenditure.	Total.
	National.	Local.	Total.	Local.	
1913-14 . .	16.50	18.62	35.12	3.37	38.49
1921-22 . .	53.73	36.12	89.85	2.18	92.03
1922-23 . .	47.41	36.54	83.95	1.22	85.17
1923-24 . .	46.27	34.71	80.98	1.15	82.13
1924-25 . .	46.62	36.24	82.86	1.76	84.62
1925-26 . .	47.14	37.83	84.97	3.61	88.58
1926-27 . .	48.39	37.76	86.15	4.87	91.02
1927-28 . .	48.66	38.64	87.30	6.29	93.59
1928-29 . .	47.78	41.04	88.82	6.79	95.61
1929-30 . .	48.20	43.43	91.63	7.29	98.92
1930-31 . .	53.47	—	Not available		—

This shows, first, the strikingly increased nominal cost of Education in 1921-1931, and second, that the national exchequer has suffered the larger burden. As, however, the table suggests that there was apparently no definitive

¹ Including Industrial Schools and Reformatories.

growth of costs during post-war years, it is necessary to add a sub-table designed to indicate the cost per student as follows :

	£		£
1913-14	4.40 ¹	1925-26	11.65
1921-22	11.26	1926-27	11.67
1922-23	11.22	1927-28	11.77
1923-24	11.09	1928-29	12.15
1924-25	11.44	1929-30	12.53

Since these figures relate to education as a whole, it is desirable to consider the various branches separately, and because the cost of Elementary education easily outstands, this may be considered first.

The factors responsible for the increased post-war cost of elementary education in England and Wales are (1) larger teachers' salaries ; (2) greater costs for maintenance of school premises and equipment ; (3) expanded outlays on new and modernised buildings and equipment ; (4) the growth of " Special Services " ; and, in general, because of (5) proportionately and absolutely larger State grants. As for the first item, in 1913-1914 the salary bill was £19.42 m. ; in 1919-1920, £31.36 m. ; in 1921-1922, £41.65 m. ; and in 1930-1931 about £42.10 m.² Relating these totals to the cost per child, from 61s. in 1913-1914 this rose to 151s. 10d. in 1920-1921, 160s. 9d. in 1921-1922, and in 1930-1931 was still higher at 180s. 4d.³ Expressed in this way the nature and extent of the increase are clear. How can these be explained ? First, and most obvious, during and immediately after the war teaching salaries were advanced in order to meet the extra costs of living, while from and after 1921 the Burnham scales were brought into force. These latter provided for a thoroughgoing revision of scales designed to destroy the inadequate pre-war salaries and to establish teachers' remuneration on what was decreed by the Committee to be an equitable and fair basis. As a

¹ 1913-1914 figure approximate only ; 1921-1930 figures based on Returns of Public Social Services.

² *Memo on Board of Education Estimates* (1924-1925), p. 5 ; (1930-1931), p. 8.

³ *Ibid.* (1924-1925), p. 7 ; *Cost per Child* (Elementary Education), 1931, p. 7, List 43.

result, a certificated male teacher who received £147 per annum in 1914 was paid £271 in 1920, £330 in 1921 and £334 in 1930 (March),¹ and other grades received roughly proportionate increases. It is clear from these figures that the revised scales had a powerful effect in driving up salary charges. The fact that during the last year of the period salaries were a little higher than in 1921 despite a 5 per cent contribution made by the teachers in and after 1922 to superannuation and a further 5 per cent voluntary abatement made by them after 1923, is explained by the slight revision of the Burnham scale made in 1925, and also by the fact that in and after 1928 local authorities undertook to pay as from that year the superannuation charges imposed by the 1925 Act. It is obvious, however, that the operation of the new scales does not sufficiently explain the growth in cost per child. It is necessary, therefore, to refer to other factors. Of these the reduction in the number of pupils to each teacher is one of the most important. Compared with 32.9 pupils to each teacher in 1913-1914, in 1919-1920 the figure was 31.3, in 1921-1922 30.8 and in 1931-1932 about 29.² Another reason is found in the higher qualifications possessed by teachers, e.g. while in 1913-1914, 66.6 per cent were certificated, in 1921 the figure was 71.2 per cent, and in 1931 74.6 per cent. Again, while in 1921 1.3 per cent were graduates, by 1931 the figure had risen to 4.2 per cent.³ Both these factors were the outcome not only of general progress, but also of a reformulation of the elementary code undertaken in 1925, and more largely still were due to the reorganisation of primary education recommended in the Hadow Report. As a result of these changes new central schools have been established and departments have been re-arranged—both changes leading to the employment of more specialist and better-equipped teachers and to reduced classes.

To pass to the second item, costs grew in part because

¹ *Memo on Board of Education Estimates (1924-1925)*, p. 20; *Report of May Committee on National Expenditure* (Cmd. 3920), p. 48.

² *Ibid.* (1924-1925), p. 14; (1932), pp. 11, 13.

³ *Report of the Board of Education (1922-1923)*, p. 175; (1931), pp. 98, 102.

of the enhanced post-war expense of school maintenance reflected in higher wages to caretakers, etc., and the increased cost of rates, taxes, and equipment generally. To no small part, also, they grew because of the improved equipment provided in the schools as a result of better standards of instruction. Lastly, to a substantial extent, they were due to the re-conditioning of schools and school premises—much of which work was a heritage of war restrictions.

Expenditure under the third item—reflected in the item of new loan expenditure cited in the table—has expanded principally as a result of the reorganisation under the Hadow scheme but also as the outcome of the boom in building in and after 1924. Under the former it became necessary to provide new, and to modernise old buildings and equipment on an extensive scale. Under the latter, policy was influenced by the need for overtaking accumulated war arrears, to meet the post-war migrations of population and to secure eventual economy by reorganisations involving the closure of old schools. In and after 1929 (under Circular 1404) building was also accelerated in order to assist in relieving unemployment.

Under the fourth item have to be included outlays on a conglomeration of items. Of these, there may be singled out the remarkable growth in the school medical services. This proceeded so fast that in 1930 there were 14,573,155 "cleanliness" examinations, 196,732 treatments for defective vision, 861,729 treatments for minor ailments and 1,252,552 treatments for dental defects.¹ There was also a definite development of special schools for mental and physical defectives, their number being 523 in 1921 and 607 in 1930. This has been very expensive, for costs per child per annum range between £25-£80.² Nursery schools were also more generously provided, their number rising from 25 to 43 in these years, while physical training organisers grew from 135 to 161.³ Before the war no ex-

¹ *Report of the Board of Education* (1931), pp. 54-5.

² *Memo on Board of Education Estimates* (1926-1927), p. 27.

³ *Report of the Board of Education* (1931), pp. 56-7.

penditure was incurred for these latter items. The "Special Services" also include moneys devoted to the provision of school meals. In 1921 expenditure reached a high total of £951,000 (compared with a pre-war average of under £150,000). This was due to the severe unemployment and distress occasioned by the collapse of trade and by trade disputes, but the cost has been maintained at a high average figure over the period.

Under the fifth heading, larger State grants to elementary education have mainly been occasioned by the alterations in the grant policy pursued in post-war years. Before the war grants were made separately, school by school, supplemented by an "aid" grant in which some allowance was made for the relative wealth or poverty of separate areas. In 1917 a new consolidated percentage grant was introduced which was based on average attendances, actual expenditures of local authorities and also the relative wealths of different areas. From a minimum of 40 per cent in that year, in 1919 it was raised to 50 per cent. As a result of the Local Government Act, 1929, which reduced the rateable values of hereditaments liable to education rates and therefore the product of the 7*d.* rate, after 1929 it became necessary to add a sum of over £1,000,000 to the Board's expenditure.

The question next arises as to the relative significance of the five factors influencing cost. If reference is made to the statistics this can be answered without difficulty. For, while the total cost per child in 1913-1914 was 95*s.* 2*d.*, by 1921-1922 it had grown to 234*s.* 3*d.* and in 1930-1931 it reached a post-war maximum of 262*s.* 6*d.* Of these sums, teachers' salaries for the same years respectively accounted for 61*s.*, 160*s.* 7*d.*, and 180*s.* 4*d.* It is plain, therefore, that this item was a fundamental and out-standing cause of the augmented post-war cost. The item in the accounts showing the next largest increase is that of "Special Services." Costing no more than 3*s.* 4*d.* per child in 1913-1914, in 1921-1922 this had risen to 14*s.* 10*d.* per child, and in 1930-1931 it was 16*s.* 4*d.* per child.¹ "Other

¹ *Memo on Board of Education Estimates (1925-1926)*, p. 9; *Cost per Child* (List 43, 1931), p. 7.

Expenditure" apparently ranks next. It will be recalled that this deals with general maintenance expenses and costs of equipment. In 1913-1914 it was not separated from administrative costs at the combined figure of 19s. 6d. per child. In 1921-1922, when it was stated separately, the figure was 35s. 9d., and in 1930-1931 40s. 3d. per child.¹ The growth since 1913-1914 was evidently substantial; moreover, this item bulks next in importance to teaching salaries as an integral component of total expenditure. Even so, since costs of re-conditioning have frequently fallen on this vote, although they more properly belong to the charges included under Loans, it is probable that the expenditure does not rank so largely as "Special Services" costs as a factor causing the greater outlays. "Loan Charges" showed the next largest increase—from 11s. 4d. per child in 1913-1914 to 11s. 10d. in 1921-1922 and 13s. 9d. in 1930-1931.² The last figure reflects the building boom of the later post-war years: and while the total increase over the period is not large this was in effect greater because pre-existing loan charges were constantly expiring as the relevant loans were repaid; because they would in any case have fallen as a result of the virtual cessation of building in war and early post-war years; and also because the numbers of pupils declined over the three periods. While exact statistics are not available, it would appear that the costs of Administration per child—11s. 3d. in 1921-1922 and 11s. 9d. in 1930-1931³—have risen but slightly since the pre-war year; and this fact is worthy of notice.

To generalise: the extra cost per child of post-war elementary education in England and Wales is due outstandingly to teachers' salaries, and also—to a much less degree—to larger expenditures on "Other Expenditure," "Special Services," and "Loan Charges."

Turning now to Higher Education in England and Wales, compared with 1913-1914, when the net total was £4.40 m., in 1921-1922 it was £14.45 m., and by 1930-1931 it had

¹ *Memo on Board of Education Estimates (1925-1926)*, p. 9; *Cost per Child* (List 43, 1931), p. 7.

² *Ibid.*

³ *Ibid.*

progressively grown to £18.21 m.¹ Such expenditure has therefore shown not only a marked comparative increase, but also has been cumulative. Dealing first with the cost of secondary education, this registered the largest expansion of all. Exact figures for 1913-1914 are not available, but it seems that the outlays on teachers' salaries, equipment and similar incidental expenses such as cleaning, fuel and light and rates—but not including the items of Loan Charges, Aid to Students and Administration—did not exceed £1.5 m.² In 1921-1922 and 1930-1931 the comparable figures were £6.38 m. and £7.49 m.³ As in elementary education, but more so—for they have accounted for nearly four-fifths of the total expenditure as above defined during the post-war years—increased teachers' salaries provide the major explanation. The growth in these was due to the two factors of individual increases in salaries under the Burnham scheme and the expansion of teaching staffs. Since the salary of a male graduate rose from an average of £225 in 1914 to £423 in 1921-1922, and despite the reductions referred to earlier was still £436 in 1930-1931, the importance of this factor is obvious.⁴ The extra superannuation contributions referred to before must also be taken into consideration here. Unlike the elementary branch, however, the numbers of teachers have risen substantially since the last pre-war year and also during the post-war period; for while in 1913-1914 there were 10,824 full-time teachers, in 1922-1923 there were 18,727 and in 1930-1931 there were 21,694.⁵ The more prominent reason for these large increases is found in the steady and almost progressive growth in the numbers of pupils: these being 187,207 on 1 January, 1914, 336,836 on 31 March, 1921, and 411,309 in March, 1931.⁶ The expansion of cost under this

¹ *Vide Report of May Committee* (Cmd. 3920), pp. 196-7.

² *Statistical Abstract* (Cmd. 3767), p. 50.

³ *Report of May Committee*, p. 196. The latter figure does not include the superannuation payments under the 1925 Act shouldered by local authorities in and after 1928.

⁴ *Ibid.*, p. 50. *Memo on Board of Education Estimates* (1925-1926), p. 21.

⁵ *Reports of Board of Education* (1921-1922), pp. 30, 37; (1931), p. 24.

⁶ *Memo on Board of Education Estimates* (1926), p. 10, and *Report of Board of Education* (1931), p. 24.

head would, however, have been greater if there had not been an increase in the number of pupils per teacher. Another reason has been the movement towards a longer school life and higher standards of secondary education. This conjoint point may partly be illustrated by the statistics of pupils taking first and second examinations approved by the Board of Education. Thus from 28,625 in 1921 the numbers grew to 74,317 in 1931.¹ Lastly, a certain amount of extra expense has been engendered by the provision of wider curricula (e.g. the development of alternative subjects), and the adoption of "special method" teaching. Larger outlays on the remaining items were induced principally by the increases in equipment and materials, etc., rendered necessary by the general expansion of secondary education illustrated above. The cost per child for all items under this head can hardly be calculated accurately owing to the absence of sufficient data, but it is safe to say that, compared with 1913-1914, expenditure in 1921-1922 was almost double, and by 1930-1931 more than double.

To these outlays have to be added those for Loan Charges, Aid to Students and Administration. Figures, however, are not available for 1913-1914. The total cost of Loan Charges grew from £64 m. in 1921-1922 to £1.48 m. in 1930-1931, and of this increase the larger part was due to the provision of new and the modernisation of old secondary schools.² As in the elementary branch, most of this has been done in and since 1925, so that while for 1921-1924 the average annual capital expenditure was little more than half a million, thereafter it was nearer two millions. As a result the total number of schools in existence grew from 1,205 in 1921 to 1,354 in 1931. The charges for Aid to Students, which also are not stated for 1913-1914, rose over the post-war period from £1.38 m. to £2.26 m.³ Most of this again is assignable to the secondary branch since it takes the dual shape of payment of fees and maintenance allowances. As the numbers of free places at secondary schools grew from 25 per cent in 1921 to 44.3 per cent in

¹ *Report of Board of Education (1921-1922)*, pp. 30, 37; (1931), p. 28.

² *Report of May Committee*, p. 196.

³ *Ibid.*

1931,¹ and the average periods of stay thereat have been substantially extended, the reasons for the extra expense are apparent. If the charge for 1930-1931 is examined, it is found that of the total of £2.26 m., £1.57 m. were devoted to aiding secondary school pupils and included 73,909 maintenance allowances of an average value of £8 7s.² The charges for Administration and Inspection have grown but little over the period—from £.61 m. in 1921-1922 to £.72 m. in 1930-1931.³ Again the larger part is assignable to the secondary branch; but the increase is so small as not to justify extended comment. There was, in fact, some decline in staffs.

To deal now with the outlays on technical and similar schools, these grew from an approximate figure of £1.8 m. in 1913-1914 to £3.77 m. in 1921-1922 and £4.31 m. in 1930-1931.⁴ The increases can be ascribed as the product of two principal factors; first, the general growth in this field of educational work—with the concomitant increase in teaching staffs—and second, the increased post-war salaries. In illustration of the first point, in 1913-1914 there were approximately 860,000 students of all kinds, in 1921-1922 about 908,000, and in 1931 about 1,044,000.⁵ The growth of the work has been largest of all in the day and evening technical and similar schools. It has been influenced by such factors as the closer association between technical education and industry;⁶ the growth of industrial technique and the increased need for technical and technological knowledge; the development of the system whereby part and full-time instruction to apprentices is given in the schools;⁷ and the general desire of the Board of Education and of local authorities, as exhibited by the elastic system of student-grants and the low fees charged, to extend the basis, scope and efficiency of the work. There has also been a notable extension of the scheme of technical in-

¹ *Report of Board of Education* (1931), p. 24.

² *Memo on Board of Education Estimates* (1932), p. 18.

³ *Ibid.* (1922-1923), p. 5; (1930-1931), p. 14.

⁴ *Statistical Abstract* (Cmd. 3767), p. 50; *Report of May Committee*, p. 196.

⁵ *Ibid.*, p. 49; (Cmd. 4068), p. 143.

⁶ *Report of Board of Education* (1924-1925), p. 46.

⁷ *Ibid.*, p. 79.

struction by way of the junior technical schools. Established shortly after the war, there were 177 such schools by 1931, designed to take particular care of children immediately after leaving elementary school and to give them a full-time course of instruction to equip them for employment in industrial, commercial and domestic occupations. Continuation schools also have been developed to some extent, despite the partial application only of the provisions of the 1918 Act. Lastly, "Other Technical Instruction" including art schools and other vocational training schools, has shared in the general progress.¹

About the second factor causing larger expenditure it is unnecessary to say more than that teachers' salaries in the technical branch have benefited *pari passu* with those of other branches; and while separate scales were devised, the principles on which they were drawn up were similar in essence. It would seem that it is this factor—rather than the first—which serves to explain the materially larger post-war outlays. Technical instruction also shared in the extra expenditure on "Loan Charges." The number of new buildings, however, has by no means been so large, as in the case of secondary schools—partly because of private munificence, but more largely because existing school buildings have been widely drawn upon. Again, maintenance and other grants have been available for technical students; but fewer awards have been made—although the average value has been slightly higher than in the case of secondary school pupils. Thus in 1930-1931 the number of awards to technical students was only 15,560, of an average value of £9 8s. compared with 73,909 to secondary school students, of an average value of £8 7s.²

A third branch of expenditure is concerned with Treasury grants to University institutions. From comparatively small amounts in pre-war years these grew to £1.5 m. in 1921-1922, and in 1930-1931 to £1.75 m. The main reasons for the larger grants are found in the greatly increased

¹ A general review of the provision made for Technical education in past decades is given in the *Report of the Board of Education (1924-1925)*, pp. 7-81; (1931), pp. 30-9.

² *Memo on Board of Education Estimates (1932)*, p. 18.

resort to University education in post-war years, involving considerably larger staffs, and a general scaling-up of salaries. A more minor, but still important factor, has been the notable extensive and intensive cultivation of the ever-growing field of university work seen in the varied progress achieved by the older universities and in the developments recorded by the newer and new university institutions. Of evident importance, too, has been the more widespread and more sympathetic understanding of the significance of the university function in modern educational progress and as a vital force in community life.

Turning now to the fourth line of expenditure—the cost of training teachers—as this has tended downwards over the period it is unnecessary to offer detailed comment. While figures are not available for 1913–1914, in 1921–1922 the outlay was £1.26 m. and by 1930–1931 it had fallen to £1.12 m.¹ The decline was principally due to reductions in the cost of training institutions maintained by local education authorities. The facts that *per capita* and other grants have remained virtually unchanged over the period and that the numbers of trainees have shown no large variation from year to year account for the relative stability of the total expenditure. Nor was expenditure greatly affected by the alterations in regulations for training resulting from the adoption of the Report of a Committee issued in 1925 dealing with certain changes in the previous education of intending teachers, and the devolution of examining powers in and after 1929 from the Board on to new regional authorities.

The fifth line of expenditure—on providing classes for Adult Education—has not bulked large absolutely. Expenditure thereon grew progressively in and after 1924–1925. As a result of the increase of Board of Education grants in that year, the number of classes grew from 1,036 in 1924–1925 to 2,117 in 1930–1931.

Lastly, something needs to be said about Scottish education. Expenditure on this was substantially increased as a result of the Scottish Education Act of 1918. Princi-

¹ *May Committee on National Expenditure* (Cmd. 3920), pp. 196, 197.

pally this provided for the transfer of voluntary schools to public authorities, and for free primary, intermediate and secondary education. Both these, but especially the latter, have entailed increased expenditure. A much more substantial reason than either, however, is the general scaling up of Scottish teaching salaries. Thus, as in England, of the total education bill, teaching salaries accounted for a little over two-thirds during the period.¹ Another substantial cause of increased expenditure on salaries was the expansion in the numbers of teachers—occasioned by the progressively larger attendances at secondary schools, the promotion of “advanced” divisions under a new code of regulations and the raising of teaching standards. Much importance is assignable to these factors, for, despite a decline in numbers of students to 823,668 in 1930—a figure materially less than that of ten years earlier—the number of teachers was at the post-war maximum of 28,113. Other lines of expenditure have advanced *pari passu* with those for England and Wales. Thus, there was a noticeable increase in the sums expended on bursaries as provided for in the 1918 Act, on school maintenance and equipment, on loan charges for buildings and on the school medical service. During the period 1919–1929 the total number of medical inspections doubled, while the number of treatments was multiplied roughly four times.²

To summarise: general expenditure on Education in England and Wales has increased but slightly over the period. It has, however, grown substantially in unit cost since the end of the war and very largely since 1913–1914. The larger comparative outlays have been outstandingly due to the general raising of teachers’ salaries and larger costs of superannuation. The actual burden of salaries would have been less if there had not been a raising and revision of the standards and methods of elementary education resulting in fewer pupils to each teacher, and an advance in teachers’ qualifications. To a less degree this would also have been the case in secondary education and

¹ *Vide Reports of Committee of Council on Education in Scotland.*

² *Annual Report of Scottish Department of Health* (1929), p. 75.

technical education: but the larger numbers of pupils in these branches, needing increased staffs, have been the major cause. Another main reason, but one involving a materially smaller growth of cost, has been the correlated provision of new, and the modernisation of old buildings and equipment. This has especially applied to the elementary and secondary branches. Again, sizably augmented expenditure has followed from the intensive and extensive development of various special services. Again, administrative costs have been higher; but to no material degree. Lastly, more was spent on education of University standard.

The whole expenditure has been the outcome not of a revolution in policies, but of a general and insistent will to seek progress which has had as its basis a widespread belief in the merits of education. It has undoubtedly been facilitated—if not fostered—by the percentage grant system introduced during 1917-1919; for State grants averaged about 56 per cent of the total expense in 1921-1931 compared with about 46 per cent in 1913-1914. Expenditure on education in Scotland has followed on the same lines as in England. The effects of the Scottish Education Act of 1918 in prescribing the transfer of voluntary schools to the public authorities, free primary, intermediate and secondary education, the increases of salaries and staffs—all leading to general progressive developments of policy—have inevitably increased unit costs.

The service ranking next in importance as a cause of enhanced outlay in the period is that concerned with Old Age and Blind Pensions (Non-Contributory). The course

OLD AGE AND BLIND PENSIONS (NON-CONTRIBUTORY)
(£ millions)

National Expenditure.		National Expenditure.	
1913-14	9.80	1925-26	27.01
1921-22	22.05	1926-27	29.98
1922-23	22.36	1927-28	32.83
1923-24	23.21	1928-29	34.05
1924-25	24.90	1929-30	34.92
		1930-31	36.85

of this, which falls entirely on the national authority, shows the large expansion which has occurred in the period 1921-1931, and also that it has been definitely cumulative.

The reasons for this larger expenditure are first, that numbers have increased as a result of earlier growths in population. Associated with this factor is the noticeable lengthening of the span of life—doubtless because of the wider application of medical services, and because of the benefits conferred by this and other social service expenditure. While this phenomenon was not restricted to the period 1921-1931, it must not be left out of reckoning. Second, however, and of greater importance, from 5s. weekly in 1913-1914, the maximum pension was increased to 10s. in 1920, while an Act was passed in 1924 which raised the limit of eligibility by permitting the substantial deduction from means other than earnings of £39 a year (or £78 for a married couple) before assessment for pension. A further increase resulted from the passing of the Widows', Orphans' and Old Age Pensions (Contributory) Act of 1925, granting pensions at 65 which might continue to be drawn on the original Old Age Pensions Fund after the age of 70 and free from the restriction imposed by the means limit. Third, minor reasons for the increase may be found in the absence of opportunity of earning occasioned by the long depression, and in the growth of Blind Pensions from £255,000 in 1921-1922 to £585,000 in 1930-1931. This latter is apparently the outcome of more active administration of the Blind Persons' Act of 1920. A last reason is seen in the absence of legislation adjusting the scale of pensions to lower costs of living.

The Unemployment Insurance Scheme comes next in order, and the table of expense falling on the respective parties is as shown on page 27.

The inferences derivable from this table are the large increases in expenditure in the period 1921-1931 compared with 1913-1914, and the enhanced burdens falling to be met by the national authority—both by way of ordinary contributions and in the shape of advances from the Treasury. The most obvious reason for the post-war increase

THE SOCIAL SERVICES

27

NET EXPENDITURE ON UNEMPLOYMENT INSURANCE (£ millions)

Year.	Ordinary Expenditure.			Loan Expenditure.	Total.
	National.	Personal Contributions. ¹	Total.	National. ²	
1913-14 . .	·60	1·80	2·40	—	2·40
1921-22 . .	7·83	30·55	38·38	+ 14·32	52·70
1922-23 . .	12·02	34·03	46·05	+ ·99	47·04
1923-24 . .	12·82	36·74	49·56	— 8·63	40·93
1924-25 . .	13·15	36·72	49·87	+ 1·42	51·29
1925-26 . .	13·50	33·62	47·12	+ 2·39	49·51
1926-27 . .	10·84	20·34	31·18	+ 14·21	45·39
1927-28 . .	12·02	30·89	42·91	— ·18	42·73
1928-29 . .	11·76	30·17	41·93	+ 11·43	53·36
1929-30 . .	19·41	30·56	49·97	— ·29	49·68
1930-31 . .	36·97	29·34	66·31	+ 47·93	114·24

was the extension of the scheme in 1920. Compared with some 2·25 million workers who were covered in 1913, by 1921 the total had been raised to some 11·75 millions. It is patent that, if the scheme had remained restricted to the pre-war numbers, expenditure subsequently would have been vastly lower.

The actual growth in the expenditure and indebtedness of the Unemployment Fund since 1921 has, however, been due to three principal factors, viz. (1) the increased unemployment of 1921, and, despite variation, its persistence since; (2) changes in the scope of the scheme and in rates of benefits due to changes in legislation; (3) "anomalies" and abuses.

The influence exerted by the first factor is seen in the monthly average of unemployment amongst the insured population prevailing from December, 1921, to June, 1931—12·2 per cent—representing approximately one and a half million persons. The relatively small variation away

¹ Up to March, 1927, figures based on insurance year ending in July: thereafter budgetary year.

² At end of period; pre-1921 credit balance disregarded.

from this figure appears in that the mean for the four years 1921-1924 was 13.1 per cent; for the four years 1925-1928, 10.9 per cent; and for the two years mid-1929 to mid-1931 it was 14.9 per cent. In summary, it may be said that although unemployment declined in the interim years it was substantially larger during the closing years; and the real position was worse than the percentage figures suggest owing to the increase in the insured population. The burden has therefore been a continuously heavy one, and is of prime significance as mainly determining the total amount of benefits.

The second factor is best illustrated by enumerating the main points of the various Acts. The first was the Act of 1920, which widely extended the industries covered by the initial Act of 1911, by the emendations under the Munition Workers' Act of 1916, and under the "donation" schemes of 1918. The Unemployment Insurance scheme was made available by the 1920 Act to the majority of employees—notable exceptions being agriculture, domestic service and permanent employees of local authorities and railways. The Act also established rates of benefit and contributions on a new basis intended to meet the lessened value of money. By March, 1921, however, a large number of workers had exhausted the maximum period of benefit, and an Act was passed introducing "extended" or "uncovenanted" benefit periods. While, moreover, these were at first limited, by subsequent new legislation they were repeatedly continued and extended until the coming into operation (in April, 1928) of the Act of 1927. Under this Act, following from the report of the Blanesburgh Committee, an attempt was made to deal with the problem of "extended" benefit by turning it into "transitional" benefit. This was payable (a) if eight or more contributions had been paid during the two years prior to applying for benefit, or thirty contributions at any time; (b) if the person concerned was normally engaged in insurable employment and genuinely in search of work; and (c) if during the previous two years the person concerned had been employed in an insurable occupation to a reasonable extent consonant with the cir-

cumstances of the case. Owing to the continuance of bad employment in certain major industries, "transitional" benefit was extended by the Act of 27 March, 1929, to 18 April, 1930, re-enacted for another year by the Act of 1930, and by another Act passed in 1931 extended until 18 October, 1931. As the result of repeated legislation, therefore, "extended," "uncovenanted" or "transitional" benefit has persisted since March, 1921, and has inevitably been a cause of enlarged and prolific expenditure; for persistent unemployment prevented the making of the statutory contributions. Furthermore, such expenditure was inflated by the Act of 1930, since this repealed the condition requiring the claimant to prove that he was genuinely in search of work without being able to obtain it. By way of mitigation, it should be added that only during a short period in 1924 was the right to "extended" benefit not subject to the discretion of the Minister of Labour. In that period it was a statutory right, but at other times the presumption that the Minister of Labour might refuse benefit was sometimes realised. Continuous unemployment, however, militated against its widespread or intensive application. Thus, at January, 1929, there were 120,000 cases of "transitional" benefit; by October, 1929, 130,000; by February, 1930, 140,000; by May, 1930, the total was estimated to be over 300,000, and a year later 410,000.¹

Another legislative departure, originating in November, 1921, which also caused added cost, made provision for dependants; and State expenditure was substantially increased by the disproportionate raising of the national contribution from 3½d. to 6½d. Other alterations in contribution and benefit rates are best shown in tabular form overleaf.

By subsequent Acts it is seen that dependants' allowances were consistently enlarged; so that the total expense engendered by these was automatically expanded. As for ordinary benefits, these have throughout been larger than were envisaged by the central Act of 1920. The rise to 20s. in early 1921 might conceivably be explained as a

¹ *First Report of Royal Commission on Unemployment Insurance*, p. 18.

Date.	CONTRIBUTIONS. ¹				BENEFITS.	
	Em- ployers.	Workers.	State.	Total.	Ordinary.	Dependants.
8 : 11 : 20	d. 4	d. 4	d. 2	d. 10	15s.	—
3 : 3 : 21		No Change			20s.	—
30 : 6 : 21		No Change			15s.	—
4 : 7 : 21	8	7	3½	18½	No Change	—
7 : 11 : 21	10	9	6½	25½	No Change	—
10 : 11 : 21		No Change			No Change	Adult 5s., Child 1s.
14 : 8 : 24		No Change			18s.	Adult 5s., Child 2s.
4 : 1 : 26	8	7	6½	21½	No Change	No Change
5 : 4 : 26	8	7	6	21	No Change	No Change
19 : 4 : 28		No Change			17s.	Adult 7s., Child 2s.
1 : 4 : 29	8	7	7½	22½	No Change	No Change
13 : 3 : 30		No Change			No Change	Adult 9s., Child 2s.

result of the intervening upward trend of the cost-of-living index, but since that time the course of such prices has been almost progressively downwards. It is plain, therefore, that real rates of benefit have ranked higher than were contemplated by the 1920 Act, and particularly if dependants' allowances are also taken into account. As for contributions, these were raised in 1921, first to meet the vastly enlarged unemployment of that year, and again to meet the cost of the new dependants' allowances. On the other hand, no attempt was made in 1924 to offset the 3s. increase in ordinary benefits and the 1s. increase in child benefits. Again, in January and April, 1926, two substantial reductions in contributions were made with a view to assisting the flotation of the Widows', Orphans' and Old Age Pensions scheme, but with the liability and in the knowledge of a debit balance. Lastly, the slightly increased contributions established in April, 1929—which were borne entirely by the State—were more than offset by the increased allowances made to dependants about a year later.

To summarise: the result of legislation since 1920 has been to add to the liabilities of the scheme as well as to its assets during a period when it was almost continuously in debt—and probably more to the former than to the latter.

¹ *First Report of Royal Commission on Unemployment Insurance, Appendix II, p. 67.*

More important, the legislation has raised the State contribution by much more than that of either of the other parties.

As for the third factor, the First Report of the Royal Commission on Unemployment Insurance recognised that "anomalies" and "abuses" existed. The first of these concerns the rules governing the continuity of benefits. The Commissioners pointed out that the continuity rule then in force and dating from 1923 "... appears to encourage industries to maintain reserves far in excess of their maximum requirements, at the expense of the Unemployment Fund."¹ Illustrative examples of the resultant labour surplus were cited, viz. the dock industry with an ordinary unemployed percentage of over 30; building, which with 21·8 per cent extra employment during 1924-1931 had nevertheless shown increased unemployment—averaging 16·3 per cent—in 1930; cotton and textile finishing, where there had been no contraction in the numbers of employees despite heavily reduced trade; in coal-mining, where, in certain districts at least, there was evidence of an excessive labour force. The same result followed because the existence of Unemployment benefit had fostered the policy of short-time working. This policy placed a direct burden on the Unemployment Fund since it was equivalent to a wages subsidy and since also it led to many short-time workers entering claims for benefit which their circumstances did not justify.

Another sort of "anomaly" related to the case of married women claimants. Evidence from the Ministry of Labour showed that, whereas for some time past the number of insured married women had been approximately 25-30 per cent of all insured women, coincidentally married women had accounted for between 45 and 50 per cent of the total of women claimants. The main increase in the latter figures followed from the passing of the 1927 Act, which applied much less deterrent conditions respecting eligibility for benefit. After review the Commission concluded that "... we are satisfied on the evidence before us that there are many married women receiving benefit who have not

¹ p. 39.

since marriage worked in an insurable trade; and in their existing circumstances, have no intention of doing so.”¹

A last “anomaly” refers to seasonal and intermittent occupations. The Commission showed that, before the Act of 1930, benefits were not normally allowed to the workers during “off-seasons.” But

“Under the easier conditions which have prevailed since the Act of 1930 came into force, it is possible for many seasonal workers who obtain enough contributions to qualify them for insurance benefit, to receive benefit each year during the whole period of their off-season.”²

Taking the three factors together, the effect was to turn a credit balance of over £22 m. existing at November, 1920, into a debit balance of nearly £83 m. at 23 May, 1931.³ Of all the factors, very probably the persistent and intractable unemployment had the greatest share in producing this result. But how far this factor operating alone would have involved the fund in indebtedness cannot be precisely calculated owing to lack of data and the impracticability of assuming specific basic rates of contributions and rates and conditions of benefit. It is certain, however, that the actual volume of unemployment recorded in the period was almost consistently larger than that from time to time contemplated, so that, if the original scales of the 1920 Act had remained unchanged, a deficit would have occurred for this reason alone.

Nevertheless, the other two factors must carry their share of responsibility. For changes in legislation have provided rates of benefit higher and wider in scope than were established by the 1920 Act. Much more important, however, they changed the character of the scheme from one of insurance to one of relief by the device of “extended” and “uncovenanted” benefits as and from March, 1921; they increased the number of days of “waiting-time”—subject to certain exceptional periods, e.g. August, 1924–1925; and lastly the 1930 Act added a fresh burden by repealing the qualification requiring claimants to prove that they were genuinely seeking work. It was defects in legislation,

¹ p. 43.

² p. 54.

³ p. 24.

too, which gave rise to "anomalies" and "abuses," owing to inadequate safeguards against certain special kinds of unjustifiable claims. The result was to permit exploitation, evasion, and laxity in administration. These points are summed up in the declaration of the First Report of the Royal Commission as follows :

"The relation between contributions and benefits has been severed by the change in the qualifying contribution conditions ; the maximum limit to benefit has been abolished by the continued provision of 'extended' or 'transitional' benefits ; the rate of benefit for a man with a family has been raised to the level of full-time earnings in some occupations ; the scheme is no longer based on the trade-group ; casual engagements have been encouraged rather than discouraged ; the necessity for voluntary provision has been in large part removed." ¹

Housing expenditures fall to be discussed next. The total outlays have been allocated as follows :

NET EXPENDITURE ON HOUSING
(£ millions)

Year.	Ordinary Expenditure.			New Loan Expenditure.	Total.
	National.	Local.	Total.	Local.	
1913-14 . .	—	·45	·45	·82	1·27
1921-22 . .	9·06	1·38	10·44	90·65	101·09
1922-23 . .	8·05	1·27	9·32	35·64	44·96
1923-24 . .	8·33	1·10	9·43	14·08	23·51
1924-25 . .	9·06	1·55	10·61	27·81	38·42
1925-26 . .	9·12	2·22	11·34	52·20	63·54
1926-27 . .	10·04	2·86	12·90	72·83	85·73
1927-28 . .	11·12	2·92	14·04	74·25	88·29
1928-29 . .	12·13	3·20	15·33	45·69	61·02
1929-30 . .	12·80	3·32	16·12	48·19	64·31
1930-31 . .	13·65	—	Not available	—	—

Before the war, expenditure on housing by local authorities was low, and was not incurred by the national authority. Owing, however, to the virtual cessation of building in

¹ p. 13.

immediate pre-war years, the almost complete absence of it in war-years and the expansion of the population which occurred meanwhile, the end of the war saw a pronounced shortage of accommodation. Thus the 1921 Census showed an excess of 760,543 families over houses. In these circumstances, the Government treated the problem as one of urgency and passed the Act of 1919, enforcing building by local authorities, and charging all and any deficits in excess of a 1d. rate on the Treasury. Such a policy had, of course, a stimulating effect on demand. Apart from the relatively inelastic demand, conditions on the supply side were artificial. For there was a limited supply only of building labour¹—owing to the pre-war decline in building as well as the war stoppage²—and this involved higher wages; but hours also were shorter and output lower;³ entrepreneurship, again, was restricted, and, owing to a simultaneous demand for constructional materials by other countries and for repair work, prices of these were abnormally high.⁴ Housing costs in the first two years (1919–1921) were therefore high. Owing to the criticisms made by the Departmental Committee of the Ministry of Health in 1921 and the economy campaign of that year, in July the Treasury grant was curtailed from a *quasi*-limitless figure to £200,000 per annum—to be preferentially devoted to slum clearance. The programme of construction was therefore reduced to 176,000 houses. The cost of these, owing to the persistence in scarcely less modified degree of the above artificial conditions, and in particular to the unwillingness of the building unions to dilute labour and the resultant relatively small output, averaged £1,011 per house, compared with about £900 for houses built under the Scottish Housing and Farm Buildings Act of 1919.⁵ In 1923, how-

¹ Males employed in building fell by 52 per cent from July, 1914–November, 1918 (Beveridge, *Unemployment*, p. 352). Even in June, 1924, there were fewer employees than before the war.

² In 1911 the figure of building trade employees was lower than in 1901, viz. 646,939 and 720,229. (*Vide Statistical Abstracts*.)

³ *Vide Report of Departmental Committee of Ministry of Health on High Cost of Building Working Class Dwellings* (1921, Cmd. 1447).

⁴ 170 per cent above 1914 (April, 1921.)

⁵ *Report of May Committee*, p. 174, g. 447; *ibid.*, p. 186, g. 481.

ever, as the major problem still prevailed—in some respects indeed it was exacerbated, e.g. by the natural increase of population and by the abnormally high numbers of marriages in 1919-1922,¹ and a demand had arisen for better housing standards—another Act was passed. This still involved subsidies to builders, but in the case of national subsidies a limit of £6 a year for twenty years for both houses built privately and by local authorities was fixed. As a result of lowered wages following the dispute of 1923, and a promise by the unions to accept a measure of dilution (which was nevertheless slow to mature), greater competition, and reduced costs of materials, building costs fell and the rate of building slowly increased. The advent of a new Government in 1924 and criticism of the adequacy of past policy led to the new Act of that year. Designed to erect houses for letting rather than for selling purposes, this provided for a much larger national subsidy of £9 for forty years, with a special subsidy of £12 10s. for houses erected in agricultural parishes. The response to this generous and more widespread offer was large; and the more so as by then building costs had materially declined. The next Government gave attention to the need for rural houses by a special Act passed in 1926. This Act sanctioned local grants restricted to £100 or two-thirds of the cost of the work, and provided national grants as to one-half of the loan charges incurred by the local authorities. By that year, the nature of the response to the preceding legislation in England and Wales was deemed to be sufficiently satisfactory to justify revision, and by Housing Acts (Revision of Contributions) Orders in 1926 and 1928 it was decided to reduce the £6 subsidy payable under the 1923 Act to £4 per annum—this to apply during the period September, 1927-September, 1929. As before, the amount of assistance to be given by local authorities was left to their own discretion. The subsidies payable under the 1924 Act were also reduced—to £7 10s. and £11 per annum—to apply during the same period, subject to review for subsequent

¹ In 1910-1912 the average was 330,206, and in 1919-1922 it was 404,879.

periods. Despite the reduced subsidies, building continued, and indeed spurred towards the end of the prescribed period 1927-1929 in order to take advantage of the probability of still further downward revisions. But these were not made: instead, "In view, however, of the still unsatisfied demand for houses to be let and to avoid or mitigate the dislocation of the building industry . . ." ¹ the Housing (Revision of Contributions) Order, 1929, was passed to continue the subsidies.

In Scotland, owing to slower building and somewhat higher costs, no reduction was made of the 1923 subsidies until the Housing (Revision of Contributions) Order of 1928, when the £4 subsidy was enacted for houses completed after September, 1929. Nor did the reduction of the 1924 subsidies apply to Scotland.

Other legislation was concerned with slum clearance and insanitary areas. The early provision for this has been noted. Further provision was made by the 1923 Act as to equal sharing of the cost with local authorities. Again in 1930 a special Act was passed to deal with this problem. After revising the 1923 grant downwards to one-half of annual deficits, this fixed the Exchequer contribution at £2 5s. annually per person displaced, to apply over a forty-year period; although in agricultural parishes a higher rate of £2 10s. was applied.

In summary, housing expenditure was incurred entirely as a result of the policy of subsidising building on the assumption that private enterprise would not, or could not, provide houses suitable for the working classes. Starting with a virtually unrestricted national grant and a definitely restricted local contribution, the former passed into a maximum, which later was sizably reduced, and later again still further reduced. Meanwhile the expenditure of local authorities was restricted to a 1d. rate except in respect of slum clearance and insanitary area schemes. The peculiar attribute of the financial methods pursued is that heavy capital expenditure (estimated at 31 March, 1931, as £189 m. for the national Exchequer) has been spread over long

¹ *Report of Ministry of Health (1929-1930)*, p. 77.

periods—some of it extends to 1994—and thus involves an annual fixed charge of somewhat large magnitude which will automatically increase with the payment of further subsidies.

The results of the policy adopted during the period are indicated by the following comparative table :

HOUSES BUILT IN GREAT BRITAIN *

Year.	With State Assistance.			Without State Assistance.
	By Local Authorities.	By Private Enterprise.	Total.	By Private Enterprise.
1919-20 . .	576	139	715	} 126,346 †
1920-21 . .	16,786	13,328	30,114	
1921-22 . .	86,579	21,577	108,156	
1922-23 . .	67,062	11,083	78,145	
1923-24 . .	19,586	4,534	24,120	
1924-25 . .	23,862	48,830	72,692	71,072
1925-26 . .	49,508	66,569	116,077	68,254
1926-27 . .	83,714	83,681	167,395	65,867
1927-28 . .	120,494	77,725	198,219	62,479
1928-29 . .	69,677	52,156	121,833	66,015
1929-30 . .	73,268	53,825	127,093	93,099
1930-31 . .	60,636	6,626	67,262	128,728
	671,748	440,073	1,111,821	681,860

* *Statistical Abstracts.*

† Partly estimated.

The scheme for National Health Insurance and Widows', Orphans' and Old Age Pensions falls next for consideration (see table on page 38).

The increased State outlay on the former was due in the first place to the Acts of 1919 and 1920, the first of which sought to meet changed economic conditions by raising the income limit for non-manual workers from £160 to £250, and the second of which increased contributions and benefits. Membership was thereby enlarged from 13.69 m. in 1914 to 15.15 m. in 1921, and State contributions were added to—both measures, therefore, entailing increased expenditure. With further additions to members so that in 1930-1931 the total reached 18.11 m., the State's potential and actual liability further expanded. Lastly, other commitments resulted

38. BRITISH PUBLIC EXPENDITURE

NET EXPENDITURE ON NATIONAL HEALTH INSURANCE AND WIDOWS', ORPHANS' AND OLD AGE PENSIONS (£ millions)

Year.	National Expenditure.		Personal Contributions.		Total.
	Health Insurance.	Widows', Orphans' and Old Age Pensions.	Health Insurance.	Widows', Orphans' and Old Age Pensions.	
1913-14 . .	3·97	—	16·80*	—	20·77
1921-22 . .	9·21	—	25·19	—	34·40
1922-23 . .	5·84	—	25·02	—	30·86
1923-24 . .	6·08	—	26·20	—	32·28
1924-25 . .	7·12	—	27·38	—	34·50
1925-26 . .	6·85	—	27·72	—	34·57
1926-27 . .	6·45	4·00	24·46	23·28	58·19
1927-28 . .	6·68	4·00	26·38	20·87	57·93
1928-29 . .	6·29	4·00	25·98	20·92	57·19
1929-30 . .	6·24	4·00	26·00	21·64	57·88
1930-31 . .	6·73	9·00	26·03	21·10	62·86

* Year 1914-1915.

from the various Acts designed to meet the predicament of members whose right to benefits would have lapsed on account of insufficient contributions, and in particular the Act of 1928. This provided for Exchequer contributions on their behalf equal to specified numbers of payments.

On the other side, however, as a result of the Geddes Committee, in March, 1922, the State liability for benefits in excess of 10s. per annum per member which was prescribed by the 1920 Act ceased; as from January, 1922, a Special Grant to the Women's Equalisation Fund set up under the 1918 Act was stopped; from 1921 a Special Grant to the Central Fund to meet deficiencies of individual societies as revealed at valuation periods was withdrawn—this, however, being still provided for in the consolidating Act of 1924 in case of need. Various reductions in medical capitation grants have also occurred. More material contractions resulted from a reduction in State contributions as a result of the Economy (Miscellaneous Provisions) Act of 1926, which altered the State's share from two-ninths of the expenditure

to one-seventh for men and one-fifth for women. Lastly, as from January, 1928, persons aged 65-70 ceased to be entitled to sickness and disablement benefits owing to the passing of the Widows', Orphans' and Old Age Pensions Act of 1925.

In reviewing the changes it is hardly possible to discern the philosophy underlying them. Almost unexceptionally, such changes have been the outcome of spasmodic need, and not of a general scheme of policy. When, after a very thorough examination of the scheme, the Royal Commission on National Health Insurance, 1926, issued its report, little was said by either Majority or Minority Commissioners by way of judgment on, or estimation of the scheme as a whole. Something was indeed said on the general problem by Sir Andrew Duncan and Professor Alexander Gray in a reservation;¹ but beyond uttering a warning concerning costs of social service expenditure as a whole they did not survey the precise part to be played or burden to be borne by the State. Nor, while a close examination of the financial position was made by the May Committee on National Expenditure, was reference made to the limits of State participation. It is, therefore, only possible to say that spasmodic attempts to curtail State expenditure were made by the Geddes Committee, under the 1926 Economy Act, and by the May Committee—but these merely sought out prospective specific avenues of retrenchment.

The contributory scheme for Pensions for Widows, Orphans and Old Age was designed to operate in conjunction with National Health Insurance. Originating with the Act of 1925, this entailed total State contributions of £25 m. in the period. The scheme provided pensions amounting to 10s. weekly for widows and dependent children (5s. weekly for the first child and 3s. weekly for other children), orphans' pensions at the rate of 7s. 6d. weekly, and old age pensions at the age of 65 of 10s. weekly. The scheme was linked to that of National Health Insurance by the requirement that only persons (or their dependants) previously insured for specified periods should be eligible for the above benefits. The Act further provided for the

¹ pp. 292-8.

continuance of old age pensions after the age of 70 to all previous recipients irrespective of their means. To eliminate hardship, it was also provided that, subject to certain restricting conditions, pensions should be payable to widows and child dependants of insured persons dying before the beginning of the Act. The whole scheme was intended to be established on a contributory basis as ascertained by actuarial calculation; but because rights to benefit for entrants over 16 years of age were given without previous contributions and in cases where these were insufficient to meet the cost of benefits, a national subvention amounting to £4 m. was decreed.

Nevertheless, certain cases of hardship subsequently revealed themselves. Women whose husbands died or were over 70 before January 4, 1926, for example, were ineligible for inclusion except where they had children under 14½ years of age. By an amending Act of 1929, therefore, the right to pension was continued until the youngest child attained 16, while also pensions were granted to all pre-Act widows between the ages of 55-70. A concession was also granted in respect of old age pensions at 65 years to wives of men who reached the age of 70 years before the establishment of pensions at 65, i.e. in January, 1928. Another concession was allowed in respect of pensions for widows over 70, who, had they been under 70, would have qualified for widows' pensions. Other exceptions were entirely minor, but the total extra cost loaded on to the State was more than that engendered by the original Act, viz. £5 m. per annum—making a contemporary annual charge of £9 m. in all. Finally, in 1931 another amending Act was passed, the general outcome of which was further to increase the availability of benefits.

The policy underlying this legislation was designedly to add a coping-stone to the masonry of the insurance structure, and in particular to provide for the gap caused by the unwillingness of employers to continue the employment of old persons after their productivity had declined and until such time as they should become eligible for old age pensions. Recognition was also sought to be made of

the normal inadequacy of voluntary insurance against the death of the chief earner, and in particular of the hardship to the widow and children of his premature death. The justification for the scheme was found broadly by the then Minister (Mr. Neville Chamberlain) in the fact that a large part of the population no longer produce for themselves the necessities of life, and are therefore exposed to all the risks associated with a dependent position. A minor contention was also advanced to the effect that actually a part at least of the cost to the Exchequer would be offset by the savings in the costs of other social services, e.g. poor law and unemployment insurance. Against this, however, it may be observed that, since the contribution rates of employers and employees to National Health Insurance and Unemployment Insurance were reduced in order to assist in launching the new scheme, this inevitably increased the necessity for State contributions thereto.

The expenditure ranking next in importance is that on Poor Relief, which has been constituted as follows :

NET EXPENDITURE ON POOR RELIEF *
(£ millions)

Year.	Ordinary Expenditure.			New Loan Expendi- ture.	Total.
	National.	Local.	Total.	Local.	
1913-14 . .	1·19†	12·21	13·40	·71	14·11
1921-22 . .	1·91	36·27	38·18	·34	38·52
1922-23 . .	1·85	37·82	39·67	·40	40·07
1923-24 . .	2·36	34·86	37·22	·48	37·70
1924-25 . .	2·40	32·91	35·31	·74	36·05
1925-26 . .	2·43	36·37	38·80	·91	39·71
1926-27 . .	2·51	46·64	49·15	1·17	50·32
1927-28 . .	2·79	36·34	39·13	1·37	40·50
1928-29 . .	2·45	34·82	37·27	1·33	38·60
1929-30 . .	2·72	35·20	37·92	1·10	39·02

* Based on Local Taxation Returns. The Scottish figures in this table include the cost of pauper lunacy whereas the English figures do not include it.

† This column includes not only the specific Exchequer grants but also the grants under the Agricultural Rates Acts of 1896 and 1923 assigned to Poor Relief.

The principal facts emerging from this table are, first, the increase in the total post-war expenditure compared with 1913-1914; second, that this has fallen almost entirely on the local authorities; while third, there has been a small increase only in the relatively unimportant item of new capital expenditure. These facts lead to the obvious question—why has ordinary poor law expenditure shown such a large increase in the post-war period? The first factor may be found in trade depression. This is reflected in the figures of outdoor relief which show that, by contrast with 1913-1914, 1918-1919, 1919-1920 and 1920-1921, when the rates per 10,000 of the estimated populations were 106, 76, 79 and 96, in 1921-1922 the rate rose to 277, and for subsequent consecutive years it was 341, 282, 235, 258, 441, 248, 228, 216 and 193. These figures compare with rates for institutional relief which, while as high as 69 for 1913-1914, over the decade 1921-1931 varied only between 55 and 57.¹ A more informing illustration may be obtained from detailed statistics. Thus, at the end of the official year 1921-1922, it was found that out of a total of about 1,250,000 persons receiving outdoor relief, about 793,000, or over 63 per cent, were unemployed persons and their dependants included under the provisions of the Unemployment Insurance Acts.² For the year 1922 the quarterly averages were 61·5, 52·7, 49·5 and 46·7 per cent, and figures similarly high were recorded for 1923, 1924 and 1925. In April, 1926, a special return was obtained which showed that over 49 per cent of the total of persons receiving outdoor relief were unemployed insured persons,³ and while in subsequent years the proportion declined somewhat another special inquiry conducted by the Ministry of Labour in February, 1931, showed that out of 390,256 persons then receiving outdoor relief who were ordinarily employed, as many as 207,215 were relieved specifically on account of unemployment.⁴ The factor of unemployment as a fertile

¹ *Vide Statistical Abstract* (Cmd. 3991), p. 76.

² *Report of the Ministry of Health* (1921-1922), p. 79.

³ *Ibid.* (1926-1927), p. 115.

⁴ *Ministry of Labour Gazette*, September, 1931, pp. 334-5. These official statistics may also be compared with the unofficial Social Survey

cause of the post-war growth in poor relief statistics requires no further stress. It may, however, be pointed out that severe pressure on poor law finances has been felt as and when current legislation reduced the facilities available under "extended" or "transitional" benefits.

A second obvious factor is found in the severe and large scale industrial disputes of the post-war period. The 1921 dispute in the coal-mining industry, lasting from April 1 to July 1, saw a contemporaneous increase in total numbers relieved from 653,500 at the end of March to 1,363,121 at the beginning of July—and high figures persisted for some months afterwards.¹ A similar outcome was seen in consequence of the shipbuilding and engineering disputes of the following year—on April 1, 1922, the total relieved numbered 1,475,187 and by July 1 this had exceeded 1,600,000 for eleven successive weeks.² In 1926 the coal dispute and the General Strike caused the numbers relieved to mount continuously from 1,240,090 at the end of March to 2,490,167 on the 14th August.³

The increased expenditures attributable to unemployment and disputes have not, however, been entirely a function of the actual numbers affected. They have also been due to a more generous measure of outdoor relief than was customary in pre-war years—in many cases generous to the point of indiscrimination. In the earlier years this was due, in particular, to the adoption and application of "scales" of relief. The first notable instance of this occurred in Poplar. Other and later examples occurred—notably at Chester-le-Street, West Ham, Bermondsey, Bethnal Green, Bedwelty, Merthyr Tydfil and Sheffield. Dating from the Annual Report for 1921, the Ministry of Health made reference to the influence of scales as causing increased expenditure in every subsequent year up to 1927–1928. The deleterious effects may be summarised as (1) giving relief

of Merseyside done by Mr. D. C. Jones in 1929; he found that families where the chief earner was unemployed represented about 40 per cent of all families receiving poor relief. (*Journal*, Royal Statistical Society, 1931, Pt. II, p. 239.)

¹ *Report of Ministry of Health* (1921–1922), p. 79.

² *Ibid.* (1922–1923), pp. 76–7.

³ *Ibid.* (1926–1927), pp. 112–13.

"... exceeding or approaching current unskilled wages or even in some cases the wages of skilled men"; (2) causing the "... automatic application of such scales without regard to individual circumstances"; (3) leading to "inadequate investigation of the circumstances of applicants."¹

Throughout the period the amounts paid in relief were also augmented by lax administration of the conditions for relief as prescribed by the Relief Regulation Order of 1911 and subsequent re-enactments. These mainly referred to the non-application of the three recognised tests, resulting in unconditional grants. As the outcome of investigations carried out by the Ministry it was shown that this led to relief being given in unsuitable cases, e.g. to hawkers and others whose earnings were not easily ascertained;² at holiday periods;³ at the commencement of strikes;⁴ and to laggards.⁵ In addition to calling for an alteration of conduct in instances of indiscriminate relief granted by certain authorities in earlier years, during and after 1927 the Minister pursued the policy of imposing restrictions on relief facilities over the whole poor law field. The effect of the policy was reflected in the notable decline in the statistics of outdoor relief cited above. To some extent also this decline was due to the termination of the General Strike. In the London area alone, during 1927-1929 (both inclusive), the total reduction in unemployed persons receiving outdoor relief was as high as two-thirds of the 1927 figure.⁶ In the country as a whole, during the same period, the decline was from 116,342 to 65,683 persons—or over 44 per cent.⁷ Even so it was still possible in early 1931 for

¹ *Report of the Ministry of Health (1927-1928)*, p. 144. *Vide* also especially (1921-1922) *Report*, p. 83; (1922-1923), p. 80; (1926-1927), pp. xix-xx.

² *Ibid.* (1927-1928), p. 145.

³ *Ibid.* (1926-1927), p. 130; (1927-1928), p. 151.

⁴ *Ibid.*, p. 117.

⁵ A striking section of the 1926 Report refers to the fact that "... during the past six years numbers of young men, without employment and maintained on Poor Law relief, have married, securing thereby an increase in their income from relief, and have had families, each addition to the family bringing its addition to the family income." And the commentary is added that "In this respect it may be doubted whether the present position can be paralleled since 1834." (p. 129.)

⁶ *Forty Years of Change*, p. 376.

⁷ Cmd. 3433, p. 2.

the Royal Commission on Unemployment Insurance to declare with reference to poor relief that

"In some cases it is higher, particularly in the cases of persons with a large number of dependants, and the Poor Law Authorities may then supplement the unemployment benefit paid by the Exchange. Instances have been given to us, mainly from mining areas, where the amount of outdoor relief granted to unemployed persons on the basis of need is higher than the earnings of the applicant when in employment."¹

A last reference to increased expenditure on outdoor relief has a more general application, and is psychological in character. It is an observable fact that recourse to poor relief has been avoided to a considerably less extent than in former decades. Doubtless this is largely bound up with the mental attitude induced by the widespread State provisioning of post-war years. Once accustomed to acceptance of the "dole," it is but a little further step to acceptance of relief; and the transition is not rendered harder for the individual by the fact that many others are taking the same course. The kernel of this suggestion is aptly expressed in *Forty Years of Change* thus: "It would seem that recourse is now had to Poor Law relief just as to other forms of social assistance, and that a person no longer feels that in applying to the relieving officer he is crossing the Rubicon."² This explanation is reinforced by the fact that it has not infrequently been possible to establish a claim to poor relief even if unemployment benefit was being received contemporaneously; and this has been particularly the case where, as instanced above, poor relief scales have exceeded unemployment benefit.

The existence of factors predisposing to increased expenditure other than those cited must not be overlooked. Thus another factor may be found in the dictum contained in a Special Report of the Ministry of Health stating that

"in general, though not always, it is found that an increase in the number of persons relieved at home on account of unemployment is accompanied by a corresponding increase in the

¹ *First Report*, p. 20.

² p. 378.

number of persons so relieved otherwise than on account of unemployment." ¹

It is tempting to assume that the apparently correlated growth in relief other than on account of unemployment was the outcome of the precarious financial conditions generated by that unemployment. In part this would seem to be the case. But it must be remembered that a demonstrably large permanent volume of relief was rendered necessary by causes independent of trade depression. In the main these may be summed up as sickness, death of chief earner (or widowhood and orphanhood), low wages and intermittent employment. Some of these causes, e.g. intermittent employment, have patently had important effects by inducing recourse to poor relief in the period, while others may be presumed to have operated with something like their normal severity. It is likely, then, that the proportion of the population receiving relief from causes other than unemployment was somewhat higher than in the immediately preceding pre-war years.² Again, there has been a raising of the standards of treatment meted out to the institutional poor and to children of the poor. In particular there has been an extended provision of poor law hospitals and greater care and selectiveness in treatment.³ The latter point applies especially to the insane poor, for they constitute the larger part of the total of insane persons. The higher standard of treatment in turn was probably influenced by the Report of the Royal Commission on Lunacy of 1926.⁴ There has also been an improvement in the standards of treatment for vagrants both in hygiene and humanity, and particularly since the Report of the Departmental Committee on the Relief of the Casual Poor.⁵ Not forgetting the lower post-war value of money, for all these reasons, it is legitimate to infer that normal poor relief expenditure has increased in the period.

¹ February, 1926, p. 6.

² Cf. Jones and Carr-Saunders, *The Social Structure of England and Wales*, p. 193.

³ In 1875 the cost per bed was £123; in 1928, £650. (*Report of the Ministry of Health (1927-1928)*, p. 165.)

⁴ Cmd. 2700.

⁵ Cmd. 3640.

Expenditure on Hospitals for the treatment of infectious diseases and on Maternity and Child Welfare may be taken next, the outlays being as shown :

NET EXPENDITURE ON HOSPITALS AND MATERNITY AND CHILD WELFARE *
(£ millions)

Year.	Ordinary Expenditure.			New Loan Expenditure.	Total.
	National.	Local.	Total.	Local.	
1913-14 . .	·19	2·96	3·15	·30	3·45
1921-22 . .	4·02	7·45	11·47	1·07	11·54
1922-23 . .	3·15	6·51	9·66	·49	10·15
1923-24 . .	2·98	6·26	9·24	·30	9·54
1924-25 . .	2·96	6·51	9·47	·56	10·03
1925-26 . .	3·14	6·82	9·96	·68	10·64
1926-27 . .	3·31	7·18	10·49	·74	11·23
1927-28 . .	3·28	7·21	10·49	·79	11·28
1928-29 . .	3·26	8·21	11·47	·84	12·31
1929-30 . .	3·45	8·55	12·00	1·03	13·03

* Approximate.

The inferences from this table are that in the period 1921-1930 average annual expenditures have largely exceeded those of the pre-war year, and that State grants have assumed a more substantial part of the whole cost. It is evident, therefore, that increased attention was being devoted to the various services—tuberculosis, infectious diseases, and maternity and child welfare.

Dealing first with tuberculosis, in view of the need for regarding this as a national problem, in 1921 provision for treatment was taken away from the National Health Insurance scheme and vested in local authorities. The problem was surveyed during 1919-1921 by an inter-Departmental Committee of the Ministry of Health, and by Consultative Committees of the Scottish Board of Health and the Welsh Consultative Council. These committees agreed in finding that the existing provision for its treatment was seriously inadequate—and especially so in view

of the number of cases amongst ex-servicemen—and recommended increased State grants not only for dispensaries and sanatoria, but also for subsequent training and settlement of patients successfully treated. In general these recommendations were accepted, and the Public Health (Tuberculosis) Act was passed in 1921, placing the duty of making adequate provision for treatment on all local authorities, and the percentage State grants were revised upwards. Expenditures were curtailed during 1922 on the recommendation of the Geddes Committee, but restrictions were removed in February, 1924. Thereafter the work was developed so that at 31 December, 1930, there were in England 504 treatment institutions and 24,578 beds compared with 388 treatment institutions and 15,781 beds ten years previous,¹ while the treatment of orthopædic tuberculosis and the use of new methods developed. Meanwhile expenditure grew cumulatively, so that in the last year nearly £4 m. were spent on this service—despite contributions derived from patients with ability to pay.

Expenditure during the period on the treatment of Venereal Diseases has been governed by the execution of the recommendations of the Royal Commission of 1916 for a State grant of 75 per cent, and has increased on account of the growth in both the numbers of treatment centres (from 134 in December, 1918, to 180 in April, 1931) and in the numbers of cases dealt with. Other increased outlays took the form of grants to various bodies such as the British Social Hygiene Council—for publicity work. As for infectious diseases in general, since provision for hospital and institutional treatment was widespread before the beginning of the period, no large developments have occurred in post-war years. The expenditures incurred have mainly been a function of case-rates and of altered methods of treatment; and as such they have expanded to but a small extent.

The Maternity and Child Welfare service is, from the point of view of grant expenditure, virtually a post-war

¹ *Vide Reports of Ministry of Health (1919-1920), p. 6; (1930-1931), p. 59.*

development; for in 1913-1914 only a little over £11,000 was distributed in grants. This compares with an annual average post-war figure for England and Wales of some £760,000. The passing of the Maternity and Child Welfare Act, 1918, granting permission to local authorities to make arrangements for these services, was a first and large step. Another was the Midwives Act of the same year sanctioning contributions from local authorities towards training and other costs. More attention was thereafter concentrated on the work, in no small part because of the endeavours of the Chief Medical Officer who, in his report for 1920, lauded the maternity centre idea as "... the outward and concrete expression, almost the backbone of the social campaign against infant mortality."¹ Mention should also be made of the influence of the special report on Infant and Maternal Mortality prepared for the Ministry of Health in 1924 by Dr. Janet M. Campbell,² and of the labours of a Departmental Committee appointed in 1928.³ The results of these activities are seen in that while in 1920 there were 1,754 centres, about 1,600 full-time Health visitors, and 88 Maternity Homes, in 1930 there were 2,658 centres, 2,331 Health visitors, and 729 Maternity Homes.⁴ It is, however, difficult to portray by statistics alone the degree of progress achieved, so that it is necessary to add that developments have been such as to testify to the pursuit of an active policy. This would lead to an expectation of larger increases in costs than have actually occurred, but the outlays have been tempered by the relatively inexpensive character of the service as well as by observably large recoveries of expenditure from persons able to bear the charges.

To the above analyses it is necessary to add that grant expenditures by the State were reorganised by the passing of the Local Government Act, 1929. Under this the percentage grants for Health services were abolished, and an

¹ p. 25.

² *Reports on Public Health and Medical Subjects*, No. 25.

³ The *Interim Report* was published in 1930.

⁴ *Reports of Ministry of Health (1919-1920)*, pp. 45, 49, 51; (1930-1931), pp. 79, 81. The figure for Maternity Homes was artificially swollen by institutions transferred to local authority control by the Local Government Act, 1929.

equivalent was merged in the general exchequer grants payable to Local Authorities under that Act. It is therefore not possible thereafter to determine what contributions have been specifically made by the State to health expenditures of local authorities. The effects of this legislation were, however, scarcely reflected in the period.

Passing to outlays on Lunacy and Mental Deficiency, the following is a record of expenditure on this item :

NET EXPENDITURE ON LUNACY AND MENTAL DEFICIENCY *
(£ millions)

Year.	Ordinary Expenditure.			New Loan Expenditure.	Total.
	National.	Local.	Total.	Local.	
1913-14 . .	·95	2·83	3·78	·50	4·28
1921-22 . .	1·60	6·42	8·02	·31	8·33
1922-23 . .	1·54	5·73	7·27	·19	7·46
1923-24 . .	1·57	5·55	7·12	·18	7·30
1924-25 . .	1·60	5·83	7·43	·42	7·85
1925-26 . .	1·62	5·95	7·57	·38	7·95
1926-27 . .	1·76	6·23	7·99	·46	8·45
1927-28 . .	1·82	6·19	8·01	·39	8·40
1928-29 . .	1·90	6·41	8·31	·34	8·65
1929-30 . .	2·02†	6·79	8·81	·64	9·45

* English figures only, but including State institutions; Scottish figures included under Poor Relief.

† Approximate.

The table indicates that, compared with 1913-1914, expenditure in 1921-1930 showed a material increase, and further that this fell more largely on the local authorities. Apart from the ordinary increases of cost due to the lowered post-war value of money, the main reason is the greater attention paid to cases of both insanity and mental deficiency—but particularly the latter.

The first step in the post-war policy of dealing with this service was to transfer powers from the Home Secretary to the Minister of Health, and this was done—by an Order in

Council made in 1920—with a view not only to centralising the treatment of health questions but also in order to co-ordinate the treatment of mental with other disease. The next step was the appointment of a Royal Commission to inquire into the general problems associated with the treatment of insanity, and in particular into the existing law and practice. The recommendations envisaged a new code for treatment together with a revision of the Board of Control. Legislation resulted in the passing of the 1927 Act amending the Act of 1913 by giving a much wider definition of mental deficiency and therefore paving the way for more exhaustive treatment. Incidentally, this also facilitated the co-operation of local authorities. Further legislation having a similar purpose occurred in 1930 when the Mental Treatment Act was passed. The most important provisions of this were for increased facilities for treatment of incipient mental illness without certification; and the reorganisation and strengthening of the Board of Control. It is clear that the attention thus devoted to the problem led to an extension both of the numbers of patients and of the technique of treatment. Besides legislation, however, other factors were at work in the period to provide more thoroughgoing treatment. Of these the most important was the excessive amount of certification. In commenting upon this the Royal Commission reporting in 1926 said: "We are satisfied that under the present system a considerable number of persons are certified who might avoid certification if certification were preceded by a period of observation and treatment. . . ." ¹ Again they declared that ". . . there is no doubt that the present system involves the unnecessary certification of many cases."² The effect of these factors is seen in the growth of numbers of lunatics from 112,163 in 1922 to 137,109 in 1931, and in those of mental defectives from 10,600 in 1922 to 28,400 in 1931.³

Industrial Schools and Reformatories—the last service

¹ *Report of Royal Commission on Lunacy and Mental Disorder* (Cmd. 2700), p. 22.

² *Ibid.*, p. 43.

³ *Statistical Abstracts*. These figures do not include persons maintained at the expense of the Poor Law Authorities.

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—constitute a small line of expenditure only, which has decreased in the period as follows :

NET EXPENDITURE ON INDUSTRIAL SCHOOLS AND REFORMATORIES *
(£ millions)

Year.	Ordinary Expenditure.		Total.
	National.†	Local.†	
1913-14	—	—	—
1921-22	·61	·62	1·23
1922-23	·46	·46	·92
1923-24	·40	·36	·76
1924-25	·39	·33	·72
1925-26	·38	·33	·71
1926-27	·34	·33	·67
1927-28	·32	·32	·64
1928-29	·29	·31	·60
1929-30	·29	·30	·59

* *Public Social Services* (Returns, 1924-1932).

† Not separately stated for 1913-1914.

It is unnecessary to say much about this service, for the total State outlay was relatively small, and it declined over the period. The reduced cost was occasioned by fewer commitments—the total under treatment in 1921-1922 being 20,373, and in 1929-1930, 8,565.¹ The reduction in numbers committed was hastened by the recommendation of the Departmental Committee of March, 1927, advising 17 instead of 16 as the age limit for commitment. The increase in expenditure *per capita* is apparently due to the inability to reduce overhead costs on a *pro rata* basis.

To summarise: Social Service expenditures were expanded in the period to a remarkable extent. A major cause was the impetus to fresh expansion derived from the cessation of the war and the opportunity thereby provided to pursue more vigorously the policies initiated in the pre-war period. This impetus in turn was strengthened by the difficult character of the problems attendant upon de-

¹ *Statistical Abstracts*.

mobilisation and re-settlement not only of ex-service men but also of workers who had been drawn into war industries. It was further strengthened by the disastrous trade slump of 1921 resulting in unemployment on a widespread scale. A second important cause is to be found in the changes in salaries, allowances, and benefits made in the years immediately following the end of the war. These changes were made in order to take account of the reduced value of money, and before it became generally realised that a large measure of deflation would probably be called for. In particular the rise in teachers' and administrative salaries during 1918-1921 drove up remarkably the cost of educational services; the new scales of unemployment benefit of November, 1920, and March, 1921, added materially to its cost; old age pensions were raised; poor relief "scales" were instituted and relief was awarded on a widespread basis; the National Health Insurance scheme was materially extended in 1919 and 1920 and additions made to contributions and benefits. Thereafter, despite minor adjustments, no important alteration downwards to meet the higher value of money was made in the period, so that real expenditure automatically increased. A third substantial cause may be found in the favourable attitude to social service expenditure displayed by successive post-war governments; for, partly as a result of the extended franchise and partly because of the growth of Labour's political strength, governments vied with each other in buying political power by means of added social service spending. Of this the extension of eligibility for old age pensions made in 1924, the new scheme of pensions for widows, orphans and old persons devised in 1925, and successive extensions of eligibility for these made in following years may be cited as examples: for each of these moves was made by separate governments. Lastly, all governments realised that increased social services acted as an offset to the incidence of extra taxation falling on the poor—mainly for debt services.

CHAPTER III

DEFENCE AND WAR (AFTERMATH) SERVICES

IF expenditures on Defence, and services which have been the legacy of the World War are taken together, they constitute a separate category of expenditure which shows the next largest increase over the year 1913-1914. To rank the two groups of expenditure as a single charge would seem not to be strictly justifiable ; for one group is due to a war long since terminated while the other represents ordinary outlays on defence. From the standpoint of national expenditure, however, both operated to increase this in the period and in the last analysis both have been directly or indirectly associable with outlays generated by war. Furthermore, both the growth and decline of the various expenditures undertaken in the post-war period may be more properly analysed by taking steps to assign them to the separate causal factors at work, prominent among which have been the special influences generated by the war. The table on page 55 summarises the constituent items and the annual expenditure thereon.

Since War (Aftermath) expenses did not rank as part of the total expenditure incurred in 1913-1914, and as during 1921-1931 they have amounted in total to a substantial figure, they may be considered first. Owing to their more temporary character, however, it is unnecessary to enter into great detail. Easily the largest separate item is that for War Pensions. Starting from £95·81 m. in 1921-1922 pensions gradually but consecutively trended downwards until they reached a figure of £52·22 m. in 1930-1931, while the average annual outlay was £67·39 m. This outlay was originally incurred in order to provide some measure of compensation for death, wounds and sickness suffered during

DEFENCE AND WAR (AFTERMATH) SERVICES *
(£ millions)

	1913-14	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32
ons —	95·81	80·63	72·60	69·94	67·32	63·58	60·17	57·12	54·47	52·22	50·00	47·80
n of —	86·13	47·15	7·18	1·18	·57	·71	·71	·58	·69	·17	·17	·17
om- —	28·95	11·18	8·67	5·72	4·92	4·44	3·39	1·08	1·05	1·62	1·62	1·62
ts —	12·20	7·10	4·17	2·48	·95	·25	·05	·03	·03	·03	·03	·03
st- —	·53	·35	·76	·95	·77	1·01	·54	·67	·54	·65	·65	·65
er- —	223·62	146·41	93·38	80·27	74·53	69·99	64·86	59·48	56·78	54·69	52·60	50·60
of —	49·08	76·88	58·17	54·75	56·34	60·71	57·87	58·84	57·83	56·61	53·10	50·00
ice- —	29·00	87·43	50·59	46·87	45·74	45·12	43·95	44·40	41·57	41·61	41·37	40·00
Var- —	14·00	9·24	10·75	14·83	15·71	15·62	15·38	16·36	17·19	18·18	18·18	18·18
Com- —	78·08	401·93	264·41	205·75	197·18	196·07	187·43	183·48	175·24	172·19	167·34	164·00

ANNUAL EXPENDITURE, 1921-1931, £215·10 m.

based on Report of May Committee on National Expenditure (Cmd. 3920) ; Reports of Geddes Committee (Cmd. 3921) ; Annual Finance Accounts.

the world war. The scale of pensions initially provided was raised by Royal Warrant in 1919 in order to take account of the increased costs of living—in that year about 115 per cent above 1913. Since that time, despite frequent discussions in the Houses of Parliament engendered by the lower costs of living, no basic change has been made in the principles of award so that no lowered costs have resulted therefrom. The actual decline in expense has been due to various causes. Of these the principal have been the deaths of pensioners, re-marriages of widows, the larger numbers of children attaining the disqualifying age of 16, and the beneficial results of medical treatment. The last-named cause has, in a large number of cases, led to a scaling downwards of individual pensions on the grounds that disability had been reduced. Other causes which operated to reduce expenditure and which tended to grow in importance during the period are found in lower costs of medical and surgical treatment and appliances, and very substantial declines in the costs of administration.

The actual rate of decline in cost was to some extent checked by various concessions made from time to time. One important concession was the granting of pensions to widows of pensioners who died during the period in consequence of disablements and disease induced by the war. Other more minor modifications included the continuance of pensions to children who became motherless before reaching the age of 21 and who were not able—for medical reasons—to earn a living, and the continuance of pensions to parents and dependants of deceased servicemen who, by increasing age, were incapable of self-support.

The next largest expense is that called for by the Disposals and Liquidations Board—the peace-time successor to the Ministry of Munitions. Accounting for some £86 m. in 1921 and £47 m. in 1922 the costs of this thereafter speedily declined to a nominal figure. Little need be said of such aleatory and apparently inevitable expenditure beyond stating that the disproportionate outlay of the first two years was heavily weighted by such special items as financial settlements of claims on account of the war-time

governmental control of railways, canals, shipping, and coal-mines. Each of these separate items accounted for a substantial block of expenditure, e.g. payments to railways totalled some £60 m., and to shipping about £20 m.; but they were obviously a part of war costs and should be regarded as such. Smaller items included charges which might be similarly ranked—e.g. final settlements of war munitions contracts; remanets of interest due to English owners of American securities borrowed from them and pledged in the U.S. as collateral for the war loans raised there; payments to the enemy debts clearing house, to the war risks account and on account of sundry reparation claims. If these and similar items are regarded in this light, it is plain that the balance of expenditures may be assumed to represent merely the cost of disposing of war stores—a procedure continuously in operation over the period, and one which was inevitably costly on account of the absence of previous experience and the urgency with which disposal was carried out.

Middle Eastern services, it would appear, have little claim to be ranked in this chapter, for their cost has become part of the general charge for Foreign and Colonial services. This expenditure, however, presents the definitely special characteristic that it would in all probability not have been occasioned except as a result of the war. Predominantly it was due to the acceptance of mandates for the maintenance of defence and order in, and for the economic development of Palestine and Iraq. In the case of the former, it was more specifically the outcome of the policy of repatriating the Jewish nation in Palestine as governed by the Balfour Declaration of 1917. The assignation of control to this country was, however, included in the Peace Treaty and incorporated in the Mandate of 1922. The policy underlying the acceptance of these mandates was primarily determined by, and is referable to diplomatic strategy as affecting Empire defence. In particular, the objective was to safeguard the sea communications of this country and its position in Egypt. In Mesopotamia, the dominant motive was to safeguard territorial concessions. The expenditures have

been conditioned by the nature of the responsibilities ensuing. Noticeably heavy at first, this was outstandingly occasioned by the necessity of spending large sums in defence—especially in the case of Iraq. Their subsequent reduction in Iraq was rendered possible by the accession of King Feisal, by the various treaties arranged with that country in and after 1922, the development of native military and police organisations and the transfer of control from the Army to the Air Force. The reduction would have been swifter if the settlement of the northern boundary of Iraq had been achieved earlier than 1925; and also if a claim by this country to certain “transferred” assets had not been ultimately waived. In the case of Palestine, the hostility displayed by the very large Arab population, persistent throughout the period but manifested more concretely in the disturbances of 1929, prevented a swift decline in expenditure; but here also native organisations have been developed to the gain of the British exchequer. Lastly, as and from 1927, extra expenditure was incurred as a result of a decision then taken to control the political and military administration of Aden.

The item of expense for Training Ex-servicemen ranked high in the first three years, but thereafter declined continuously from the maximum of £12·2 m. in 1921 to a mere £27,000 in 1929. The expenditure was the outcome of a decision to re-train men who had been unfitted by service to renew their previous occupations. As such, therefore, it is patently the outcome of the war. The beneficiaries were chiefly men who had suffered physical or mental disability in consequence of the war. The reduction of expenditure in 1922 by some £5 m. was due to the adoption, as from September, 1921, of a more rigid policy under which only definitely unfit men were subsequently eligible to receive training. The costs themselves were made up not only of the actual expense of training but also of maintenance allowances. These, being judged by the Geddes Committee to be “very generous” and “capable of revision,”¹ were subsequently reduced and therefore, together with reduced

¹ *First Interim Report* (Cmd. 1581), p. 147.

numbers of trainees, substantially accounted for the later decline in expense.

The item of expenditure coming under the heading of the Imperial War Graves Commission is the last which may be fairly accounted to the war. Expenditure showed no especial trend over the period, except that it increased during the first few years as a result of the extension of the work of providing graves and cemeteries initiated by the Commission. The outlays were also enhanced by the higher costs of graves and labour in the earlier years of the period. Nothing more need be said about this item than that it was an obvious service undertaken in response to public sentiment; and the initial expenditure on such work might well be expected to be higher than that involved by future maintenance.

Defence expenditure may now be dealt with. As the average annual outlays over the period were no more than £122.70 m. compared with the 1913-1914 figure of £78.08 m., it would seem that explanation should concern itself with the factors leading to a gratifying real decline in what ordinarily has been a substantial line of expenditure. It has to be recalled, however, that for many years before the war armament expenditure was expansive, and almost cumulatively so. Moreover, during the five years 1909-1914, the rate of increase was particularly marked, the total yearly expenditure being consecutively £63, £68, £71, £72, and £78 m. Lastly, in 1921 expenditure was still artificially inflated as a result of slow demobilisation and readjustment. Care has therefore to be taken to avoid an erroneously favourable impression. On the other hand, there is probably a modicum of truth in the statement by the May Committee on National Expenditure that "There is a deeply-rooted belief in many quarters that the Fighting Services offer a large scope for economies . . ."¹ It is, therefore, at least expedient to ask what sort of policy has been pursued in post-war years.

In examining the comparative outlays it is necessary to bear in mind that in this, perhaps more than in any other

¹ p. 60.

field of expenditure, internal action is governed by external or world policy; for each nation holds to the view that it must keep its warlike resources adjusted to its own needs in the light of what every other nation is doing: and this applies much more forcibly to a nation which elects to maintain a far-flung Empire. Looked at from this angle, what effects have followed from the post-war world armament policy? First, a general influence in the direction of reduced armaments followed from the Peace Treaty; for while this only imposed specific major reductions of forces and armaments on the defeated nations, by implication—due to the removal of an outstanding menace to peace—it opened up the possibility of reduction in the armaments and forces of the victor nations. Second, the establishment and growth of the League of Nations substantially furthered the idea and possibility of peace, more especially as Article 8 of the Covenant embodied a recognition by members of the League that "... maintenance of peace requires a reduction of national armaments to the lowest point consistent with the national safety ..." and authorised the Council of the League to prepare plans for the practical attainment of this ideal. Reiterated undertakings to carry out Article 8 were embodied by nations signatory to the Locarno Pact of 1925. The successive attention to the realisation of the idea of reduced armaments and forces by the League, the Coolidge Conference of 1927, and the many inter-nation discussions which occurred in the period tended towards reduced expenditure commitments. This general tendency, however, has not had the same proportionate effects as those which have definitely been attained under the Washington Naval Conference of 1921-1922; for while this referred to only two categories of fighting ships, it has materially restricted the rate of construction.¹

Lastly, whatever may have been the effects on national financial policies concerning war expenditures of the Brussels Conference of 1920, subsequent currency upsets, budgetary deficits and generally disorganised national finances have plainly pointed to curtailments of such expenditures.

¹ *Vide* Cmd. 1627, Cmd. 2036.

Nevertheless, as opposed to the generally favourable effects of this striving after peace, some maleficent counter-acting influences have been at work. Thus the Peace Treaty itself, by setting up numerous new states and re-partitioning old, led directly to active expenditure on the essentials of war by both the new and old countries. In particular fresh expenditures by the new and reorganised states—since these were the more easily justified—worked counter to the peace idea, e.g. in Finland, Poland and Czechoslovakia. The nationalism engendered by upheavals associated with such violent social reorganisations as occurred in Russia, Italy and more minor revolutionary movements elsewhere, added to all the problems resulting from the re-alignment of national boundaries in Europe, only too patently upset the effectiveness of re-orientated peace. Finally, the numerous actual military combats and "incidents" had their inevitable consequences and frequently shocked and subversed world sentiment.

Taking all these factors together, it may be judged that, while on balance the forces making for curtailment of expenditure on the requisites of war were probably stronger than those against, much larger curtailment would have been possible if the progress of world opinion on disarmament had been less beset by concrete and many-sided obstacles. Thus Europe as a whole would not have been spending more on war preparations in 1928-1929 than she did in any year during 1909-1913: nor would American expenditure also have been higher—both in *real* terms. Its effects, so far as this country is concerned, have been to hinder the reduction of personnel. Since this item by itself accounted for roughly two-thirds of the total post-war expenditure, the relative impotence of economy measures is clear. Actually, Naval personnel fell from 121,400 in March, 1922, to 94,047 in March, 1931, and reserves declined slightly from 61,840 to 60,084; the regimental strength of the Army declined from 296,948 in October, 1921, to 188,460 in October, 1930, while Territorial strength rose somewhat in the same period from 137,032 to 137,141; the strength of the Air Force increased from 27,528 in March, 1921, to 33,469 in March,

1931, while the Reserve rose from 5,682 to 12,645. It is noticeable that a large decrease occurred in the Naval branch and this appears to have been partly the outcome of the more specific international agreement concerning restriction. The decrease of the Army strength is rather explainable by slower demobilisation. Altogether, expenditure on personnel and allied services fell in the period 1921-1928 by about £30 m. Apart from numbers, the item of pay—a substantial part of total cost—has been influenced by post-war adjustments. Thus in 1919 all-round increases were granted which were related to the cost of living only in the case of officers. Rates were examined in 1923 by the Anderson Committee, who found that the pay of the rank and file and of the lower ranks of officers was unjustifiably high. But the Government accepted their recommendations to a partial extent only. The reductions actually made amounted to 10 per cent of the total pay roll for the Air Force, 15 per cent for the Navy, and 20 per cent for the Army. The variations in the percentages were justified by reference to the different balances of rank and service. But these revisions were only applied to new entrants, as it was thought to be impolitic and indeed unwarrantable to reduce the pay of the existing Forces. Despite this restriction, the average cost per head for pay and allowances declined materially from 1921-1922 to 1930-1931—officers by some 10 per cent and men by some 16 per cent; so that the reductions here had a sizable effect on the total bill for pay and allowances. Other items also registered declines, some of which were associated with the reduced personnel. Thus the cost of guns, projectiles and ammunition fell, as did expenditure on stores, works and buildings and the expenses of the three ministries. The most notable reduction, however, was that registered by the Navy—in the item providing for Construction of New Ships and Repair and Maintenance of Old Ships. The figure, which for 1913-1914 was £24.09 m. and in 1921-1922 £29.78 m., sank by 1928-1929 to £17.30 m. and thereafter continued at a low level. If to these figures the associated figures for Arsenal expenditure are added—for 1913-1914

they were £4.75 m., for 1921-1922 £6.73 m. and for 1928-1929 £2.86 m.—the notable reduction of cost effected in consequence of the naval restriction agreements already mentioned is apparent.

Besides the general external factors discussed above, three other main factors influencing the domestic war expenditure policy of this country in post-war years may be cited. The first of these relates to the cost of Empire defence. The agenda of the various Imperial Conferences included the discussion of this item with a view to co-ordinating the various forces and reducing and spreading costs more equitably. While some progress was made, e.g. the cost of the Singapore base was lowered slightly as a result of contributions from the more immediate beneficiary territories such as the Malay States, Straits Settlements and New Zealand, more economical arrangements were made concerning the naval forces of the Dominions, and the London Naval Treaty originated the idea of aggregating the whole naval forces of the Commonwealth, no large steps were taken to reduce the burden of the mother country. Inevitably, therefore, this country was not able to pursue an active policy of reducing expenditure over such a large field; in fact new costs were incurred, e.g. on account of mandated and protected territories and Indian disturbances.

The second factor influencing domestic post-war expenditure policy arose out of the reorganisation of fighting technique. This was primarily the outcome of war experience, but was aided and abetted in large measure by subsequent intensive application to invention and research. The Air Force affords a good illustration of this point. The annual expenditure on aircraft of all kinds (including experimental and research services) grew from £4.06 m. in 1921 to £7.60 m. in 1930, and this expenditure, moreover, bulked cumulatively larger in almost every year after 1921.¹ This was the case despite additions of substantial sums to the Navy estimates for its newly constituted Air arm. Moreover, such items as subsidies to civil aviation ought properly to be added to these figures. In the case of the Army, the

¹ *Vide Annual Estimates.*

progressive advances in "mechanisation" led to enhanced costs for tanks, tractors, and other motor vehicles and motor-cycles. Other examples of expenditure entailed by this factor occur in Research, Experiment and Scientific Services. Accounting for no more than £·70 m. in 1914, in 1922 this item took £4·22 m., and in 1928 still accounted for £2·90 m. The expense of technical and educational training may to some extent also be brought in—in 1914 it was £·45 m., in 1922 it was £3·72 m. and in 1928 still took £1·92 m.

The third factor influencing domestic expenditure on warlike services relates to the enhanced cost of non-effective services. This was brought about especially by the Pensions (Increase) Acts of 1920 and 1924. Owing to the expiration of pensions awarded under the pre-existing lower scales and the continual growth of new pensions awards made under the new legislation the effect was to cause progressive additions to cost. These were intensified by the policy of reducing personnel year after year. Again, no relief of the burden occurred until 1930, and as the reductions then made applied only to new entrants they did not affect the costs borne in the period. Compared with total non-effective charges of about £6·9 m. in 1913-1914, by 1931 they had expanded to about £17·5 m. The cost of this item, therefore, rose by a much larger proportion than general Defence expenditure.

To summarise the policy affecting Defence expenditure in the period, this was governed mainly, as indeed it must be, by world policies affecting armamentation. While there were numerous attempts on the part both of the League of Nations and of individual nations to bring about restricted spending, the absence of universal agreement was so marked as to prevent substantial progress. On the other hand, indirect influences emanated from the Peace Treaty and the many individual and concerted attempts at grappling with the problem. Adverse financial conditions also played a part, so that these factors assisted to retard what otherwise might have been expanded outlays. Other factors, such as the expenditures of new States, war threats, alarums and excursions and political disturbances, worked

in a contrary direction. Of the more controllable factors, it was not found practicable to share the cost of Empire defence more equitably, so that this country's commitments were still large at the end of the period, and some extra expenditure was indeed incurred for Empire, protected and mandated territories. Again, the reorganisation of war technique, swift progress in invention and research, and the consequent development of new "arms" was a fertile and persistent cause of larger expenditure.

CHAPTER IV

UNEMPLOYMENT SCHEMES AND ECONOMIC DEVELOPMENT

At first glance it would appear that the two kinds of expenditure collected under the heading of the present chapter have little in common. Since, however, the outlays were in each case made on the assumption that they would produce economic assets there is a *prima facie* reason for considering them conjointly. A stronger—and indeed a conclusive—reason for doing so is found in the fact that in practice it is a matter of real difficulty to distinguish between the two kinds of expenditure. In particular, this is due to the unclear methods of grouping the various outlays in the national and local accounts, and also to their imperfect assortment into the two groups. But, even if it is conceded on these grounds that the expenditures may be taken together, it may nevertheless be suggested that the outlays made on unemployment schemes ought more properly to be ranked with those on Social Services, since all unemployment expenditures are necessarily in the direct interest of unemployed persons. There is clearly much force in this contention. It will be recalled, however, that social service outlays consist of expenditure designed to confer benefits—if not automatically—without the requirement of a *quid pro quo*, on specific categories of the whole population. Against the expenditures on unemployment works of one sort or another treated of in this chapter, in theory at any rate it is assumed that a *quid pro quo* is exacted in the shape of personal services; or alternatively it is assumed that the outlays will primarily result in advantage to the community and only secondarily in advantage to the particular persons concerned.

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The selection of items to be included has not been easy. In reaching a decision it has been deemed advisable to take a wide, rather than a narrow point of view ; for the important point has to be borne in mind that much post-war expenditure has been directly or indirectly occasioned by the policy of meeting unemployment and of aiding economic development. As far as was feasible, the criterion adopted has been to take account only of expenses which have been specially incurred or which have been larger than what otherwise might be expected in normal times.

A summary table of the various items is shown on page 68.

From these details it will be seen that the service calling for the largest increase in expenditure compared with 1913-1914 is that of providing new and improving old Roads. It will be noted, moreover, that this expenditure grew cumulatively from year to year. Primarily, of course, this purports to be developmental expenditure, but it is possible to say that at least £56.15 m. were spent during the period 1920-1931 (March) on road schemes planned during 1920-1925 outstandingly to relieve unemployment. Of this amount £34.79 m. were charged on the Road Fund, and £18.25 m. on local authorities. Further, in later years a Trunk Roads programme, originally designed to cost some £21 m., was specially devised in order to assist unemployment. Up to March, 1931, schemes had been approved amounting to £18.11 m., towards which the Road Fund was to contribute £14.93 m. Again, a special Five Years' programme planned to cost £27.5 m. was similarly devised in the interests of the unemployed. Up to March, 1931, schemes had been sanctioned at a cost of £25.79 m., of which the Road Fund was to bear £18.33 m. Lastly, a variety of other schemes had been authorised for early commencement with the same object. Designed to cost £4.38 m., the Road Fund was charged with a contribution of £2.65 m.¹ Taken altogether, therefore, in the period an expenditure of some £103 m., of which over £70 m. were charged on the Road Fund, was specially prescribed on

¹ *Annual Report of the Road Fund (1930-1931)*, p. 10.

PENDITURE ON UNEMPLOYMENT SCHEMES AND ON ECONOMIC DEVELOPMENT * (£ millions)

Roads. '94	Exchequer Contribu- tions to Local Revenues.†	Agricul- ture. '39	NATIONAL		Scientific Services, etc. '45	Overseas Settle- ment. —	Export Credits, Trade Facilities, Empire Marketing, etc. —		Training of Unem- ployed Workers. —
			Unemploy- ment Grants and Loans. '05	Coal- Mining Subsidies. —					
8.55	5.84	24.01	3.80	7.05	1.21	.02	1.08	—	
12.15	6.69	2.37	2.27	.01	.99	.06	.28	—	
12.91	9.27	5.87	2.97	—	.97	.43	.09	.04	
15.07	9.63	3.29	3.49	—	1.07	.39	.05	.15	
16.54	10.03	3.84	3.62	19.00	1.15	.49	.04	.21	
17.37	9.91	5.52	6.07	4.20	1.19	1.07	.52	.20	
19.38	11.11	6.99	1.93	.03	1.20	1.24	.57	.19	
17.48	12.10	5.58	1.76	—	1.19	1.10	.76	.65	
20.30	26.84	8.26	1.94	—	1.33	.85	.87	.73	
27.66	40.71	9.78	2.95	—	1.29	.83	1.73	1.00	
167.41	142.13	75.51	30.80	30.29	11.59	6.48	5.99	3.17	4
Year.	Ordinary.		LOCAL		Total.	New Loan.		Agriculture.‡	
	Roads.	Agriculture.‡	Roads.	Agriculture.‡		Roads.	Agriculture.‡		
1913-14	16.93	.38			17.31	3.38	1.04		
21-22	32.90	.81			33.71	6.92	3.16		
22-23	30.91	.58			31.49	9.75	1.38		
23-24	30.66	.64			31.30	9.33	.80		
24-25	33.86	.68			34.54	10.88	.70		
25-26	35.21	.63			35.84	11.11	.81		
26-27	36.30	.51			36.81	10.51	.50		
27-28	36.91	.67			37.58	9.15	.41		
28-29	37.17	.74			37.91	8.83	.46		
29-30	38.35	.63			38.98	18.38	.86		
	312.27	5.89			318.16	94.86	9.08		1

Unemployment Grants and Loans not separately stated in Local Taxation Accounts.

grants for Poor Relief, Lunacy and Mental Deficiency.

‡ Agriculture not separately stated for S

account of unemployment. Further to indicate the relief character of the expenditure on roads, as pointed out by the Minister of Transport at a meeting with local authorities held on 25 June, 1930,¹ the Road Fund grants have throughout the period been above the general level of grants-in-aid. In the later years, for instance, the normal grants by the Exchequer were 75 per cent for trunk roads and weak bridges, 60 per cent for Class I roads, and 50 per cent for Class II roads. To these, moreover, additions of 15 per cent have been made where a prescribed minimum percentage of the men employed were men transferred from depressed areas.

In the light of this analysis the apparently primary explanation of road expenditure—the maintenance and development of the country's road system—must be regarded as secondary. Indeed it bulks little larger than the third explanation which, although it is not concerned with the subject-matter of this chapter, must be cited for completeness. This was the "raiding" policy pursued by the Chancellor of the Exchequer in 1926 and 1927, when £7 m. and £12 m. respectively were appropriated from the Road Fund to assist in balancing the budgets. A policy similar in essence was followed when it was determined under the Local Government Act, 1929, that the Road Fund should in future bear an extra levy of £3 m. annually to assist in providing larger state contributions to local revenues. Nor was there any profound difference between these policies and that originated in 1926 of diverting one-third of the duties on private motor-cars and cycles to the Exchequer as being sumptuary taxation.

From this account, it is obvious, first, that the expenditure on roads in the post-war period has shown a remarkably large increase compared with pre-war years. Second, it is clear that expenditure has predominantly been governed by the policy of relieving unemployment and only to a much less degree by that of extending developmental work. Third, owing to the heavy incidence of road costs on the relatively few local authorities suffering from that persistent

and large unemployment which road works were specially designed to relieve, the necessity for increasing substantially the grants-in-aid made by the central authority has been inescapable.

As accounting for the next largest growth in expense since the pre-war year, the next item to be considered is that of Exchequer Contributions to Local Revenues. This did not expand largely until 1929, but nevertheless grew consecutively. As up to then there was no alteration in the principles under which contributions were made—those of the “assigned revenue” system—the explanation of the increased disbursements up to 1929 is found in the alterations occurring within that system. Of these the only basic change was that due to the Agricultural Rates Act of 1923. This was passed in order to stimulate agriculture by extending the exemptions as to rating liabilities introduced by the Acts of 1896 and 1898. The effect of the further remission of agricultural rates by one quarter was to necessitate increased grants from the State to make up the deficiency to local authorities. In 1923–1924, for instance, the extra grants amounted to £3·22 m. The other increases were occasioned by the altered yield of the various duties assigned to local authorities—mainly in Estate Duties as a result of their greater productiveness.

The passing of the 1929 Act metamorphosed the pre-existing basis of grants. As it is unnecessary to discuss it in detail, the Act may be summarised as follows :

- (1) The Act abolished local rates on agricultural property, and reduced by 75 per cent other rateable hereditaments used primarily for purposes of productive industry, or of freight transport.
- (2) The consequent loss of rates (£25·6 m. per annum) was made the burden of the national exchequer.
- (3) The system of “assigned revenues” was abolished, as were also the Exchequer percentage grants for Health services,¹ and certain road mainten-

¹ Tuberculosis, maternity and child welfare, blind welfare, venereal diseases and mental deficiency.

ance grants hitherto contributed from the Road Fund. But the equivalent payments, based on a standard year, remain an annual Exchequer liability (£18.5 m.).

- (4) A sum of £5.75 m. per annum was provided as an "additional" grant for the first fixed grant period, i.e. three years from 1930.
- (5) To all these were added Supplementary Grants designed to mitigate the effects of any increase in rate poundage during the first nineteen years of the scheme, and additional Exchequer Grants to ensure that the City or County Borough areas obtain a minimum advantage of 1s. per head of the 1928 population as compared with the "standard" year.

The total for the first grant period was £51.82 m.; but this was reduced by the contributions provided out of the Road Fund amounting to £6.47 m. annually—giving a net total of £45.35 m. for the first grant period 1930–1933.

The policy underlying these profound changes was mooted in principle many years earlier and generally accepted by economic opinion, inasmuch as the "assigned revenue" system was a non-factual, rigid and generally inappropriate device for governing the grant relations between the Exchequer and the local authorities. Many factors had contributed to its persistence, but it is unnecessary to detail these now. On the other hand, the factors leading to its abolition were first, the fact that, as found by the Royal Commission on Local Government, there were on 1 April, 1927, so many as 14,643 local authorities.¹ Plainly, such a large number of authorities, having widely varying powers and dealing with many areas of widely varying sizes, was incompatible with the effective and uniform conduct of local functions. Second, for long the course of legislation had been to devolve on to local authorities new duties of many kinds and in constantly increasing measure—seen markedly in the case of Health,

¹ *Second Report* (Cmd. 3213), p. 3.

Road, and Police services. The effects of this were to transform what had been purely local services into semi-national or even *quasi*-national services. This was clearly observable in the case of Road services, but it was not much less true of Health and Police services. Again, the Poor Law services had been largely extended in order to coalesce—more or less—with the benefits given under the Unemployment Insurance scheme. Third, the financial arrangements of the old system, despite all attempts at modification (such as the system of percentage grants) had operated to impose burdens of very uneven weight as between one type of authority and another, and as between authorities of the same type. This was particularly true of Road and Poor Law functions. Fourth, this disability had become pronounced as a result of the large increases in local rates occurring during the period, and in particular because the industrial depression had imposed disproportionate burdens on local authorities where much unemployment prevailed. Poor Law burdens, for example, were extremely heavy in areas suffering from high unemployment, and since such areas, relative to the total, were remarkably few, the burden was highly concentrated, and therefore an inequitable one.¹ Fifth, the financial proposals for reducing and equalising the rate burdens over the whole range of local authorities provided in the Local Government Bill of 1929 rendered it imperative to reorganise the local government machinery in its entirety; for, as stated in an explanatory memorandum, "The magnitude of these rating charges must profoundly affect both the general structure of local government and Local Authorities individually."²

Ranking next in importance are the grants made to Agriculture by the central authority, and the various agricultural expenditures undertaken by local authorities. The high outlay recorded in 1921 was swollen by a special non-

¹ Writing in 1929 Mr. H. Clay showed that out of 630 poor law unions in England and Wales, 400 had not been touched by the problem of able-bodied pauperism, while 50, with 35 per cent of the population, accounted for more than 80 per cent of this. (*The Post-War Unemployment Problem*, p. 52.)

² Cmd. 3134, p. 4, §. 3.

recurrent grant paid under the provisions of the Corn Production guarantee. Amounting to £18.06 m., this was occasioned by the short-lived Agriculture Act, 1920, which charged the State with a subsidy on the acreage of wheat and oats sold under assessed costs of production. The policy underlying this Act was to assist domestic agriculture to meet the vastly altered post-war conditions under which prices fell away very rapidly. It was discontinued because of its obvious costliness. If this special item is now disregarded, it is clear that, despite temporary contractions in 1922-1923 and 1924-1926, post-war State expenditure grew generally. In seeking an explanation, it is found that the growth was due to a number of separate items. Easily the first in importance, however, is the subsidy to beet-sugar payable for a ten-year period from 1924. From September of that year up to September, 1930, about £22.2 m.—or over half the total national expenditure on agriculture—were paid out. The policy underlying this expenditure had a threefold basis. First, in view of the high prices prevailing for sugar in the early post-war years and the extreme dependence of this country on supplies from sources external to it, there was thought to be ground for encouraging home-produced supplies. Second, the growing of beet-sugar would add to the area of cultivated arable land, and act as a good cleansing crop. Third, the scheme had the merit of providing additional agricultural employment, while incidentally it might stimulate the erection of sugar factories and thereby relieve industrial unemployment somewhat. On the basis of the infant industry argument the plan was designed to operate for ten years only, and the subsidy was arranged at a starting (maximum) figure of 19s. 6d. per cwt. of sugar and 8s. 10.9d. per cwt. of molasses, falling to 6s. 6d. and 2s. 11.6d. respectively during 1931-1934. Owing to the remarkable fall of sugar prices up to 1931 and the accompanying difficulties experienced by home producers, the Government was further called upon and agreed to lend during 1931-1932 (subject to certain restrictive conditions) up to 1s. 3d. per cwt. on 300,000 lb. of sugar.

The remaining expenditure was divided up between

various items. Of these the largest—£900,000 per annum—has been accounted for by Land Settlement, Cultivation and Improvement. Originated in its modern form for England and Wales by the Small Holdings Act of 1908, but dating back in Scotland to the Crofters' Holdings (Scotland) Act of 1886, land settlement was extended in scope by the Land Settlement (Facilities) Act, 1919, which applied to the whole of Great Britain. This was designed primarily in the interests of ex-servicemen and, owing to the large body of applications from them, it was mainly reserved to this kind of applicant. The essential features of the scheme were that advances should be made by the State for the purchase and equipment of small holdings and that the whole of the losses entailed should fall on the Ministry of Agriculture. By contrast, under the pre-war scheme, losses were shared by the county authorities. Although when this project was launched agricultural conditions were favourable, up to March, 1926, the cost per person settled was £953—compared with £433 under the 1908 Act. Moreover, the loss per person per annum was high, and in 1931 was estimated at £53.¹ For Scotland, in the period 1918-1922, the average annual net loss falling on the State per holder was £484, and, in 1922-1927, £360.² The actual losses would have been higher but for the protests of the Geddes Committee: for capital expenditures contemplated to reach some £20 m. were subsequently cut down to about £15.25 m. The explanations of the losses are mainly to be found in the high building costs—thus up to the end of 1924, of a total outlay of £15 m. in England and Wales, no less than £5.24 m. had gone in buildings, roads, fences, etc.³ Next in importance are the high rates of interest (nearly 6½ per cent), while other factors were the high costs of land (about £42½ per acre) and the violent fall in the selling prices of agricultural products. As a result of the burden on the exchequer a new Act was passed in 1926 (the Small Holdings and Allotments Act), designed to apply to England and

¹ *Report of May Committee on National Expenditure* (Cmd. 3920), pp. 116-17.

² *Report on Land Settlement in Scotland* (Cmd. 3110), p. 18.

³ *Land Settlement in England and Wales, 1919-1924*, pp. 16-17.

Wales, and to impose the maximum safeguards against further burdens. Under this the national exchequer contributes no more than 75 per cent of the annual losses, the remainder falling on county councils. Moreover, as exchequer grants were then made dependent on a formula taking account of loan charges as offset by estimated net annual income from holdings, county councils were stimulated to take an active and direct interest in new schemes. No similar legislation, however, was applied to Scotland. Owing mainly to the lower interest rates, reduced building costs and land prices, despite much heavier expenditure on buildings and equipment—the average capital cost per holding has been £1,356—the annual loss falling on the State has been reduced to £22.¹

As for the policy underlying settlement on the land, this was primarily an outcome of the war; for, of the various devices used to meet the problems arising with demobilisation, this was regarded as an important one. Secondly, however, it was believed that the scheme would not only assist to provide employment, but that also it was in itself desirable. Owing to the attitude generated by these views, costs were subordinated to the supposedly more urgent aims. Nevertheless, costs would not have been so unduly high but for the land boom which developed in the immediate post-war years, if the 1923 rate of interest of 4½ per cent had ruled in place of the 6½ per cent at which some £11 m. were borrowed earlier,² and if prices of produce had not slumped acutely. It was in the knowledge that land values, building costs and interest rates were appreciably lower, combined with a generally favourable public opinion, that the further step was taken in 1926. It was, however, against repeated warnings from the Public Accounts Committee of the House of Commons, and against the trend of many speeches in the House to the effect that any new scheme should be self-financing, that the Act was passed. The Government admitted to being advised by County Councils that, owing to the higher costs, there was at that

¹ *Report of May Committee on National Expenditure* (Cmd. 3920), p. 118.

² *Second Report of Select Committee on Estimates, 1925*, p. 3.

time no possibility of repeating even the moderate success of the pre-war scheme, but argued that the expected loss, amounting at most to £25 per annum for each man settled, was more than counterbalanced by the expediency of the policy proposed.

Expenditure on Land Improvement has taken the form of arterial and local field drainage together with schemes of water supply, while under the Land Drainage Act of 1930 it was proposed to add to the general effectiveness of the work by setting up various Catchment Boards. The expenditures are new in the sense that the State did not grant outright prior to 1920 towards arterial or field drainage, the cost being borne by local authorities and private owners. In 1926 the grants system was extended by the devising of a special code of grants for drainage—designed particularly to assist poor owners and occupiers. At first limited to 33½ per cent of the net cost, later they were raised to 50 per cent on condition that “transferred labour” from depressed areas was used. After having lapsed, in order to provide opportunities for unemployed men, in 1929 the grants for local field drainage and water supply schemes were re-applied. Lastly, the Act of 1930 continued these and similar grants on the assumption that agricultural production would benefit; but in 1931 they were again withdrawn.

In seeking an explanation of the policy pursued, this can be found in the belief that not only would the expenditures assist agricultural production on the lines laid down by the Council of Agriculture,¹ and that they were too heavy to be carried without assistance, but that the necessary work would help to absorb the unemployed. Each of these aims, however, fluctuated in importance from time to time, and finally the claim of economy over-rode both.

Expenditures involved by the Empire Marketing Board call for some consideration in connection with agriculture. This service has accounted for a growing volume of expense; for, beginning with a modest £135,000 in 1926, the amount expanded to £403,000 in 1927 and to £862,000 in 1930.

¹ *Vide Report on Agricultural Policy*, August, 1925, pp. 14-15.

The scheme resulted from the recommendation of the Imperial Economic Committee in 1926 that a vigorous campaign should be undertaken for "furthering the marketing in this country of Empire products," and it was agreed by the Home Government that a maximum annual grant of £1 m. should be provided. As the outcome of protests by domestic agriculturists, provision was subsequently made for assistance for the marketing of home produce. Taking the shape of grants to many research and marketing organisations, and for different kinds of publicity, the aim of policy has been to discover the needs of markets and the precise qualities and kinds of commodities demanded and available for supply. Attention, too, has been devoted to improving qualities and grades of goods and to the actual organisation of marketing from the original producers onwards. The May Committee, however, took a very unfavourable view of the expenditure, arguing that there was no case for permitting such outlays to fall on this country's resources during a period of financial difficulty; and, indeed, they did not hesitate to recommend the Board's extinction.¹ Nevertheless, as yet this recommendation has not been accepted.

Expenditure on Afforestation, costing on an average £4 m. per annum in the period, may be taken next. The outlays have not been uniform, for while development proceeded apace in the earlier post-war years, it slowed down on the critical disapproval of the scheme exhibited by the Geddes Committee. They seized upon this expenditure as being both unproductive and unnecessary.² In 1924, the idea of creating forest-workers' holdings attracted renewed support for the policy, and again after 1928 further developments were planned with a view to transferring unemployed workers to forestry occupations as recommended by the Industrial Transference Board. Lastly, in 1931, the May Committee examined the expenditures on a yield basis, and decided that this was much too low to be justifiable.³

¹ p. 132.

² *Second Interim Report* (Cmd. 1582), pp. 53-4.

³ *Report* (Cmd. 3920), p. 120.

The post-war policy under this scheme was based on the recommendations of the Reconstruction Committee of 1917—the Acland Report urging that it was very desirable to provide for future timber supplies in order to ensure against high prices in peace, and shortage in war.¹ Since this was not a task suited to private enterprise, State grants were necessary. A programme extending up to 1929 was devised, and the scheme was initially operated on this basis. The realisation that supplies of timber in peace could, after the immediate post-war years, be readily obtained at cheap prices, led to a faltering in policy. Then the secondary reason for the idea—that of providing employment—came to exert influence. Later policy tended to compromise between the reaping of the advantages of expenditure already incurred, and the probability of a low return to each unit of expenditure.

There yet remain for notice the separate expenditures on Agricultural Education and Research and on Livestock. From £64,000 in 1913-1914, the former grew regularly, although not consistently, to £725,000 in 1930-1931. In part the set-back was due to the opposition of the Geddes Committee to proposed expenditure totalling £365,000 in 1921;² but substantial grants from the Empire Marketing Board and Development Funds have assisted in the later expansion. In particular this has been furthered by the adoption of block grants since 1925.

The policy has been governed by appreciation of the nature and economic importance of the work done, and by the fact that funds for it have been derived from more than one source. At the back of it all, too, has been the constantly reiterated idea of rescuing English agriculture from the remarkable post-war collapse of prices and the insistent competition of foreign countries. The activity displayed by the Research and Education division of the Ministry of Agriculture and the notable progress achieved have also been important factors.

As for expenditure on livestock, compared with £88,000 in 1913-1914, this had grown to £182,000 by 1930-1931.

¹ Cd. 881.

² *Second Interim Report* (Cmd. 1582), p. 35.

In so far as the funds have been devoted to the costs of disease, the expenditure has been inexorable and therefore hardly controllable. But the larger moneys devoted to livestock breeding have been voted with the idea of fostering a branch of agriculture in which England has long been renowned.

Drawing together the separate threads of agricultural expenditure, the first reason for the larger post-war outlays was the desire to assist a basic industry to meet difficulties which were in part due to the transition from the artificial conditions of the war period, but more largely to the pressure of external competition. The desire was materially strengthened by the driving force flowing from the ideal of a strong national agriculture. This factor is seen at work in the grants to afforestation, land improvement, the beet subsidy, education and research and the corn production guarantee. Second, the movement in favour of small holdings, and many of the land improvement schemes, as well as afforestation, has been supported by the idea not only of meeting problems of after-war settlement of ex-service men, but also of providing employment deemed to be of a very desirable kind. A third factor has undoubtedly been the variety of sources of grants, for this has led to larger sums being available, and in particular has fostered education and research. Lastly, as reflected in grants for drainage, water supply, etc., there has been some willingness to extend assistance to poor farmers in difficult periods.

Unemployment Loans and Grants expenditures rank next for review. This outlay is new in the period. The first expenditure resulted from recommendations made by a special committee appointed at the end of 1920 to award grants for public utility schemes. Composed largely of business men, the Committee was first given a grant of £3 m. "for the purpose of assisting local authorities in the United Kingdom in carrying out approved schemes of useful work other than work on roads and on housing schemes." Instructions were given to the Committee that works were to be undertaken only in those areas where unemployment

was severe and not otherwise provided for; and that the appropriate government department should give prior approval to the works proposed as being of a public utility character. The grants payable were restricted to 60 per cent of wages for schemes financed out of income, to 50 per cent of the interest charges for revenue-producing schemes and 65 per cent of such charges for non-revenue-producing schemes. The growth of unemployment led to an extension, in October, 1921, of the financial sums available to the Committee and during 1922 these were further increased, while additionally grants of one-half of the interest charges were made available to public utility companies. In 1923, however, grants were withdrawn except for work which would normally not be undertaken—i.e. definite relief work—while they could not be authorised without the issue of a certificate by the Ministry of Labour testifying to serious unemployment in the areas concerned. The relief character of the work was further emphasised by the regulation that only wages below standard rates were to be paid. These principles were formulated and decreed only to be negated in the following year with the accession to power of the Labour Government. In the conviction that ordinary insurance benefits must be supported by the more active policy of creating work, this government relaxed the stringency of 1923 as it applied to certified severe unemployment and to wages lower than standard. In February, 1924, the grants were increased from 60 to 75 per cent of the wages bill, and from 65 to 75 per cent of loan charges. The return of the Conservative Government and the decisions of the Cabinet committee on economy taken in December, 1925, evoked a return to restriction which endured from the end of 1925 to 1928. These decisions were based on the notions that

“... the scheme which has now been in operation for six consecutive winters has, largely for that very reason, passed the period of its greatest utility, and that if pursued indefinitely, to the same extent as in the past, it would be difficult to avoid subsidising work properly undertaken by Local Authorities in the normal course of their business, and in such case but little

could be added to the sum total of work performed in the country."¹

It was decreed now and during 1926 that before relief work could be undertaken unemployment must be exceptionally bad, road schemes must be excluded, and the works permitted should be such as would not ordinarily have been undertaken until at least five years later. As a result, the value of schemes entered into declined materially—the figure for 1927–1928 (June) being £1.03 m. compared with an average for the six years preceding of some £24 m.² These initial restrictions were modified somewhat in order to assist in applying the new-found remedial device of transferring superfluous labour; and towards the end of 1928 revised regulations concerning grants were issued to local authorities who would undertake to recruit 50 per cent of the labour required for schemes from transferred labour. The new grants amounted to 75 per cent of loan charges for the first fifteen years and 37½ for the second fifteen years for non-revenue-producing schemes. Where transferred labour was not employed and for revenue-producing schemes, the figures were respectively 75 per cent for fifteen years only and 50 per cent for fifteen years only. This modification was followed by a reorganisation of the scheme when the second Labour Government was returned. This government replaced all the previous administrative decisions—for such only they had been—by legislation. This looked to an extension of public works policy by the passing of two acts—the Development (Loan Guarantees and Grants) Act and the Colonial Development Act, both passed in 1929.

Under Part II of the former Act, the Unemployment Grants Committee was empowered to make recommendations to the Minister of Labour concerning public utility works carried on by local authorities—but not for profit. The aim was to widen the scope of eligible local authorities by bringing in those where unemployment was

¹ *Fifth (Interim) Report of Proceedings of Unemployment Grants Committee*, p. 2.

² *Ibid.*, *Seventh (Interim) Report*, p. 2.

not "exceptional" in the sense laid down in the committee's instructions of December, 1925, and to absorb "transferred" workers. The Government also had in mind a preference for works calculated to promote economic development. After a year's working under this revised scheme new regulations were issued restricting grants to schemes which clearly represented acceleration of the normal work of economic development, requiring 90 per cent of the workers at least to be unemployed workers, and wages to be paid according to district levels. The grants payable were fixed at high proportions, being 75 per cent and 50 per cent respectively for non-revenue-producing, and revenue-producing schemes.

Part I of the Act provided for powers to the Treasury to guarantee loans or to give grants towards meeting interest charges on loans up to the amount of £25 m. raised by public utilities for undertaking developmental or reconstructional work. Under this a special attempt was made to evoke a larger display of activity by such bodies, for under the earlier schemes the response had been small. Between June, 1929, and March, 1931, under the first part of the legislation, schemes amounting to £69 m. were sanctioned; and from June, 1929, to June, 1931, under the second part, schemes amounting to £35 m. were approved.

To summarise: capital commitments amounting to £187 m. were entered into by the Unemployment Grants Committee between December, 1920, and March, 1931. To this total should be added commitments amounting to £35 m. by the Development (Public Utility) Advisory Committee set up by the 1929 Act, to deal with schemes for public utilities—a total of approximately £222 m. The costs falling on the Government in the period amounted to £30·80 m.; and a further estimated total sum of some £55 m. to £65 m. will fall to be met in the future.¹ The moneys hitherto spent have been spread over a fairly wide range of schemes: but predominantly they have been concerned with plans of capital expenditure undertaken to

¹ Cmd. 3744, App. VI; Cmd. 3920, p. 141. The costs falling on local authorities are not distinguishable.

develop municipal properties, equipment, and amenities, a sizable proportion of which are, or may be, productive of revenue. Designed primarily and fundamentally to afford relief work, having economic value if possible, the policy has been adhered to throughout the period. It has nevertheless been changed repeatedly with the accession to power of new governments, and with alterations in the viewpoint of existing governments. Excluding the general curtailments initiated in 1923 and 1925, it is fair to say that, as suggested by the scaling upwards of grants, inclination to resort to the device has grown with each succeeding year. The explanation resides in the basic idea that it is better to provide employment and, if possible, to create economic utilities than to foster idleness, to destroy skill by atrophy, and to permit the development of an undesirable mental attitude amongst unemployed persons. The idea has persisted because unemployment has persisted, and it has always had the support of those opposed to, and critical of heavy disbursements of "doles." Partly also it has been favoured by governments as a small measure of rationalisation of economic resources and equipment, and finally politicians have not failed to realise that the expenditures were a proportionately heavier charge on local than on national funds.

The item of Coal Mining Subsidies, which were given in 1921, 1925 and 1926, is next due for review. The 1921 subsidy was granted after the end of the strike of that year, and was awarded in order to help the industry to adjust itself to the 1921 deflation of prices, to the marked reduction in continental demand—itsself largely due to deliveries of "reparation" coal—and in general to the adversely changed post-war conditions. The facts were that in the first three months before the strike the industry had sustained losses at the rate of, roughly, over £40 m. per annum—not including profits and capital charges as provided under the Coal Control Act. Adjustment of costs to the altered conditions was therefore assumed to be inevitable if the industry was to live; and in the coal mining industry, where wages are the largest elements of costs, this meant stern reductions

of wages. It was to assist in bearing this painful ordeal that the Government decided to grant a subsidy. In 1925 the intervention of Government was determined on similar grounds, except that it was more specifically in aid of wages, in order that the minimum standard wages which the Court of Inquiry was satisfied were justifiable, could be paid. For the Government in essence agreed to make good the difference between the distribution of proceeds—after deduction of costs other than wages—in the ratio of 87 wages and 13 profits, and the minimum wage prescribed by the 1924 National Agreement. The 1925-1926 expenditure was the outcome of the Government's proposals to settle the dispute of these years, and was again in aid of wages. Originally the amount of the grant was fixed at £3 m., but as it eventually became a "tapering" subsidy expenditure exceeded £23 m. before it was ended. The assistance given may therefore be explained as moneys spent in order to enable a very large industry, the maintenance of which was deemed essential to national economic welfare, to adapt itself to altered, unfavourable economic conditions. Since this process of adaptation required, in the peculiar circumstances of this industry, substantial downward revisions of wages which in fact were so large as to trespass on accepted minimum standards, Government interference was deemed to be justifiable.

The item of Scientific Services is next due to be noticed, not on the ground that it has shown any sizable increase in the period, but first, because expenditure roughly doubled compared with 1913; and second, because this needed on the average a little over £1 m. annually. While, however, the ultimate total is so high, the services ranking are composite and many-sided. The Museums and Galleries Grants, for example, constitute one branch of the expenditure which is spread over the British and Natural History, London and Imperial and Geological Museums, and various art galleries. Another branch is in respect of Scientific Investigation and consists of grants to many learned societies such as the Royal Society, National Library and Museum of Wales, Meteorological Office, and more than a score of other

societies. Another branch is for the expense of the investigations pursued by the Department of Scientific and Industrial Research, which itself grants to such bodies as the National Physical Laboratory, the Fuel Research Board and other government research institutions and many independent researchers.

To review policy it appears that, while research and investigation—mainly by non-governmental bodies—were subsidised before the war, the Government decided in early war years that some permanent research organisations were an essential activity of the State, and particularly in view of the period of industrial reconstruction which would have to be faced after the war. It was to this end that the Department of Scientific and Industrial Research was established. The post-war expenditure has therefore been governed by the policy not only of maintaining assistance to former scientific and learned institutions, but also of extending and co-ordinating research upon scientific problems undertaken in Government departments and by independent authorities for the benefit of domestic industry.

Something now falls to be said about the new post-war expenditure entailed by the policy of Oversea Settlement. Prior to 1913 nothing was spent on this, but after 1921 expenditure grew considerably, so that in 1926-1928 (inclusive) it came to exceed £1 m. annually. The origination of this expenditure is explained by the necessities of post-war reconstruction. Thus, in a memorandum drawn up by the newly constituted Oversea Settlement Committee in February, 1919, it was declared that

"The development of the population and wealth of the whole British Empire is the key to the problem of post-war reconstruction. The heavy burden of war debt upon every part of the Empire makes this development an immediate and urgent necessity."

Having thus unequivocally delivered themselves, the Committee proceeded to argue that

"Within certain limits, the withdrawal of population from the United Kingdom tends to reduce the competition for employment, increase wages and raise the standard of living. In so

far as those who leave the United Kingdom for settlement in other parts of the Empire achieve success and multiply in their new homes, they tend still further to improve the conditions of employment in the mother country and to encourage the growth of its population by providing a growing market for its goods and a continuous supply of necessary foodstuffs and raw materials."¹

These extracts indicate that, on the one hand, the Committee saw in migration to the Empire a means of reducing an assumed surplus domestic population—caused by the decline of post-war migration and the growth of the domestic population—and also of raising the possible standard of living of those remaining at home. On the other hand, by arguing that the policy would also secure "... the best distribution of the population of the British Empire, alike from the point of view of the happiness of its citizens and of the strength and development of the whole..."² the Committee saw in the idea the means for promoting the optimum allocation of the white population as between this country and the colonies and dominions. It was not, however, until the growth of unemployment in 1920 and afterwards that it was decided to give State grants to aid migration in addition to assisted passages. This followed from a conference with the Dominions held in January–February, 1921, which led to the passing of the Empire Settlement Act of 1922. Under this a substantial measure of assistance to emigrants to Empire countries up to a maximum of £1.5 m. in the first year, and £3 m. in subsequent years was authorised.

The actual growth of expenditure on the scheme was fostered largely by the re-affirmation of the policy by the Imperial Economic Conference of 1923. This stressed the argument that State-aided Empire settlement should be regulated "... as a means of promoting primary production and increased trade, thus permanently minimising the risk of unemployment both in the United Kingdom and in other parts of the Empire," and urged a more active policy. The Imperial Conference of 1926 endorsed generally

¹ *Vide Report of Oversea Settlement Committee* (Cmd. 1804), pp. 3–4.

² *Ibid.*, pp. 5–6.

this re-affirmation. Also important, however, was the legislation passed by the U.S. Government in 1921 restricting immigration, and the much more severe curtailment applied in 1924. Thus the latter caused a decline in the volume of emigration from this country to the U.S. from 86,034 in 1923 to 6,435 in 1924.¹ Owing to this adverse development in especial, new and more generous schemes under the Empire Settlement Act were devised—in particular the scheme for settling 3,000 families in Canada and the Loan and Migration agreement for settlers in Australia—and expenditure grew rapidly. In later years further growth was due to the influence of the Report of the Industrial Transference Board made in 1928 which pointed to the surpluses of labour observable in certain important industries and recommended that overseas migration should be encouraged still further.² In the same year, too, the Canadian Parliamentary Committee on Agriculture and Colonisation reported in terms sympathetic to extended immigration from the United Kingdom. The effect of all these forces is seen in that while in 1922 the numbers emigrating to the Empire were only 6,479, in 1929 they were 72,213.³

Towards the end of the period, however, the Dominions, and especially Australia, deemed it advisable to restrict immigration facilities, owing to the effects of the world depression. For this reason the Imperial Conference of 1930 found itself less favourably disposed to the idea, declaring that primary consideration should in future be given to the absorptive capacity of the receiving country. Thus the net movement outwards fell to 25,955 in 1930. On the other hand the reluctance applied less strongly in the case of women emigrants who in 1929 exceeded in number all male emigrants.

Another group of services developed since the war, although not strictly homogeneous, may be considered together, i.e. expenditure on Export Credits, Trade Facilities and Colonial Development. The scheme for Export Credits

¹ *Report of Oversea Settlement Committee* (Cmd. 2383), p. 19.

² Cmd. 3156, pp. 35-52; *Report of Oversea Settlement Committee* (Cmd. 3589), p. 31.

³ Cmd. 3717, p. 61.

was originated under the 1920 Overseas Trade (Credits and Insurance) Act. This provided for advances to be made up to prescribed maxima to persons and concerns trading with a specified list of countries where trading risks were high on account of currency depreciation, general commercial insecurity, where long-term credits were called for and where disturbances had occurred to pre-war trading. Changes in legislation occurred in November, 1921—when a guarantee scheme was established—and subsequently. Of these the most important was that occurring in 1926 as a result of the Report of a special Credit Insurance Committee¹ which made a survey of the problem. This Committee, despite the fact that currency depreciations had largely disappeared, showed that considerable risks remained which had so far proved to be outside the sphere of commercial insurance—e.g. as witnessed by the experience of the Traders' Indemnity Co.—and reported in favour of continuance. They also suggested how the scheme could be extended and more largely utilised—mainly by simplifying the necessary conditions. They further recommended that the new system should operate for a three-year period, during which time it was hoped to transfer the undertaking of the risks to commercial companies. This not having been found possible by then, the period was subsequently extended to five years—to September, 1931. Meanwhile the Niemeyer Committee reported in 1929 that there was still ground for continuing the scheme because its experimental stage had not been passed and that although State insurance for private industry was to be deprecated, the amount of business involved—£4 m. per annum—was not large.²

The policy underlying this new expenditure—which has not ranked high at any part of the period—may be ascribed to the special need for protection to export traders generated by the highly disturbed conditions associated with post-war international trade. This need, which to no small extent was reduced by the return to currency stability, was nevertheless manifest throughout the period because of the "... growth of the demand for long-term credits,

¹ Cmd. 2619.

² Cmd. 3450.

and the increased acuteness of international competition, (which) have created a demand that the existing gap in our financial arrangements should be filled.”¹ It was, moreover, a need which was specially felt by smaller exporters; for the larger concerns had sufficient resources of their own. Lastly, the continuance of the policy was due to the lack of willingness of commercial enterprise to associate itself with the degree of risk involved.

The Trade Facilities Acts 1921-1926, while somewhat similar in intention and purpose, were nevertheless different in method and scope. Thus they were devised with the specific and direct aim of increasing domestic employment as an antidote to the depression, and provided for government guarantees of loans made for capital expenditures. As it was assumed that such capital outlays would not have been undertaken without government backing, the Acts were deemed definitely to lead to new employment. Moreover, in contrast with other government schemes, the benefits were restricted to private firms. Following a recommendation from the Imperial Conference of 1923, an act was passed in 1924 which departed from the original policy in that it extended the facilities to colonial governments, but for works of a public character. Furthermore, the home government undertook to meet three-quarters of the interest charges on such loans. The fundamental provision that the works should give rise to a demand for British labour was, however, retained.

Although no large expense had hitherto been involved by the policy, as a result of various criticisms, and because of the relatively small response by the colonies, but more especially because the Acts were declared by the Chancellor of the Exchequer to have served their original purpose, they were not renewed in the 1926 budget. By the time that they had completely lapsed sums amounting to some £74 m. had been guaranteed—mainly for expenditure on various forms of transport and for electrical development.

Expenditure on Colonial Development has already been mentioned. This was undertaken under the Act of 1929

¹ Balfour Committee, *Final Report* (1929), p. 49.

to provide advances to non-self-governing colonies and mandated territories to develop their agriculture and industry. It was expected that this would involve a reciprocal demand for the products of these territories and the mother country to the advantage of both. The assistance was to take the shape of free grants of capital or interest, as well as direct loans. Although schemes amounting to nearly £5 m. were prepared and sanctioned no great demands matured within the period, as the world depression led to severe contractions of proposed expenditures.

More directly associated with the unemployment problem, the remaining expenditure is that on the Training of Unemployed persons. A beginning was not made with this scheme until 1923, when it was evolved by the Ministry of Labour as a result of the first investigations conducted by it into a sample of the unemployed persons receiving benefit. It was found that there were many unemployed young men "... who, owing to the war and the subsequent industrial depression, have had little or no opportunity of learning a skilled trade or of obtaining regular employment even in a semi-skilled or unskilled trade . . ." and who in consequence "... find it very difficult to obtain any employment other than in purely unskilled work or of a casual nature."¹ The basic need being thus explained, the idea was to do no more than to improve somewhat the employability of such young workers by giving short courses of training for jobs of a rudimentary rather than of a skilled character; but also to give training in both urban and rural occupations and for overseas as well as domestic work. The outlay has been not only for actual training, but also for small allowances, occasional needs and travelling expenses. Furthermore, it has applied not only to men but also to women, who have been given some training for home service, domestic employment and for various elementary occupations. The continuity of the expenditure has been explained by first, the fair measure of success which the scheme has enjoyed, but second, and more largely by the persistence of the problem as a result of the continued depression.

¹ *Report of Ministry of Labour* (1925), p. 116.

CHAPTER V

OTHER SERVICES

IN this chapter it is proposed to include all those expenditures by the national authority which are not included under any other separate chapters. This classification therefore includes a wide variety of outlays, some of which have apparently no relation to others. If the separate items are examined, however, it will be observed that they represent expenditure on those ordinary or normal services which are traditional or unexceptional from the point of view of modern government, not previously classified. As such, in the main they were part of the ordinary expenditure undertaken by government in pre-war, as well as post-war years. Since, from the point of view of economic analysis, there is no reason to split any of the component items, they may conveniently be gathered together under this composite heading. Moreover, it is obvious that some such amalgam of items could not be avoided. It is necessary, however, to add a caution concerning the item of "General Administration, etc.," to the effect that this has been swollen by the larger general scope of governmental activity displayed in the post-war years, so that in strictness it is not comparable with the expenditure of the pre-war period. This apart, there is no other reason why the items should not be treated of on a comparative pre- and post-war basis, and regarded, therefore, as normal expenditures. As elsewhere, in order to give a correct idea of the total expenditures involved by items which also entail outlays by local authorities, where these have occurred, they are separately stated. The table of expenditure is as follows (see page 92).

NET EXPENDITURE ON OTHER SERVICES. (£ millions)

NATIONAL

General Adminis- tration.	Tax Collection.	Police.	Works, Buildings and Stationary.	Irish Services.	Foreign and Colonial.	Civil Super- annuation (ex- cluding Revenue Departments).	Prisons.	Currency Note Services.
4·90	4·29	·44	2·94	10·70	1·50	·79	·85	—
23·28	12·93	7·84	7·44	28·40	1·98	1·75	1·63	·37
10·96	10·73	7·10	5·04	14·30	1·89	1·55	1·15	·34
10·80	10·05	6·69	4·91	12·80	8·69	1·44	1·07	·34
12·62	10·28	7·11	5·32	8·80	1·92	1·53	1·08	·34
10·58	10·71	7·70	5·69	9·60	2·15	1·58	1·10	·36
11·89	10·87	8·07	5·26	8·80	·94	1·65	1·06	·35
9·24	11·08	8·09	5·15	9·00	·89	1·69	1·07	·36
9·80	11·57	8·30	5·00	9·00	1·06	1·74	1·04	·38
9·86	11·49	8·42	4·83	9·50	1·18	1·79	1·06	—
10·52	12·02	11·46	5·44	9·30	1·20	1·90	1·09	—
119·55	111·73	80·78	54·08	119·50	21·90	16·62	11·35	2·84

AVERAGE NATIONAL EXPENDITURE, 1921-1931, £53·83 m.

LOCAL

Year.	Ordinary. Police.	Justice.*	Total Ordinary.	New Loan. Police.	Justice.*	Total New Loan.
13-14 . . .	4·94	·65	5·55	·10	·04	·14
21-22 . . .	11·71	·75	12·46	·92	·01	·93
22-23 . . .	9·57	·68	10·25	·02	·01	·03
23-24 . . .	9·79	·63	10·42	·09	·01	·10
24-25 . . .	10·03	·62	10·65	·14	·02	·16
25-26 . . .	10·62	·66	11·28	·23	·01	·24
26-27 . . .	11·17	·64	11·81	·27	·02	·29
27-28 . . .	11·34	·69	12·03	·27	·01	·28
28-29 . . .	11·38	·76	12·14	·35	·02	·37
29-30 . . .	11·57	·77	12·34	·49	·02	·51
	97·18	6·20	103·38	2·78	·13	2·91

* Justice not stated separately for Scotland.

The individual item showing the largest increase is that of "General Administration, etc." This is a residuary item, the components of which are highly diverse. By far the largest component, however, is that for costs of administration involved by a multiplicity of governmental services. Exceptions not included are the administrative costs of the "self-balancing" expenditures of the Post Office and the Road Fund, of the Defence Services, the Revenue Departments, War Pensions, Foreign and Colonial Offices, and for payments on account of Civil Superannuation. All these are recorded under separate heads in the analysis made by the May Committee.¹ On the other hand, from the total of £119.55 m. for 1921-1931 there has to be deducted, as a special non-recurrent item, sums not stated in full but amounting at least to over £8 m., which were set aside to assist in meeting the expenses of importing coal in 1921, 1922 and 1926. These special and separate items accounted for, the remaining outlays² were for the administrative expenditure of the Treasury, Board of Trade, the Department of Overseas Trade, the Ministries of Labour, Health, Agriculture and the Scottish Departments of Health and Agriculture and part of the Ministry of Transport, and various Offices engaged in administrative work. In addition to this administrative expenditure there is also included the cost of the King's Civil List, salaries and pensions of judges, other specific pensions of historical origin, all other legal charges such as the costs of Courts of Law and Register Houses, criminal lunatic asylums, but not of police and prisons. There is also a series of miscellaneous items, most of which are recurrent, but others not recurrent. Among these may be mentioned the expenses of maintaining the register of electors, the salaries of the Cabinet and of members of Parliament and other Parliamentary expenditure, grants to the League of Nations, the scheme for Australian Zinc Concentrates, and other minor items.

The mere enumeration of these items, taken in conjunction

¹ Cmd. 3920, Appendix I.

² The enumeration is based on information supplied by the Treasury.

with the fact that the average total annual post-war expenditure was no more than about £11.95 m., points to the comparative insignificance of many of them, and the unprofitability of attempting a separate examination of each. It is therefore preferable to find a more general explanation of why the whole expenditure has been rather more than double in the period. Since cost of administration obviously bulks largest of all, it is desirable to say something of this. The most important point is that new salary scales were devised in the post-war period (principally in 1919 and 1920), and in addition provision was made for meeting the enhanced costs of living, by the adoption of sliding scales based thereon, under which bonuses were awarded. Subsequently, however, changes were from time to time made in basic salaries, so that comparison over the period is difficult to make. Again, alterations occurred in the age and sex distribution of the general body of civil servants. Lastly, it is not feasible or desirable to examine costs of administration which fall only under this residual heading; for the important omissions before instanced entail the absence of substantial amounts of expenditure devoted to administrative remuneration. Certain general observations, nevertheless, fall to be made. Thus the May Committee pointed out that, whereas the cost per head of all staffs (excepting industrial employees) averaged £173.9 per head in 1914, in 1921 this figure stood at the maximum level of £378.4, but declined with the fall in the cost of living so that in 1931 it was £289.2.¹ As the latter figure included a cost-of-living bonus of 55 per cent, the basic salary of the post-war period was about £186.5. Compared with £173.9 in 1914, therefore, there had been a small, but not an appreciable rise in the cost of basic salaries. No small part of this in turn was due to the recruitment of over 18,000 ex-servicemen to posts involving a higher rate of remuneration than used to be paid to the boy clerks previously employed. To deal with the separate branches of the service, there was a clear increase in the average remuneration of the Executive and Clerical and the Writing Assistants

¹ p. 30. --

and Typists Staffs; for whereas in 1914 the average salaries were respectively £132.9 and £65.4, in 1931 they were £281.4 and £124.5. The increases were, therefore, 111.7 per cent and 90.4 per cent respectively.¹ Since the advances on account of the cost-of-living bonus were in 1931 only 55 per cent, it is clear that here the basic salaries were substantially higher. On the other hand, a much smaller expansion is observable in the branch designated as Professional, Scientific and Technical: for the percentage increase in 1931 over 1914 was no more than 61. Lastly, in the Administrative section it was actually below the cost-of-living increase at 48.8 per cent.² These details apart, remembering that basic salaries as a whole were only slightly higher than in 1914, it is obvious that the general augmentation of administrative expenditure has not been due to higher real salaries.

Actually, the main explanation can be found in the very substantial growth in the general numbers of civil servants. In total, the figures of non-industrial employees were 57,706 in 1914, 116,241 in 1923 and 120,418 in 1931.³ What part of the increases is assignable to the particular line of expenditure under discussion cannot, from lack of data, be determined. By way of illustrating the general tendency, however, whereas the total staffs employed by the Ministry of Labour, the Ministry of Health, the Board of Trade, and the Ministry of Agriculture, were in 1914 (pre-war) 13,500, on 1 April, 1922, and 1 April, 1926, and 1 April, 1929, they were respectively 32,983, 26,327 and 29,406.⁴ It is with these departments that the expenditure now being discussed is principally concerned. Since the increase from 1914 to 1929 for such staffs was larger proportionately than the general increases recorded above, the importance to be assigned to the factor of numbers is manifest. To what, however, has the growth in numbers been due? More detailed examination shows that the Ministry of Labour staffs alone grew from 5,000 in 1914 to 16,799 in 1929. This was clearly caused principally by the large exten-

¹ *Report of May Committee*, p. 30.

² *Ibid.*

³ *Ibid.*

⁴ *Cmd.* 2718, 3349.

sion of the Unemployment Insurance scheme due to new legislation and to the heavy post-war unemployment.¹ Other increases were evoked by the Trade Boards Acts, the various labour training schemes, and the new industrial relations section. Again, the staff of the Ministry of Health expanded from 3,200 in 1914 to 5,845 in 1929. This was the outcome of the various extra duties devolved upon the department by the extensions of, and additions to various social services—notably pensions and housing—legislation relating to unemployment works and economic development, and the Local Government Act of that year, and the general development of local authority services. The Board of Trade staffs grew from 2,500 in 1914 to 4,436 in 1929, and the explanation of this increase may be sought in the growth of personnel in the new Mines Department,² trade embassies abroad, for the large expansion in mercantile marine services—e.g. by taking over coastguard staffs³—for safeguarding acts, trade board acts, imports regulation, gas regulation, food regulation, advisory services to industry, the censuses of production, and in connection with the *Board of Trade Journal*. Various additional duties, such as those enjoined by the Australian Zinc Concentrates Scheme of 1917, the schemes for Export Credits and disposal of surplus war stocks also fell from time to time on this department. By contrast, the staff of the Ministry of Agriculture declined slightly from 2,800 in 1914 to 2,335 in 1929, this being due largely to the fact that extra legislation has not necessitated the substantial staff additions called for in other departments, but more largely to a decline of about 1,100 in survey staffs.⁴ Even so, in view of the diverse extra services performed, the small net increase is worthy of notice. These include the administrative work imposed by Land Settlement schemes, the development and co-ordination of research and edu-

¹ It should be noted that the cost of this administration is recovered from the Unemployment Insurance Fund.—*Vide Estimates for Civil Services* (1923–1924), p. xviii.

² Transferred since 1914 from the Home Office.

³ The Transport section was transferred after 1914 from the Admiralty.

⁴ Stated in a letter to me.

cation, land drainage and improvement schemes, and the control of the beet sugar subsidy.

As the non-administrative costs¹ were not relatively large it is unnecessary to say much about them. Mainly they were occasioned by the scheme of 1917 concocted by the domestic government and the Australian Zinc Producers' Association, under which an agreement (enduring until 1930) was made to take specified quantities of zinc and spelter at fixed prices. Losses resulted from the Government's inability to recoup its outlays on account of falling prices, and the total cost in the period amounted to some £8 m. Another service calling for the substantial total outlay of about £5 m. was in reality a deferred war cost—for compensation for damage done by enemy action. The expenses of the Representation of the People Act accounted for some £2.5 m., contributions to the League of Nations nearly £.75 m., guarantees for the British Empire Exhibition over £.9 m., while special grants to voluntary hospitals took £.38 m. By contrast, services provided for in 1913-1914 did not loom large, the most important one being the heightened expenditures on the Mint, totalling £2.5 m., due largely to withdrawing silver coins issued at face value; for the Secret Service—taking about £1.5 m.; and for Parliamentary salaries—about £4.0 m. In general, then, most of the expenditure other than on administration has been due to isolated governmental decisions concerning a wide variety of specific purposes and based rather on temporary expediency than on a fixed policy.

The costs of collecting Inland Revenue taxes and Customs and Excise duties fall to be considered next. Although this item varied little throughout the period, it will be observed that, on the average, it needed some two and a half times as much as in the pre-war year. Against this there is the offset that tax revenue was roughly fourfold that of 1913-1914. Further inquiry shows that, compared with this year, when the Customs and Excise staff numbered 10,800 and that of the Inland Revenue 15,800, the figures at 1 April, 1922, were respectively 11,487 and 20,645, and at 1 July,

¹ *Vide Finance Accounts and Civil Service Estimates (1921-1931).*

1929, 11,734 and 20,768. Clearly, then, the inland revenue staffs were increased in the period more largely than those of the customs and excise branch in proportion to the revenue collected. The explanation of this is bound up with the different natures of the two kinds of taxation and the different circumstances attending their collection. Thus, while new taxes were imposed in both branches, the existing machinery was better able to handle them in customs and excise than in inland revenue: for the frontiers were virtually unchanged in the case of the former, while in the case of the latter new strata, and much larger numbers of taxpayers were brought into liability. Again, for the same reason, increases in old taxes involved less trouble in the former case than in the latter: for customs and excise taxes are preponderantly indirect and set to be passed on; while the inland revenue duties are preponderantly direct and, generally speaking, do not lend themselves to being passed on. Furthermore, valuations occasioned much less difficulty in the former than in the latter taxes, while also evasion is less feasible. This is especially instanced by death duty taxation, which involved considerable valuation difficulties owing to the shifting economic situation. Again, questions of liability caused much more trouble in the inland revenue branch; this may be illustrated by the fact that the number of cases calling for investigation was 25,140,000 in 1921-1922 contrasted with 11,585,000 in 1913-1914. Still further, as the Chairman of the Board of Inland Revenue told the Select Committee on Estimates, the incentive to avoid payment of direct taxes has been largely added to by their great increase.¹ Lastly, inland revenue duties suffered many more changes in the period, both in total and in detail, than did customs and excise duties.

Apart from these points, the remaining general explanation of the increased cost is a function of changed remuneration. This increased for the three broad reasons stated earlier. First, as and from 1919-1920 salaries were

¹ *Report of Select Committee on Estimates, Fourth Report (1922)*, p. iii. In 1920-1921 there were 110,675 appeals contrasted with 66,570 in 1913-1914.

increased by bonuses designed to meet the higher expenses of living. Second, during and since the war the basic salaries were raised somewhat in consequence of alterations due to departmental reorganisation and altered arrangements affecting status. Third, the age distribution of staffs changed adversely and therefore required increased incremental expenditure as compared with the pre-war year. This factor was of much less significance than the first one, so that, similarly to the case of general administration, it is in the growth of staffs that the primary explanation must be found.

The service showing the next largest increase is that of Police. The growth in cost to the central authority was abnormally expansive in the post-war period—an annual average of £8·08 m., compared with £·44 m. in 1913–1914. As this was largely the result of a decision taken in 1918 to recognise the semi-national character of the service seen in the raising of national contributions to one-half of total cost, the range of increase is more fairly exhibited by comparing both national and local costs. In 1913–1914 these were about £5½ m., and by 1930–1931 they had continuously grown to over £22 m. To some extent the increase was brought about by larger numbers, but as the authorised personnel in 1930 was but 64,701 compared with 60,411 in 1913, the explanation is minor. The major cause is to be found in the all-round raising of pay and pensions; for, based on cost-of-living figures, the real rates in 1930–1931 were 25 per cent more than in 1913–1914. Of the conjoint item, moreover, pensions called for large sums. This followed from the new post-war practice of granting two-thirds of final rates of pay on the completion of about twenty-five years' service. And the end of the increase is not yet: since, when stability is attained, for every 100 men serving, 60 will be pensioned at a cost of 46 per cent of the total pay costs.¹

Policy concerning this service was guided by reports from investigating committees. The first was the Desborough Committee of 1919, whose recommendation to standardise pay throughout the country was adopted. The

¹ *Report of May Committee on National Expenditure* (Cmd. 3920), p. 55.

unification programme was, however, accompanied by very material increases in pay—then sought to be justified by the rise in living costs and recognition of the greater responsibility falling on the police force as well as of higher efficiency. A further, but temporary increase was given in 1920 by way of an additional cost-of-living bonus. The Geddes Committee took the view in 1922 that numbers were excessive in view of the high *per capita* cost which was then threefold that of 1913; but the Committee agreed that the extra responsibility devolved on to the police should be adequately recognised.¹ The outcome was a reduction in scales of no more than 2·5 per cent. In 1923 the Desborough Committee was re-constituted to review the position in the light of changed economic conditions, but it was averse to making an alteration so early on the ground that “. . . general economic conditions are extremely unsettled at the present time . . .” and “. . . it must be unsettling to any Service to have repeated revisions of their rates of pay . . .”² Another—the Chalmers—Committee, sitting in 1927, was unable to review the whole problem owing to restricted terms of reference: and while it recommended reductions for new entrants the Government refused to accept them on the ground that this would be inequitable.

The history of these inquiries indicates that the official view of the police service has changed, compared with pre-war years, in the direction of a much higher estimation of its work. That this has persisted is indicated by the analysis made by the May Committee. After examining cost-of-living figures which showed that, since the first Desborough survey, substantial reductions were justified, they declared that

“ We have found some difficulty in determining the reduction to be recommended. On the one hand, we appreciate fully that the task of the police becomes increasingly difficult in many ways in modern conditions and that the police fill an increasingly important rôle in our social organisation.”³

¹ *Second Interim Report* (Cmd. 1582), pp. 58–9.

² Cmd. 2086, p. 3.

³ p. 44.

They resolved their dilemma by suggesting no more than a 12½ per cent reduction in pensionable pay—to apply only to constables and sergeants.

Irish Services rank next in order of expense. This item was completely changed as to both its character and its amount by the Government of Ireland Act, 1920, the Irish Free State (Agreement) Act, 1922, various Orders, and the Ultimate Financial Settlement of 1926. It is unnecessary to record here all the details of these various settlements, and all that may usefully be done is to indicate the basis of expenditure on Irish Services subsequent to 1921. As a result of the 1920 Act it was agreed that, while some receipts and expenditures—e.g. Education, Health, Labour, Justice, Old Age Pensions—should be “transferred” to the new Irish exchequers, others, such as costs of Post Office, Income Tax, Customs and Excise, should be “reserved.” The proceeds of “reserved” taxes were made payable into the consolidated fund of the United Kingdom, and a contribution of £18 m. per annum was decreed from the Irish exchequer to the consolidated fund. The revenue from the “reserved” taxes, less this sum and the costs of “reserved” expenditures, was then made repayable to the Irish governments. The British government also undertook to meet charges for the Supreme Court of Northern Ireland, for public buildings, and for pensions and compensation payments to ex-members of the Royal Irish Constabulary together with certain other minor items. Under the 1922 and 1926 agreements various adjustments were made, e.g. it was agreed to pay over to the British government receipts from the land annuities, and 75 per cent of the police pensions and payments. The net effect of the actual working out of the various agreements has been that the British government has regularly returned to the Irish governments the difference between the annual contribution made by them to Imperial expenditure plus the reserved taxes and costs of reserved services, and has made heavy payments to the Land Purchase Commission and for the costs of the Supreme Court, together with substantial payments for government buildings, pensions to the Royal Irish Con-

stabulary, compensation for criminal injury and for other claims and for aleatory grants in 1922 and 1923 to Irish ex-servicemen. In view of the changes which have occurred, it is not practicable to compare 1913 and 1921 expenditures, nor even 1921 and subsequent expenditures. All that can usefully be said is that although the expenses of contributions to the Land Purchase Commission have been heavy—about £2 m. annually—the total net charges falling on the British government have been relatively small and have tended to decline somewhat. Moreover, owing to the statutory character of the arrangements it is not to be expected, unless the whole agreement is revised, that any great variations will in future occur.

Since that part of the total expense of Foreign and Colonial Services due to Middle Eastern Services has been abstracted for use in another chapter for the reasons there stated, the extra net cost of this item over 1913–1914 has bulked small. Taking the Colonial services separately, while these accounted for the larger part of the total, their growth was not so substantial as to need extended comment. Reference ought, however, to be made to the point that in the earlier years at least costs were put up in consequence of the addition of new territories allocated under the Peace Treaty. Thus, special grants were found necessary for the economic restoration of territories such as Tanganyika, British Togoland and Uganda, all of which—but especially Tanganyika—suffered from the depredations of the war. The large expenditure of 1923–1924 was due to a payment of £3.75 m. to the British South Africa Co. on the termination of its administration of Rhodesia, and a loan of £3.5 m. to Kenya Colony.¹ Other grants have from time to time been rendered necessary for pre-existing territories, e.g. Uganda, Nyasaland, Swaziland, the more frequent reason for these being the adverse effects of the trade depression on budgetary revenues, and a less frequent reason being the decision to assist economic development. Instances of costs due to the war are the settlement of claims by the U.S.A. for expenditure on British subjects in Ger-

¹ *Civil Estimates* (1924–1925), p. xv.

many during the war, and by British nationals who had deposited roubles in Russia in 1918. Costs of Diplomatic and Consular Services were also larger in the earlier years, viz. £2.1 m. in 1921-1922 compared with a decline to about £.5 m. in 1930-1931. This was mainly due to the decision to give more vigorous help to overseas trading, which for some time led to notable activity. Although the policy was considerably modified subsequently, the possibility of achieving definite reductions of expenditure was beset by the dilemma that a swift reduction of the commercial diplomatic posts created previously would only remit a number of officers to pensions without any *quid pro quo* in the shape of services.

The item for Works, Buildings and Stationery, it may be observed, was one of the few to register a steady decline in the period—from £7.44 m. in 1921-1922 to £5.44 m. in 1930-1931; yet the average for the period was more than double the 1913-1914 figure. No prominent single reason serves to explain the larger post-war payments, for there were several factors at work—each of them accounting for sizably larger nominal costs. First, in addition to increased maintenance costs occasioned by higher prices for materials and labour, a number of new public buildings were erected or purchased in the period, e.g. taxation offices, pensions offices, and colonial and diplomatic buildings, both at home and abroad. It is observable, too, that local rates payable on government properties were materially augmented in consequence of the general increase of these over 1913-1914; the annual charge has not been far below £2 m. Rentals also, as may be expected, registered higher figures in the period. Lastly, the general expansion of government staffs, together with the higher post-war prices of stationery materials and printing, induced an imposing total cost for this item—not far short of £2 m. annually compared with £1 m. in 1913.

The item of Civil Superannuation and Allowances does not require detailed explanation in view of the discussion undertaken on the first item dealt with in this chapter; for it is a function of numbers, and as such is materially explained by the post-war increases indicated earlier. The

post-war higher expenditures on these date from the introduction of the cost-of-living bonus scheme. But, after March, 1922, a prescribed part of the pensions was related to the cost-of-living bonus so that as the index declined that part of the costs also declined. Another point is that the payment of marriage gratuities to women employees was introduced in post-war years. This, however, was not a measure sanctioned by statute, and added to pensions costs to the extent of nearly £170,000 per annum. As for pensions expenditure as a whole (although this does not include those paid to Revenue civil servants), since on the average it only increased slightly despite the very substantial increases of staffs cited earlier, its importance is small.

Another moderate item of expense was on account of Prisons and Prisons administration. Compared with £.85 m. in 1913-1914, this took an annual average of £1.13 m. This, in turn, was predominantly occasioned by the larger post-war costs of personnel pay, and essential foodstuffs and materials. The pay of warders and other officers was increased to cope with the cost-of-living, and has been regularly adjusted thereto. Expenditure has actually been reducible because of the post-war decline in the number of commitments to prison. It has not fallen by so much as might be expected, however, because the distribution of the types of convictions has not permitted the wholesale closing of individual prisons. Again, even though buildings have been in partial use only, expenses on maintenance have been necessary, while prison staffs could not be reduced with impunity.

To complete the list of services dealt with in this chapter, a word is needed about the expense of the Currency Note issues. Originating in 1914 with the departure from gold, since the notes were from then until 1928 issued by the Treasury, the expenses fell as a separate governmental charge. After 1928 this no longer appeared because of the Act of that year under which the Treasury issues were amalgamated with those of the Bank of England.

Lastly, brief reference may be made to Post Office expenditure. As ordinarily the Post Office is a net contri-

butor to revenue, and, since it is a trading service, it is not proposed to analyse the expenditures incurred by it. Indeed, it is perhaps desirable to go no further than to refer to the fact that in one year of the period—1921—a deficit of £9·58 m. was incurred, which fell to be met out of the national finances. To that extent a burden of cost resulted which, however, has since been more than wiped out by the substantial surpluses—amounting to £61·93 m.—realised in the following years of the period.

Summarising the expenditure as a whole, it may be said that very largely its increase was occasioned by the extra post-war costs of salaries and pay, and of materials. More largely still, however, it was due to the increase of administrative staffs called into being by the extensive additions to post-war legislation and the absence of attempts to co-ordinate the separate services born under it. Another reason was the greater expense falling on the home government as a result of territorial additions resulting from the war, and the policy of assisting pre-existing territories to face the economic depression. Special reasons prevailed in the case of the police service, due to an altered view of the importance of its functions, but also to a generous pensions scheme. Lastly, the total expenditure would have been larger but for the new arrangements made with Ireland.

CHAPTER VI

LOCAL EXPENDITURE

THE following table, based on the Local Taxation Returns for England and Wales and Scotland, gives a summary of comparative ordinary (including contemporary loan) expenditures and new loan expenditures in 1913-1914 and during the nine-year period 1921-1930.¹

GROSS EXPENDITURE OF LOCAL AUTHORITIES IN GREAT BRITAIN
IN 1913-1914 AND 1921-1930
(£ millions)

Year. 1913-14	Ordinary Expenditure. 167·31	New Loan Expenditure. 24·15	Total. 191·46
1921-22	412·29	145·38	557·67
1922-23	392·06	84·60	476·66
1923-24	389·96	58·90	448·86
1924-25	403·41	80·35	483·76
1925-26	423·33	112·45	535·78
1926-27	458·42	130·66	589·08
1927-28	456·62	133·49	590·11
1928-29	469·40	103·60	573·00
1929-30	481·85	123·96	605·81
	3887·34	973·39	4860·73

This table is useful as indicating the comparative gross expenditures in the pre-war year and in the post-war period and as showing the trend of the latter. The heavy average real increase in 1921-1930 is apparent. In view of the post-war expansion of trading services of one kind and another, and also in sources of receipts other than local rates and exchequer grants—due to various new and en-

¹ Up to the time of writing (September, 1932), no later statistics are available for Great Britain. "Contemporary" loan expenditure is made up of current loan charges on previous capital borrowings: "New Loan" expenditure is made up of current expenditure out of the proceeds of new borrowings.

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larged old activities of local authorities—a more accurate measure of the expenditure is only obtainable provided that all such "Other" receipts except new borrowings are deducted. This is done in the following table:

NET EXPENDITURE OF LOCAL AUTHORITIES IN GREAT BRITAIN
IN 1913-1914 AND 1921-1930
(£ millions)

Year.	Gross Expenditure.	"Other" Receipts.	Net Expenditure.
1913-14 . . .	191·46	63·97	127·49
1921-22 . . .	557·67	145·37	412·30
1922-23 . . .	476·66	145·83	330·83
1923-24 . . .	448·86	146·05	302·81
1924-25 . . .	483·76	149·71	334·05
1925-26 . . .	535·78	157·50	378·28
1926-27 . . .	589·08	170·55	418·53
1927-28 . . .	590·11	179·83	410·28
1928-29 . . .	573·00	177·50	395·50
1929-30 . . .	605·81	177·70	428·11
	4860·73	1450·04	3410·69

This corrected "net" table indicates that local authority expenditure met out of exchequer grants, capital borrowings, local rates and free balances was very much larger on the average during the post-war period. This, in turn, as the preceding table indicates, was to a material extent due to the greater amount of new borrowings; for these averaged about four and one half times as large as the nominal pre-war average, and furthermore, the subsequent charges entailed by new loans contracted in earlier years drove up ordinary expenditure in later years. Nevertheless, it is also true, as the following table shows, that—1921-1922 apart—net ordinary expenditure showed both an expansionist tendency over the period and was very much larger in nominal terms therein.

NET ORDINARY EXPENDITURE
(i.e. Ordinary Expenditure less "Other" Receipts)
(£ millions)

Year.	Year.
1913-14 103·34	1925-26 265·83
1921-22 266·92	1926-27 287·87
1922-23 246·24	1927-28 276·79
1923-24 243·91	1928-29 291·90
1924-25 253·70	1929-30 304·15

The question which next presents itself is as to what were the principal causes of the post-war increase in local authority expenditure. This can be dealt with by sorting out some of the main categories of outlays into various groups. In order to obtain a more accurate perspective both ordinary and new loan expenditures have been reckoned: for the latter have assumed a substantial importance in the case of certain services. The resultant net figures, therefore, indicate the combined totals of national and local ordinary, and new capital outlays, less "Other" receipts.

NET EXPENDITURE ON IMPORTANT LOCAL SERVICES IN 1913-1914
AND 1921-1930 (AVERAGE) *
(£ millions)

Service.	1913-14.	1921-30 (Average).	Increased Annual Charge (1921-30).
Housing and Town Planning	1.27	64.70	63.43
Education (including Industrial Schools)	37.92	88.42	50.50
Highways and Bridges	20.83	59.85	39.02
Poor Relief †	14.11	40.05	25.94
Health Services	17.38	41.65	24.27
Trading Services	9.92	31.84	21.92
Police and Police Stations	8.07	21.93	13.86
Miscellaneous Small Services (Land and River Drainage; Libraries; Buildings; Lighting; Fire Brigades; Justice; Private Street Works; Distress Committees; District Fisheries; Ecclesiastical Heritors, etc.)	7.26	14.79	7.53
Lunacy and Mental Deficiency ‡	3.28	8.08	4.80

* As the figures for Exchequer grants given in the Local Taxation Returns differ from those cited by the May Committee the statistics relating to individual services differ somewhat from those given in Chap. II. In some cases exact calculations cannot be made owing to inadequacy of published data.

† Scottish figures include pauper lunacy.

‡ Scottish figures not available; after 1921 State institutions also included.

This table is useful as indicating the main items which were responsible for the very large expansion in the net total of

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local expenditure. Since, however, besides registering new loan expenditures, it includes exchequer grants which have already been accounted for in earlier chapters, and since the proper burden of local expenditure is to be found in the actual amounts falling to be met out of local rates, it is essential to add a further table designed to indicate the change in the rates burden, and to analyse the various items responsible for this into appropriate groups. This table is as follows :

LOCAL RATES IN 1913-1914 AND 1921-1930 (AVERAGE) *
(£ millions)

Service.	1913-14.	1921-30.	Increased Annual Charge (1921-30).
Poor Relief †	12·21	36·76	24·55
Education ‡	18·62	38·12	19·50
Highways and Bridges . .	16·76	34·80	18·04
Non-Social Service Health Services §	11·27	24·34	13·07
Social Service Health Ser- vices	5·45	12·36	5·87
Police and Police Stations Services not specifically allo- cated (including overhead charges)	4·92	10·79	6·91
Miscellaneous Small Services (Land and River Drainage; Libraries; Buildings; Lighting; Fire Brigades; Justice; Distress Com- mittees; District Fisher- ies; Ecclesiastical Heri- tors, etc.)	10·71	16·09	5·38
Housing and Town Planning	5·36	10·24	4·88
Trading Services	·45	2·18	1·73
	·14	1·01	·87
	<u>85·89 </u>	<u>186·69 </u>	<u>100·80</u>

* The data do not permit of an accurate estimate of rates for certain individual services.

† Scottish figures include also expenditure on Lunacy.

‡ Including Reformatories and Industrial Schools.

§ Scottish figures approximate.

|| The actual expenditure falling to be met out of local rates was somewhat less than these totals owing to the existence of other general exchequer grants, free balances and miscellaneous small receipts, viz. £78·75 m. and £173·55 m. respectively.

In proceeding now to consider the main reasons for the increased costs falling on local rates, it is desirable first to

review the individual groups of services in their order of importance. Poor Relief, it will be observed, showed a very large growth in rates cost. Due mainly to the long depression originating in 1921, it was shown in Chapter II that other important causes were the severe and large-scale industrial disputes of the post-war period, the very generous measure of outdoor relief—prevailing in particular during 1921-1926—coupled with lax administration, and the reduced psychological aversion to acceptance of poor relief. Larger spending, too, was made on indoor relief due to a display of greater consideration for the helpless and sick poor. The specific cause of the pronouncedly heavier rates burden was the absence of any change in the system of exchequer grants until the reform of 1929. While such grants did increase during the period this was due much less to the creation of special grants such as that under the Poor Law Emergency Provisions (Scotland) Act, 1927, than to the general automatic growth in the "assigned" revenues.

Passing to Education, which has also been a fertile cause of enhanced rates cost, the main reasons for this as found earlier were the expansion of teaching salaries, the growth in post-primary (and especially secondary) education; increased costs of maintenance, new buildings, and for equipment; the development of "Special Services"; and the larger awards of free places and maintenance allowances. These factors are stated in the comparative order of their importance. It will be seen from the table of total net cost that the burden falling on rates would have been very considerable but for the expansion of exchequer grants, which not only grew absolutely but which also showed a marked percentage advance—from 46 per cent in 1913-1914 to an average of about 56 per cent during 1921-1931. This, in turn, was mainly the outcome of the 1918 Act but also of special grants, e.g. for superannuation, for buildings, and, after 1929, as a result of the decline in the amount produced by the levying of a 7*d.* rate for elementary education. It will be seen that, if there had not been such upwards elasticity in exchequer grants, the extra burden falling on local rates might have been materially greater.

Highways and Bridges was another item which caused both total net expenditure and rating costs to advance considerably: and had it not been for the large growth in exchequer grants from about £1 m. in 1913-1914 to an average of £15.53 m. in 1921-1930 local authority rates must have been swiftly driven upwards. The causes of the expanded outlays have been shown in Chapter IV to be to provide unemployment works and to improve old and to construct new roads and bridges. It can hardly be doubted that, but for the heavy and persistent unemployment, the total of outlays would have been smaller; and in view of the heavy rates cost resulting this point is worthy of notice.

Those Health services not included under the somewhat rigid classification adopted to demark "social services" rank next in importance. Since the connotation of this term is wide, there are many separate items—sewers and sewage disposal; sanitation and cleansing; baths, wash-houses and open-air bathing-pools; parks, recreation-grounds and open spaces; salaries of medical officers, sanitary inspectors; prevention of disease; vaccination; port sanitation; public conveniences; welfare of the blind, etc. The items more largely responsible for extra spendings are sewers and sewage disposal; sanitation and cleansing; parks, pleasure grounds and open spaces; and medical salaries. It is observable that, on the first three of these groups, heavy capital outlays have been incurred in the post-war period, and this has been a major cause of the extra rates burden. Another important cause has been the desire of local authorities to extend and improve the whole gamut of health services. The capital outlays, in turn, were mainly the outcome of the policy of providing unemployment works; and the high costs of materials and of inefficient labour have been major factors in adding to the outlays. Despite the special—although constantly revised—exchequer grants for such capital works, and the new or increased grants for various individual services such as 50 per cent for medical salaries, for blind welfare, and for port sanitation, together with the general expansion of

"assigned revenue" grants, it will be noticed that the larger part of the total extra burden has fallen on local rates.

Such, it will be seen, are the major individual items causing the growth of local expenditure.

The Health services classified under social services are immediately next in importance. Including Lunacy and Mental Deficiency, Tuberculosis, Infectious Diseases, and Maternity and Child Welfare, this represents the order of their respective importance as causing additional expense. The detailed reasons for the expenditure growth have been surveyed in Chapter II. Here it is sufficient to state, in addition, therefore, that the growth in the cost of lunacy due principally to greater certification and the changed post-war value of money fell very heavily on the local authorities during 1921-1930 owing to the inadequate grant of 4s. weekly for each pauper lunatic.¹ Again, the excessive certification increased the rates charge for mental deficiency despite the general exchequer grant of 50 per cent. The strong campaigns to deal with tuberculosis and venereal disease also added to rate costs notwithstanding grants of 50 and 75 per cent respectively, while the same is true, only in less degree, for maternity and child welfare receiving 50 per cent exchequer aid. Capital costs, too, have been heavier in post-war years for all services except infectious diseases.

Among the more minor items, the next is that relating to Police. It was shown in Chapter V that the somewhat heavy increase here was due to the revisions of pay and pensions dating from 1919, and hardly at all to the growth of personnel. Despite the raising of exchequer grants to 50 per cent in 1919, therefore, the largely increased pay and pensions have driven up local rating charges by more than double those of 1913-1914.

The next item is for services not specifically allocated, of which the most important is for overhead and administrative costs. The growth in local rates expenditure is mainly due

¹ The Royal Commission on Lunacy showed the estimated weekly cost in 1926 to be 22s. per head (Cmd. 2700, p. 143).

to the extra outlays on staffs. Information is not available to show how far this has been occasioned by increased numbers and how far by higher pay. In view of the large amount of extra work devolved on to local authorities by post-war legislation and orders and circulars issued by the Ministry of Health, however, the first explanation is probably of major importance.¹ The likelihood of this is further suggested by the waste and unnecessary duplication caused by the redundant number of local authorities, by the wide variation in their size and in capacity to handle the new duties efficiently, and by the lack of co-ordination between the many services. It is apparently also true, however, that local authorities not only increased remuneration to meet the changed costs of living, but also adopted superannuation schemes as and after 1922; and furthermore it is probable that basic salaries have frequently been advanced.² Although various new and larger State grants have been made for such items as social services, the maintenance of electoral registers, the registration of births and deaths, and afforestation, while additionally the general "assigned revenues" grew over the period, a definitely high real burden of cost has nevertheless fallen on the rates.

A miscellaneous group of specific items ranks next in order, e.g. Public Lighting; Fire Brigades; Libraries; Administration of Justice; Land and River Drainage and Improvement; Buildings; Small Holdings and Allotments; Private Street Works; and (in Scotland) Distress Committees; District Fisheries; and Ecclesiastical Heritors. The order cited represents that in which they were causative of greater outlays. The first four items were, however, relatively the most important. The main causes

¹ During 1920-1932 some 116 Acts of Parliament were passed, and 579 Statutory Rules, Orders and Regulations, 762 Circulars, 180 Memoranda and 65 Orders in Council were issued. (Evidence of National Association of Local Government Officers to Committee on Local Expenditure, 1932.)

² Based on information supplied by the National Association of Local Government Officers and evidence supplied by this body to the Departmental Committee on Qualifications, Recruitment, Training and Promotion of Local Government Officers (1931). Also Cmd. 1016, p. 11.

of the extra charges were the increased rates cost of salaries, labour and materials, but also the absence of specific exchequer grants and the extensions of the services undertaken—partly with a view to raising their efficiency. Another important, but less general cause was the incitement to expenditure resulting from central legislation. Small holdings and allotments expenditure, for instance, was fostered by the Acts of 1919 and 1926 as well as by those of 1908–1925, and after 1926 that on small holdings was added to by the reduction of grant from 100 per cent of losses to 75 per cent. Expenditure on land drainage also was stimulated by the special grants made available after 1920, and more largely in 1926 and 1929. While such legislation—mainly intended to relieve unemployment—added to local rates, the net addition was sensibly smaller on account of the grants.

Housing services need to be mentioned next. The striking point about this expenditure is that, although registering the largest increase in net expenditure of all services, it did not add appreciably to the rates burden. The reason is threefold—first, such building was financed predominantly by loan; second, sizable amounts were received in rentals; and third, particularly in the earlier years, materially large State subsidies were available. Actually, very heavy total expenditures were incurred for housing in the period—particularly as contrasted with the pre-war year. This, in turn, has been explained in Chapter II as the results of the acute post-war shortage of houses, and artificially high building costs. Partly, too, it was felt that this service constituted a very suitable device to offset unemployment. Since so much of the cost was met by loans, the rates burden suffered in the period is not a real index of the total burden—especially as many loans extend over long periods (some up to 1994). Bearing this in mind, despite the assistance given by subsidies and rents, it is plain that the post-war rates cost has sizably increased.

The last item is for Trading Services. These, having come to assume large importance in the period, comprise gas, water and electric supply; tramways, light railways

and omnibuses ; ferries, harbours, docks, piers and canals ; markets, cemeteries ; and miscellaneous small services. It will be seen that net expenditure grew very materially in the period, but that rating costs were not appreciable. The basal explanation is found in the fact that large capital expenditures were undertaken on such items, and outstandingly to relieve unemployment under the auspices of the Unemployment Grants Committee.¹ Other important causes were the general willingness to expand the range and efficiency of such services, partly due to the accession to municipal power of Labour ; to the comparative ease of post-war borrowing due to the willingness of the Ministry of Health and the Unemployment Grants Committee to sanction new loans for unemployment works ;² and partly also to the special exchequer grants to "necessitous" areas following the report of the committee instituted to consider these.³ As in the case of Housing, since so much of the greater expenditure was met out of loans, the actual rate charges made in the period fail to record the real burden ; but this is likely to be less heavy than in the case of Housing owing to the greater possibility of raising the fees charged for the services. Lastly, it may be noticed that the larger part of the current deficits is ascribable to Scottish trading services.

The individual groups of expenditure having been surveyed, it remains to make a few generalisations. First, it will be observed that the social services account for a very considerable part of the rates increase—some 52 per cent of the whole. It is apparent, therefore, that the new and extended legislation passed by the central authority relating to these was a profound cause of larger rate burdens. Second, the extra charge for highways and bridges alone accounted for some 18 per cent of the larger rates, and if account could be taken of other expenditures the primary object of which was to relieve unemployment it is certain

¹ Of £153 m. spent by the Unemployment Grants Committee from 1920–1928 and 1929–1931 (March), some £62 m. were on account of trading services. (*Seventh (Interim) Report of Proceedings*, 1928 ; Cmd. 3920, p. 139.)

² Of some £290 m. borrowed during 1928–1931, no less than £256 m. were sanctioned by the Ministry of Health.

³ Cmd. 2645.

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that this explanation would rank as an important second cause of the new rate burdens. Third, another important cause is found in the expansion of non-social service health services caused by the campaign against sickness and disease. Fourth, there was a general willingness to augment and render more efficient other ordinary communal services essential to social life. Fifth, higher costs were entailed for materials, wages and salaries. Sixth, the pressure of central legislation and central regulation is apparent throughout.

PART II
ECONOMIC AND SOCIAL EFFECTS

CHAPTER VII

THE NATIONAL DEBT SERVICES

I

IN passing now to a review of the economic and social effects which have followed from the various expenditures, it is desirable to point out that the basic purpose of the analysis is to discover what have been the consequences of the various enlarged outlays occurring during the period 1921-1931 compared with the outlays made in 1913-1914. Owing to the absence, or inavailability of data for the pre-war year, however, it is frequently impossible to make an accurate measurement or analysis of the actual changes; so that in default all that can be done is to make a generalised statement of the sort of economic results which follow from the separate expenditures. Even so, if use is made of what data are available, it will be possible to obtain a fair idea of the altered conditions prevailing in the post-war period. The general scheme of analysis will in each chapter be determined by two dominant considerations: first, to analyse the economic and social effects induced by the individual expenditures, and second, to discover what "transfer" effects as between Richer and Poorer have been brought about by the various enhanced expenditures. This analysis concluded, an endeavour will then be made to frame a critical estimate of the expenditure with a view to facilitating a subsequent final estimate.

With this explanation, consideration may now be given to the main reactions induced by outlays for debt interest and debt repayment. In view of the results of the preceding analysis, which showed that the incomings and out-

goings induced by the various External Debts have roughly been in balance over the period, there is no need to enter into an analysis of their effects. To pass then to the Internal Debt, reference is first needed to the point that economists have for long recognised that the burden of an internal debt is by no means so great as at first sight appears ; for, in general, it merely entails the acquiring of funds by taxation which are subsequently re-distributed in the country. They have further recognised, however, that this dictum needs some qualification. In so far, first, as taxation is levied to meet charges on debt held abroad, this imposes a real burden, since a corresponding levy on the domestic community is made in the shape of goods and services. Second, in so far as the taxation and the subsequent re-distribution of funds entail the use of administrative personal services, this imposes a burden in the shape of the lesser total of such services available for other, and presumably productive ends. Third, they have also recognised that the taxing and re-distributing process cannot be without effect on the general economic welfare of the community. As for the first qualification, while no exact statistics are available over the period, it is apparently fair to presume that foreign holdings of the internal debt are negligibly small.¹ As for the second, similarly, no exact estimate of the burden imposed can be made. It may be noted, however, that the total amount spent on the salaries of tax staffs increased from £4·3 m. in 1913-1914 to an annual average during 1921-1931 of £11·2 m.

More can be said on the third point—the concrete effects of the taxing and re-distributing process ; for this involves substantial transfers as between Richer and Poorer. For example, given the premiss that a re-distribution of the national income in favour of the Poorer² is desirable—if

¹ At the time of the 1932 War Loan conversion, apparently not more than some £100 m. of this stock were held by foreigners.

² From this point onwards the terms "Poorer" and "Richer" (in capitals) will be used to distinguish between that section of the adult community which is in receipt of income in the shape of wages or other income which does not exceed the highest level reached by wages income, and that section of the adult community which is in receipt of income exceeding the highest level reached by wages income. Although there

such actually occurred as a result of taxation for debt—it is possible to make out a case that the process is really beneficial. If, on the other hand, the resources of the Poorer are taxed in order to provide debt interest, by retaining the premiss a contrary case might be established.

Now in theory the problem of whether transfer had occurred from the Poorer to the Richer or *vice versa* could indeed be solved given certain conditions. If it could correctly be assumed that—

- (1) Everything had remained unchanged since 1914 except the creation of the debt and
- (2) The debt had been acquired by Richer direct taxpayers only who were subsequently taxed to an amount exactly equal to the total charge for interest, management and repayment, and strictly according to their relative debt holdings—

then it might be held that no re-distribution as between the two categories had occurred. Further, if taxation were heavier than the amount of debt interest or *vice versa*, re-distribution would have occurred in favour of the Poorer, and *vice versa*. Further again, if taxation were not strictly equal to relative debt holdings, re-distribution would have taken place within the ranks of debt holders. But these assumptions are impossible. Is it feasible, nevertheless, to use what information is available and so to relate it to these fictitious assumptions that a conclusion of even heavily modified validity can be established?

In attempting to do this, the arguments supporting the idea that a heavy transfer to the Richer was induced by the loan policy may first be assembled. Thus it might be contended that, in so far as the war was financed by loans instead of by taxation, the effect was to leave the Richer still in command of resources which otherwise they would have had to forfeit. As about three-quarters of the total war expenditure was financed by loans the transfer would appear to have been sizably large. To this might be added the further

was a certain overlap in the period in the case of some Poorer incomes which, for a variety of reasons, actually paid income-tax, this corresponds broadly to the division between persons not subject to direct taxation and those who were subject to direct taxation.

point that finance by loan is more conducive to inflation than finance by taxation. The general effects of inflation in turn are, it may be urged, to lead to a re-distribution in favour of the Richer. Again, inflation added to the nominal costliness of the war and hence to the nominal subsequent indebtedness. This in turn meant that, with the marked post-war deflation, debt-holders have gained by receiving a larger real amount of resources than originally they surrendered, or the State in effect contracted to repay. Taken altogether, it would appear that the resort to borrowing constituted a marked discrimination in favour of the Richer.

In reply to these contentions the relevant arguments appear to be that no belligerent found it possible to finance the war by taxation alone; and in general it is hardly conceivable that a war of such duration and the daily cost of which amounted to millions could thus have been paid for.¹ Drastic taxation and war zeal can hardly be expected to be permanent bedfellows. Some degree of loan finance—and probably a substantial amount—was therefore inevitable. The net discrimination in favour of the contemporary Richer would therefore not be represented by about three-quarters of the total of war expenditure, but more accurately by the difference between the extent to which taxation might conceivably have been raised above that to which actually it was raised, less the extra taxation which could have been imposed on the contemporary Poorer.² A similar argument applies to the inflation. For, if it is accepted that a certain amount of inflation was virtually inevitable—both for the above reason and because other factors assisted to cause inflation—to that extent regard should be had to it in estimating the amount of discrimination. But it is no less important to bear in mind that the inflation did not confer a one-sided and separate advantage on the Richer regarded as a separate social category. For, obviously, those of the Richer who may be ranked as rentiers, landowners, salaried

¹ Cf. Pigou, *A Study in Public Finance*, pp. 248-9; Stamp, *Taxation during the War*, p. 213.

² Mr. J. M. Keynes has suggested that, in order adequately to reduce consumption, it might have been necessary to tax wages by 5s. in the £—or more. (*A Treatise on Money*, Vol. II, p. 172.)

persons or who were in other ways dependent on fixed incomes, ordinarily did not gain from the inflation. On the other hand, many who belonged to the Poorer category gained both in nominal and real terms. Thus, those who were occupied as wage-earners benefited in real terms, because, as Professor Bowley has pointed out in reference to the period 1914-1920,

"So far as a generalisation is possible, we may state that the growth of *rates of wages* generally lagged behind that of prices, but *earnings*, in those very numerous cases where piece rates or overtime gave facilities for additional work and pay, increased more rapidly than prices from the outbreak of war to the Armistice."¹

A similar experience befell others of the Poorer who were not dependent on fixed incomes, e.g. small traders and independent workers. Concerning the point that, as debt holders, the Richer have gained from the post-war deflation, since this was not an inevitable outcome of the loan policy, it is not equitable to rank it as part of the discrimination in favour of the Richer. Lastly, in so far as persons in the Richer category invested in debt securities the resources which—even with the boldest attempts to finance the war by taxation—would have been left to them, they were only electing to secure a return on their capital in this, instead of in other ways then open to them.

On the whole, therefore, it would seem that the amount of the war-time transfer to the Richer was considerably less than at first sight appears. For the purpose of this study it would be highly useful if some sort of valuation could be made of it. This, however, is far from being feasible. It has to be remembered that to some extent the transfer was due to the inflation, but as to how much cannot be determined. Again, if it is assumed that more stringent taxation had been imposed, it is not practicable to estimate retrospectively what forms this would have taken, and how it would have been shared between the two categories. It is, moreover, impracticable to say what would have been

¹ A. L. Bowley, *Prices and Wages in the United Kingdom, 1914-1920*, p. xix.

the effects of the different financial conditions engendered by the extra taxation on the incomes of the two classes.

There are other scarcely less obvious reasons against the practicability of assessing the amount of the discrimination, but enough has been said, perhaps, to indicate the complicated character of the problem, and the resistance it would offer to the making of even an approximate estimate. It therefore seems to be preferable to derive a separate impression from statistics of individual wealth and income in the immediate pre- and post-war years. Thus the Select Committee on the Increase of War Wealth estimated that, as at 30 June, 1919, there was a net nominal increase in individual wealth-holdings over the period since 1914 of some £4,180 m. on an approximated total of £11,000 m. of wealth in existence at the earlier date. Of this increase, £1,334 m. were due to aggregate wealth-holdings of under £5,000, and, therefore, £2,846 m. were due to total wealth of holdings exceeding £5,000. The latter total was spread over some 340,000 persons. Expressed as a percentage of 1914 wealth-holdings the former group had increased the nominal total of its wealth by some 51 per cent, and the latter group by some 45 per cent. As between the two sections, therefore, it would appear that, broadly speaking, the Poorer improved their position relatively to the Richer. This general result may be compared with that following from statistics compiled subsequently by Mr. H. Clay, which may be summarised as follow :

DISTRIBUTION OF WEALTH IN ENGLAND AND WALES IN 1912-1913
AND 1920-1921 *

Group.	1912-13.					1920-21.				
	Number.	Amount (£ mil- lions).	Percent- ages.		Average (£).	Number.	Amount (£ mil- lions).	Percent- ages.		Average (£).
Under £100-										
£1,000 . .	15,577,500	1,164	96.1	16.6	75	16,589,650	2,224	93.7	18.4	134
£1,000-£5,000	449,000	1,086	2.8	15.6	2,418	818,975	2,116	4.6	17.6	2,584
£5,000-£25,000	144,000	1,628	.9	23.5	11,305	244,720	3,164	1.4	26.3	12,914
Over £25,000	37,720	3,085	.2	44.3	81,787	48,817	4,534	.3	37.7	92,908
	16,208,220	6,963	100.0	100.0		17,702,162	12,038	100.0	100.0	

* *Proceedings of the Manchester Statistical Society*, 1924, p. 78.

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1920-1921 AVERAGE AS INCREASE PER CENT OF 1912-1913 AVERAGE

Group.	Per cent.
Under £100-£1,000	78·6
£1,000-£5,000	6·8
£5,000-£25,000.	14·2
Over £25,000	13·6

To this data relating to individual wealth-holdings, may be added figures giving a comparison of the distribution of national income in pre- and post-war years—1910-1911 and 1919-1920—as follows :

DISTRIBUTION OF NATIONAL INCOME IN 1910-1911 AND 1919-1920 * 1910-1911

Group.	Number.	Total (£ millions).	Percentages.		Average (£).
			Number.	Amount.	
Under £700	19,730,000	1,305	98·938	69·80	66
£700-£5,000	200,000	415	·9999	22·09	2,075
£5,000-£20,000.	11,046	94·15	·0553	5·03	8,523
£20,000-£45,000	1,026	29·0	·00516	1·54	28,265
Over £45,000	327	28·9	·00164	1·54	88,379
	19,942,400	1,872·05	100·00000	100·00	

1919-1920 †

Under £1,000	20,567,500	2,853	98·894	79·53	139
£1,000-£5,000	205,530	378	·9776	10·54	1,839
£5,000-£25,000.	24,600	230	·11704	6·41	9,349
Over £25,000	2,385	126	·01136	3·52	52,830
	20,800,015	3,587	100·00000	100·00	

* A. L. Bowley, *The Change in the Distribution of the National Income, 1880-1913*, p. 22.

† J. Wedgwood, *The Economics of Inheritance*, p. 42.

Mr. Clay's figures of wealth-holdings suggest plainly that the Poorer—i.e. broadly speaking the 96·1 per cent in 1912-1913 and the 93·7 per cent in 1920-1921—increased their nominal total of wealth much more largely than the Richer—because of the increased average holding of the numeric-

ally prominent first group, and because there was an evident overflow from this group into the second. The statistics for income are, of course, not strictly comparable one year with the other, especially as Mr. Wedgwood's table is not derived on a similar basis to that of Prof. Bowley. The figures relating to the first group of each table nevertheless suggest the broad inference that the nominal income of that very large bulk of the population which may be identified with the Poorer, rose by a much greater percentage than that of the minority who may be identified with the Richer part of it. In view of the agreement of the two sets of statistics it would seem to be justifiable to infer that the Poorer as a whole improved their position more than, and presumably at the expense of the Richer as a whole.

These statistics plainly do no more than illustrate the immediate pre-war and post-war economic position of what are, very broadly, the Richer and Poorer categories. For only if the transfer in favour of the Richer due to the debt were strictly a *concrete* transfer of resources and if nothing else had happened to distort the pre-war relationship between the two categories would it be registered accurately in the statistics. In fact, of course, what happened was merely the *equivalent* of transfer caused by the absence of taxation which *might* have been imposed, while many other things were happening contemporaneously to cause a disturbance of the pre-war state of affairs. Nevertheless, making generous allowance for the influence of other factors, if the important points are remembered that direct taxation was considerably increased in war years relatively to indirect taxation and that substantial benefits accrued to the Poorer as well as to the Richer from the inflation, the conclusion would seem to be warranted that the net quasi-transfer to the Richer could not have been very large. Both analysis and statistics thus agree in general terms in suggesting that the war-time discrimination in favour of the Richer was less than might initially be supposed.

Further analysis relating to this problem has to concern itself with the post-war policy of making substantial

increases in taxation induced by the necessity of meeting interest, management and repayment charges on the debt, and whether, and how far, this has operated to offset the war-time transfer to the Richer, or has enhanced it. In strictness, of course, this point can only be fairly discussed if it is known to what extent the extra taxation designed to provide for debt charges has been incident on the Richer. Since this specific point cannot be resolved, all that can usefully be attempted is to derive an impression of sorts from the statistics of general post-war taxation. Since nearly two-thirds of the total of extra taxation levied in 1921-1931 was for debt there is some warrant for this resort. The taxes levied on the Richer have taken the shape chiefly of income-tax, super-tax, and death duties. In 1913-1914 these three taxes yielded £74.6 m. During 1921-1931 the annual average amount was £397.1 m.—a net annual increased yield of £322.5 m. Other less important direct taxes must also be taken into account. Stamp Duties, for example, sizably increased in 1921-1931, and while some part of the burden falls on the Poorer, the larger part bears on the Richer. The yield in 1913-1914 being £10 m., and the annual average in 1921-1931 amounting to £23.9 m., an annual increased charge of £13.9 m. may be counted. The proceeds of Motor Duties appropriated in and after 1926-1927 by the Exchequer may be ranked as a tax on the Richer, and the net annual average over the decade has been £2.9 m. There have also been certain new taxes on the Richer in the shape of Excess Profits Duty and the Corporation Profits Tax; for while these are levied on companies it may without large error be supposed that, generally speaking, their shareholders rank among the Richer. These have produced a yearly average of £14.2 m. A small miscellaneous group of direct taxes—e.g. Land Tax and Land Value Duties—whose incidence is more largely on the Richer declined from £3.41 m. in 1913-1914 to an average of £1.51 m. in the period—a net decrease of £1.9 m. The Richer have also borne a share of the increased indirect taxation levied in this period. As it is impossible to disentangle the amount so contributed by them it is proposed

to make a guess that they bear one-fifth part of this.¹ There are no data to support such a guess, and it is made merely in order to take account of the fact that to some extent the burden on the Poorer imposed by indirect taxation was less than otherwise it would have been. If, as may be expected, because indirect taxation is very heavy on such commodities as wine and spirits and tobacco, the fraction may be presumed to under-state the contribution made by the Richer, the differential will probably serve to offset any contributions made to direct taxation by the Poorer, e.g. in Death Duties and House Duties. Indirect taxation increased from £75.0 m. in 1913-1914 to an average of £258.2 m. during 1921-1931—an annual increase of £183.2 m. Adding up all the items of taxation falling on the Richer, compared with 1913-1914 these have increased in the period by a net annual amount which may be called £388 m., or 377 per cent. By contrast, the annual increased taxation falling on the Poorer during the period may be called £147 m., or 244 per cent.

Even though these figures may be liable to a substantial degree of error, it is apparent that the burden of extra taxation—of which nearly 64 per cent was for debt purposes—imposed during the period has fallen more heavily on the Richer than on the Poorer. This is the more apparent if it is remembered that in the pre-war decennium direct taxation had been augmented by much more than indirect taxation.² But has the relatively larger taxation of the Richer served to offset wholly the war-time transfer? The answer to this question depends on the interpretation of the arguments previously advanced to suggest that the war-time transfer to the Richer was very much smaller than might at first be assumed, and the inference derivable from these general figures. At this stage of the work it is impracticable to do more than to suggest that the increase of general taxation falling on the Richer has been so large as to render it exceedingly unlikely to be matched by the war

¹ Mr. J. A. Hobson has suggested the proportion might be one-quarter (*Rationalisation and Unemployment*, p. 97).

² Between 1904-1914 indirect taxation was increased by 3.6 per cent over the 1904 amount, and direct taxation by 29.7 per cent.

transfer. Even if it were assumed arbitrarily that the transfer was actually equal to the total amount raised by borrowing—some £7,000 m.—and that interest on this averaged $4\frac{1}{2}$ per cent, the annual assumed gain to the Richer by way of interest would be no more than about £315 m. Since extra taxation on the Richer averaged some £388 m. in the period it is plain that, even with such an extreme supposition, the Richer have contributed more than they received. But, as reasons have been given before for believing that the actual transfer was much smaller than the amount of borrowing, while, furthermore, some part of the debt is directly and indirectly held by the Poorer, it would seem to be inescapable to conclude that the general increase of taxation on the Richer has outweighed the advantage derived from the war transfer.

Before passing to another phase of the analysis, it is desirable to inquire somewhat more closely into the problem of transfer between Richer and Poorer. This can incidentally be done by considering three arguments of principle which were advanced by the Minority Reporters of the Colwyn Committee. They said, for example,

"The service of the debt necessitates levying certain taxation and correspondingly reduces the taxpayers' incomes. But the proceeds of this taxation are all paid out again as interest to the debt-holders. The debt thus involves a transfer, but no destruction, of purchasing power."¹

"It does not follow that no burden is entailed. . . . The very heavy annual charge on the exchequer entailed by the debt leaves but a small residue for other purposes. Expenditure, therefore, upon new enterprises such as assistance to housing schemes, and on the development of existing services, such as education, is inevitably restricted."²

"On the supposition that there is any limit to our taxable capacity, it must be true that, if taxpayers had not to pay so much for the cost of the National Debt, they could more easily be taxed for other purposes."³

The argument advanced by the Minority Reporters therefore asserts (1) that taxable capacity is reduced by taxation for debt and (2) that, to all intents and purposes, the Poorer

¹ p. 358, g. 17.

² p. 358, g. 18.

³ p. 359, g. 22.

have in effect unwarrantably suffered a part of the burden entailed by debt services in the shape of diminished social expenditure.

The first argument has an air of conviction : for there is a definite limit to taxable capacity, and the debt service entails the raising of a very large sum every year. If this point is examined, however, it is found not to be so convincing. It is true that the Richer have been called upon for very substantial annual contributions in the post-war years in consequence of the debt, which would have been rendered unnecessary if the debt had not been in existence ; and to that extent their taxable capacity would apparently not have been decreased. But if the debt had not been called into existence, the Richer would have suffered a substantial increase in taxation during the war : and while some of the proceeds of this would doubtless have been returned to them in payment for war-time services, the greater part would have been finally transferred away from them. Instead, as explained earlier, the resort to loan finance allowed them to retain control of resources which taxation would have taken away ; so that the income subsequently derivable from these—whether invested in debt securities or not—has been available to them to assist in meeting the subsequent taxation for debt. It is apparent, moreover, that since the external debt has been no more than about one-seventh part of the whole, resources taken away by debt taxation have been in large measure returned to the domestic community. Lastly, it must not fail to be observed that, under the pre-war rates of taxation, as suggested by the remarkably high yield of post-war rates of taxes, there was a substantial amount of "slack" in taxable capacity available to be taken up later. Against these arguments the only notable argument is that the increased post-war taxation for debt has reduced taxable capacity owing to the individual disturbances and burdens imposed by the highly increased rates. As this point is of no large importance, on the first part of the argument the conclusion is that there is nothing material in the suggestion that debt taxation has impaired taxable capacity and thereby

debarred the Poorer from the benefit of expenditures which might have inured to them. As for the second part of the argument, which asserts that the Poorer have in effect suffered by way of diminished social service expenditure, the counter-argument is that as the average "net"¹ budget during the period has exceeded the 1913-1914 budget in nominal amount by some £634 m., of which the extra average cost of the debt, including Sinking Fund charges, has accounted for no more than some £342 m., the Minority declaration that "The very heavy annual charge on the Exchequer entailed by the debt leaves but a small residue for other purposes" is obviously not merited. Again, as the annual average outlay on social service expenditure undertaken in the period by the national authority has been some £120 m. compared with about £33 m. in 1913-1914, speaking generally it would seem untrue to suggest that the Poorer have suffered from less social service expenditure than might have been incurred.

The Minority Reporters nevertheless provided another argument bearing on this topic. For, basing their figure on Sir Walter Layton's analysis of debt-holdings, they found that rather more than one-third of the debt was held by individuals. They then proceeded to say that

"... it is reasonable to suppose that these debt holders represent mainly the wealthier classes of the community, and that the transfer [by way of debt interest] accordingly aggravates the already great inequality in the distribution of the ownership of wealth throughout the community."²

This presumption, they then argued, was confirmed by the death duty statistics: thus of the total property left at death in 1923-1924 in the form of post-1914 government stocks, about four-fifths was the property of persons having estates worth more than £5,000. Since this category of persons is very small in number, they concluded that

"Any charge upon the general tax revenues of which four-fifths or even three-fifths goes to so small a minority is an evident aggra-

¹ i.e. excluding "self-balancing" expenditure, but including Sinking Fund payments.

² p. 360, g. 28 [my insertion].

vation of the inequality in the distribution of accumulated wealth. For the progression of existing taxation is not nearly as steep as the graduation of property ownership."¹

To deal with this argument it is certain—as instanced earlier—that the Poorer have been called upon to bear a substantially enhanced amount of general taxation in the period, of which part goes to meet debt charges. In so far as the outgoings for this exceed the receipts it plainly results in transfer to the Richer. How large the excess is cannot be determined. All that can be done is to recall that Sir Walter Layton's analysis of 1924 showed direct holdings of savings banks and holdings purchased by them for their depositors to amount to about £455 m.² In addition, an unstated amount was then held by trade unions, friendly societies, building societies and similar organisations wholly or mainly concerned in administering funds belonging to the Poorer. Since 1924 it is possible that the Poorer have become more largely interested in debt securities as it may be assumed that roughly they hold half of the increased total of National Savings Certificates (in April, 1931, over £496 m.),³ the substantial surpluses of the national health insurance societies are partly invested therein (£42·5 m. at the third valuation), and savings in various other banks, in building societies, friendly societies, provident societies, in the C.W.S., etc., have grown materially. Despite the probability that the debt interests of the Poorer have grown since 1924, it is nevertheless plain that a substantial transfer to the Richer is induced by the difference between debt taxation falling on the Poorer and the benefits they receive from debt securities. The question as to how far inequality as between Poorer and Richer is exacerbated by this transfer does not, however, lend itself to such an arbitrary treatment as was applied by the Minority Reporters. It does not turn merely on the question as to whether the net war-time transfer to the Richer induced by the loan finance has been adequately offset or more than offset by extra taxation

¹ p. 361, g. 29.

² *Report of the Colwyn Committee* (Cmd. 2800), pp. 98-9, g. 263.

³ *Vide Annual Finance Accounts* (1930-1931), p. 70. This amount includes accrued interest.

bearing on them, but also on the point as to how far the taxation on the Richer over and above that required to offset the war transfer has been devoted to increasing the benefits going to the Richer or alternatively has been devoted to providing benefits for the Poorer. This, however, involves a study of expenditures other than on debt, and the answer must be deferred until this has been made.¹

A third, but somewhat minor, point concerning the general question of the allocation of the debt burden as between the Poorer and Richer may be dealt with. This arises from the suggestion that the service and repayment of the debt cause a perennial transfer from the "active" to the "passive" individuals in the community and thereby provoke a socially undesirable re-distribution of resources. The Minority Report argued that, since the original issue, war debt-holdings have largely been absorbed by persons not engaged in active production and enterprise (including retired persons) who thus draw an unmerited tribute from the "active" section of the community. The point was then urged that this argument is not invalidated by the fact that such rentiers would have held *other* investments if the debt had not existed: for in this alternative the investments would have increased the national income and thus would not have entailed the burden caused by a non-productive loan.² It is, however, difficult to follow the process of the Minority argument. There is no doubt that, if the loan had been productive, a less burden on the community would have resulted. But, even if all the debt were actually held by the "active" section of the community it is not easy to see how the burden could be altered. For, if it is assumed that the "passive" section were to turn over their debt-holdings to the "active" section, all that would happen would be that the "passive" section would then hold a part of the total of productive resources, while the "active" section would exchange this for debt-holdings. The crux of the matter is that the outlay on war entailed a dissipation of real resources both at the time and in respect of possible future income therefrom.

Vide Chap. XIII.

¹ pp. 361-3, eg. 31-41.

But the Minority argument was also pushed too far in its assumption that the debt was mainly held by a large "passive" section of the community. Thoroughly to controvert this would necessitate accurate information concerning debt-holdings and as to how far the "rentier" class is a separate class. But in default Sir Walter Layton's estimate may again be applied. This showed that a little over one-third of the debt securities was held by private persons. Merely because this was so does not justify the Minority assumption that these are holdings of "... persons who are not engaged in active production and enterprise, including those who have retired from business."¹ For many individuals hold debt securities who are actually engaged in industry and commerce, if only as a buttress against fluctuations in receipts and earnings from such enterprise. Moreover, no small part of the holdings has doubtless been acquired by retired persons who were formerly engaged in business. It is not reasonable to stigmatise such people as parasitical rentiers, even though, as a result of the trend of subsequent events, their dividend receipts and capital repayments represent a larger total of real resources. As for that part of the debt which is in the hands of banks, insurance and railway companies, these institutions cannot be labelled "passive" any more than can trade unions, friendly societies, and joint-stock companies—which also have sizable holdings. Moreover, both "active" and "passive" derive indirect benefits from the debt-holdings of these institutions. Altogether, then, there is nothing substantial in the notion of the supposed victimisation of the "active" at the expense of the "passive."

Having now dealt with the general question of transfer as between the two broad categories of Richer and Poorer, it is desirable to know more about the effects of transfer within these groups. Unfortunately this analysis cannot be carried far as not enough data are available. To deal first with persons in the Richer category, one of the most obvious

¹ p. 361, g. 31. It may be observed that at the date of the 1932 conversion of 1929-1947 stock, it was stated that there were no fewer than 2.6 million separate holders.

effects is the outcome of the policy of loan finance. Whereas taxation in full discharge of the cost of the war—assuming for the moment that this had been possible—would have limited the burden to those who actually happened to possess taxable resources at the time, the preponderance of loan finance has led to a diffusion of the burden over later generations. The extent of the advantage accruing to the Richer who escaped taxation at the time that the loans were raised could be measured by the difference between their gain at the time and the extra amount of taxation borne by them during their lifetime. Later generations of the Richer are apt to assume that they are called upon to bear the burden of taxation without receiving any of the benefits. But the estates which persons inherit are larger than what otherwise they would have been as a result of the loan policy : and this gain has to be offset against the annual loss by taxation. Where it may have happened that the loss and gain balance, obviously no question of equity arises. It does arise, however, where the loss is greater than the gain, and this has frequently been the case during the period owing to various factors, but especially because of the appreciation in the value of money ; for those of the Richer who did not inherit estates which produced receipts from debt payments equal to the outgoings necessitated by the concomitant taxation or where the estate has been previously mulcted for death duty payments, have found the unreduced nominal interest charges a cumulatively heavier burden ; and, of course, *vice versa* where the estates received more from debt payments than they lost from taxation.

Nothing dogmatic or even precise can be said on these various points, but death duty statistics suggest that the largest estates—if these are now dealt with—derive substantial sums from debt securities. If, further, it is realised that the largest estates—having incomes, it may be supposed, of something like £15,000 per annum and over—consist very substantially of industrial and commercial securities, and that they share indirectly in the benefits derived by industrial and commercial companies from their

debt-holdings, it would seem probable that inequality among the Richer has been augmented somewhat in the period. Although this has been materially offset by the very steep post-war rates of progression, since the rate necessarily falls off in the higher part of the curve of progression, it might be held to conduce to inequality. For it is likely that they receive more in debt receipts than they pay in debt taxation and that the lower strata of the Richer, possessed of smaller debt income than they bear taxation for debt, suffer accordingly. It is probable, too, that the rentier section of the population is found more largely in the higher than in the lower strata of the Richer. For it is likely that the higher strata of the Richer are frequently also the older part of the Richer, for the twofold reason that they have had more time in which to accumulate resources, and the interval of time subsequent to their estates' being heavily taxed for death duties has been longer. Again, there is less incentive and ability to engage in active enterprise.¹ As such, they have probably obtained a material part of the gain resulting from the deflation of 1921-1931. A caution about excessive generalisation on this point is necessary, however, in the light of the findings of the Colwyn Committee,² and because the higher strata have to some extent acquired their wealth and maintained it by enterprise.

As for the middle strata of the Richer—e.g. with incomes of, say, £5,000 to £15,000, although they have derived considerable benefit from debt-holdings they have probably not gained so much as they have suffered in debt taxation. The main reason for assuming this is that such persons probably hold the bulk of their resources in their own businesses or in enterprises with which they are intimately connected, and therefore have less available for debt investment. Again, taxation has been definitely progressive in this range, while also it is likely to include a substantial number of those who have entered the Richer category since the war, and thus did not benefit by the war-

¹ *Vide*, for example, Dr. Coates' evidence to the Colwyn Committee, p. 162, g. 432.

² p. 162, g. 431.

time transfer. It is this class, too, which can less well afford to neglect the taking of risks inevitable to the conduct of their businesses, and necessary to further accumulation. Additionally, it probably includes a fair number of persons whose estates have suffered heavily from death duties, and who have therefore paid large sums in taxation.

As for the lowest strata of the Richer—having incomes below, say, £5,000—it is likely that the total income from debt securities, as suggested above, is not proportionate to the debt taxation they bear. Despite the smaller progression suffered, such an outcome is more likely because this category probably includes more younger persons, those desirous of increasing their resources by investment outside debt securities, and persons whose resources are locked up in personal ventures, and who have to devote large parts of their incomes to the maintenance of consumption standards.

To deal with the two unfavourable suggestions of this analysis—that during the post-war period inequality has rather been enhanced and there has been a tendency for the debt to benefit the older and richer rentier elements at the expense of the poorer and younger active elements—it is necessary to examine the position a little more closely. It is noticeable, for example, that very little more than one-third of the debt was in 1924 held by private persons, and that while personal holdings have increased since, they have probably tended to be more diffused rather than to be more concentrated. On the other hand, a substantial part of the total was held by joint-stock and private companies, including banks, insurance companies, railway companies, and general industrial concerns.¹ Since recent analyses by the *Economist* have shown that shareholdings in such concerns are spread over a very large number of persons,² despite the substantial holdings by the higher strata of the Richer, it is equitable to believe that the advantages derived by companies from their debt-holdings

¹ The Colwyn Committee estimated the figure to be between £1,500 and £2,000 m.

² *Vide*, e.g., *Economist*, 25 December, 1926, pp. 1108-9.

have been widely disseminated—and certainly more so than if personal debt-holdings of the higher strata had been larger.

Another favourable fact is derivable from a closer study of the changed scale of income-tax, sur-tax, and death duty taxation observable during 1921-1931. The progression typical of the period may be illustrated in the following table, which records the taxation falling at different income levels on married taxpayers having three children under 16 years of age, and shows the differences in the amounts charged on earned income and income half of which is earned and half derived from investment :

DIRECT TAXATION

PERCENTAGE OF INCOME SUBJECT TO TAXATION

Income Level. (£).	1913-14.		1925-26.	
	Earned Income.	Income Half Earned and Half Investment.	Earned Income.	Income Half Earned and Half Investment.
500 . . .	2.6	5.3	2.0	4.2
1,000 . . .	4.0	7.1	8.1	11.5
2,000 . . .	4.0	7.5	13.2	17.3
5,000 . . .	6.0	8.9	21.9	28.2
10,000 . . .	7.7	11.5	30.0	38.9
20,000 . . .	8.1	12.8	36.9	48.1
50,000 . . .	8.3	13.5	44.2	57.5

The first point to notice is that the progression in 1925-1926 was much steeper than in 1913-1914. Because of this, despite the peculiar benefits derived by the higher strata of the Richer from the method of loan finance, it is probable that the absolute growth of inequality has been checked. In saying this, it is necessary to recognise that taxation for debt constituted only one reason for the increased progression. Because of its comparative importance, however, it is clear that it was a major cause. This view is supported by the fact that progression was increased *pari passu* with the increase of debt. Another reason for assuming that the growth of inequality has been checked is that, compared with 1913-1914, the burden of the progression on the higher strata of the Richer—but to a very

much smaller extent on the lower strata—has been enhanced by the larger nominal incomes occasioned by the lower post-war value of money; for such incomes have been driven up into more steeply taxed areas. The second point to notice is that the graduation of sur-tax and death duties was altered in the period to bear less heavily on the incomes and estates of the lower strata and more heavily on those of the higher strata. Thus, from 1920–1925, super-tax on incomes from £2,000 up to £5,000 was graded from 1s. 6d. to 3s. in the £, while from 1925–1926 to 1929–1930 it was re-graded from 9d. up to 2s. 3d. in the £. The significance of this is apparent in that in 1928–1929, for example, of the 103,000 incomes charged with sur-tax, over 74,000 ranked within this category. In 1929–1930 the rates were again raised: but whereas the lowest rate was raised only by 3d. in the £, the other rates were graduated so as to impose an addition amounting to 1s. 6d. in the £ on incomes of £50,000. The rates of estate duty, which were 5·7 per cent on estates valued at £10,000–£25,000 from 1919–1925, were made 5·9 per cent during 1925–1930, while those on £100,000–£200,000 and £200,000–£500,000, which were respectively 14–18 per cent and 19–25 per cent, were pushed upwards to 20–23 per cent and 24–27 per cent. During 1930–1931, whereas the £10,000–£25,000 group remained unchanged, the £100,000–£200,000 group were raised to 20–24 per cent, the £200,000–£500,000 group to 26–32 per cent, and the £500,000–£1,000,000 group were raised from 28–29 per cent to 34–38 per cent.¹ This tendency upwards of the rates on the incomes and estates of the higher strata must clearly have operated to reduce inequality during the period. The third point to notice is that the rates of the heavier direct taxes were raised in 1930–1931, so that whereas in 1925–1926 incomes half-earned and half-investment of £5,000, £10,000, £20,000 and £50,000 bore taxation as shown in the preceding table, the increases then made at the four income levels were respectively 2·4 per cent, 3·8 per cent, 9·3 per cent and 10·0 per cent. Again, therefore, the increased progression discriminated against the higher strata. More important, as

¹ *Vide Reports of Board of Inland Revenue.*

showing the degree of discrimination against investment—and therefore debt—income in the higher ranges, while the rate of direct taxation on an income of £50,000 half-earned and half-investment was 57·5 per cent, on the same income derived wholly from investment the rate in 1930-1931 was 101·9 per cent.¹ These illustrations serve to show, therefore, the discrimination effected by progressive taxation as compared with 1913-1914, and the additions to the steepness of the progression made during the period 1921-1931. As such they point to the strong forces at work to prevent the growth of inequality.

To generalise on the post-war effects of the debt on the Richer, these have been to cause both many and varied re-distributions as between the different sections, and also as between individuals. Some of these have been undesirable, mainly because they have tended more to the gain of the very rich and richest and of the rentier elements; but it is probable that such effects have been substantially counteracted on account of the various reasons cited, for powerful forces have been at work to reduce the more obvious inequalities as compared with 1913-1914.

Concerning the transfer effects due to the creation of the debt on the Poorer, it is hardly possible to decide specifically how the incidence of benefit from their debt-holdings is distributed. It is probable that the higher strata of the Poorer hold directly in the debt, mainly in the Post Office issues and national savings certificates. Such holdings, however, are not absolutely large in total, and the average holding has probably been relatively small. Actually, the Poorer are much more largely interested indirectly, in the shape of investments held by such bodies as trade unions, co-operative societies, friendly and provident societies, the C.W.S. Bank, Post Office, Trustee and Railway savings banks, joint-stock banks, national health insurance societies and possibly to a small extent in industrial companies. On the whole, therefore, the incidence of benefits is more,

¹ Calculated on the basis adopted by the Colwyn Committee—*vide* pp. 94-5.

rather than less equally distributed. As for taxation, towards the end of the period, a certain small section of the better-off of the Poorer as previously defined contributed to some extent to direct taxation. Owing to the operation of various deductions and allowances, however, their total contribution was not large. Indirect taxation has necessarily, therefore, been much more important. In estimating the incidence of this on the different categories of the Poorer, guidance may be derived from the work done by such authorities as Sir Herbert Samuel (1919), the Colwyn Committee (1927), and Mr. D. Caradog Jones (1927).¹ Mainly because it takes account of the earlier investigations, and because it is in substantial agreement with the findings of the Colwyn Committee, it is convenient to use Mr. Jones' data. In measuring indirect taxation, he divided the Poorer into five income-groups having post-war incomes of £100, £120, £135, £150, and £200. Although it involved a certain amount of statistical licence, he elected to assume an average family in this category of two adults and three children. He then measured the total amounts of indirect taxation paid at five different levels of consumption on the commodities most heavily taxed—alcohol and tobacco—which might be supposed to correspond to the five income-groups. The actual amounts of these commodities annually consumed were taken to be as follows:

	Tobacco Ounces).	Beer (Pints).	Spirits (Bottles).	Wine (Bottles).
A group . . .	nil	nil	nil	nil
B group . . .	104	208	1	1
C group . . .	208	416	2	2
D group . . .	260	624	4	4
E group . . .	312	832	6	6

He then proceeded to compute the taxation levied in 1913-1914 and in 1925-1926 for each of these income-groups. The percentages of their income which he calculated to be involved by these taxes at the five different levels of consumption are shown as follows:

¹ *Journal, Royal Statistical Society*, 1919, Pt. II, pp. 143-85; 1927, Pt. IV, pp. 685-728.

TAXES AS A PERCENTAGE OF INCOME, 1913-1914 AND 1925-1926

1913-1914 Incomes } Equivalent 1925-1926 Incomes }	£50		£65		£75		£85		£125	
	£100		£120		£135		£150		£200	
Level of Con- sumption.	1913- 14.	1925- 26.	1913- 14.	1925- 26.	1913- 14.	1925- 26.	1913- 14.	1925- 26.	1913- 14.	1925- 26.
A. . .	1·82	2·77	1·56	2·60	1·46	2·48	1·32	2·35	1·10	2·04
B. . .	4·44	7·28	3·58	6·36	3·21	5·82	2·86	5·36	2·15	4·29
C. . .	7·05	11·80	5·58	10·12	4·94	9·17	4·40	8·37	3·19	6·55
D. . .	8·92	15·71	7·02	13·38	6·19	12·06	5·50	10·98	3·94	8·51
E. . .	10·78	19·12	8·46	16·64	7·43	14·96	6·59	13·59	4·69	10·46

The important point to notice about this table is the substantially higher taxation exacted at the larger levels of consumption. If, therefore, it is assumed that the lower levels of consumption obtain in the case of the smaller incomes, it is clear that the better-off of the Poorer contribute much more heavily to indirect taxation than the worse-off. The actual contributions exacted may be illustrated concretely as follows, assuming that persons having the smallest incomes consume at "A" level, those having the next larger incomes consume at "B" level, and so on.

TAXATION AT DIFFERENT INCOMES AND CONSUMPTION LEVELS, 1925-1926

Income :	£100			£120			£135			£150			£200		
Consumption Level. }	A			B			C			D			E		
Taxation. .	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
	2	15	4	7	12	9	12	7	6	16	19	5	20	18	5

As in practice it is unlikely that consumption is so precisely equated to income, it may be supposed that actually the three lowest income groups consume at the "C" level and the two highest groups at the "D" level. On this supposition taxation would be borne as follows:

TAXATION AT DIFFERENT INCOME LEVELS, 1925-1926

Income :	£100	£120	£135	£150	£200
Consumption Level. }	C	C	C	D	D
Taxation. .	£ s. d. 11 15 11	£ s. d. 12 3 0	£ s. d. 12 7 6	£ s. d. 16 19 5	£ s. d. 17 0 3

Even with such an unfavourable supposition, it is plain that those having larger incomes contribute more than do those having smaller incomes. The conclusion is, therefore, that, taken in conjunction with the incidence of benefits in the various categories, indirect taxation of the Poorer for debt has probably entailed a definitively heavier burden on the better-off than on the worse-off.¹ In this way inequality amongst the Poorer has been reduced—possibly to a substantial extent.

The discussion of "transfer" effects may now be closed and attention given to a problem which assumed larger importance as the period progressed—the effects following from the association of a changed price-level with a fixed nominal debt charge. Statistics show that from July, 1914, to March, 1920, £5,900 m. were borrowed at an average price level of 202.² With the decline in prices since, the burden of interest payments and capital repayments has apparently been increased. The comparison between nominal debt interest and real debt interest is as follows :

	Nominal Interest (£ millions).	Prices (Statist index ; 1914 = 100).	Real Interest (1921 = £304 m.) (£ millions).
1921-22 . . .	304	193	304
1922-23 . . .	297	160	358
1923-24 . . .	304	157	374
1924-25 . . .	309	170	351
1925-26 . . .	304	165	385
1926-27 . . .	314	154	394
1927-28 . . .	309	148	403
1928-29 . . .	311	148	406
1929-30 . . .	312	142	424
1930-31 . . .	305	117	502

¹ As in the case of direct taxation, it is assumed that, since some two-thirds of the extra post-war taxation was for debt services, the general conclusion concerning incidence is applicable to the incidence of taxation for debt.

² Statist index ; *vide* Appendices to *Report of Colwyn Committee*, pp. 173-4.

The comparison between nominal and real debt interest has frequently been made, and it has very often been assumed that the community suffers *pro rata*. But there are certain difficulties in measuring the real burden. This could only be indicated accurately by an index number which measured changes in the actual resources surrendered by loan subscribers and those they receive back in interest and repayment; and such an index does not exist. The wholesale price index, however, is not the best approximation to this. It is not necessary here to enter into a detailed discussion of the pros and cons of this and other indices, but it will be sufficient to indicate the more important reasons for rejecting the wholesale index. First, is its incompleteness as a measure of the resources initially yielded up and subsequently received back. This is due to the fact that it refers only to foodstuffs and materials of industry—it does not take account of more than the fundamentals of the whole economic process. This point may be illustrated by a calculation made by Carl Snyder for a recent year. He put the matter vividly by showing that even the widely ramified index of the United States Bureau of Labour—dealing with 550 commodities—was constituted of samples taken from goods which had a total exchange value of no more than \$32 billions, compared with a total estimated value for all goods, services and property exchanged in that year of about \$700 billions.¹ Second, again as a result of the limitation of the index to foodstuffs and materials, looked at from the standpoint of this country this means in general terms that while the index indicates the cost of the dominant items of imports, it takes little or no account of exports—largely constituted of manufactured and partly manufactured goods. Bearing in mind that the former have fallen in price substantially more than the latter in the post-war period, this means that the index gives a definite overstatement of the burden suffered by producers and traders in this country. As for home prices of partly-finished goods at wholesale, these also have fallen on the whole by less than such an index would suggest. This

¹ H.R. 7895, p. 594.

means, again, that productive industry has suffered much less than would appear. Nor, to follow up the first point, does the index take account of the terms on which this country sells services of all kinds to foreigners which also, it may be surmised, have fallen less than the articles comprised in the index—as well as the cost of productive services purveyed at home. Lastly, and in summary, a real measure of the resources available for meeting debt and other public expenditure charges ought to take account of all processes subsequent to the initial productive process, both principal and ancillary. Enough has been said, perhaps, to suggest that an estimate of the burden in terms of wholesale prices is not justifiable; and arguments could similarly be brought to show that the retail price index, or any other single index hitherto available, is also unsuitable.

On the other hand, it would seem that if the nominal debt charge is compared with nominal national income a better, though not a perfect measure of the burden, can be obtained; for this registers the effective total of resources available for meeting debt charges. The measure is not perfect since it does not take account of the distribution of the national income as between the various economic categories. If, for example, distribution were more favourable to "rentier" income receivers than to active producers, the burden of taxation would probably be heavier than if it were more egalitarian as between the two categories. On general grounds, however, for the reasons stated, it is the best available measure. Unfortunately statistics of the national income do not exist for war years when the debt was being incurred, and nothing more than a guess could be hazarded. For the post-war years approximate figures (*see* page 146) may be used and a real figure for debt charges derived from them.

In view of the restricted period to which the statistics apply, they do not permit of a comparison of the real burden on the community of the resources which have had to be turned over as interest during the whole period since the debt was incurred with those originally surrendered by subscribers to war loans. Again, too much stress cannot

		Nominal Interest (£ millions).	Nominal National Income * (£ millions).	Real Interest (£ millions).
1921	. .	304	3,900	304
1922	. .	297	3,500	331
1923	. .	304	3,800	312
1924	. .	309	4,250	284
1925	. .	304	4,150	286
1926	. .	314	3,800	322
1927	. .	309	4,350	277
1928	. .	311	4,250	286
1929	. .	312	4,400	277
1930	. .	305	3,900	305
Average	. .	307	4,030	298

* *Economist* figures. The estimates of Mr. C. G. Clark for 1924-1931 are about 9 per cent lower than the *Economist* figures. (*The National Income, 1924-1931*, pp. 63, 70.)

be laid on them as the figures of national income are only approximate. Even though these latter contained a "biased" error so large as 10 per cent, however, the result, while indicating a higher "real" interest burden, would not be such as to destroy the argument that the real burden has actually been much less than the wholesale price decline would suggest. This conclusion is without prejudice to the fact that the national income would probably have suffered less in the absence of the deflationary conditions of the post-1921 years, despite the fact that these have to some non-measurable extent stimulated productive efficiency. It is unnecessary to enter into a discussion of these deflationary conditions, but something may nevertheless be said about the existence of the debt in relation to them; and the discussion will now be turned to this topic.

The first point to deal with concerns the existence of a large floating debt. From a maximum of £1,570 m. in June, 1919, and a total of £1,275 m. at 31 March, 1921, it declined to £594 m. at 31 March, 1931. This is mainly held by the banks and the money market, although Government departments and the Bank of England account for a fair proportion.¹ In the earlier years of the period it was possible for the price level to be forced upwards by a refusal

¹ About £150 m. in November, 1925 (*Report of Colwyn Committee*, p. 34, g. 97).

of the banks and the market to renew maturing holdings, since the Government was thereby driven to borrow from the Bank. This provoked an increase in joint-stock banking cash reserves, and made larger lending possible. As it was reported to the Colwyn Committee that the Treasury had not been driven to borrow from the Bank as a result of failure to renew its Bills for three years previous,¹ and over the whole period this occurred only with relative infrequency, there is no need to discuss the possibility of consequential inflation.

The suggestion that the reduction of the Floating Debt would entail deflation was made to the Committee on the Increase of War Wealth in 1920 by Mr. (now Sir) B. P. Blackett. He stated that if taxation were imposed to be applied to repaying the Floating Debt this would (1) reduce the spending power of the public and therefore check consumption and therefore cause prices to fall; (2) reduce the possible volume of banking accommodation offered and demanded; and (3) by reduced moneyspending and smaller bank lending would enable the Treasury to reduce the number of notes in circulation.² The Colwyn Committee, discussing the question from a somewhat different angle, thought that "With debt repayment upon any scale which is within the capacity of annual taxation, we think the effects upon the demand for credit and the ability to provide it need be of little importance."³ They argued that the process was for the Government to acquire by taxation a certain portion of purchasing power and transfer this to a former debt holder; and

"If the holder is an individual, little effect need be anticipated. He may, of course, use it to repay a bank advance; in that case the credit is available for another borrower, and no reduction need take place unless general conditions are such as would in any event lead to a reduction in the demand for credit."⁴ . . .

"The effects of repayment of the debt holdings of banks, while more complicated, are not necessarily different in the result. The combined operation of taxation and repayment improves the banks' ratio of cash to deposits. The ability of the bank

¹ p. 35, g. 100.

² p. 299, App. II.

³ p. 335, g. 984.

⁴ p. 334, g. 981.

to lend is thereby improved in precisely the same way as it would be if the bank were to sell in the open market, but the observance of conventional proportions between the various assets of the bank will probably restore the status quo. . . . But, broadly, it appears to us that, while the occasion of debt repayment would be a convenient opportunity to effect a reduction of the credit basis, if on general grounds that were deemed desirable, there is nothing inherent in repayment which would lead to any restrictions."¹

There was one qualification of this latter point, viz. Treasury Bills repaid would have to be replaced by less liquid investments and this might enjoin a higher cash ratio and therefore "tend to some restriction in advances to borrowers."² In another part of the Report, however, the Committee were not so certain of their verdict, for, speaking of the effect on the money market, they said: "There might be some danger of deflationary influences developing even from gradual repayment of Bills, but these could undoubtedly be corrected, if necessary, by suitable action on the part of the Central Bank."³

What effects are actually likely to follow from reduction of the Floating Debt? The simplest case refers to Ways and Means borrowing. If taxation receipts are applied to discharge this governmental debt to the Bank, joint-stock banking deposits and cash fall concurrently. Assuming that the Bank does not resort to an open market operation designed to offset this reduction, the fall in their cash reserves compels the joint-stock banks to curtail credit and therefore induces deflation. An instance of this occurred from June, 1919, to March, 1920, when Ways and Means were reduced from £774 m. to £205 m. Had Treasury Bills not been increased by £311 m. *pari passu*, the effects must have been severe.

Taking now the case where Treasury Bills are reduced as a result of taxation, assuming (as has indeed been the case) that these are held mainly by joint-stock banks, their deposits and cash are reduced by the taxation, public deposits at the Bank are in turn increased and decreased, while, lastly, joint-stock banking cash is restored, but

¹ p. 335, g. 982.

² p. 335, g. 983.

³ p. 36, g. 104.

investments and bills discounted decline by the amount of the Bills repaid. The net effect is, therefore, to lower deposits and investments or bills discounted. If now the banks elect to buy other investments or bills, these items will be restored—as also deposits; so that from the banking point of view there is a return to the *status quo*. Banking statistics suggest that, instead of renewing investments or bills discounted, the joint-stock banks have since the war pursued a policy of reducing both the latter and instead have increased money at call or short notice, and advances. If they elect to do this in the present instance, advances or money at call and short notice will increase to the amount by which investments or bills discounted decrease, while the advances and money at call and short notice may later increase deposits. Again, then, apart from a change of assets, there will be no change from the banking standpoint.

Next, to take the case where the Treasury Bills are privately held, again joint-stock banking deposits and cash are reduced by the taxation (or in the case of loans these will be increased), public deposits rise and fall equally, and when the beneficiary receives payment for his Bills he may elect to increase his bank deposit or to re-invest in another security. In the former case, joint-stock banking deposits and cash are restored, and again there is no change; in the latter case, sooner or later, an increased deposit or reduced loan will result, leaving the position as before or, what is the same thing, allowing the making of a replacement loan by the banks.

From the banking point of view then, with the possible exception that the banks might, as suggested by the Colwyn Committee, decide to keep a larger percentage reserve to offset the less liquid investment, there is no reason to expect a deflationary outcome. What, next, of the possible effects on individuals?

If it may be assumed that no effects are visible by way of restricted consumption by the individuals and firms called upon to pay taxation, it may also be assumed that no deflationary process will be provoked. This may indeed be

the case. It is nevertheless governed by, and dependent on, the scheme of taxation. If, for example, extra taxation is decided upon for debt repayments, and this is levied on the Poorer who, it may be assumed, are not normally able to save much at contemporary standards, then their standards may be reduced. This entails reduced consumption, and this must in turn set in train forces which tend to depress prices. The effects will vary according to the stage of the trade cycle but will be most obvious if the decline in demand is sufficient to break a boom; for the sudden check to prosperity will almost certainly induce depression with its vicious circle of falling prices, unemployment, reduced spending power and reduced demands for credit. In any case, however, the deflationary effects cannot be escaped. A similar, if not so pronounced a result, will follow any taxation which reduces consumption and therefore demand. To take an actual example, as and when a decision was taken by Government in the early post-war period to raise extra taxation to reduce the Floating Debt, it may logically be assumed that this did provoke a deflationary reaction from the side of the taxpayer, since it is not to be expected that bondholders increased their consumption *pari passu*. Since the large size of the debt called for a substantial measure of taxation to make an impression on it, the effects were equally largely pronounced. This analysis requires emendation for those cases where, owing to progressive taxation, the heavier burden of taxation falls on those better able to bear it. In many cases, this might mean that consumption is not affected. The outcome then is that A is taxed to repay himself, or that A is taxed to repay B. In the first case no change need follow: in the second, even if B elects to re-invest the repaid sum, no disturbance of a deflationary character would occur.

The case may next be considered where reduction of the Treasury Bills is achieved by governmental economy. Here it is presumed that the question of taxation may be disregarded since the repayment is made possible by a reduction in Government spending as a result of a fiat, e.g. as in the case of the Geddes Committee or the May Committee.

Government expenditure having been reduced, joint-stock banking deposits and cash are not enhanced or loans are not reduced, as otherwise they would have been by the receipt of a Government payment—say to a contractor. In this case it must of course be presumed that the contractor does not previously incur expenditure to defray the costs of producing the articles which otherwise he would have supplied, so that there will not have been a prior reduction of deposits or increase of loans. From the banking point of view, then, no effects will be felt directly. Indirect effects may, however, follow the absence of production. Assuming that this does not and cannot now take place, to that extent the contractor's income and his employees' spending power must be reduced, tending to a contraction of consumption and therefore of demand. This in turn will exert a deflationary influence. The same reduction in consumption would follow from a restriction or stoppage of other kinds of Government payments, e.g. to its own employees for services.

Another case presents itself for discussion where Treasury Bills are reduced by conversion into long-term debt. Here the effect is that A surrenders his Bills and receives in exchange long-term securities—in which case nothing need happen. Alternatively A may surrender and receive the proceeds, which he either adds to deposits or re-invests—thus adding to deposits elsewhere—while B surrenders his deposit and takes in exchange long-term debt. Again no deflation need occur. Assuming that A re-invests, deflationary influences might, however, be set in force if B curtails his consumption in order to buy the long-term security.

Such, then, are the direct effects of reduction of the Floating Debt. To summarise : over the period little or no effect is likely to have occurred on the banking side ; owing, however, to the very high taxation rendered necessary by the decision to repay Floating Debt, from the side of the taxpayer, reduced consumption has resulted, and this has given rise to deflationary influences. To some extent this has been offset by the higher taxation of the better-off, where consumption standards have not had to be reduced so immedi-

ately ; on the other hand, there is testimony that the very large increases in progression have in fact induced lowered consumption. The decline in consumption has been exacerbated, too, by the probability that funds derived from repaid debt have not been diverted to consumption, but re-invested.

What, if any, have been the so-to-speak indirect effects of reduction in Floating Debt ? Neglecting Ways and Means, since these were speedily and violently reduced as explained earlier, attention may be concentrated on Treasury Bills. It has been argued that,¹ in the case where joint-stock bank holdings have been reduced, banks must replace the repaid bills by other investments ; and this means that no *new* accommodation is available for business. Next, since the volume of Treasury Bills in existence during the post-war decade has ordinarily been considerably larger than that of Commercial Bills, the market is extremely dependent upon, and therefore very sensitive to alterations in the volume of Treasury Bills. As and when they have been reduced, therefore, fewer Bills have been offered for discount in the market. This has caused market rates to fall, and the margin between these and Bank Rate to widen. This in turn has induced pressure on the foreign exchanges, which has had to be met by a restriction of credit. If this has not been effective quickly enough, Bank Rate has had to be lowered.

What measure of truth is there in this argument ? The first observation to make is that, when Treasury Bills were reduced or repaid, the item of joint-stock banks' " Bills discounted " fell. The banks could then, since their cash reserves were increased, either buy a new investment or lend to business. Either of these policies, as explained before, means that some individual or firm might ultimately receive extra funds. It would therefore seem incorrect to assume that no new funds have been available for industry ; but it must be remembered that the funds with which to repay the Bills must previously have been drawn from taxpayers, so that joint-stock deposits and cash were previously depleted before being increased. On balance, therefore, there is no

¹ *Midland Bank Circular*, March-April, 1930.

change. As for the next part of the argument, the degree to which market rates could be affected depends on the speed with which Treasury Bills were reduced. To produce any substantial effect on rates would, in view of the relatively large total of Bills, need substantial reductions. Small and slow reduction may therefore be ruled out as unlikely to cause much disturbance. But supposing that large reductions took place, market rates must be affected. It does not follow, however, that pressure on the foreign exchanges would automatically ensue; for this denies the possibility of central banking intervention. Thus, in July 1924, doubtless as the result of central banking pressure, weekly loans by the Clearing Banks to the market were raised from $2\frac{1}{2}$ per cent to $2\frac{3}{4}$ per cent. The extra cost of funds had the effect of forcing up the market rate. Moreover, the Bank could put short-term securities into the market to replace those withdrawn and thereby stave off the adverse effects. Again, for definite periods, the Bank has forced its will on the market by obtaining an agreed minimum market rate, e.g. during 1927 up to early 1928. Examination of rate statistics shows, too, that during the period which saw the greatest post-war decline in the volume of Treasury Bills—viz. March, 1921, to June, 1923, when the total Floating Debt declined by over £458 m., and Treasury Bills by £512 m.—the notable and almost uninterrupted decline which occurred in market rates (from 6.35 per cent to 2.1 per cent) preceded by some months the decline in the total of Floating Debt. When the next notable reduction in Treasury Bills and Floating Debt occurred—during 1930—market rates had begun to fall in the last quarter of 1929. In a lesser degree the same story is true of interim movements. Lastly, the volume of joint-stock banking credit has varied to a much less extent than has the Floating Debt, and indeed was almost identical in 1930 with the total of 1921. On all these grounds, therefore, it would seem incorrect to hold that the above argument is valid—at any rate to the extent presumed.

Another indirect effect may be mentioned briefly. It is argued that the reduction of Treasury Bills curtails the amount of collateral available for would-be borrowers, and

thereby restricts the volume of accommodation demanded, and so induces deflation. Obviously, repayment of debt must have the effect of reducing the volume of securities available for collateral. It may not be overlooked, however, that, as presumed in the analysis preceding, other securities can be bought and created with the funds liberated : and these—although they often may not be so liquid—may be substituted. There is therefore little substance in this argument.

A word must also be said of the effects of repayment of long-term debt. Assuming, as before, that extra taxation is levied for this purpose, if A is taxed to repay B, joint-stock banking deposits and cash decline, but are restored by the payment made to B. B may either add to his deposits, or substitute another investment with the effect of adding to deposits elsewhere. From the banking point of view again, no effects need be apparent. As before, everything turns on whether consumption is reduced by the taxation.

To sum up : The conclusion reached earlier concerning the effects of repayment of debt on deflation is not upset by the subsequent analysis. It may be repeated that everything depends on how consumption is affected ; and that on the whole it is reasonable to expect that high taxation has reduced this somewhat and therefore contributed to the deflationary process with its unfavourable reactions on demand and on the national dividend.

The next topic to be considered is the important one as to what effects the debt expenditure has had on the national income and national savings ; for both these are of fundamental and vital significance for the nation's economic welfare. In discussing them, a summary treatment only is called for, as both topics were exhaustively dealt with by the Colwyn Committee and more will be said later about them. Dealing first with the national income, and concentrating attention on the effects of debt taxation on production, it is necessary to refer at the outset to the truism that if the debt funds had been devoted to producing capital instruments in whole or in part the national income would have been favourably affected. There are, nevertheless,

two somewhat minor qualifications to consider. First, owing to the high price level prevailing when the debt was created, if the money proceeds had been contemporaneously translated into real capital, fewer productive instruments could have been acquired than at a lower price level ; hence real wealth and derivative income would be less. Second, in that it is generally assumed that the productive instruments would actually have been fully employed or would have offered their maximum yield, it has to be noted that this would have been the case only in very favourable circumstances—not those actually supervening since the war. It is, moreover, necessary not to be forgetful of the necessity for allowing for depreciation, wastage and obsolescence on the instruments ; and in general to take account of the impermanence of capital equipment. Subject to these qualifications, it is nevertheless clear that the war, which caused the debt, involved the using up and wholesale extermination of real resources, which were therefore not available subsequently to make their counterpart addition to national income. That, of course, is why the creation of debt and debt creditors largely rendered necessary high post-war taxes. Deeper consideration suggests, too, that the real weight of this burden is somewhat heavier than at first appears. For, if the Government had created the debt not for war purposes, but, say, to add to the total of foreign investment, the proceeds from this would have increased the available national income—say by the actual amount of the debt interest, or about £300 m. If, further, it may be assumed that the annual proceeds had been made payable *direct* to loan stockholders, then the Government would not have needed to tax in order to provide debt interest. It follows from this that first, the annual total of national income would have been higher, and that second, annual taxation would have been lower. It would therefore seem that the using up of loan funds for war purposes entailed a twofold loss. Yet, while the actual reduction in the national income is undeniable, the fact that the bulk of the debt is held internally means that, except for the loss entailed by the taxation process as referred to earlier and dealt with

later, the taxation does not further reduce the total of real resources available to the nation. The definitive net loss is therefore measured by the amount by which the national income is in defect of what it would have been if the funds had been used productively.

In order more accurately to determine the real loss to the national income it is next necessary to extend the earlier analysis of the effects of taxation, which, it will be recalled, was concerned with the problem of incidence, remembering that the larger burden of this falls on the Richer, and that taxation for debt was a prominent cause of the high post-war levies. The consequences of this were exhaustively discussed by the Colwyn Committee. The Majority Reporters found, for example, that the effects on business enterprise, and hence on possible national income, varied from one section of enterprisers to another. On the whole, however, it was found that private persons in business were more certainly and more heavily affected than public companies. Thus the income tax

"... may cut into the reward for risk and trouble to such an extent that the difference between the net yield offered by personal enterprise and by the safer types of investment will not be sufficiently attractive; we have export business especially in mind."¹

Again, "In some individual cases, especially where there is heavy liability to Super-tax, the result will have been very injurious. . . ." ² And "On the purely psychological side, the Income Tax has much more effect on the private business. . . ." ³ And as for the effect of death duties on private business while "... it is probable that the duty, amount for amount, is rather less of a deterrent to enterprise than the Income Tax . . ." ⁴ again enterprise suffered. The main reason for the heavier effects on private enterprise, as suggested by the Majority Reporters, was that private persons were liable to the super-tax and graduated rates of income tax and death duties. As opposed to these findings the Minority Reporters argued that since direct taxation

¹ pp. 168-9, g. 449.

² p. 168, g. 449.

³ p. 168, g. 448.

⁴ p. 198, g. 547.

falls equally heavily on all kinds of private incomes whether gilt-edged or speculative, it does not in general cause private persons to abstain from assuming the risks associated with trading enterprise, and therefore it could not deter. They recognised as an exception to this the case where losses are not offset, for purposes of income taxation, against subsequent profits ; but

" In view of the limited part played by all private businesses in modern industry, we do not think that these cases occur, or are anticipated, sufficiently often to be responsible for any serious effect upon industry as a whole." ¹

Which of these arguments carries the greater weight ? To answer this the necessary premiss of the argument has to be stressed, i.e. that progressive taxation has been imposed on a much steeper scale in consequence of the necessity of meeting debt charges. From this it follows that the larger the income accruing the greater must be the proportionate loss suffered in taxation. The private trader is therefore faced with the fact that the greater the uncertainty which he introduces into his income by subjecting it to higher risks in the hope of larger gains, the more he is liable to be taxed—and not merely proportionately but progressively more. It is clear that if the degree of progression is slight, he may be prepared to consider exposing himself to larger risk ; but it is equally clear that if the degree of progression is excessive, he will not find the risk justifiable. With income tax and sur-tax rising (in 1930–1931) from an effective rate of 5s. 1½d. on £5,000 to 11s. 1½d. on £100,000 (for a married person having three children under 16, and earned income) the presumption is that he will elect in some part at least to restrict his enterprise. This is still likely despite the fact that earned income is taxed at a less rate than investment income. This is so, first, because the rates in 1930–1931 on investment incomes of £5,000 and £100,000 were 5s. 3d. and 11s. 1½d., or only 104·13 per cent and 100 per cent. of those on earned income respectively—and this sort of thing has been typical of the taxation in the period ; and second,

because on the preceding assumptions his investment income might be expected to be lower than, and therefore less heavily taxed than his income from active enterprise. It would appear, then, that the Minority Reporters ignored this psychological reaction : and in so doing they were patently in error.¹

Nor is this the whole of the argument. For, on somewhat more concrete grounds, in so far as domestic private enterprise is involved in competition with foreign firms who are subject to a less *real* burden of debt taxation, there is bound to be an indirect adverse effect on it. This is felt, apart from psychological deterrence, by way of reduced net profits remaining after tax liabilities have been discharged. This means that either dividend distributions or reserve appropriations must be reduced—or both. In the first case, enterprise receives a lower net reward, and, *ipso facto*, a reduced stimulus : in the second case, the efficiency of the business must be impaired, and over a period the bad consequences of this may be profound. How far, then, is it likely to have been the case in the period that British private firms suffered a heavier real burden than their foreign competitors because of debt taxation? To ask this question is far easier than to answer it ; and in fact nothing beyond a few very general observations can be made here. For it is necessary not merely to evaluate the weight of the correlative debt taxation *per capita*, or in relation to national incomes as a whole, or *per capita*—methods frequently suggested—but to analyse the *distribution* of the taxation burden in relation to capacity to bear taxation over the various foreign communities, and especially to find how far the burden is incident on foreign producers competitive with home producers. It would be possible to undertake the arithmetical

¹ Cf., however, Mr. Hawtrey's view : " The fundamental principle of individualism is to rely on money as the motive of economic action. If part of the money which the money market yields is intercepted by the State, the motive of action is weakened. But it does not necessarily follow, even if the fraction intercepted is substantial, that the motive will become inadequate. The general presumption remains that everyone will aim at securing the maximum pecuniary gain for himself and this guiding principle will lead him to do exactly the same things whether he keeps the whole gain for himself, or the State takes a part." (*The Economic Problem*, p. 370.)

part of this work—although it would call, in itself, for a detailed inquiry. But to get at the inner kernel of the problem by essaying to discover the distribution of the burden in relation to the capacity of foreign exporters to bear it, would require a separate volume to itself. From a very general standpoint, it may, however, be pointed out that all the principal belligerents excepting this country reduced the nominal war debt burden by currency reorganisations—especially in Germany and Russia, but also in France, Belgium and Italy. In this country, the nominal burden was increased by long-lasting deflation. On the other hand, taking reparations into account, Germany had an outstandingly large external debt the burden of which has been heavy. Because of currency devaluations, and because settlements of their external war debts were deferred by Belgium, France and Italy until late in the period, and then resulted in considerable reductions of debt liabilities, combined with the existence of small other external debts, those three countries suffered comparatively little during 1921-1931. France, for example, did not finally come to terms with U.S. and Great Britain—her two principal creditors—until 1926. Italy, having got rid by 1924 of the incubus of certain external debts owed to Canada, Sweden, the Netherlands and Brazil, did not settle with U.S. until 1925 and Great Britain until 1926. By defaulting, Russia has, at least, almost entirely avoided an external debt burden. In general, therefore, probably Germany and Great Britain suffered most from external debt in this period. As for the burden of internal debt, this can be illustrated to some extent by the following figures prepared by the League of Nations :

INTERNAL DEBT SERVICE REDUCED TO PRE-WAR LEVELS *

Country.	Period (both years inclusive).	Debt Service per Head as a Percentage of 1913 or 1914.	
		Maximum.	Minimum.
Germany †.	1925-29	183	33
Italy	1922-28	187	112
France	1921-27	379	221
Great Britain .	1924-29	1,250	1,025

* *Memorandum on Public Finance* (1926-1928), pp. 48, 70, 92, 160.

† Basis = 1925.

While this table is very rough, and many qualifications ought to be taken into account, it suggests that this country has had a larger problem to cope with than any other country. Another point concerns the incidence of reparations receipts. These have accrued most largely to France, next to the British Empire, and least of all to Italy. France's share, however—nearly one-half—has been substantially more than that accruing to the British Empire ; and if the allocations to the Empire countries are deducted, Great Britain's share has not been very much larger than that of Italy. Lastly, while statistics are not available over the whole period, it would seem accurate to assume that the real national income per head of all the other countries has grown by more in the period than has that of this country.¹ Taken altogether, these general points suggest that the actual total burden due to the war debt has been heavier in this country during 1921-1931 than in any other of the main belligerent countries—who are also important trade competitors—with the possible exception of Germany. It has also been much larger than that of the U.S. : for while that country suffered from the burden caused by deflation, she had valuable offsets by way of receipts from repayments made by foreign debtors. In the absence of a more detailed examination into the question, there is no ground for a stronger assertion than this ; so far as it goes, however, it has evident bearings on the problem of the extra real burden of debt taxation carried by domestic private concerns.

The same line of argument as applied in the case of foreign competition suffered by domestic private enterprise is applicable in so far as private concerns are in competition with domestic joint-stock concerns : for the latter suffer tax at no more than standard rate on reserves—although later it is argued that something is suffered indirectly by the heavier progression falling in consequence on joint-stock shareholders.

¹ Cf. Loveday, *Britain and World Trade*, p. 82. The largest increase of all foreign competitor countries seems to have occurred in the U.S. ; from 1922 to 1929 her nominal national income grew by practically 40 per cent. The German national income grew by some 30 per cent from 1924-1928.

What reliefs are available to the varied disabilities cited above? How far do they act as an offset? There is one offset which is often overlooked in contemporary discussion. As shown earlier, the loan method of finance preferred during the war left some net total of private resources available for use which otherwise would have been taken in taxation. This advantage, although apparently nebulous as a continuous advantage, is nevertheless real: for the resources thus spared are in part at least still extant and capable of earning an income to assist in meeting the higher taxation. The second offset is due to the benefits received from debt holdings by private firms. In so far as higher interest and other benefits are received than were obtained on gilt-edged investments in 1913-1914, private enterprise may find a further partial compensation. Despite these offsets, however, where foreign and domestic competitors actually suffer a less real burden of debt taxation—and it must be assumed that there is a fair amount of truth in this contention—the effects on balance (even if mainly psychological) must be adverse.¹ The outcome is likely to have been to discourage new path-breaking, lusty initiative, and general willingness to enterprise. Since the taxation is, after a given point, highly progressive, the burden becomes greater the bigger the scale of business. If the larger size and greater importance are in turn the result of higher efficiency, then this is penalised. Again, new private concerns are heavily mulcted by the high rates. The results of the analysis therefore lead to a suspicion that the somewhat favourable verdict of the Colwyn Committee concerning private companies does not apply—and, in particular, does not apply to the position created by the higher taxation of the later part of the period. For while the Colwyn Committee found that “. . . normally the partners in a large private firm or the proprietors of a large private company, have a high proportion of their means invested outside their own concern”² this might be taken to signify that their resources are large

¹ It is necessary to remember that this conclusion applies only to taxation for debt.

² p. 158, g. 421.

enough to withstand the high taxation, but equally it may be taken to indicate that they have been driven by the pressure of high taxation to relax enterprise in their own businesses.

Turning now to the enterprise of joint-stock companies, the outstanding point is that their profits and reserve appropriations are taxed for income-tax purposes at standard rate only. Since they are entirely immune from sur-tax and death duties it would therefore seem that the reactions on their enterprise, as suggested by the Majority Reporters, have been comparatively light. It would further seem that considerable support for this conclusion accrues from the fact that, as large debt-holders, they reap in interest more than they sow in taxes. Some discussion of these points is necessary, however, to discern their real significance. First, the standard rate of income-taxation borne by joint-stock companies is higher than they were called upon to bear before the debt was contracted. From this it follows that if their dividend distributions have not altered, reserves must have suffered. The Colwyn Committee found, however, that statistics for 1912, 1922 and 1923 pointed to a real increase in the latter years in the general total of company reserves.¹

From the statistics of company profits compiled by the *Economist*,² however, it appears that real reserve allocations have not been greater in the post-war period, but less. For reserve allocations expressed as percentages either of capital or of profits have in general been lower during 1921-1931 than they were not only in 1912—the year selected by the Inland Revenue—but also in 1913 and 1914. On the other hand, dividend distributions expressed as percentages of capital or of profits have been higher. Something by way of explanation may be charged to the trade depression; but since the percentages of profits to capital have not been materially lower than they were in the three years preceding the war and the above method of expressing the results

¹ pp. 17-18, gg. 48-9.

² *Vide* annual analyses of business profits, and especially the issues for 30 April and 7 May, 1932.

obtained by the *Economist* makes them independent of trade depression influences, it is useless to proceed with such an explanation. It follows that much the more likely factor is to be found in the higher post-war taxation. This has patently discouraged the accumulation of reserves, and at the same time has induced industrial companies to pay somewhat larger dividends to offset the greater measure of taxation falling on shareholders and in order to maintain credit and goodwill in the eyes of their proprietors. The effects of this procedure have been adverse. For, taken in association with the admittedly low allowances granted by the Inland Revenue for depreciation, wastage and obsolescence—allowances which, moreover, are hedged about with a complex legal technicality¹—not only have the urgent needs of the rationalisation called for by the adverse post-war conditions been less easily met, but also normal adaptations and reorganisations. The drag on both old and new enterprise requires no further stress. Thus the Colwyn Committee declared that “. . . generally speaking it is true that the Income Tax, when it falls upon company reserves, entrenches upon a form of saving which is of special value to the community.”² Nor can any great relief have accrued from the larger dividend distributions; as after the higher taxation has been deducted and allowed for, and despite a reduction in the volume of foreign lending in the period, it is probable that the supply of funds available for re-investment has not been as large in real terms as it was in pre-war years. Again, therefore—though to a smaller extent—the adverse effects on the supply of industrial capital noticed above must have occurred.

These negative effects have been more especially felt in the case of those companies operating in industries which have borne the brunt of the depression—i.e. the export industries mainly—but also in domestic industries having to meet the severe competition which has been a feature of the period. They have definitely not been able to maintain reserves in consequence of lowered or non-existent profits

¹ Cf. *Final Report of Balfour Committee*, p. 251.

² p. 149, g. 400.

—which in part have been occasioned by the lower debt taxation falling on foreign competitors—as well as because of the onerous character of the taxation of reserves. Thus the Colwyn Committee concluded that in their cases “It can safely be assumed that with a lower Income Tax they would usually allocate a great part of the extra margin of net profit to reserve.”¹ This conclusion emphasises what is the kernel of the effects of a higher standard rate of reserves—that since rationalisation and re-adjustment are the only effective weapons available to concerns affected adversely by the post-war conditions the extra taxation has hindered the setting aside of the funds necessary to provide for this; and consequently has restricted such joint-stock business capacity and enterprise. This in turn has operated to affect adversely both companies engaged in foreign trading and those engaged in meeting foreign competition at home.

A last major effect of the higher taxation may be cited. As taxation on reserves *vis-à-vis* taxation on profits may be judged to have the more adverse effects on joint-stock enterprise, and since the tax is uniform, it in effect discriminates against the larger, more powerful and presumably more efficient firms: for it is these which are in the habit of making the greater proportionate reserve appropriations to permit development, to foster efficiency and generally to maintain their ascendancy; and because they are more substantially affected by the upward and downward swing of business activity. There is also discrimination as between businesses which find it imperative to expend large sums on maintaining and increasing the efficiency of plant and equipment and processes, and those in which the element of change does not work so strongly.

Such are the main adverse effects resulting from the higher taxation. A minor point to notice is that no allowance is made by the Inland Revenue for losses. While this is generally to be deplored, as Professor Knoop has pointed out,² it particularly affects those concerns whose function consists of dealing not with a large number of small risks, but with a small number of large risks, e.g. rubber com-

¹ p. 150, g. 402.

² *The Riddle of Unemployment*, p. 106.

panies. Again, on the basis of the analysis worked out by the Colwyn Committee¹ clearly it is exceedingly difficult to pass on taxation as distinct from local rates in prices, except where monopoly conditions obtain. Such a state of affairs is rare in this country.

On the other side, the unfavourable effects of the higher taxation must have been much more pronounced if it had not weighed materially less on joint-stock companies than on private firms. Again, while some suffering from special taxes such as Excess Profits Duties and Corporation Profits occurred, over the whole period these have not been heavy. The sizable blocks of debt securities held by joint-stock companies, coupled with the benefits derived from loan finance cited earlier, have also provided substantial offsets. Since, moreover, taxation has been much more heavy in the case of the principal direct taxes, and has been very progressive, business companies have not been called upon to pay extra wages which very heavy indirect taxation might have occasioned owing to enhanced costs of living. More important, however, is the fact that the very large resort to steeply progressive direct taxation has relieved productive industry of part of the burden ; for such incomes as those derived from foreign investment, from land, from property, from services of all kinds (e.g. especially banking, insurance, shipping, marketing, dealing and trading, professional incomes, and official salaries), and also from miscellaneous services not directly associated with productive industry, have made large contributions. This point may be very roughly illustrated by the fact that the ratio which the actual net taxable income under Schedule D of the income tax bore to that under the other four schedules has averaged over the period no more than a little over 40 per cent. This schedule of course includes private incomes, professional incomes, financial and other incomes besides company profits. It therefore substantially overstates the total taxable income of joint-stock producers ; but the figure serves to show that the other schedules rank effectively as contributors to this taxation. The argument is not invalidated by the con-

¹ Appendix XI.

sideration that there is indirect shifting on to the joint-stock companies of some part of the burden borne by the other contributors ; for the extent to which this occurs, although it cannot be decisively estimated, is probably relatively small.

Before the discussion is closed two more general points call for mention. The first concerns the special position of new businesses. In the case of both joint-stock companies and private businesses they have been more heavily handicapped by the larger taxation for debt. Starting without reserves as a rule, they are yet desirous of justifying themselves to their shareholders by the payment of dividends as soon as earnings allow. Nor do they have the offset to taxation—at any rate in large measure—of holdings of debt securities. Such companies are torn between the necessity of prudent finance and that of invoking shareholders' goodwill. If they elect to distribute profits up to the hilt they may endanger the future ; but if they add to reserves, an amount equal to the higher taxation must be withdrawn from the distribution of profits more than in the case of lower taxation. The initial hazards are therefore enlarged : and this discourages new enterprise. In view of the plain necessity for encouraging new enterprises as one way of escape from the post-war quasi-permanent depression, the importance of this is manifest. Against this drawback, however, it may reasonably be argued that, as in the case of old concerns, the burden caused by taxation is not large enough to rank disproportionately by the side of ordinary business risks—except that this is more serious in the case of private concerns. As for the second point, account must be taken of the general conclusion reached earlier that the debt taxation had tended to promote reduced consumption and deflation. It is not feasible to say much about the consequences of this for the national income and national production, because it is not known how much weight is to be attached to the conclusion. In so far as the effect was to reduce demand prices, however, it must have operated to curtail production and thereby to affect the national income adversely. It is nevertheless important to distinguish between this as a force making for slow and continuous

deflation and other much more important forces producing deflation of a more rapid and spasmodic character. As a result the shock, and therefore the psychological reaction, were probably not so pronounced. Even granted this point, however, it cannot be overlooked as one adverse factor.

Gathering together all these arguments, it may be concluded that on balance joint-stock company productive enterprise and efficiency have not been very materially affected by taxation for debt services, and certainly they have suffered to a smaller degree than private enterprise and efficiency; for private concerns have undoubtedly been heavily burdened. Because joint-stock companies are larger producers, the effects on production as a whole have been less unfavourable than if this had not been the case. But since private firms and companies possibly play a big part in initiating new enterprise unfavourable reactions must have occurred in respect of this.

To turn now to the problem of national saving, how has the debt affected this? As this subject is a more elusive and complicated one, it will be useful to accept a lead from Mr. Hawtrey, particularly because he has made a bold and clear analysis and taken a definite standpoint. In *The Economic Problem* he says :

"It is in relation to savings that the really serious harm of excessive direct taxation arises. . . . The real fault of excessive direct taxation is that it draws away a part of the resources available for saving. It is not the taxation of interest or of capital that discourages saving, but the taxation of profits."¹

Again,

"If these objects of [State] expenditure include a large amount of debt interest, to that extent money will be raised from one set of rich people to be paid away to another. But people do not necessarily save merely because they are rich. The typical rentier, living on the interest of his capital, has very little motive to save; at any rate he will save far less than the trader who is receiving fluctuating profits which will only last as long as he continues in business. Thus the real injury to a country from excessive national debt is the transfer of a great part of the national income to a class of people who have no motive to save because their income is too perfectly assured."²

¹ p. 372.

² p. 373.

Mr. Hawtrey is entitled to a very careful hearing. His argument presumes the existence of a rich rentier class to whom a great part of the debt interest is transferred away from producers. As mentioned before, the Colwyn Committee concluded, however, that it was doubtful if—as might at first reasonably be expected—the number of rentiers had grown at all materially as a result of the debt. Sir Walter Layton's analysis of debt-holdings showed too that only about one-third of the debt was identifiable as the holdings of private persons who might conceivably be ranked as "rentiers." It would thus seem that transfers of debt interest to rentiers purely as such are distinctly in the minority. But further, while there is ostensible truth in Mr. Hawtrey's contention that rentiers are able to live on the interest from their capital and therefore have less need to save than traders—who have to buttress themselves against fluctuating profits—to no small extent a person enters and remains in the rentier class because he becomes habituated to saving—a habit which is not easily discarded. Moreover, if it is to be assumed that the rentiers are mainly rich and very rich people, their saving is very largely automatic. Lastly, and perhaps most important of all, an earlier argument has shown that taxation for debt does not fall predominantly on producers, but in fact bears heavily on other, including the rentier classes—the latter incidentally suffering the highest rates as charged on investment income. It follows that while some transfer undoubtedly occurs and the relative burden has been enhanced by falling prices, the debt charges do not involve the wholesale transfer from producers to rentiers postulated by Mr. Hawtrey's argument.

To proceed further, it may next be observed that the bulk of national saving is outstandingly due to personal saving by the higher strata of the Richer and to public saving by joint-stock companies. To deal with the former, an argument might be advanced to suggest that the extra post-war progression in taxation has not seriously reduced saving. For, it might be urged, even though progression has been much steeper, since it has not been so steep as inequality of income, the faculty for increased saving has not been

destroyed. Some suggestion of this, it might be argued, is implicit in the fact that, despite the taxation and the persistent depression with their inevitably severe effects on the larger and largest incomes, the total of incomes exceeding £10,000 has been comparatively well maintained during 1921-1931.¹

This fact, however, does not go to the root of the matter ; for the essential problem is whether the increased progression of post-war years—so largely due to the debt—has or has not curtailed savings compared with the pre-war years. If figures of income are taken for the pre-war year 1913-1914 and for 1921-1922 and 1928-1929—the first year of the period and the last for which adequate statistics are available—it is possible to make an approximate calculation to show the effects of the increased progression on investment income as follows :

INCOMES OVER £10,000 AND INCOME AND {SUPER- TAX THEREON *
(£ millions)

Income Range (£).	1913-14		1921-22		1928-29	
	Total Income.	Income and Super Taxation.	Total Income.	Income and Super Taxation.	Total Income.	Income and Sur Taxation.
10,000-15,000 .	28.9	2.2	61.0	27.9	55.3	18.1
15,000-20,000 .	17.3	1.3	36.1	17.4	31.1	11.0
20,000-25,000 .	11.5	.9	24.7	12.4	20.7	7.2
25,000-30,000 .	7.7	.6	19.7	10.1	14.4	5.8
30,000-40,000 .	10.9	.9	24.3	12.9	19.7	8.4
40,000-50,000 .	7.7	.6	16.4	8.9	11.9	5.3
50,000-75,000 .	10.0	.8	21.7	12.1	15.2	5.9
75,000-100,000 .	5.9	.5	10.7	6.1	9.0	3.8
Over £100,000 .	14.4	1.2	37.7	21.7	24.9	11.8
	114.3	9.0	252.3	129.5	202.2	77.3

* *Report of Colwyn Committee, Appendix XV; Reports of Board of Inland Revenue, (1921), (1930).* The taxation figures cannot be calculated accurately owing to absence of data of incomes, but in each case the rates applied have been to the middle range figures.

¹ *Vide Reports of Board of Inland Revenue.*

This table illustrates clearly the inroads on available resources made by the steeper post-war progression; for while in 1913-1914 about £105 m. were left after taxation, in 1921-1922 the amount was about £123 m. Even with lower taxation in 1928-1929 the amount was no more than about £125 m.; and both of the latter were obviously less in real terms than the 1913-1914 residuum. To no small extent it is to be assumed that the smaller remainder is due to the lower post-war incomes resulting from trade depression—even though these derive substantial benefit from debt-holdings. But it seems obvious that the larger cause must be found in the very much higher taxation imposed, which, to no small part occasioned by war debt, has led to reduced margins for saving available to the rich and very rich of the Richer. The point must not be overlooked, however, that, since taxation of the lower strata of the Richer has been reduced as a whole subsequent to 1925, this has increased their private saving relative to the years 1921-1925.

The above general conclusion being adverse, the question arises as to how far, if at all, the restricted saving by the upper strata of the Richer has been compensated by the expanded saving of the lower strata of the Richer rendered possible by the comparatively smaller increase in progression.

An illustration is derivable from the table on page 171 dealing with incomes between £2,000 and £10,000—all investment income.

While again, owing to the necessity of calculating tax rates on the middle range of income the taxation figures are only approximate, it is clear that the available income remaining after taxation was larger in real terms at about £209 m. in 1921-1922 and £261 m. in 1928-1929, compared with about £57 m. in 1913-1914. This is clearly due not only to the relatively small progression, but also, and more largely, to the actual increased income falling within these categories. Part of this, in turn, was evidently an overflow from the lower income-ranges resulting from the lessened post-war value of money; but no data are available to estimate this. Another part is due to the reductions suffered by the larger incomes. Even allowing gener-

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INVESTMENT INCOMES BETWEEN £2,000 AND £10,000, AND INCOME
AND { SUPER- TAX THEREON *
{ SUR-
(£ millions)

Income Range (£).	1913-14		1921-22		1928-29	
	Total Income.	Income and Super Taxation.	Total Income.	Income and Super Taxation.	Total Income.	Income and Sur Taxation.
2,000-2,500 . .	—	—	46·7	12·3	52·8	9·3
2,500-3,000 . .	—	—	40·4	11·9	44·7	8·6
3,000-4,000 . .	—	—	61·1	19·4	66·7	13·9
4,000-5,000 . .	61·40†	4·2†	44·7	15·4	48·2	10·9
5,000-6,000 . .	—	—	35·7	13·2	36·9	9·1
6,000-7,000 . .	—	—	29·0	11·2	28·6	7·6
7,000-8,000 . .	—	—	23·6	9·9	24·1	7·0
8,000-10,000 . .	—	—	36·9	15·9	37·0	11·2
	61·40	4·2	318·1	109·2	339·0	77·6

* Reports of Board of Inland Revenue.

† Detailed classification not available. The rate of tax has been taken midway between that on £2,000 and that on £10,000.

ously for these points and for the small margin of available saving possible in small incomes, however, it is plain that a moderate real increase of saving has been rendered feasible in the post-war period which would go some distance to meet the decline of saving by the upper strata. These results, although rough, are interesting as suggesting that savings have been curtailed less among the Richer as a whole than might have been expected. Before arriving at a final conclusion concerning saving by all sections of the income-tax paying classes, it is necessary to remember that, although statistics are not available on the point, saving on the incomes below £2,000 has probably been restricted by the jump in the standard rate from 1s. 2d. in 1913-1914 to a maximum of 6s. 0d. prevailing in 1921-1922 (falling to 4s. 0d. in 1928-1929). It has also to be remembered that other direct taxation—especially death duties—has made heavy inroads on the resources of the Richer. Even so, while it may have been true, as the Colwyn Committee

declared of 1924 that "There has evidently been a decline in saving in the Income Tax paying classes as a whole . . ." ¹ in view of the remarkable way in which total incomes have been maintained it is probable that some part of the leeway was afterwards made up.

There is a further reason for thinking this to be true ; for, as Mr. Wedgwood has pointed out,

" . . . it may be remarked that, in our own country, the increase in progressive taxation, during and after the war, has undoubtedly been met largely, though not entirely by reducing expenditure on current wants." ²

He illustrates this conclusion by showing that while taxation measured at the 1924 value of money was £400 m. higher in that year than in 1914, total savings were lower by no more than £150-200 m.—and a sizable part of this was ascribable to the trade depression. There is, indeed, a fair presumption that some economies have been induced by the higher taxation. The more picturesque and obvious suggestions of this are seen in the desertion of large houses and landed estates, sales of valuable pictures and the like. The less evident indices include enhanced appropriations for insurance policies, and heavy buying of government securities under the prices at which they rank for death duty payments. Nor must the steadily and persistently falling cost of maintaining customary standards be set aside as always offset by incomes reduced by trade depression ; for falling prices of products have borne most heavily on producers and traders, who have thereby been stimulated to measures of economy to safeguard themselves, while it is likely that gain has accrued to salaried persons and other fixed interest and fixed income receivers who are temperamentally and habitually disposed rather to conserve than to squander. Lastly, general interest rates have been considerably higher than in pre-war years, and have undoubtedly caused, if not a correspondingly increased attraction to saving, a further stimulus to reduced consumption.

Little more than this can be safely said ; and it may therefore be tentatively concluded that there are no valid grounds

¹ p. 21, g. 58.

² *The Economics of Inheritance*, p. 22.

for assuming that the post-war real saving by the Richer as a whole suffered a really material decline compared with the pre-war period.

To complete the analysis of personal saving, a word may be said about that done by the Poorer. Reference may first be made to the table quoted earlier concerning their economic position before and at the end of the war, which indicated that they had gained more largely than the Richer classes, or alternatively had suffered less.¹ Second, it has been shown that the taxation for debt falling on them has been absolutely lighter than on the Richer. Third, by direct purchase of war stocks and national savings certificates, and through the intermediary of various institutions such as Post Office, Trustee and other Savings Banks, Building and Friendly Societies and the National Health Insurance scheme, they have acquired further debt securities. Fourth, in consequence of transfers made to them by way of social service expenditure they have gained materially compared with pre-war years.² Lastly, wages have notoriously been rigid and higher in real terms in the post-war period than in the pre-war period. The only points strictly relevant here are the resources saved to them by the absence of heavy indirect taxation or the lightness of the direct taxation they have suffered for debt in war years and since. Their post-war wages receipts have nevertheless been partly, at least, the outcome of the large wage advances obtained during the war period. While it is impossible to disentangle the savings which may be put down to these strictly relevant sources, it is a matter of observation that their annual post-war savings are larger than the pre-war annual amounts. From the various official statistics issued, it appears, for example, that whereas the percentage increase of 1914 over 1913 may be taken to be about 2.85 during 1920-1929 (both inclusive) the annual average increase has been about 5.11 per cent; again, real savings per head were about 7s. 6d. in 1914 and 21s. in 1929.³ How far this

¹ p. 124.

² *Vide* Chap. VIII.

³ *Reports of Chief Registrar of Friendly Societies, Post Office and Trustee Savings Banks.*

sizable increase—which to no small extent is due to the ordinary operation of compound interest—is associated with the existence of the debt cannot be determined ; but something ought to be reckoned for the much higher rate of interest obtainable on debt securities of all kinds compared with the openings for working-class savings available in pre-war years and the special stimulus which, by general consent, has accrued from national savings certificates. Such considerations may possibly justify an optimistic conclusion.

To turn now to the other important source of saving—that done by companies—an important effect has followed from their comparatively large holdings of debt securities—estimated as between £1,500–£2,000 m. by the Colwyn Committee.¹ In the first place, this has given them a regular and assured income which has been at a higher percentage rate than that obtainable on their pre-war holdings of gilt-edged securities, so that funds which were customarily held for contingencies, to take care of unemployed money, and to maintain liquidity have earned more. Second, the fixed nominal return has, owing to the post-war price fall, been translatable into a greater command of real resources used in the various businesses conducted by companies, and has therefore assisted to reduce costs and hence to assist saving. Against the first argument the contention may be brought that if the companies did not hold debt securities they might have held other securities on which the returns might have been equally high. Moreover, since the average post-war Bank Rate has been high, and this in turn has promoted high commercial bank lending rates, it may be argued that it has been politic not to hold large portfolios of debt securities, but to keep these down to a minimum in order to curtail the cost of borrowing from banks. But to these criticisms the rejoinder may be made that if the companies had elected to seek to obtain returns as high as those offered by debt securities they must, generally speaking, have suffered further risk ; and, after all, the main purpose of holding gilt-edged securities is to avoid this. Again, since the comparison is really between pre- and

¹ p. 149, g. 401.

post-war conditions, the benefits of the higher gilt-edged interest rates cannot be denied.

The strongest argument to suggest that savings have fallen in post-war years is the decline in the percentage of reserve appropriations to profits and to dividend disbursements. The objective evidence relating to this it is difficult to reject. Whatever may be the precise reasons, it is clear that more proportionately has been paid away in dividends to the disadvantage of reserve accumulations, which moreover have been further depleted by the higher standard rates. Another point is that the existence of a large funded debt on which the permanent interest rate was high—it will be recalled that conversions had a very small effect by way of reducing this in the period—has tended to make borrowing by companies on fixed interest terms more expensive than in pre-war years. And extra borrowing of this sort has been necessitated by the transfer of larger real funds to debt-holders who are more inclined to prefer fixed interest securities. Many other factors have obviously been at work to cause the persistence of high interest rates, but plainly this is one ; and its effect has been to react adversely on costs of production and therefore on the possible volume of savings. Account has also to be taken of the extra war and post-war taxes such as Excess Profits Duty and the Corporation Profits tax levied on companies, which have added to the burdens imposed by the income-tax.

It is hard to derive a fair conclusion from a study of these interdeterminate magnitudes, but it would seem more likely than not that the adverse factors have outweighed the favourable factors during the period in the sense that while increased nominal saving has in all probability occurred, it was not larger in real terms than in the pre-war year. Taking this conclusion in relation to that previously reached for personal saving, it would seem that while both kinds of saving may have recovered up to 1929, in general they have been lower in real terms than in 1913-1914.¹ In stating this final conclusion, however, it is very desirable to observe

¹ Cf. the results reached by C. G. Clark (*The National Income, 1924-1931*, p. 136).

that the estimate of pre-war savings referred to a period of relative prosperity, and because of this the actual unfavourable comparison reached ought in consequence to be modified.

II

It is now desirable to frame a critical summary estimate of the various effects of expenditure on national debt services. At the outset a few generalisations are desirable. The first ought perhaps to relate to the large scale of the transactions involved by it. Reckoning both interest payments and debt repayments on the internal debt, altogether some £3,662 m. have been raised by taxation and redistributed in the period. The yearly average of £366 m. has obviously exceeded by a remarkable amount the sum of nearly £25 m. involved in 1913-1914. Again, it has accounted for a much larger slice of total national expenditure—about 45 per cent compared with about 15 per cent in 1913-1914. Second, speaking generally, since the expenditure has predominantly gone to increase internal, as opposed to external incomes, the economic reactions have been much less burdensome than they might have been—a point which is very materially fortified by the return of a substantial proportion of the funds taken by taxation from the Richer within the same broad economic category. Third, unlike most other national and local expenditures in the period, the expenditure has been pre-determined in the sense that it has not been conditioned by policy devised during the period but was in fact almost solely affected by decisions taken prior to its opening. Fourth, there is the simple fact, so often omitted in contemporary discussion, that the debt charges represent expenditure the object and aim of which was common, national interest. This point should not be overlooked in considering their transfer effects.

The effects on the national income and savings are perhaps the most significant of all. Neglecting the consequences of the loss of real wealth due to the war, and allowing for demonstrable post-war increases in the efficiency of the factors of production, the fact that the national income was

possibly maintained over the period at or near the real pre-war equivalent, suggests that the general adverse effects of such a large extra dose of taxation and expenditure for debt services cannot have been very material. The major explanation of this is, of course, the not unfavourable re-distribution of the resources taken by taxation referred to in the earlier analysis and immediately above. This means in turn that the debt taxation has not seriously affected the power and will to produce; or there would have been a substantial diminution of incomes of all sorts. As the totals of post-war incomes recorded in Schedule D—profits and incomes derived from trades, manufactures, professions and employment—and incomes assessed to sur-tax were roughly double those of the pre-war year, and those incomes under Schedule D not assignable to weekly wage-earners varied only between a maximum of £1,563 m. and a minimum of £1,323 m. in the period, some illustration of this point is available.¹ Such a result is due mainly to the fact that joint-stock concerns have—apart from the Excess Profits Duty and Corporation Profits Tax—suffered only income-taxation on reserves. Even private concerns, subject to other taxes and to steep progression, have benefited from the resources left to them by loan finance and receipts from debt-holdings.

Nevertheless, it is not possible to say precisely how the national dividend and national production would have been affected in the absence of debt taxation. The presumption is, of course, that they might have been somewhat higher. For, besides the above reasons, the earlier analysis suggested that negative effects of possibly a far-reaching character might be ascribed to the differentially higher taxation bearing on domestic private concerns confronted with competition from foreign concerns suffering less heavy taxation. Again, it was shown that the extra taxation was an obstacle in the way of new productive enterprises because it placed them in a dilemma, extrication from which was attended by adverse effects in either case. Undoubtedly this has proved a hindrance to the industrial and commercial re-adaptation

¹ *Vide Reports of Board of Inland Revenue.*

so clearly necessitated by changed post-war economic conditions.

It is possible, too, that the relative insignificance assigned to the presence of a rentier element in post-war economic society by the Colwyn Committee represented an understatement. The main warrant for this criticism is found in the relatively slight differentiation existing between the weight of taxation on investment and earned income throughout the period and the absolutely large debt-holdings of the higher strata of the Richer. Even so, owing to the sizable holdings of joint-stock companies and other non-personal concerns, it is doubtful if the transfer from active to passive was at all material during the period as a whole. It was, however, rendered more serious by the economic stresses of 1929-1931, and particularly because a competent authority has estimated that the national dividend declined by some £500 m. during these years.¹ Lastly, there is little doubt that joint-stock companies suffered in their ability to obtain capital on cheap terms and to sell equity stock as a result of the weight of graduated taxation on shareholders, and that the deflation and reduced consumption engendered by the taxation process also inflicted damage on the national dividend.

As for national savings, in many respects the fact that they were so large as actually they were was the outcome of the maintenance of the national dividend not far below the pre-war real figure. That saving declined in real terms, however, was mainly the consequence of steep progression operating to check the quasi-automatic saving done by the higher strata of the Richer. Had it not been possible for the lower strata and the Poorer to save nominally more, the decline in private saving would have been very marked. Joint-stock company savings were not very seriously affected until towards the end of the period: and then the effects were more the outcome of the world depression than of the taxation bearing on them. The conclusion is, then, that national savings have been affected to a less substantial

¹ Dr. W. H. Coates, *Manchester Statistical Society, Proceedings*, 1931, *The Citizen's Purse*.

degree as a result of debt taxation than might at first be supposed—and especially by contrast with other factors, such as trade depression.

The next topic concerns the transfer caused by the debt. As between the Richer and the Poorer, it would seem that the war-time net transfer to the Richer caused by the preference for loan finance was more than offset by the subsequent expansion of debt taxation. Nor is it probable that a further quasi-transfer to them was brought about by the serious decline in their taxable capacity postulated by the Minority Reporters : for otherwise it would be difficult to explain the fact that, on the average, national expenditure during 1921-1931 was fourfold that of 1913-1914. In the light of post-war wage statistics, too, it is possible that the Poorer gained something by way of higher wages as a result of the raising of indirect taxation against them. Taking the issue as a whole, however, there is no doubt that taxation for debt did result in a general transfer from the Poorer to the Richer since the Poorer did not hold largely in debt securities. Apart from the arguments made earlier, the only source from which an impression of relative holdings may be derived for the period as a whole is the classification of property left at death and coming within the purview of the Board of Inland Revenue. From this it appears that, of the total of British government securities (issued since 1914) included in all estates, the average proportion of the whole accounted for by estates not exceeding £1,000 has been no more than about one-fourteenth or one-fifteenth part. As the average value of estates falling in this category was low, it may with fairness be assumed that they were those of the Poorer. Such a fraction as this supports the belief that the Poorer do not possess large direct holdings of debt. It is evident, however, that the statistics so far available have not referred to the estates of those of the Poorer who have benefited by the larger slice of real income accruing, for the diverse reasons instanced in the earlier analysis, during the post-war period ; so that this point ought not to be overlooked. The death duty statistics, taken as they are, also show that of the total of Cash included in all estates, the proportion accounted for

by the Poorer has been about one-fifth. This item is probably composed for the greater part of moneys lying in banks of various kinds, building societies, industrial and provident societies, friendly societies and the like. Since such institutions have a substantial part of their funds invested in debt securities, it may be assumed that the Poorer are proportionately indirectly interested therein. It is also noticeable that, of the total of insurance policies included in all estates, the proportion accounted for by the Poorer was about one-sixth. Again, since insurance companies possess large holdings of debt, the same argument applies. Further help in estimating the debt holdings of the Poorer may be derived from certain estimates of working-class savings. The official statistics show, for example, that compared with £546 m. in 1913, these savings were £1,381 m. in 1921, and by 1929 had grown to £2,007 m. By 1931 the chairman of the National Savings movement put the figure at £2,244 m., his estimate including certain sources of saving not included in official statistics.¹ Doubtless a substantial part of the increase is due to compound interest, but some part has evidently been due to increased post-war saving. None of these estimates, however, include savings in joint-stock banks, and something may be reckoned for these. Again, mention may be made of a sample investigation of industrial capital ownership, conducted by the *Economist*, which showed that, in the case of eleven large companies, holdings of less than £100 capital amounted to a little over one-third of the whole.² It is clear, of course, that this mainly represents "spreading" of capital; but it seems correct to assume that the Poorer have taken some little interest in industrial capital. Taken together, all these facts suggest that the Poorer are indirectly interested to some material extent in debt securities. It is very probable, too, that their indirect interest is larger than their direct. Instead, therefore, of the one-fourteenth or one-fifteenth direct interest revealed by death duty statistics, a guess may be made that, say, one quarter to one-fifth more nearly represents their real

¹ Annual Meeting of National Savings Assembly, 9 June, 1932.

² *Economist*, 25 December, 1926, pp. 1108-9.

share. Even on this assumption, it is plain that a material transfer is induced from Poorer to Richer in consequence of debt taxation. This evidently goes to promote inequality, for the larger debt-holdings belong to the higher strata of the Richer. On the other hand, it has been shown earlier that a final judgment on this point cannot be passed until it is known what possible reverse transfers by way of other expenditures have been brought about directly or indirectly as the result of the imposition of taxation for debt. Furthermore, such has been the weight of post-war extra direct taxation on the upper strata of the Richer that, compared with 1913-1914, relative inequality has very probably been reduced.

As for the transfers induced within the separate category of the Richer, these have undoubtedly been very numerous and very varied. Beyond the above point concerning the reduced inequality due to very high taxation of the higher strata, it is, however, impossible to say much that is definite. Despite the more favourable treatment meted out by way of altered graduations during the later part of the period, however, there is a presumption that the lower strata suffer more than they gain in debt taxation. As those falling in this category are relatively numerous, the adverse effects are plain enough; and they are peculiarly onerous on the younger and more active. As for the transfer effects within the Poorer, inequality has been reduced both by the lowering of the incomes of the higher strata and the saving of indirect taxation to the lower strata due to the optional characteristics of a large slice of such taxation. The social effects of the taxation process here are therefore not likely to be unfavourable.

A last word falls to be said about the more general effects of the internal debt. While reasons have been offered to oppose the idea that the debt burden can be measured by the wholesale price index, it would be futile to suggest that no damage has been done by the deflation of all kinds of prices during 1921-1931. It follows that the disequilibria attested in the analysis must have been intensified, and in general where more was being received from debt interest

and debt repayment than was being paid in taxation, the fact that taxation remained nominally constant while the nominal resources out of which it was paid declined in value created a burden. Owing to the intractable and rigid wages rates, it is unlikely that any very unfavourable effects have been felt by the Poorer as a whole. Again, the rentier and other fixed income elements benefited. A burden has fallen, therefore, more largely on producers deriving their incomes on an altered (lower) basis. Owing to the large debt receipts of joint-stock companies in proportion to their outgoings for taxation, their direct suffering as a whole cannot have been heavy. Since it may not be expected that over the whole range of joint-stock enterprise there has been anything approaching the same balance between taxation and debt receipts, it is nevertheless likely that inequitable incidences have been stressed, e.g. firms suffering harshly from the depression may have had to realise their debt investments in part or in whole, and have yet borne taxation on any reserve appropriations they succeeded in making. By far the heavier burden, however, must have been felt by private concerns for the various reasons stated earlier. Here, too, there has been a greater possibility of inequitable incidences. Probably, however, it is safe to say that the actual physical effects assume far less significance when contrasted with the psychological effects. How great these can be, and what importance they can assume for enterprise has never been more strikingly exhibited than during the world depression originating in 1929. For the all-round contraction of producers' incomes and the national income justifies a comment by the *Economist* that then

"... regard must be had, not merely to the scientific view of the effect of taxation, but to the popular view, since this is one of the matters in which what people believe to be true is almost as important as what is actually true."¹

¹ *Economist*, 19 December, 1931, p. 1174. *Vide*, in particular, the stress laid on this point by Sir J. C. Stamp, *Wealth and Taxable Capacity*, Chap. IV.

CHAPTER VIII

THE SOCIAL SERVICES

I

It will have been apparent from the earlier account of social services that they are both diverse and varied, and it is therefore to be expected that their effects may be equally so. In undertaking a survey of them it will therefore be convenient to follow the example of the preceding chapter and to distinguish between the general economic reactions induced by the various expenditures and the transfer effects which have been the outcome. To estimate these latter in turn it is desirable to make some provisional estimates of the incidence of contributions to costs, and since besides the national authority, local authorities and employers and employees have made substantial payments, to take account also of these.

To start, then, with an analysis of the general economic effects, as before, Education may be taken first. It will be recalled that educational expenditure has showed the largest increase of that on any other social service when compared with pre-war years. It is hardly possible, however, to suggest that any special or particular branch of it has been responsible therefor. Elementary education has been developed, for example, to take account of the changed and improved technique of such work as provided for in the new Code of 1925, but principally to give effect to the modern view, set out in the Report of the 1926 Consultative Committee on the education of the adolescent, that a "break" occurs at or about the age of eleven years. This has led to the reorganisation of methods by the provision of central schools, which in turn involves a scheme of post-primary

education.¹ Development has occurred, also, in infant teaching beyond the three R's stage, by the introduction of speech training to supplement reading, and by the substitution of the doctrine of self-help for formal instruction. Another step forward has been taken by way of adapting school lessons to the local surroundings and environment. Material progress also has been made in the development of handicraft instruction. Lastly, considerable preparation and reorganisation were undertaken to provide for the expected raising of the school-leaving age for elementary children. Thus the Report of the Board of Education for 1930 pointed out that

"... very considerable progress was in fact made both with reorganisation and with the provision of the improved and extended accommodation which will be required if the older children are to receive a sound and valuable education under satisfactory conditions."²

To turn now to the more concrete points, in March, 1931, despite sizably fewer students, there were 20,867 schools in England and Wales compared with 19,084 schools in March, 1921. In general, as the period progressed, the standards of buildings and equipment improved—but more particularly from 1925 towards the end of the period—while the numbers of "black-listed" schools sensibly declined. From an original total of 2,827 small schools, defective in equipment and general suitability, by December, 1931, 1,313 had been removed.³ Although, moreover, the mean numbers of teachers per 1,000 pupils in average attendance did not increase largely in the two periods—in 1931 there were 34.3 as against 31.6 in 1921—there had been a clear increase in the efficiency standing of the teachers. In 1931 there were, for example, 74.6 per cent of certificated teachers against 70.3 per cent in 1920–1921, while the respective proportions of graduate teachers were 4.2 per cent and 1.3 per cent.⁴ Concerning the one-time very large numbers of

¹ On 31 March, 1931, there were 1,352 "Senior" departments with 319,620 pupils of 11 years and over—19.5 per cent of the total of pupils in this age group.

² p. 1.

³ Cmd. 4068, p. 14.

⁴ *Report of the Board of Education (1920–1921)*, pp. 19 and 23; (1931), pp. 99, 103.

classes of excessive size, from March, 1924, to March, 1931, the number of classes in England and Wales with more than 50 pupils was reduced from 24,972 to 8,571.¹ On the more general question concerning the efficiency of the pupils it is impossible to present concrete data. All that can be done is to cite such judgments as that expressed by the Committee on Education and Industry who said :

" It must be remembered that the children who enter employment at the age of 14 are not, on the average, the ablest of those who entered the Elementary Schools nine years earlier. At the age of 11 a substantial number of the best pupils in the Elementary Schools proceed to the Secondary Schools. Moreover, the growth in recent years of Selective Central Schools has resulted in a further 'creaming-off' of the higher pupils. . . . Finally there is a further loss of pupils with a special aptitude for practical subjects to the Junior Technical, Domestic and Art Schools. . . . It would not therefore be surprising if there had been some falling-off in the standard of attainment, but, as a matter of fact, the balance of the evidence put before us, some at least of which is based on investigations which afford concrete data, shows that in qualifications which can be tested the leavers are better equipped to-day than they were in the past." ²

In estimating the progress achieved, omission should not be made of changes in physical efficiency. The growth of the elementary school medical service has been referred to earlier. By 1929 the Board of Education was able to report that development had proceeded apace so that ". . . the arrangements for the routine medical inspection at the three prescribed ages of five, eight, and twelve are practically complete." ³ Again,

" In addition to the routine medical inspection there must also be opportunity for the reference to the school doctor of special cases . . . and for the re-examination of children previously found to be suffering from some defect or requiring to be kept under observation. The very large numbers of special cases examined suggest that this part of medical inspection is now approaching completeness." ⁴

Yet again the number of children found unclean had by

¹ *Report of the Board of Education (1926-1927)*, p. 17; (1931), p. 17.

² p. 16, g. 31.

³ *Report of the Board of Education (1929)*, p. 60. ⁴ *Ibid.*, pp. 60-1.

that year been reduced to 5·1 per cent of the whole, "... and all observers are agreed that the campaign has been eminently successful in this respect." ¹ Progress was also seen in the period in the treatment and provision for the prevention and cure of crippled conditions in children, the number of authorities involved in 1930 being 221 out of a total of 317. ²

Lastly, the "Special services" designed to take particular care of poor and sick children had been augmented and made more efficient in the period. It will be recalled that in 1931 special provision was available for 52,786 blind, deaf, and mentally and physically defective children compared with 39,096 in 1921; there were 161 organisers of physical training as against 135; and 51 nursery schools as against 25. ³

The progress made in the Secondary Education branch is reflected in the increased numbers of pupils, teachers and schools on the grant list. These were respectively 362,025, 17,948, and 1,249 in 1921, and 411,309, 21,694, and 1,367 in 1931. ⁴ The larger number of students is doubtless closely bound up with the greater provision of free places and assistance towards paying fees, and maintenance grants which have been cited earlier. The quality of the teachers, as judged by graduate qualifications, has improved in that, while in 1921 69·7 per cent of the men teachers and 53·5 per cent of the women teachers possessed this status, in 1931 the respective figures were 83·4 per cent and 65·6 per cent. ⁵ Secondary schools also shared in the school-building "boom" occurring towards the end of the period, and were improved in design, structure, and general suitability. Another improvement is pointed to by the statistics showing that a large proportion of the children entered the schools at earlier ages and stayed until later ages. Some idea of the greater proficiency resulting may perhaps be gained from the figures of examinations. These show that the number

¹ *Report of the Board of Education* (1929), p. 61.

² *Ibid.* (1931), p. 55.

³ *Ibid.* (1920-1921), pp. 74, 76, 77; (1931), pp. 56, 57, 58.

⁴ *Ibid.* (1921-1922), pp. 28, 30, 35, 37; (1931), pp. 22, 24.

⁵ *Ibid.* (1921-1922), pp. 30 and 37; (1931), p. 139.

of candidates qualified to take first and second examinations approved by the Board of Education rose from 28,625 to 74,317 in the opening and closing years of the period.¹ As the percentage of passes was maintained and the number of entrants grew much more largely than the number of pupils, it may be assumed that, as tested by the examinations, standards had been raised. Another point refers to curricula and methods of teaching. Changes have occurred in these—mainly in the widening of courses, the grouping of courses, in the provision of more “advanced” courses, and in some resort to “special methods” of teaching such as the Dalton plan.

On the physical side, it was pointed out in the Report of the Board of Education for 1921–1922 that “. . . there are wide variations in the extent to which the field of inspection is covered, and in very few cases is any systematic provision made as yet for medical treatment.”² Again, in 1922–1923 the Board said, “The findings of medical inspection in Secondary Schools reveal a large volume of defect and show very forcibly the need for the development of this service.”³ By 1931, of the 146 authorities all but four undertook inspection “with varying degrees of completeness. . . .”⁴ While the scheme was not complete, therefore, obvious progress had occurred over the period.

Of Technical and similar Schools it is difficult to say much that is definite mainly because their work is of very wide range and composite in character. The main developments occurring in the period may be summarised as the extension of Junior Technical, Domestic and Art Schools, designed to improve the foundations of knowledge of technical and commercial subjects; a substantially increased measure of co-operation with industry and commerce in the local areas, leading to the development of new courses designed to meet the peculiar needs of the localities; revised examination schemes the object of which has been a greater measure of co-ordination between examining authorities and the clarifying and raising of standards; the extension of part-time

¹ *Report of the Board of Education* (1921–1922), p. 33; (1931), p. 28.

² p. 74.

³ p. 146.

⁴ p. 55.

day courses for apprentices and day classes in general ; and lastly, additions to buildings and equipment—although the latter are still considered to be greatly inferior to the ideal.¹

In endeavouring to measure the efficiency of such schools great difficulty arises from the absence of standards by which to judge. But the increased numbers of pupils cited earlier nevertheless testify to the growing appeal made by this branch of education—chiefly perhaps because it is to no small extent vocational in purpose and texture. This point is illustrated too by the fact that whereas before the war “. . . neither the scope nor the efficiency of technical school work was a matter of general interest to associations of employers or of workers,”² a recent inquiry showed that 4,400 firms were supporting attendance at technical schools. Lastly, in a special report, the Board of Education concluded that there had been a general raising of the standard of part-time study in specific subjects in the post-war period, and also of general education.³ This decision was in general supported by the findings of the Committees on Education and Industry for England and Scotland reporting in 1927 and 1928.

As for the Training of Teachers, the raising of the standard of teachers' efficiency has already received attention. The principal factor affecting this was the report of a committee set up to consider the training of teachers which was duly adopted by the Board. As a result the needs, and the facilities offered by training colleges, were recognised, and a measure of local autonomy was conferred. Another factor has been the more extended recognition by the Board of the longer courses required to obtain university degrees. The outcome of these developments is seen in the larger numbers of teachers benefiting from college training and from four-year courses.

In Adult Education, definite and valuable progress has been achieved in the period. This was facilitated by the drafting of new regulations, first put into force in 1924.

¹ *Malcolm Committee on Education and Industry* (England and Wales), p. 45.

² *Report of Board of Education (1924-1925)*, p. 45. ³ *Ibid.*, p. 80.

Under these a materially increased measure of help has been given to the movement in the form of larger grants. These have made it possible to add to the numbers of local classes. Whereas in 1921-1922 classes of all kinds numbered 688, in 1930-1931 they had grown to 2,117 and had increased regularly over the whole period.¹ Not only in numbers but also in fruitfulness of work this side of educational activity has registered a real advance.

Lastly, brief reference is needed to the Universities. While State contributions to universities do not fall on the Board of Education grants—except in so far as they maintain departments for the training of teachers—but on the Treasury, the fact should be recorded that the increased grants paid by the Treasury have served to assist a notable measure of expansion in university work. This, perhaps more than any other branch of education, does not lend itself to statistical measurement nor to concrete evaluation, but the substantially enlarged numbers of students in the post-war period may witness to the wider diffusion of the advantage of university education. Incidentally it is worthy of notice that, as shown earlier, students have been increasingly recruited from ex-elementary school pupils.

To summarise the outcome of the development seen in the period, possibly the most obvious and significant effect has been the raising of educational standards, mental and physical, throughout the various branches of activity. Hardly less significant has been the greater fluidity of movement from bottom to top. Again, there has been a broadening of the scope of training, and notably in the relationship between education and industry. Lastly, in the lower (but none the less significant) branches of education, there has been markedly increased assistance to, and care for, children needing special treatment—particularly in the case of the children of financially weak parents.

Such, in brief, are the main features of educational activity in the period. Looked at from the standpoint of economic valuation what can be said about it? From the general standpoint the first thing is that, compared with pre-war

¹ *Report of the Board of Education (1924-1925)*, p. 127; (1931), p. 45.

years, the educational system as a whole is more efficient, more composite, more closely inter-related and fluid as between the different branches. Taken together with the two important points that greater benefits accrue from the extended average period of training—which enables earlier work more largely to bear its fruit—and that there is greater equality of opportunity to benefit from education, the favourable reactions on individual and corporate efficiency do not need stress. Such reactions are, moreover, no less observable in physical than in mental efficiency. Enhanced efficiency in turn must lead to beneficial results for the national income as a whole. Second, it may be judged that with the tendency towards the closer association between education and industry and commerce the individual has been more readily assimilated to the economic environment. Such adaptation is, without doubt, a real gain. Third, in so far as the developments in the educational system have more largely attained the aim by which education seeks to raise the standard of personal conduct it may help to destroy the wastefulness and baneful effects of vicious, riotous and wanton living; and, as these are subordinated, again reactions on efficiency may be favourable. In the light of earlier analysis it may be judged that something may be accounted to this in the period.

From the standpoint of the individual beneficiaries, owing to the general measure of progress achieved, they have obtained an all-round gain. School pupils have received a better education—better both in quality and quantity—they have had increased chances to realise their individual qualities because the enhanced costs have been much more largely shouldered by education authorities and because larger and more numerous maintenance grants and scholarships have been available. In particular, poor children and children handicapped by one disability or another have been more generously cared for. By the extension of all kinds of post-primary education, too, benefit has accrued to students either in new or wider measure; and legitimate educational wants subsequent to the primary stage have been much more widely met.

Proceeding now to the actual expenditures, the foregoing analyses show that the predominant part of the moneys expended has gone to pay for teaching salaries. These have enabled more teachers to be employed and also, since the salary increases have exceeded those called for by the cost of living index, the standards of living of teachers have been raised. Another clear increase occurred in the moneys devoted to administrative and other personal services. Such outlays have permitted of larger staffs and have also allowed individual remuneration to be raised above the level of the cost of living: but the rise has apparently not been so large as in the case of the teachers. Finally, the greater expenditure on buildings, equipment and materials has gone to benefit correspondingly the concerns, employers and employees engaged in supplying this demand.

Against all these benefits—social and individual—there are certain offsets. In the case of teachers' salaries, since these have been raised by a nominal amount greater than the increase in the nominal national dividend, and because sizably greater numbers of teachers have been employed, it is clear that the community has been called upon to devote a larger share of its real resources to meet the salary bill. It has to be remembered that the efficiency of the teachers is higher and that in pre-war years probably they were not adequately remunerated. But the increase has been so large as to leave no doubt that the net real burden on the community is heavier. In the case of administrative personal services, it is possible that the same result has occurred but information is not comprehensive enough for judgment. The presumption is, however, that such is the case. As for the other personal services, there would appear to be a bigger offset to the larger expenditure, e.g. school doctors, dentists, nurses, caretakers, etc., have been called upon in larger numbers but their additional services have correspondingly added to the economic utilities available, and they have apparently not received such large increases of salaries as have teachers and administrators. It is likely, then, that there has been no very large net increase in the real resources devoted to this line of expenditure. Finally, a larger share

of resources has gone to those engaged in supplying buildings, equipment and materials.

Turning now to the Old Age Pensions scheme, the effects on individuals have been to add to their incomes, and therefore to the standards with which otherwise they would have had to be contented. As a result, the poor and very poor especially have been able to enjoy the days of their retirement from everyday working life, while other beneficiaries have suffered less anxiety about their ability to obtain support and comfort. Owing to the raising of the exemption limits, in not a few cases even moderately high standards have been possible. The whole has resulted in a very large measure of personal content and happiness.

From the general economic point of view, a part of the national dividend has apparently been transferred to pensioners without any offset. It may further be the case that in the absence of pensions, work would have continued until later years. Again, the staffs administering pensions have not been available to productive industry. These reductions cannot be wholly without offset, however, in so far as pension facilities have enabled consumption standards to be maintained during working life, and therefore facilitated a higher measure of efficiency. Probably a more significant offset may be found in the alleviation of the burden of maintaining dependants which previously fell upon actively-engaged persons; for this has doubtless added materially to the productive efficiency of the latter because of the increased resources available to them.

Unemployment insurance now falls for discussion. Although normally contributory, the contributions of the Richer and of the State have been larger than those of the Poorer. Again, since employers ceasing to give, or reducing employment have thereby been absolved from or suffered a reduced charge for contributions, this has fallen more heavily on employers maintaining or increasing employment. Furthermore, owing to the insufficient amounts of funds provided by statutory contributions compared with benefit payments, borrowing has occurred, and this has involved a greater levy on taxpayers. Taken together,

the provision of funds for unemployment insurance has, during the period, necessitated large transfers to the Poorer. From the standpoint of the individual beneficiaries this has meant that they have been able in part to maintain their demands for ordinary consumable commodities and services. Since—during and after 1921—dependants' and children's allowances were receivable, this outcome was possible on a larger scale. Owing, however, to the important facts first, that wages are not ordinarily paid in this country on the family or dependants' allowance principle, and second, that while unemployment benefits have been standardised at the same figure for all, wages vary materially, substantial re-distributions of resources have occurred in the different categories of beneficiaries. The same result is seen in so far as scales of benefit for the sexes and for various age groups have not varied so widely as actual wages in practice do. Thus, families with dependants, and with adult and juvenile workers may have suffered from unemployment proportionately less than single persons without dependants, and in some cases have actually gained more than ordinary wages. Lastly, re-distribution has occurred in the case of persons who were not included in the category of insurable occupations. Even if account is taken of these various incidences it is patent that, in so far as unemployment relief has been less than the wages which might have been received, standards of living have been cut; but the payment of benefits has in substantial measure prevented very serious cuts.

• From the general standpoint, the effects on the national dividend have been, first, to reduce it by the amount of the resources which the unemployed persons might have added or assisted in adding. Except in so far as the unemployment has been occasioned by the existence of the scheme, however, such would have occurred in any case. How far this may have been true or not is reserved for examination later. Second, the more obvious effect has been to transfer part of the national dividend without any *quid pro quo* to the unemployed. Third, since the payment of benefit has sufficed to preserve sufferers from the disastrous effects of

drastically curtailed standards of living and in some cases to hold them clear of the need to seek poor relief, it has gone to preserve the employable quality of the workers affected. There is no doubt that its influence in this direction has been very beneficent.¹ Fourth, it is possible that the scheme has reduced mobility of labour. For, whereas the absence of unemployment benefit might have operated to stimulate a keen search for employment, the equality of benefit and conditions governing receipt of benefit, coupled with other factors such as inadequate housing facilities, have apparently predisposed to unwillingness to move. There are also indications that advantage has sometimes been taken of the scheme to avoid work. This has been true more largely of married women workers of certain types, but it has also been true where ordinary full-time wages were relatively low compared with benefits, and in the case of inadequate administrative safeguards against various kinds of evasion. Fifth, a much less obvious effect, but an important one, is that unemployment benefit may have made the wages system more rigid, and therefore less adaptable to changing economic conditions. This it might have done by aiding the trade union policy of minimum standard rates. Again, in so far as the existence of unemployment benefit has given a powerful weapon to the weaker unions it has enabled them to make up a defect in their fighting armour by throwing the burden of maintenance on to the unemployment scheme. Since such unions are more often than not concerned with semi-skilled and unskilled labour, it has possibly had something to do with the greatly improved position of these classes, relatively to the skilled, which has been a feature of the post-1914 period.²

Passing now to the Housing services, the utility of these is obvious. From the individual point of view, it is seen in the reduced costs of housing applicable to a substantial number of families. While the average rental is not low, and there are many instances of what can only be described

¹ See in particular the earlier sample investigations conducted by the Ministry of Labour into the personal circumstances of claimants in 1923, 1924 and 1927.

² These points are examined more closely on p. 243 *et seq.*

as immoderate rentals, it is fair to presume that the subsidies have reduced the costs of housing accommodation necessary to deal with the growth in population. Since, generally speaking, local authorities have habitually given preference to large families, despite the clearly established fact that many urgent claims by the poor for suitable accommodation have still to be met, it may further be assumed that the worse-off section of the population has benefited. This point is reinforced in so far as expenditure has been incurred to destroy slum conditions. The result has therefore been to transfer to those individual beneficiaries who may—with some exception for subsidies paid to private persons—be ranked among the Poorer. On the assumption that their housing bill has been kept down, this has set free resources which could be expended in maintaining and improving standards of living. The impetus given to the building industry has been reflected in incomes derived from it, and, in addition to master-builders, since labour is a large cost of housing, particularly in the incomes of building employees. These, as is well known, have been relatively higher in real terms than in pre-war years—on account of the inelastic demand for houses, and because this has fostered the strength of building trade unions. Housing has therefore involved a larger transfer of resources to this branch of productive activity than had been customary in pre-war days.

From the more general point of view, the allocation of the national dividend has been affected by the transfer to those benefiting from the new houses. This has taken the material form of larger employment and higher ranges of incomes to master-builders, operatives, and others connected with the industry. Apart from the degree of transfer involved, more obviously than in some social services, however, the national wealth and capital has increased—and more permanently so; for there are definite physical assets to show for the expenditure. It may be counted as a distinct social gain which is translatable into continuously enlarged efficiency, that relatively large numbers of the population are housed at decent standards; for housing accommodation is a vital adjunct to social happiness and welfare. The impetus to

house ownership by the Poorer, which has in part at any rate been the outcome of the housing movement, must also be reckoned as a favourable factor: for thrift is stimulated as well as wise spending. Finally, the progress in destroying slums and insanitary houses has, so far as it has gone, had favourable effects by way of improved individual and general health, and by way of welcome psychological influences.

Passing to National Health Insurance, the principal of the benefits accruing has been the obvious one of the gain to the nation's health, both directly to the beneficiaries, and indirectly to the community as a whole. For, first, the invocation of the insurance device enables the resources of the larger number, including the sick, to be pooled to provide benefits for those who fall sick. This in turn means that the sick are helped to obtain full treatment without restriction; whereas otherwise some of their number would be able to meet the charge for adequate treatment, and a larger number would be able to meet the charge for some treatment, probably an outstanding number would not be able to afford timely and sufficient recourse to the doctor except with real hardship. Second, a substantial, if not so large a gain, is derived from the preventive aspects of the service. This was instanced most clearly perhaps in the active fight made against tuberculosis by the practitioners and societies belonging to the insurance scheme from 1912 up to 1921. It is, however, no less discernible in the case of maternity benefits: for these provide assistance at periods of vital importance for the contemporary and future health of mothers and children; and the same is true of the benefits for sickness and invalidity. More generally, the unfettered right of recourse to a doctor may be supposed to strike strongly in favour of early treatment of disease—which is especially desirable when attacking infectious diseases because of the importance of "missed" cases. The third point is the general one that evidence is not lacking to suggest that the scheme has reduced national sickness.¹

¹ *Vide Report of the Royal Commission on National Health Insurance* (Cmd. 2596), p. 13; also the analysis by Sir A. Watson in *Journal, Royal Statistical Society*, 1927, Pt. III, p. 445.

The main of the indirect benefits resulting from the scheme is seen in the reduced risk to the healthy brought about by early and efficient treatment of the unhealthy—especially in the case of infectious diseases. This gain cannot be estimated, but medical history testifies that it is undoubted. Again, greater attention to health has a favourable effect on both the capacity and the will to work; for it is well-established that often bad and indifferent work is due to preventable ill-health. Lastly, the thoroughgoing system of records incorporated in the scheme is a real help to the more effective fighting of disease.

Against these specific advantages has to be set the possibility of greater malingering and evasion which may inhere in the national scheme contrasted with the "society" schemes in being before 1911. The Report of the Chief Medical Officer of the Ministry of Health for 1929 refers, for instance, to the "marked increases" in claims for sickness and disablement benefit during 1926-1929 (both inclusive).¹ Again, a Report by the Government Actuary on sickness and disablement experience in a number of approved societies during 1921-1927 showed that there had been a pronounced increase in (a) claims of short duration, (b) in the proportion of persons claiming compared with the average duration of claims and (c) in the claims of women—and greatest of all in the claims of married women.² In a representative group of societies the sickness claims of unmarried women rose between 1923-1927 by 29 per cent, and of married women by 42 per cent. For disablement benefit the respective increases were 54 per cent and 87 per cent. As showing the discrepancy between the two classes the Minister of Health, speaking in the House of Commons on 11 May, 1932, pointed out that the average yearly loss per head on married women was three and a half times greater than that on unmarried women. The suspicion that malingering and evasion were occurring led to two sample inquiries

¹ p. 40. *Vide also Report of Royal Commission on National Health Insurance*, p. 82.

² Cmd. 3548, p. 5. During the third quinquennium the sickness and disablement benefits paid to women exceeded the actuarial provision by nearly £4 m.

in 1929 and 1930, which showed that in the first case 57·7 per cent of persons previously drawing benefit were held not to be eligible, while in the second case the results have not, as yet, been published. It is also pointed to by the results of "references" to regional medical officers to determine capacity for work. Thus in 1930 the total number of references was 490,279. Of these, 137,681 elected to declare off the funds before examination and 107,904 failed to attend. Of the 245,644 who were examined 75,953 were found not to be incapable of work. It would be both unwise and unfair to leap to inferences from these facts, in so far as the difficulties attending certification of fitness or unfitness are large, and since the prolonged depression must have had bad effects on general health. But it would seem inevitable that some malingering and evasion are in fact habitual. This is further suggested by the fact that sickness dealt with in war years, when high wages prevailed, and unemployment was low, was small compared with post-war experience.¹ Much ought probably to be allowed for the special "willingness to work" during war years and other more minor factors: but the discrepancies in the figures appear to be too large to be explained fully thereby.² Another offset concerns the somewhat wide degree of variation in benefits which is found as between the different approved societies. This is greater because of the existence of some 7,600 separate financial units. In so far as it occurs, it plainly involves inequities as between the members of individual societies. It is exceedingly difficult to say where the inequities press most hardly, but it seems that the societies experiencing the lower proportion of claims for sickness and disablement benefits are those where membership is wholly or more largely derived from the better-paid occupations, and where non-manual rather than manual labour prevails. On the other hand, it would seem to be in those societies whose membership is more largely composed of the lowest and lower-paid manual earners that sickness

¹ *Journal, Royal Statistical Society*, Pt. III, 1927, p. 444.

² Cf. also *Report on Third Valuation of Approved Societies* (Cmd. 3978), pp. 30-1.

benefits are small, owing to the association between poverty and sickness. Again, it is those societies whose membership is derived more largely from lower-paid manual labour which are also of moderate or large size (e.g. mining and textile workers' societies, whose 1928 valuations revealed serious deficiencies), which, owing to relatively high percentages of claims for ordinary benefits, are unable to provide certain kinds of benefit the need for which is great.¹ Such are especially maternity benefit, but also dental and surgical benefits. The poorer societies have also suffered outstandingly from the absence of contributions entailed by unemployment. This was partly offset by the provisions of the 1928 and earlier Acts, which excused arrears of contributions due to unemployment; but that the evil still exists is testified by the Government Actuary in his report on the Third Valuations.²

Turning to the more general economic aspects, the first effect of the very intensive and extensive post-war development of the scheme has been to add to the efficiency of the general labour supply. This it has brought about by the provision of better and more widespread health benefits, and by the growth of sickness benefits. Due not only to the higher health standard, it is also reflected in the prolongation of effective working life. While the more obvious illustration of the former point may be found in the less frequent occurrence of pestilential diseases and serious epidemics, it is less obviously but nevertheless effectively illustrated by the permanently higher level of general health prevailing. This in turn is reflected in an enhanced disposition to work, and ability to work efficiently. The effects of both factors must be favourable to the national dividend. The second broad effect has been to add substantially to the monetary resources of the Poorer as a whole, since their contributions are augmented both by employers and the State and by the larger benefits accruing from the investment of surpluses. Despite the inequities in benefits, since the standard benefits are on the whole larger than the special benefits, the worse-

¹ At the third valuation no fewer than 418 societies reported deficiencies.

² Cmd. 3978, especially p. 40.

off of the Poorer probably gain more. A third effect is that total expenditure on medical and allied services is larger. Not only is this due to the more frequent resort to medical aid and to the fact that the capitation fee system provides for substantial total payments, but also because "panels" are large and bad debts are few.¹ Doctors and chemists probably obtain, therefore, a larger real share of the national resources than they did before the introduction of the scheme. Lastly, there has been an increase in the demand for, and the need of other personal services required for the administration of the scheme. Not forgetting that the pre-war society and trade union systems required staff personnel, the national scheme is more comprehensive than these. A greater real proportion of national resources has therefore probably been called for to meet the changed conditions.

The newer scheme of pensions for Widows, Orphans and Old-aged, although contributory, has hitherto received, and will for some time need, State subvention : so that transfer is involved to the beneficiaries. The special consideration given to cases of absolute and relative hardship under the amending legislation means that principally the benefits go to provide for maintenance or enhancement of consumption standards, but chiefly the former. The transfer from the younger to the older by way of contributions to some extent also curtails the expenditure on non-essentials of life by the younger.

The effects on the national dividend following from the *quasi*-transfer from "active" to "passive" induced by these services are to reduce the share available to the former. It may be the case, too, that contributions to it in the shape of some effort by pensioners which otherwise they would be instigated to make are less. To these adverse factors, however, there are the offsets of better chances and improved conditions for orphan children, and a large measure of social content arising from the benevolent treatment of the aged. Lastly, services such as Poor Relief are freed from burdens which in not a few cases would probably fall on them.

¹ About 932 persons per doctor in 1929.

Turning next to Poor Relief, on the whole this service presents an example of direct allocation of resources without any offset by way of contributions from beneficiaries : for the value of the work done by inmates of Poor Law institutions is very small. Institutional relief takes the shape of the provision of the necessities of existence, both by way of goods and of services ; and since discrimination occurs according to the strength of claims, this guarantees the sustenance of life, and care for mental and bodily infirmity. Outdoor relief on the whole applies to a stratum of the population slightly better-off than the entirely destitute and dependent. Here also the relief is graduated according to economic incapacity ; but, as before, the transfer is equivalent to consumption goods and services. To the extent that provision for the poor would, in the absence of the facilities, have had to be made by relatives and others a burden is abstracted from their shoulders : their economic condition is therefore rendered less onerous. This means that poverty is less widespread than presumably it would be. Again, in view of the definitely higher standards of relief accorded in the post-war period, living standards of those receiving relief have been measurably higher than they would have been in the absence of statutory provision.

From the general standpoint, the provision of relief on the widespread scale of post-war years means that a sizable volume of resources is transferred away from the better-off, without any compensatory addition to the dividend. The dividend, too, may actually be less in total than it would have been : for, particularly in consequence of the economic depression, the existence of relief probably leads to earlier discharges of older people from employment and discourages individual attempts to procure a livelihood. In the case of younger people thrown on to poor relief by the depression, this point is probably of much greater importance. The extent of the loss to the dividend cannot be estimated ; but recognition must be made of the gain accruing from the somewhat important countervailing effect brought about by the beneficial reactions of relief on physical health and strength. The maintenance of these standards must operate

to prevent serious mental and moral degradation and, to some extent, to conserve future employability. 'This, in turn, may be further assisted by the increasing facilities for educational training and the actual performance of work as established by public assistance authorities—especially subsequent to the reorganisation brought about by the Local Government Act, 1929, and the Poor Law Act, 1930.¹ Perhaps even more important is the fact that the relief does provide a better chance for the children of the poor, who have incidentally been better cared for in the post-war years.

In discussing the Hospital services, it is unnecessary to duplicate what has been said of health insurance, much of which, referring to the specific economic reactions, holds good. Something, however, needs to be said of points of difference, while certain resemblances call for different stress. From the point of view of individual beneficiaries, except where economic capacity to pay exists, these services do not entail contributions. There is, therefore, a larger measure of benefit to the poor and very poor. This is enhanced by the fact that the incidence of infectious diseases is heavier in conditions of poverty and particularly so because the largely increased expenditures on tuberculosis are designed to treat a disease which is clearly associable with poverty. The expenditure on maternity and child welfare is also mainly in the interests of the poor and very poor. These services therefore add to the real welfare of these classes principally, and the savings in money costs set free resources which can be exercised by way of a larger demand for ordinary goods and services.

From the national point of view, the gain is to the health of the community. The statistics of tuberculosis show a gratifying, if not marked tendency to decline. The total of new cases in England and Wales steadily declined from 79,388 in 1923 to 72,974 in 1931, and the number of deaths in the same period from 40,788 to 35,818.² About venereal

¹ *Vide Report of Ministry of Health (1930-1931)*, p. 206.

² *Report of Ministry of Health (1931-1932)*, pp. 55-7. The *First Report of the Scottish Board of Health*, in pointing out that the death-rate in 1929 was less than half that of 1909, makes the fair comment that "While the absolute decline in the mortality rate is of course greater in the earlier

diseases, all that can be usefully said is that the service is functioning much more largely. As for other infectious diseases, while various large fluctuations have occurred, e.g. in diphtheria and pneumonia, there seems to be a general downward tendency in the percentage of case-rates to the population. A more definite story can be told of infantile mortality; for, compared with a death-rate for the preceding decade of 100, during the post-war decade it was only 68. And the Report of the Ministry of Health fairly comments that the latter figure ". . . is a substantial guarantee that the work of the maternity and child welfare which has been a noticeable development during these years has had its effect."¹

The scheme for dealing with Lunacy and Mental Deficiency has led to greater concern for the welfare of this section of the community, for, as described earlier, the post-war years have seen an enlarged measure of attention to mental trouble. Such expenditure, subject to allowances for contributions, involves transfer to mental patients and their families. By way of return something may be expected to accrue from improved treatment which possibly leads to a larger number of recoveries, but the offset is small owing to the malevolent and recurrent character of mental disease. Perhaps it would be better to say that by means of the enlarged expenditure the community is more properly fulfilling the inescapable responsibility to this category of its weak members.

One word only need be added about the expenditure on Reformatory and Industrial Schools. Here again transfer is involved—although to no large amount. In so far as the treatment is efficient and effective there is an offset to the expenditure in the shape of the subsequent greater economic worth of the patients due to reduced delinquency.

Proceeding to the second part of the analysis, that con-
period (i.e. 1870-1909), there has been an acceleration in the relative decline in the later period, and as this later period coincides almost wholly with the time that the tuberculosis schemes of local authorities have been in operation, it is not unreasonable to suppose that part at least of the relative decline is due to the special efforts made under these schemes on the lines of prevention and treatment" (p. 94).

¹ *Report* (1930-1931), p. 85.

cerned with an estimate of the transfers induced as between Richer and Poorer, it will be recalled that Education has accounted for a large block of both national and local expenditure in the period—£48·77 m. and £41·94 m. annually. In theory it is ordinarily assumed that the benefits of education are available to all sections of the community. Reference to the statistics suggests, too, that they are in fact drawn upon by all. In the case of elementary education, on 31 March, 1930, for example, out of a total child population for Great Britain between the ages of 5-15 years numbering 6,566,900, no fewer than 5,395,400 or about 82 per cent were attending public elementary schools; and this proportion has been relatively constant over the period. But if reference is made to the study of the National Income made by Bowley and Stamp it appears that in the United Kingdom in 1924 the proportion of the occupied population having incomes less than the lowest income-tax limit was about 78 per cent.¹ Since numbers of children to a family are larger in the families of the Poorer and, generally speaking, are largest of all in the families of the worse-off of the Poorer,² it would not appear to be straining the truth to suggest that the 82 per cent of the children between 5-15 years in elementary schools were predominantly the children of the Poorer. In reality, then, the advantages of elementary education are mainly reaped by the Poorer. Since, during the period, expenditure on elementary education in England and Wales has accounted, on the average, for a little over 70 per cent of the whole, the significance of this fact is apparent.

As for State-aided secondary schools, over the period, on an average not far from two-thirds of the pupils in England and Wales have been recruited from ex-elementary school-children: and while in 1921 the number of free places was no more than 25 per cent, by October, 1930, this figure had grown to nearly 43 per cent.³ The free places, in turn, were largely awarded to ex-elementary children, e.g. in 1930 these

¹ pp. 14-15, 27.

² *Vide*, e.g., Jones and Carr-Saunders, *The Social Structure of England and Wales*, p. 231.

³ *Report of Board of Education* (1930), p. 19.

comprised 76·1 per cent of the new entries, and 63·6 per cent were admitted free.¹ Of the roughly 7 per cent of the total expenditure required for secondary schools, therefore, a sizable part has gone to benefit the children of the Poorer.

Equivalent information about technical and similar schools in England and Wales is not available, but it is plain that such schools—employed as they are outstandingly in preparing pupils to enter trades and the lower business occupations—function mainly to benefit the children of the Poorer. Again, sizable maintenance allowances and school fees are provided for, e.g. 15,560 maintenance awards were made in 1930.² Expenditure on these schools over the period has averaged about 4·5 per cent of the whole.

In the case of university education it appears that entrants to universities are normally drawn as to between one-half and two-thirds from ex-elementary pupils, e.g. in 1930-1931 the proportion was 64·4 per cent for England, and 90·7 per cent for Wales.³ Only relatively small grants are paid to universities by the Treasury, but in the case of the modern universities substantial funds are derived from grants made by local education authorities, and the expenditure of the public money concerned ranks to confer benefits on students in the shape of reduced fees. Again, a fairly large number of the ex-elementary students who take advantage of facilities for higher education go to universities and training colleges and similar institutions to be trained as teachers. Of these the greater proportion take advantage of maintenance grants paid by the Board of Education and frequently contributed to by local education authorities: while, lastly, substantial maintenance allowances are often granted by local education authorities to poor students at universities, e.g. 3,588 allowances of an average value of £49 7s. were made in 1930. Other items included in the education accounts under the heading of "Aid to Students" take the shape of scholarships to various higher centres of learning, such as State scholarships and Whitworth exhibitions.

¹ *Report of Board of Education* (1931), p. 22.

² *Memo on Board of Education Estimates* (1932), p. 18.

³ *Report of Board of Education* (1931), pp. 25, 63.

Apart from the formal education scheme, consideration is necessary of the outlays on "Special services." Such expenditure is of some size and importance. In 1930-1931, for example, in England and Wales, 40,314,000 free meals were served to 295,000 poor children. Nor was this largely exceptional: for over the period an average of about 30,000,000 free meals were served—with a peak of over 70,000,000 in 1926-1927.¹ Again, during the period, the school medical services have been considerably extended to provide for medical inspection and treatment. By far the larger provision made under this head is for elementary children. This point may be illustrated by statistics which show that in 1930-1931 in England and Wales 230,123 cases of defective vision, 109,738 cases of tonsils, 861,729 cases of "minor ailments" were handled, and 2,840,270 dental inspections were made. These figures apply to the elementary branch alone. In the same year accommodation and treatment were provided in a group of special institutions for 52,786 children suffering from blindness, deafness, mental deficiency, physical deficiency and epilepsy; and the details show that the children concerned were predominantly drawn from the ranks of the Poorer.² This is also true of the provision made in special clinics for children suffering from orthopædic ailments and from rheumatism, and for nursery schools, evening play centres and physical training centres.

From this survey it would seem apparent that the bulk of the public funds which are devoted to the provision of educational services in England and Wales comprises expenditure in the interests of the Poorer. In view of its widespread character it would seem to be untrue to say that educational expenditure is more largely in the interest of any particular section of the Poorer. It has to be remembered, nevertheless, that families are largest in the case of the poor and very poor, and again that since disease and poverty frequently go together the sums spent in providing "Special

¹ *Report of Board of Education* (1931), p. 58; and Reports for period 1921-1931.

² *Ibid.* (1931), pp. 54-8.

services " are more frequently devoted to children of such parents. Again, the schemes for maintenance allowances, free places in secondary and other schools, and for aid to students in general are designed largely, though not entirely, in their interest. Bearing these points in mind, it may be suggested that the increased educational expenditure in England and Wales in the period has been responsible in addition for a distinct transfer to the less and least well-off of the Poorer. These conclusions are also applicable to educational expenditure in Scotland: for while Scottish education is differently organised, the points of difference are not such as to modify the preceding analysis.

The discussion may next proceed to Old Age Pensions (Non-Contributory). In view of the means limit, the substantial expenditure entailed by the non-contributory scheme of Old Age Pensions (an annual average of £28·82 m. over the period), might be thought to be distinctly in favour of the poor and very poor. Up to the passing of the 1924 Act this was probably in general true. Even so, when the Departmental Committee on Old Age Pensions made their investigation (1919), they found that there were as many as 920,198 pensioners—amounting to about 56 per cent of the total septuagenarians. The 1924 Act raised the means limit at which full pension could be drawn—originally established at £21 per annum in 1908—to the high figure of £65 5s. This has operated considerably to enlarge the numbers of persons qualified for pension. Added to the principle by which reduced pensions may be drawn where means exceed this figure, and taken in conjunction with the fact that the Act of 1920 awarded pensions to blind persons at the earlier age of 50, it serves to explain the high figure of 77·8 per cent of all persons over 70 who were in receipt of pensions in 1930. The inferences are that the predominant number of the Poorer are benefited by pensions, and that virtually all categories of the Poorer are included. This is fortified by the consideration that not infrequently in the case of married couples each partner is eligible for and receives benefit; and where this obtains each couple is not debarred from receiving full pension even if the joint income

is as large as £130 10s. per annum. It is further shown by the fact that the average individual pension is very near the legal maximum, e.g. in 1930 the average was approximately £25.

Passing next to Unemployment Insurance, accounting for an annual average expenditure of £23·39 m. for the national authority and £31·30 m. by personal contributors, this has provided benefits for some 12 million persons. Since, however, unemployment is regarded as abnormal rather than normal, the benefits are deemed to apply only to a small section of this total at any time. Despite a prevalent idea to the contrary, the benefits are therefore ordinarily intended to apply to a small actuarial figure. From the sample inquiries conducted by the Ministry of Labour in 1929 and 1930 it appears nevertheless that, at one time or another during the last decade, a surprisingly large section of the community has received relief. The 1929 sample showed that 40 per cent of the men and 20 per cent of the women were more often not employed than employed. These figures were arrived at by measuring the percentages unemployed for less than three months—30 per cent and 50 per cent respectively. The relatively short maximum period taken suggests that the sample erred on the side of overstating the proportion who were more often not employed. Yet this cannot have been the case to any material extent; for it was shown by the Morris Committee, reporting in 1930, that in the year ended 6 May, 1929, the number of persons claiming benefit was roughly 4,000,000.¹ The sample taken in May, 1930, showed that, of the male claimants nearly half had had no regular work for two years or more, and 68 per cent for one year. The corresponding figures for female claimants were 30·5 per cent and 64·7 per cent.² These figures, while embracing part of the post-1929 world depression, may yet be fairly representative. They give a vivid picture of the extent of unemployment and illustrate the generalisation that benefit has been by no means restricted to the percentages indicated by the unem-

¹ Cmd. 3415, p. 16.

² *Ministry of Labour Gazette*, October, 1930, p. 358.

ployment statistics. On the other hand, however, the unemployment returns show that certain industries and occupations have accounted for a substantial proportion of the total of unemployment and also unemployment of long duration in the period 1921-1931, e.g. Docks, Harbours, Rivers and Canals; Ship-building and Ship-repairing; Steel Smelting and Iron Puddling, Rolling and Forging; Public Works Contracting; Shipping; Coal-mining; Textiles; General Engineering; and Building. This citation apparently gives no ground for suggesting that the unemployment has been restricted to any particular section or sections of the Poorer; for skilled workers have suffered no less than unskilled and semi-skilled, and the better-paid industries have suffered with the worse-paid. The facts emerge, however, first that employees in industries which have suffered from severe unemployment have benefited by the transfer of resources, and that since unemployment insurance is one of the larger contribution schemes the employers and employees in industries less affected by unemployment have suffered a tax to the extent that they have had to make contributions to meet the claims of workers in such industries. In this way very heavy transfers have been induced. The size of these has been augmented, too, by the special legislative leniency shown in the shape of "extended" and "transitional" benefits; for this has held unemployed workers clear of poor relief to a substantial degree, and thereby shouldered a burden on to those giving and involved in employment which otherwise would have been borne principally by ratepayers. This burden has been the heavier in consequence of the very low number of contributions made by workers benefiting from the concessions. Some illustration is afforded by sample investigations made by the Ministry of Labour on 17 February and 26-May, 1930. It was found that the percentages of persons drawing benefit without having fulfilled the prescribed condition requiring the payment of thirty contributions in the preceding two years were as high as 32.1 for men, 30.9 for married women, and 25.8 for single women.¹

¹ *Ministry of Labour Gazette*, October, 1930, p. 358.

Second, the persistent character of much of the unemployment means that, even in the cases of workers who were at one time comparatively affluent, very considerable reductions in financial capacity have been brought about by the absence of employment. This entails that the workers so affected have in many cases been brought to the verge of poverty—so that transfer has in effect been made from the better-off to the worse- and worst-off.

This argument is supported by certain statistical inquiries by the Ministry of Labour going to show that, while the unemployed constituted less of a "standing army" than might be supposed, the incidence of unemployment has been heavy on those not possessing a material degree of skill, on less efficient workers, physically less fit workers and young workers not equipped with much training.¹ Workers falling into these categories probably belong to the poor and very poor rather than to the comparatively well-off sections of the Poorer; for while this is especially likely to apply to lack of physical fitness and capacity, it probably also applies to a large extent to, and helps to account for other defects. It is workers in these lower categories, furthermore, who tend to have the larger families. The relatively high children's allowances they receive thus tend to increase the above-mentioned transfer. It is probable that, from the same premiss, the conclusion follows that they also have larger numbers of adult dependants. Yet again, as in pre-war years, casual and seasonal labour has constituted a definitive and sizable part of the unemployment problem, e.g. in docks and harbour, building and constructional industries, fruit-picking and preserving. Reference has already been made to the exposure by the Royal Commission of the anomaly that such workers have received continuous or long-period benefits despite disproportionately few contributions.² It is exemplified by samples taken on 8 September, 1930, and 19 January, 1931, by the Ministry of Labour which showed that benefits substantially exceeded

¹ *Report on Investigations into the Personal Circumstances and Industrial History of Claimants to Unemployment Benefit, 1923, 1924 and 1927.*

² Cmd. 3872, pp. 44-6.

contributions.¹ Since, in the words of Sir W. H. Beveridge, such unemployment constitutes "... the most potent, the most certain, and the most extensive in its operation ... of all the causes or conditions predisposing to pauperism ..."² it is plain that substantial transfers to the poor and very poor have been evoked under this head.

The conclusion of the analysis is that, while some part of the benefits paid under the unemployment scheme have not operated as a transfer to any definite economic categories of the Poorer, probably the larger part has in fact consisted of a transfer to the poor and very poor.

On Housing services the total expenditure averaged £63·43 m. annually over the period. It is notorious that, on the whole, the houses provided during the first decade after 1921 have been expensive. It may therefore be assumed that, while they were built specifically for the benefit of the working classes the high rentals involved have in fact precluded their unexceptional use by this category. This conclusion was reached by Sir E. D. Simon in a recent work, where he argued that there were not enough houses at a rental of under 10s. a week.³ Further support for the idea may be found in a circular issued by the Ministry of Health on 12 January, 1932, which referred to the Report of a Departmental Committee on the Rent Restriction Acts who "... show clearly in their report that, in spite of the immense volume and cost of house building since the war, the needs of the poorer workers are not in fact being adequately met"; while again, "The evidence available in the reports of medical officers of health and of the Minister's officers leads to the same conclusion."⁴ It has to be remembered, lastly, that subsidies have also been given for houses built by private enterprise. In view of the facts, however, that rents are in effect subsidised; that in a number of areas local authorities

¹ *Ministry of Labour Gazette*, August, 1931, p. 292.

² *Unemployment* (1930 edition), p. 403.

³ *How to Abolish the Slums*.

⁴ The conclusion would seem to be specially applicable to Scotland; for a calculation made in 1930 showed that at best no more than one-ninth of the working-class population had been provided with housing accommodation since 1919. (*First Annual Report of Scottish Department of Health*, p. 1.)

have reduced rentals ; that the 1919 and 1923 Acts made special provision for Slum Clearance—the latter Act provided for an expenditure thereon of some £10 m. ; and that from the Armistice to 31 March, 1931, as many as 1,111,821 houses had been built with State assistance it is necessary to refrain from an excessively wide generalisation. Perhaps the pivotal point is that the average rental of houses built by local authorities was in 1931 about 9s. 4d. per week. This figure suggests that the needs of all categories except the worse-off of the Poorer may have been met. But while the rentals in certain areas are as low as 3s. 3d. and in others they are as high as 22s. weekly,¹ since local rates have tended upwards during the period and the worse-off of the Poorer in general have bigger families, calling for larger houses, they are unable to meet this charge. It must therefore be assumed that the benefits of housing expenditure have been partly to those not ranked in the Poorer category but more largely to all sections of the Poorer other than the poor and very poor.

National Health Insurance and the associated scheme for pensions for Widows, Orphans and Old Persons (Contributory) may be taken next. National Health Insurance called for an annual average expenditure during 1921-1931 of £32·78 m. It is intended to apply to and to benefit all employed persons not having an income exceeding £250—to the number of some 18,000,000. Owing to the relatively high income limit the scheme therefore extends beyond the confines of the Poorer as the term is used in this volume ; but as at 1924 there were estimated to be some 15,400,000 manual wage-earners and this number has since been increased, it is not likely that there is a large transgression of this boundary. Moreover, the total figure includes a number of voluntary contributors, whose number was only about 30,000 in 1925, but who have since joined the scheme in larger numbers—over 350,000 in 1930—in order to take advantage of the Act of 1925 establishing the allied scheme of contributory pensions. Such contributors, moreover, are not eligible for free medical benefits, and

¹ *Report of Ministry of Health (1930-1931)*, p. 116.

these constitute the more weighty and real of the various benefits.

It would seem that, in so far as benefits are equally available to all the compulsory contributors, the scheme cannot be regarded as causing transfer. This suggestion is supported by the findings of the Royal Commission on National Health Insurance, which showed that in one year about 60 per cent of the total contributors received benefit.¹ It is probable, however, that this figure is higher than the norm. Further, in so far as employers are called upon for contributions, a transfer results from the Richer to the Poorer, and this has averaged over the period somewhat more than £25 m. annually. Again, in a scheme which embraces some 7,600 separate financial units spread over a wide range of industries sickness experience must vary substantially. As a result of this, numerous transfers of one sort and another are occasioned—from the more healthy to the less healthy. It would appear that these transfers are sometimes enhanced because the societies with low sickness records have been able to disburse larger benefits. There are no grounds for assuming that such transfers can be collated into and represented as being from one economic group to another. Nevertheless, it would seem possible to suggest that there is, other things being equal, a larger amount of sickness in the ranks of those whose resources are stinted. Redistribution thereby occurs; and where this happens to combine with relatively unhealthy work, the transfers to them must be enlarged. This is illustrated by the results of the recent (third) valuations which show that not infrequently serious deficits were reported by those societies drawing their membership predominantly or largely from the worse-paid occupations such as coal-mining, textiles, glass-bottle making, and ship-building.² Another substantial transfer has been occasioned by the various post-war acts passed to maintain in insurance those members who, on account of unemployment, have been unable to maintain the legal minimum of

¹ Cmd. 2596, p. 33.

² *Report of Government Actuary on Third Valuation* (Cmd. 3978), pp. 29, 48, 58, 59, 60, 62, 74, 76, 78, 83, 85, 86, 89 and 91.

contributions. Since the beneficiaries under the legislation have been those suffering from prolonged unemployment this has necessarily resulted in a transfer to the poor and very poor. Anything more definite than this can hardly be said.

The scheme for Contributory Pensions required an annual expenditure over the period of £13·28 m., and the remarks applying to the National Health Insurance scheme are appropriate here also. In so far as widowhood and orphanhood at relatively early ages are not normal conditions, however, a transfer is involved from those who are not so afflicted. The fortuitous incidence of this nevertheless partly, if not wholly, precludes an assignment to economic groups. Another transfer is brought about during the early years of the scheme because older persons are able to benefit earlier than younger and in so far as they may make relatively few contributions before becoming entitled to benefit. Nevertheless, this has to no small extent been recognised by the provision of State funds amounting to £4 m. in 1926, and in later years £9 m. In this way the burden has been passed on to the community in taxation, and owing to the progressiveness of this the Richer contribute more than the Poorer. Another sort of transfer occurs in the case of young women who do not marry, for they may be thought of as contributing more largely than they might expect to benefit. Even so this disability is recognised in the shape of a smaller contribution levied on them. On balance, therefore, the only assignable transfer resulting from this scheme has been one from the Richer to the Poorer by way of taxation to provide pensions not meetable out of the funds accumulated.

Poor Relief, absorbing the large yearly total of £40·05 m., is a service which might be expected to provide an example of unqualified direct transfer to the worst-off. The size of this is indicated by the scope of relief, which not only has to provide for the able-bodied poor but also has to cope with a large number of sick poor, to provide for dependants and to educate the children of poor persons. If to this is added the very large numbers ranking for relief in the period—an annual average of 364 per 10,000 for England and Wales

during 1921-1931 compared with 238 per 10,000 for the ten years 1905-1915—and the further point is borne in mind that generous relief scales were applied during the greater part of the period, the size of the transfer would appear to be very substantial. Allowance has to be made, however, for the fact that under the provisions of Unemployment Acts which, after varying periods, have disqualified unemployed workers from benefit, the numbers receiving relief have been swollen by their admission to Poor Relief benefits. Especially in the earlier years, relief was granted to these persons with little attempt at discrimination: and, moreover, grants were then made on the basis of "scales," many of which were unduly high. A summary illustration of this point is afforded by the fact that in 1922-1923, of a total of £10.40 m. spent on outdoor relief in England and Wales, the sum of £9.45 m. was paid to persons coming within the unemployment scheme.¹ During the later years of the period, however, and especially after 1927, allowance must be made for the greater stringency which developed in making awards of poor relief, for the cumulative effects of continuous unemployment in certain groups of occupations—such as the export trades and seasonal occupations—in bringing about poverty, and for the absorption of larger numbers of the unemployed into the unemployment insurance scheme caused by the 1928 and later legislation under "transitional benefit." If this is done it can only be inferred that in these later years the relief given on account of unemployment was occasioned by genuine distress, and hence constituted transfer to the poor and very poor.

The Hospital and Maternity and Child Welfare services provided out of social service moneys involved the yearly charge of £3.28 m. for the national exchequer and £7.80 m. for the local exchequers. These are concerned very largely with the treatment of tuberculosis. Tuberculosis is a disease which is definitely associable with poverty and thus, generally speaking, involves a larger measure of expenditure upon the worse-off. This remark also applies, although with obvious reservations, to the various infectious

¹ *Report on National Unemployment Insurance to July, 1923*, p. 14.

diseases upon which the balance of the money is spent. Even where the reservations apply, however, the practice is to resort to private practitioners and nursing homes rather than to public facilities. It may be concluded that, while these services are nominally open to all members of the community, the incidence of the diseases for which the scheme provides treatment is on balance more largely upon the Poorer.

The Maternity and Child Welfare services have only accounted for a small yearly average expenditure, but they are intended to be of widespread benefit. Even in 1921 there were 1,960 centres, while in December, 1930, there were 2,658; in the case of Scotland in 1929 centres existed in areas containing 93 per cent of the population.¹ Again, in 1930 over 3½ m. health visits were made to children between the ages of one and five years in England, while in Scotland visits were paid to about 80 per cent of the number of live births notified, and in Wales to nearly 100 per cent of the total births. It is noticeable, however, that expenditure bulks large on such items as Milk and Food (12·3 per cent of the whole in England in 1929-1930); Midwifery and medical aid invoked by midwives (8·7 per cent); Maternity Homes and Hospitals (19·1 per cent); Day Nurseries, Home Helps, etc.;² and in view of the contributions levied upon users who have the capacity to pay, generally speaking these services are called for in the interests of the worse-off of the Poorer. There is, moreover, a well-established connection between poverty and numbers of births and susceptibility to maternal and infantile diseases³: hence the worse-off necessitate and receive a substantial measure of attention and help. This is particularly applicable to the baneful puerperal sepsis which “. . . is a disease of urban . . . and of crowded communities. . . .”⁴

About Reformatory and Industrial Schools, and Lunacy

¹ *First Annual Report of Scottish Department of Health*, p. 56.

² *Report of Ministry of Health (1930-1931)*, pp. 75, 79.

³ Thus in 1911 the infant mortality rate for the middle and upper classes was 76 per 1,000, for the intermediate class 106, and for unskilled workers 152.

⁴ *The State of the Public Health (1930)*, p. 16.

and Mental Deficiency little need be said. These services, moreover, absorbed no more than £39 m. and £1·71 m. annually in the period for the national exchequer and £37 m. and £6·49 m. respectively for local authorities. The former do not specially apply to any particular category, although there is a presumption that juvenile delinquency is associable to no small extent with poor economic conditions. In the case of the latter, since persons who are able to do so are required to contribute to the cost of relatives who receive treatment, the benefits accrue to the worse-off of the Poorer. Again, it is well established that insanity and poverty are correlated, e.g. in January, 1928, out of 112,726 cases of "unsound mind," some 103,000 were maintained in poor law institutions.

To summarise this analysis of the incidence of the benefits, the first point outstanding is that, except in the case of Education, National Health Insurance and the Pensions schemes, the benefits are restricted to and drawn upon by the Poorer. It is true that these services bulk substantially in the total of social service expenditure, but reasons have been given to suggest that the proportion of benefit which accrues to those outside the boundary may be estimated to be small compared with that accruing to those within the boundary. Moreover, where the boundary is exceeded, the benefits go to persons of relatively restricted means. The second point is that, in the case of certain of the most important services, benefits are available to, and are drawn upon by a very wide range of the Poorer. This applies to Education, Pensions, National Health Insurance, Hospitals, and—though probably to a much less degree—to Unemployment Insurance. As these services between them have, in the period, accounted for some three-quarters of the total expenditure, the importance of this point is manifest. The third point is that, because they have (1) larger families and, it may be presumed, more dependants to each earner, (2) a larger relative share of sickness, (3) smaller financial means, and (4) they rank as more permanent beneficiaries, the worse-off of the Poorer draw much more heavily on the benefits of social services. To some small extent this is

countered by *quasi*-transfers to the better-off in such cases as Housing and Pensions ; but this sort of thing is rare and not of large importance. The exact sizes of the transfers cannot be determined with even an approach to accuracy, so that it is not possible to implement these conclusions statistically. Something may nevertheless be done to illustrate the preceding analysis by reference first to a general average statistic and then to a Social Survey of Merseyside¹ carried out in recent years by Mr. D. Caradog Jones. First, the total benefits received by the Poorer as a whole may be illustrated by taking the total number of working-class households in relation to total expenditure. If the former are assumed to average about $7\frac{3}{4}$ m. during 1921-1930, since the average annual expenditure by national and local authorities has been about £257 m., it follows that the average annual benefit to each family may be set at about £33. But this does not take account of the excess of the contributions made by employers over those made by employees ; of payments made as a *quid pro quo* by those deemed to be of a capacity to do so ; nor of course of the general tendency of this expenditure to benefit the worse-off compared with the better-off. Mr. Jones' investigation omitted the services of Education, Housing and Public Health, the benefits from which, it has been shown above, are widespread. Taking all other services into account the following is a summary of his findings :

- (1) Social Income—in some form or another was received by 36 per cent of the total sample of 6,780 families, of the type and occupation broadly included under the National Health Insurance Acts.
- (2) Of all individuals receiving some kind of social income, the proportion living in overcrowded conditions was 14 per cent and the proportion below the poverty line was 34 per cent ; and " we can, however, quite definitely say that they [i.e. social service benefits] go more frequently to families below than to families above the poverty line." ²

¹ *Journal, Royal Statistical Society* (1931), Pt. II, pp. 218-66.

² *Ibid.* (1931), Pt. II, p. 236.

- (3) The most frequent sources of social income are first, Old Age Pensions and Unemployment Insurance (between 25-30 per cent of all individual cases); second, Public Assistance (16 per cent); third, War Pensions, Widows' Pensions, and Health Insurance (all under 10 per cent).
- (4) The families receiving by far the greater part of poor relief are below the poverty line and experience much sickness.
- (5) Of social income receivers above the poverty line all kinds of social income except poor relief are widely drawn upon.
- (6) Families in which the chief earner is unemployed draw most benefits from social services; next, where there is no earner; next, where there are earners, but no adult male earner; next, where the head of the family is only casually employed; and least, where he is in regular employment—62 per cent of all the families sampled were in this category, but only one-half received social service benefits.

While the findings apply only to the services analysed, the general conclusion that social service benefits are widespread over the Poorer, but increase as family resources decline—if not continuously, nevertheless certainly—may justifiably be applied to all the services. This conclusion is clearly in sympathy with that reached earlier.

Proceeding to the third part of the analysis, it is next desirable to examine how the costs of social service expenditure are distributed as between the categories of Richer and Poorer, and as between the various sections of both. Dealing first with taxation, it is possible to use the results of the analysis made in Chapter VII; for, while this was concerned with an analysis of the incidences of general taxation, it is not unjustifiable to assume that the general incidence may be held to apply when considering specific branches of expenditure. This analysis showed that, after allowing for the transfers evoked by loan finance, the Richer contributed in direct and indirect taxation during 1921-1931 considerably

more than the Poorer. Further, it was shown that the upper strata of both Richer and Poorer were taxed progressively more than the lower strata. Again, it was demonstrated that compulsory indirect taxation of the Poorer operated to burden the lower and lowest strata of the Poorer to a relatively minor extent. Relating these points to the results of the survey of social service benefits, it may be concluded (1) that the advantages reaped by the Poorer from the social services are roughly inverse to the taxation levied upon them; and (2) that—despite incidental benefits received—a materially large transfer occurs from the Richer in general, and the higher strata of the Richer in particular, to the Poorer as a consequence of expenditure on social services; and in this way and to this extent the effects of the transfer from the Poorer to the Richer occasioned by the debt services are offset.

To pass to another aspect of costs, it is well recognised that the growth in social service facilities has been an outstanding cause of the increased local rates occurring in the period. By contrast with 1913-1914, when the total of ordinary local expenditure on social services was £37·07 m., the annual expenditure for 1921-1930 was £90·35 m.—an increase of £53·28 m. How much of this greater contribution from rates is assessable on the two categories? Unfortunately it is impracticable to give anything approaching a definite answer on this point. For 1910-1911 Sir Bernard Mallet approximated the relative contribution to rates by contributors falling broadly into the categories of Richer and Poorer, as seven-tenths and three-tenths respectively.¹ In an endeavour to get some idea of the post-war situation it is a point of no small importance that the benefits of control of house rents have operated throughout the period. Since, further, most rents for working-class property include rates, the undoubted and marked restraining influence of control may be presumed to have led to a lesser proportionate share of the increased rates burden being passed on to the Poorer.

The most comprehensive data available about rates is found in a survey undertaken by the Ministry of Labour in

¹ *British Budgets, 1897-1913*, p. 451.

1928. It was shown that whereas, by December, 1928, rents had probably increased by some 30 per cent of the 1914 gross rentals, rates and water charges had increased by no more than 21 per cent of the 1914 gross rentals. Moreover, de-controlled houses were estimated at this date to be no more than 6 per cent of the whole ; and even if they were to be counted the 1928 figures of rent and rates would be no more than 51·2 per cent instead of 51·1 per cent of the 1914 figures.¹ Taking rates alone, since net rents in 1914 were about three-quarters of the total rent and rates, the one-quarter taken for rates had in 1928 grown by a percentage of 84. Since the increase of local rates for the country as a whole in 1928 compared with 1914 was about 134 per cent it is plain that occupiers of controlled houses were contributing a less proportionate share than in the pre-war year. In view of the small proportion of de-controlled houses it would seem that if the conclusion reached by Sir Bernard Mallet in the earlier year was valid it was equally so in the later year. This result is supported by the findings of the London survey that working-class rents had not risen by more than 50 per cent, and also by the investigations of four representative towns made by Prof. A. L. Bowley and Miss M. H. Hogg.² By way of explaining this result, reference may be made to the well-known point that the principle of graduation has in effect been introduced into rating and extended from time to time in post-war years by the device of larger differential valuations of non-working-class property. It may further be observed that, in view of the relatively high charges for rentals involved by the high costs of new working-class houses built by local authorities since the war, in the larger number of cases it has not been deemed feasible to pass on the full proportionate rates due from such property since it is more customary than not to

¹ *Ministry of Labour Gazette*, December, 1928, p. 435. Even in 1931 the Inter-Departmental Committee on the Rent Restriction Acts found that no more than 12½ per cent of working-class houses were de-controlled. (Cmd. 3911, p. 17.)

² *New Survey of London Life and Labour*, Vol. I, p. 150 ; *Has Poverty Diminished?* p. 6. Mr. C. G. Clark's estimate that one-third part of local rates falls on wage-earners also supports the above conclusion. (*The National Income, 1924-1931*, p. 79.)

charge a weekly sum for the conjoint items of rent and rates. Lastly, up to the passing of the Local Government Act, 1929, as suggested by the Balfour Committee, rates on business undertakings had been disproportionately high in post-war years.¹ Since rates are an element in costs of production, there is some offset to this in view of the possibility of passing on rate burdens to consumers. It may be suggested, however, that post-war conditions have militated against, rather than in favour of such an event, in consequence both of the acute competition engendered by the depression and of the virtually free-trade policy; and in any case the Richer have suffered as well as the Poorer where it has actually proved feasible to pass on the burden. Taking all these points into consideration, at the least it would not seem likely that any change for the worse as compared with the position in 1910-1911 has occurred in the real burden of rates suffered by the Poorer. On this inference the Richer have evidently contributed more heavily to social service expenditure falling on local rates, and in all probability to a substantial degree.

The third and last item to take into account in reckoning incidence is the item of contributions. These are made to certain of the social services and are derived not only from employers and employees, but also from such items as interest, rents and fees, and in the case of debit services from borrowing. Since the impersonal contributions are substantially smaller than the personal contributions and do not affect incidence, they may be disregarded now. It would appear obvious that contributions from employees should be added to the expense falling on the Poorer. Those from employers are not so easily dealt with since they may be shifted in whole or in part either by reductions of wages, or by increased prices, or both. The Balfour Committee² implied, and Mr. D. C. Jones, Prof. A. M. Carr-Saunders,³ and Mr. H. Clay lean to the opinion, however, that there is no evidence to show that wages have suffered from deductions made by employers to meet their liability. Thus

¹ *Final Report*, p. 254.

² *Ibid.*, p. 255.

³ *The Social Structure of England and Wales*, p. 162.

Mr. Clay says, ". . . I know of no case where wages were reduced by the amount of the employers' contribution when the Acts first came into force" and

" . . . the employers' contributions were a compulsory flat rate advance in wages, imposed by the State and then appropriated for the special object of providing insurance—an advance which would probably have been conceded in the ordinary way, though not so soon and not in the form of a flat rate, but for the Government's intervention."¹

On the other hand, Mr. R. G. Hawtrey has given it as his opinion that the incidence of the employers' contributions is not on the employers, nor on the consumers, but on the workers.² Which of these views is more likely to be correct? The first point which emerges is that since, when they were first imposed, charges only slightly less in amount were laid *pari passu* on employees, the latter's capacity to resist further wage reductions designed to pass on to them the burden of the employers' contributions, was enhanced materially. As and when the total of contributions has been raised subsequently the same argument applies. Second, the weight of social charges has been substantially augmented during the post-war period. Since, during this period, general wages have been notoriously rigid, it is more likely than not that the employers have been unable to pass on to wages the charges falling on them. Third, the existence of the social services and in particular the large extension of unemployment benefits, national health insurance benefits, poor relief and pensions, have apparently assisted the trade unions to maintain standard rates, because these services rendered it possible to accept the alternative of unemployment with a large measure of impunity. Fourth, social charges are not such a deadweight burden as local rates, because they are more elastic and optional in that employers can avoid them by curtailing employment from time to time—the substitutes for wages provided by the larger social services have made such a policy more feasible. A fifth, but still an important point, relates to the fact that this country has not been

¹ *Economic Journal*, March, 1927, p. 11.

² *Journal, Royal Statistical Society*, Pt. IV, 1927, p. 722.

alone in providing social services : in fact, they have been developed, if not concurrently, more or less contemporaneously in certain other important countries with which this country is in overt competition. This must have assisted domestic producers to bear the addition to costs. For all these reasons, then, it may be concluded that employers' contributions have not been deducted from wages.

As to how far, however, consumers have been called upon to carry the employers' contributions during the period it is difficult to decide. In normal conditions it is to be expected that the contributions rank as ordinary costs of production and as such are included in supply price. Owing to the persistent and marked deflation of general prices observable throughout the whole period, however, it would seem that the employer has frequently been called upon to carry part or the whole of his contribution. It is hardly feasible to make a refined analysis, but probably producers of internationally-traded goods subject, as they have been, to abnormally difficult conditions, have been less able to shift their social service charges than domestic producers in "sheltered" industries. Even where it has been found possible to transfer the cost to some or to the whole extent on to consumers, clearly the burden has been spread over the whole community and has not fallen on wages alone. The general conclusion may be reached, then, that employers have to some extent had to bear their particular share of social charges, so that in this and in the two preceding ways the Richer have made a demonstrably substantial contribution towards the large total of social service expenditure.

II

The end of the analysis concerning the specific economic effects of individual services from the standpoint of beneficiaries and the general economic community has now been reached. As in the case of debt services, it remains next to consider them as a whole and to devise a critical summary estimate of the economic reactions induced.

Dealing first with the standpoint of the beneficiaries, the

clearest effect has been by way of raising individual real incomes of the Poorer category as a whole. As shown earlier, the only apparent exceptions occur in education, national health insurance, and the pensions schemes, where the boundary is at times exceeded, so that benefits are not then restricted to the Poorer. Reasons have been given, however, for thinking that the proportion of benefits going to those outside the boundary is relatively small. It is plain, too, that, in the case of certain of the most comprehensive and important services, benefits are available to and are drawn upon by a wide range of the Poorer. This applies to education, pensions, and national health insurance. As these services between them have absorbed a major part of the total expenditure the importance of this point is manifest. Again, for various reasons, it has been shown that the worse-off of the Poorer draw much more heavily on, but contribute much less heavily to, the social services. To some small extent this is countered by quasi-transfers to the better-off, seen in such cases as housing and pensions; but this sort of thing is rare. From this epitome it follows that benefits have tended to go most where they were needed, so that their utility to the individual beneficiaries has been high. The additions to real income resulting have relieved that excessive care and anxiety which is due to poverty and sickness, made life a much more pleasant thing and more of a reality, and rendered the lot of the Poorer altogether more acceptable. It is especially worthy of notice that it has been more feasible for them to accept economic opportunities and to make better use of their inborn capacities or to acquire others. All these and other advantages which are too obvious to need mention, have been definite and sometimes pronounced.

In what ways, if at all, has the economic community as a whole been favourably affected? Chiefly this has occurred by reason of higher working efficiency, itself due to better health, more decent living conditions, and to a greater measure of social content. Efficiency has been augmented by such specific expenditures as those on education, national health insurance, the separate health services and housing.

It has also been conserved—and therefore in effect increased—by the unemployment insurance scheme and poor relief. Nor may it be going too far to suggest that pensions to benefit orphans may further have improved economic efficiency by the better chances afforded to victims of circumstance to realise their potential capacity. It would be highly useful for the purpose of this study if some objective test could be applied to measure the resultant increased efficiency. Unfortunately, this is not feasible. The censuses of production taken in 1924 and 1930, while containing illuminating figures of net output per worker, cannot be used to distinguish between larger output due to greater labour efficiency; for it is not practicable to isolate this one factor from others. All that can be done is to cite such opinions as that expressed by the Balfour Committee who said of social service expenditure

“On the whole, the indirect effects of the Social Services on industrial efficiency and mobility are in our judgment much more important, in relation to the subject-matter of our inquiry, than the direct burden of their cost.”

Again,

“The sense of security and the relief from suffering thus obtained is a national and personal asset of the highest value. . . .”

Referring to the social content induced they went on to say

“It has been represented to us, and we can well believe, that in the years immediately following the war, the existence of the social services referred to above saved the country from the worst forms of unrest; and it is evident that their influence at all times is in the direction of promoting industrial stability and diminishing discontent.”¹

As for unemployment benefit, the Liberal Industrial Report declared “. . . it has, without question, enabled us to pass through these seven lean years, without the health of the mass of the working population being impaired or the standard of living being lowered.”² The Colwyn Committee said

“. . . social expenditure is not only necessary as a measure of humanity and justice, but is also, up to a point, essential to the

¹ *Final Report* (Cmd. 3282), pp. 255, 258.

² p. 275.

promotion of industrial efficiency. It makes for physical and mental well-being, for happiness, and for energy."¹

Many other citations of opinion could be given, but, as the generally favourable effects on individual and national efficiency are sufficiently obvious, it is unnecessary to say more.

There are other favourable effects of the expenditures, however, which are worthy of notice. Since the effect of the national debt services was to cause transfer from the Poorer to the Richer, the social services provide an effective and desirable counter to this, and thereby countervail materially the inequality which would have been induced. The fact that social service benefits, roughly speaking, are graduated according to need carries the process further by pulling up the living standards of the very poor and poorest. The social welfare resulting is plainly material. Nor is this reduced by the fact that to a large extent the spending is undertaken under public as distinct from private auspices, e.g. on education, health and housing; for this means that the outlays are much more exactly adjusted to actual personal needs, and that the waste and extravagance which would almost certainly be large if the benefits were dispensed entirely in money instead of in kind are avoided. Further, public spending takes advantage of the economies residing in large-scale demand, e.g. in buying medical and dental and educational services. Minor incidental advantages associable with state control of such spending are obvious. Another and important point is that, while the moneys expended on social services have necessarily depleted the resources of those contributing thereto and hence reduced their demands for goods and services, the increased demands by, or on behalf of the beneficiaries have served as an offset. The general effects of the changed demands are reserved for discussion in Chapter XIII.

Other effects are not so straightforward, while others again have been the subject of controversy. In dealing with these, then, it is necessary to weigh carefully the arguments on both sides. It is possible to argue, for example, that the social

¹ Cmd. 2800, p. 105, g. 285.

services, despite favourable individual reactions, have evoked certain economic disutilities. In this connection how far is it true, for instance, that—despite improved individual efficiency—the relatively high benefits payable under the unemployment insurance scheme, national health insurance and poor relief have reduced the general will to work? The Balfour Committee examined this point, and after showing that, on the basis of the four sample inquiries made by the Ministry of Labour, at worst only 2 per cent were “verging on the unemployable” and only 6 per cent had remained on benefit for long periods, they concluded that willingness to work had not been affected “to any material degree.”¹ In the earlier survey it has been shown that there were obvious cases of evasion, particularly to be remarked in instances “. . . mainly from mining areas, where the amount of outdoor relief granted to unemployed persons on the basis of need is higher than the earnings of the applicant when in employment.”² It was also shown that evasion occurred in each of the three services under discussion; but it was concluded that, while the malpractices certainly grew towards its end, over the period as a whole there was no widespread or persistent evasion or a decline in the will to work. Such a dictum, moreover, is supported by the plain fact that the normal rate of wages exceeded available social service benefits by a substantial margin.

In searching for economic disutilities, therefore, it is evidently necessary to consider rather the possibilities of economic waste inherent in the administration and general methods of conducting the various social services. How far, for example, is it the case that waste has resulted because of redundant staffing, overlapping of separate services and the like examples of inefficient organisation?

These questions raise very large issues, answers to which call for the resources of a Royal Commission. All that can be done here is to deal in terms of general argument on the basis of published data. As for costs of administration, the

¹ p. 135.

² Cmd. 3872, p. 20. Cf. also *A New Survey of London Life and Labour* (Vol. I), p. 374.

economic argument is that, since every person employed in administration is in effect withdrawn from possible employment in private productive industry the onus of justifying such withdrawals is on the social service scheme. To meet this responsibility, first, it is possible for the work done by social service staffs—the term is used to cover all persons engaged in administering the scheme as distinct from those otherwise engaged therein—to be indirectly productive; for administration is inevitable to the process, and it is conceivable that such staffs may actually be indirectly responsible for mediating more utilities than disutilities—and possibly again more than if they had been engaged in private industry. But second, if staffs are redundant, or are in any way wastefully employed they become more parasitical than productive. General information about administrative expenditure is contained in the official reports on social services issued annually, and the following table is drawn to show the relation between this and the item of "All Other Expenses"—which does not include loan expenses. It may be recalled that the item of War Pensions has been abstracted and dealt with in other chapters.

ADMINISTRATIVE EXPENDITURE ON SOCIAL SERVICES *
(£millions)

	Total Expenditure on Administration. (1)	All Other Expenditure. (2)	(1) as percentage of (2). Per cent.
1921 . .	18.28	253.60	7.19
1922 . .	15.95	229.12	6.99
1923 . .	16.28	219.27	7.40
1924 . .	17.17	230.35	7.46
1925 . .	18.21	247.32	7.37
1926 . .	18.95	278.97	6.79
1927 . .	19.16	261.20	7.34
1928 . .	19.77	289.06	6.80
1929 . .	20.47	295.49	6.94
1930 . .	22.77	352.69	6.45

* *Public Social Services, Returns, 1922-1932.*

This table gives no criterion for determining how far the expenditure on administration has been absolutely high or low—which, of course, is the main point at issue. Despite some increases brought about by higher post-war basic salaries, in view of the general decline in the cost of civil

service salaries which has occurred since 1921 as a result of the substantial fall in the cost of living, and a similar movement downwards in the salaries of local government officers, the table clearly suggests that real administrative costs have increased. Seeing, indeed, that the salaries of the executive and clerical branch of the civil service fell from an average of £321·8 in 1921 to £302·8 in 1930, while those of writing assistants and typing staffs declined from £189·8 to £136·5,¹ and that these are the branches most concerned with civil service administration, it might be expected that a larger reduction of costs would have been feasible. No accurate data are available for salary expenses of local government officers: but while a comprehensive superannuation scheme was introduced in 1922 which has added something over £1 m. annually to salary costs, this was slow to be adopted. It is likely, then, that individual salary costs expressed in nominal terms have declined over the period similarly to those of the civil services.² The presumption is, therefore, that despite individual salary declines total administrative costs have not fallen so pronouncedly as might be expected; and that the absence of decline has been due to increases of staff and personnel. This is a general judgment only, and is subject to some qualification in the light of the individual peculiarities and difficulties of different services. These, in turn, have mainly been occasioned by legislative changes operating to impose a variety of additional burdens of work. The judgment is possibly fortified, however, by consideration of the costs of administration of war pensions. While there were special reasons for it, it is yet notable that there was a decline from 1s. 2½d. in 1922 to 51½d. in 1931 per £ of benefit expenditure.³

The view that general administration costs have nevertheless been relatively low has been taken by certain inquirers. In a special Departmental Report on Unemployment Insurance made in 1923, Mr. T. W. Phillips showed that the rate of administrative expenditure to revenue for

¹ *Report of May Committee* (Cmd. 3920), p. 30.

² This opinion is shared by the National Association of Local Government Officers in a letter to me.

³ Cmd. 3920, p. 202.

national health insurance was 13 per cent, and for unemployment insurance it was 8·3 per cent. These figures were contrasted with those for privately administered schemes of workmen's compensation—37·04 per cent in 1921—and industrial assurance societies—43·60 per cent in 1921.¹ While the exact figures changed, this was typical of the antithesis between private and public administrative costs in the period. Mr. J. B. Seymour has argued that the costs of the employment exchanges have been low—"By a comparison of costs to income, we have seen that a State organisation is far cheaper than any other insurance agency."² Lastly, Mr. J. L. Cohen has considered the cost of social insurance as a whole, and after drawing on comparative statistics for other countries also has pronounced to the effect that State administration was less costly.³ While the citation of these results is interesting, it does not of course strictly concern the preceding argument, so that, despite the undoubted difficulties due to legislative changes, since these have been a function of the actual schemes in vogue during the period, the unfavourable conclusion as to the relatively slow decline of administrative costs must be retained.

Turning to expenditure on other than administrative services, statistics are frequently not available. The services predominantly concerned are education, housing and health. As for the first, a statistical examination has been made earlier showing that teaching salaries account very substantially for the enhanced expenditure of the post-war years, and that these have probably risen by more than was justified by the increase of teaching efficiency, by the relatively low level of pre-war salaries, and by the post-war rise in the cost of living. Although comparisons are exceedingly difficult to make, it seems plain that the increases have been more substantial than, for example, in the civil service and in local government salaries as a whole. On these general grounds it may be suggested, therefore, that a certain proportion of the expenditure is assignable as immoderate.

¹ *Report on National Unemployment Insurance to 1923*, p. 13.

² *The British Employment Exchange*, p. 255.

³ *Social Insurance Unified*, especially pp. 80-8.

As for housing, it is well known that wages of building operatives have been larger both in nominal and real terms over the period compared with 1913-1914. It must be remembered, of course, that wages in the latter year were low mainly on account of the depressed condition of the building industry in the immediate pre-war years. Nevertheless, it appears, for example, that weekly money wages rates of bricklayers in 1926 were 182 per cent of 1913, of painters 205 per cent, and of building labourers 212 per cent—while other grades registered similarly large increases. Rates approximately as high as these had obtained during the period since 1921 and endured up to 1930.¹ Even from then up to the end of the period there was no more than a relatively slight decline. It is true that explanations are largely bound up with those applicable to wages in general during the period; but not until 1925 was it feasible to secure an alteration of the policy of restricting labour supply observable after 1919 and this was undoubtedly a factor making for higher wages. Moreover, during and after 1925, building policies became more expansive so that the measure of dilution permitted was thereby virtually offset. Part of the larger wages paid to building operatives (and incidentally the relatively high average profits of master-builders) was therefore the outcome of the inelastic and persistent demand for houses. Bearing in mind that materials have contributed not far from one-half of the total of building costs, and that with the outstanding exception of timber, these have been supplied largely by home producers, the inelastic demand has also had effects on the domestic industries affected by the various derived demands. The factor in turn largely responsible for the artificially strong demand was the award of subsidies. It may then be inferred that the housing policy has imposed a burden equal to the difference between actual prices under subsidy and those which might have obtained without subsidy.² How large this has been it is impossible

¹ A. L. Bowley, *Some Economic Consequences of the Great War*, p. 149; *Ministry of Labour Gazette*.

² It may be noted that there has been a rough correlation of sorts between subsidies and house prices. For the earlier period there was no fixed subsidy; after September, 1923, there was. While the capital

to determine ; but as an offset there must be reckoned the social advantages of a large and early supply of houses. As for health services, it is not practicable to obtain information on which to found a conclusion. There can be little doubt that expenditure on building works of various kinds has been unfavourably affected by the general post-war building position ; and it is known that a somewhat substantial amount of new building—viz. for sanatoria, convalescent homes, mental hospitals and maternity homes—has been undertaken. The other main items are for salaries of doctors, dentists, attendants, nurses, sick visitors, inspectors and other officials not ranked as administrators. About these not much can be said. It may be noted, however, that the doctors' capitation fee—which is based on some medical attention to about one-half of the total of insured persons in each year¹—has from time to time been revised, e.g. 11s. in 1921, 9s. 6d. during 1922–1923, and 9s. after 1923. The Royal Commission on National Health Insurance of 1926 did not express an opinion on the merits or demerits of this figure : but there would appear to be a presumption that, owing to the relatively large panels maintained,² and the inelastic demand for medical services generated by the scheme, the average medical income has risen in real terms during the period. The May Committee declared indeed that " It is common knowledge that the standard of remuneration of the medical profession has been greatly increased as a result of the Health Insurance Scheme. . . ."³ Since in 1926 dental benefits under the national scheme were provided to nearly 11 million members of a total of a little over 16 million, the same line of argument

value of the subsidy spread over 40 years at 5 per cent was £78 (from September, 1923–June, 1924) prices of a non-parlour house ranged between £420–£491 ; while it was £155 (from September, 1924–September, 1927) prices were £494–£518 ; while it was £129 (December, 1927–March, 1931) prices were £405–£481. More significant, perhaps, prices fell towards the end of subsidy periods.

¹ Cmd. 2596, pp. 149–50.

² In 1929 there were about 15,200 insurance practitioners and the average panel to each practitioner numbered 930. (G. F. MacCleary, *Memo on the English Scheme of National Health Insurance*, Ministry of Health, 1929, p. 10.)

³ *Report of May Committee on National Expenditure* (Cmd. 3920), p. 159.

may be expected to apply thereto. About other professional services, it is impracticable to say anything definite: but it may be observed that the average remuneration of sick attendants, visitors and nurses is of a much lower order. The conclusion of this part of the analysis is, therefore, that the development of social services in the period has entailed larger real costs for administrative and professional staffs in the case of certain specific services; and that this verdict is more likely than not to apply to other services.

Are there other directions in which the social service scheme has led to economic disutilities? Presumably something bearing on this may inhere in the policies and methods under which the schemes have been conducted. What, for instance, shall be said about rates of benefits? Taking the example of the unemployment insurance scheme with its large outlay on benefits, what can be said about these? The First Report of the Royal Commission on Unemployment Insurance showed that benefits for a married man with two children had varied from a "real" equivalent (as determined by the cost of living index) of as low as 9s. 9d. in 1921 to 30s. in May, 1931. Partly—as to 8s. 2d. of the latter total—this was due to the award of dependants' benefits in late 1921; but the actual increase was due more largely to the fall of the cost of living index and to increases in nominal rates of benefit.¹ These facts, by themselves, do not necessarily imply that benefits have been too high or too low. The Royal Commission pointed out, however, that "... at no time down to the present day can we find any authoritative acceptance of the view that unemployment benefit was intended to be sufficient to provide full maintenance,"² and they instanced cases of "anomalies" whereby intermittent, short-time, casual and seasonal workers, and certain sections of married women, had taken advantage of the scheme to receive larger benefits than were justifiable.³ Further, they showed that "transitional" benefits had been paid somewhat indiscriminately in the later years of the period.⁴ It would seem to be clear then that benefit policy and methods

¹ Cmd. 3872, p. 66.

² *Ibid.*, pp. 37-46.

³ *Ibid.*, g. 89.

⁴ *Ibid.*, pp. 17-19.

have been such as to conduce to economic waste. This decision is not without qualification : for it must be borne in mind that, if benefits had been lowered considerably and had been much less freely available, the burden of other social services such as poor relief and health would probably have been increased. Furthermore, the long periods of unemployment suffered by certain sections of employees made its burden on them far more pronounced. Waste also occurred in the administration of poor relief. Reference has previously been made to the undesirable effects of " scales " of relief. It has also been shown that relief policies exhibited a material amount of variation from one district to another, and that, on the whole, assistance was more generously applied than in pre-war years. Against these points, however, it may equally be recalled that poor relief has had to serve as the impassable bottom of the " sieve," catching all and sundry who fell out of eligibility for other benefits—and especially " transitional " unemployment benefit. The amounts disbursed in this way over the entire period must have provided a fair subtraction to be made from the full total of relief. Another, but less, deduction is due to the more humane and tender care of the feeble and incapacitated poor. Lastly, the education of poor-law children has been more efficiently undertaken. National health insurance provides another example of economic waste, partly induced by administrative laxity, but more largely by active abuse of the scheme caused by certain groups of persons taking advantage of loopholes which no administrative organisation could effectually stop up. Again, however, there is the qualification that the deprivation of benefits inequitably obtained from health insurance might in some cases have forced countervailing burdens on to other social services, such as poor relief.

These administrative diseconomies probably exhaust those to be laid at the door of individual social services ; but something yet needs to be said about the services regarded as a whole. How far have disutilities been created as a result of the absence of an optimum co-ordination of the individual services ? A trenchant criticism on these lines was made by

Sir Andrew Duncan and Prof. Alexander Gray in the Report of the Royal Commission on National Health Insurance. They declared that

"It would be unjust to say that our social legislation has grown up haphazard, but it is indubitable that the various schemes contrived for the protection of the worker against the accidents of life have been elaborated—doubtless very properly—as and when occasion offered. . . . On the possibility of co-ordination, on the alternative methods and machinery of operating a co-ordinated scheme, we have received no evidence, or only incidental evidence; and on all such matters we express no opinion. But we do desire to emphasise that there is here a problem which calls for urgent consideration. It may be that in a co-ordinated scheme different machinery would still be necessary for the administration of different sections of the work undertaken, but *prima facie* it appears reasonable to assume that an economy of expenditure and of effort would be effected by viewing the problem of social insurance as a whole and not sectionally."¹

Similar views have often been expressed by other authorities, but need not be cited.² A different sort of integration was postulated by the recent Royal Commission on Local Government, namely, to the effect that economy could be obtained by the reorganisation and fusion of many separate local government areas and therefore in the provision and administration of local social services.³ Dr. Robson has pressed this point in particular and with great clarity. After a detailed analysis he is led to state that "The conclusion which emerges from this summary of the present position is that although a considerable amount of joint action is taking place in certain services, it is sporadic, uncertain, and unsystematic."⁴ In a special examination of public health services he finds that

"... the local administration of public health is at present split up among a number of unco-ordinated and even competing authorities. There has been no integration or unification similar to that which resulted in the creation of the Ministry of Health. In consequence we have waste, inefficiency, chaos, and worst of

¹ Cmd. 2596, p. 292, g. 2.

² Cf. J. L. Cohen, *Social Insurance Unified*.

³ *Vide First, Second and Final Reports* (1925, 1928 and 1929).

⁴ *The Development of Local Government*, p. 122.

all, a failure to envisage the health of the individual as a continuous entity." ¹

It may be added that the Royal Commission on National Health Insurance favoured greater co-ordination of the various health services.² There is no doubting the validity of these lines of criticism, and therefore it would be futile to contend that economic waste has not occurred from lack of co-ordinated administration. Moreover, without entering into a detailed survey, it may be pointed out that the inability of administrative costs to decline over the period—as instanced earlier—may largely be ascribed to this defect. On the other hand, however, it is desirable to recognise that administrative costs of social services as a whole have not bulked much larger at any time in the period than a round £20 m. It is apparent, then, that the total amount of administrative diseconomy cannot be absolutely large. More important, it has to be recognised that social service costs are relatively much more a function of the policies adopted than of the machinery for putting them into effect; so that diseconomy is more substantially possible on this account than on account of administration alone. Lastly, the criticisms beg the question of the feasibility of unification and co-ordination. Undoubtedly the question is not begged in the case of the national health insurance scheme and unemployment insurance, the possibility of effecting co-ordination of which has been pointed out—to cite one authority among many—in the columns of the *Economist*.³ Again, Dr. Robson has put forward constructive suggestions for amalgamation and fusion; but the range of his survey limited this alone to the sphere of local government. As for the social services as a whole, however, individual services are—necessarily in some cases at least—established on different bases. Thus the insurance basis applies to unemployment and national health but not to poor relief, special health services, lunacy and reformatory schools; while the basis of education is different again. The conclusion is, once-over, that while some economic waste can be laid at the door

¹ *The Development of Local Government*, p. 333.

² Cmd. 2596, pp. 59 *et seq.* ³ 13 April, 1929; p. 793.

of administration and co-ordination, since in fact not a vast improvement is feasible, the loss must not be overrated. As for the possible economy which might have been achieved under a co-ordinated scheme of policy as distinct from administration, this topic is conveniently deferred until later.¹

There is one more possible line of attack upon the cost of social services—on the ground of its intractability. This point turns on two considerations—(1) that expenditure is predominantly statutory in character, and (2) that loan finance is largely involved. The truth of the first point is demonstrated by even a cursory inquiry: statutory legislation as a causative factor appears in all services. The democratic governments of the period, dependent, as they have been, on votes obtained by popular programmes, found it extremely difficult to reverse the legislative engine. More important, as a result of the impetuosity of, and concentration on previous acceleration of speed, they found their unattended braking power to be reduced and less adequate. Nor is there any guarantee that the braking device of a "national" government implies a very great increase in effectiveness. It is desirable, nevertheless, not to omit the fair comment that the social services were not the only passengers in the legislative car: in particular debt services were also carried in it during the period 1921-1935, while defence services were more successful than not in their struggle—pushed from behind by "experts"—for a place. As the conductor of the vehicle, too, the tax collector was always present. As for the second point, this is taken by some observers to be a serious one.² It appears outstandingly in the housing services, in unemployment borrowing, and to a less extent in health expenditure and education. It will be noticed that local authorities are concerned in all except one branch of social service expendi-

¹ *Vide* Chap. XIV.

² Cf. Nicholson, *Principles*, Vol. 3. "Local authorities are more subject to the malign influence of private interests and to sanguine estimates as regards reproductive outlay. They are also even more ready than the central government to resort to the easy methods of public debt. . . . It seems hopeless to rely on the judgment and restraint of the local authorities." (p. 401.)

ture, and since borrowing means a prolonged future burden on local authorities, the disability is obvious. On the other hand, if there was a case for financing the war largely out of loan moneys, there was certainly a strong case for this in the services concerned. The war analogy, however, does not by itself constitute an economic justification. Greater support for the policy inheres in the relative permanence of the objects of expenditures, such as houses, lands, hospitals, sanatoria, poor-law institutions and schools; so that the incomes derivable from the capital assets are available each year to offset the loan charges. The main criticism lies, therefore, in the possible disproportionateness of the loan charges to present and future annual revenues. Some light on this is available from the statistics. These show that loan charges on social services for the year 1921 were £10·93 m. and in the last return (for the year 1929) they were £36·46 m.—an increase of £25·53 m. The increase was predominantly accounted for by Housing (£22·85 m.) and to a relatively small extent by Education and Unemployment Insurance. It is observable, however, that the item of "Other Receipts" for Housing (which includes rents) rose from £2·62 m. during 1921-1929 to £20·20 m. In Education, too, this item rose from £4·86 m. to £8·32 m.¹ While the burden of loan charges is likely to be increased after the end of the period as a result of the continuance of housing subsidies, and capital commitments for education and health entered into the period, the above figures suggest that there is no solid ground for criticism of a policy which has relieved the contemporary burden at no great expense to the future. This, of course, does not apply to unemployment insurance borrowing; for on the ground of principle, borrowing is not permissible for consumption expenditure of this character. Moreover, the borrowing was due to causes which were not beyond control—mainly to a disregard of the insurance characteristic upon which the whole scheme is essentially based.

Another possible adverse result involves external rather than internal considerations. It is concerned with the

¹ *Public Social Services, Returns (1924-1932)*.

problem of how far social service spendings have caused higher costs of production. It has already been contended that employers have had to shoulder some part of the contributions made by them to unemployment and national health insurance and to the pensions schemes for widows, orphans and old persons. Over the period 1921-1931, as contrasted with £9.35 m. in 1913-1914, the annual average of such contributions has been £35.59 m. The amount contributed by producers to local rates on account of social services is not known, but an estimate is offered below. The additions made to costs of production by these two items are specific and unquestionable. As for general taxation, the issue is not so clear. The Colwyn Committee demonstrated the truth of the economic argument that income tax does not ordinarily enter into prices and therefore into costs of production. By way of refinement of this generalisation, however, they also accepted the point that reactions may occur on enterprise and saving of an unfavourable character, for these latter

"... are undoubtedly diminished to some extent as a result of the physical transfer, under progression, from the larger to the smaller incomes; they are further diminished on account of the psychological reactions set up by the inroad which the tax makes into the pure interest yield and into the reward for work and risk. So far as the Income Tax, operating in these ways, has any tendency to reduce the volume of production, it must also have a tendency to increase prices."¹

In the same paragraph the Committee went on to declare that "We are satisfied that, when the application of the tax revenue is taken into account, the higher level of post-war income taxation has not had anything approaching a commensurate effect on the level of prices." It is evident that the analysis made in Chapter VII is largely compatible with this conclusion; for it will be recalled that the heavier adverse effects on enterprise have been on private concerns, but that these are responsible for no large part of total production, and not infrequently are engaged in economic operations not directly or intimately associated with pro-

¹ p. 164, g. 438.

duction. By contrast, joint-stock companies undertake a substantial volume of production, and since they only suffer income taxation at standard rates on reserves, the part of this, and therefore the total of taxation which is due to social service expenditure, cannot be heavy. In saying this it is necessary not to be forgetful of separate taxes, such as Excess Profits Duty, and Corporation Profits Tax which have been levied on joint-stock companies in the period. The amount of the former tax strictly entering into the period has nevertheless been negligibly small: the latter has had effects similar to the income tax in falling on profits determined by the equilibrium of supply and demand prices, so that it did not directly enter into production costs. To the extent that it led to lessened reserve allocations because of the policy of paying higher dividends (as in the case of income taxation on reserves) the smaller sums allocated to reserves must to some extent have enhanced production costs by reducing the amount of new expenditure on capital equipment. In saying this, only that part of the Corporation Profits Tax assignable to social service expenditure may equitably be reckoned in, and only the actual negative results on reserve allocations of this part. In view of this qualification and the fact, especially, that reserve allocations have not been very markedly reduced in the period, the adverse effects of taxation for social services on costs cannot be heavy. Lastly, in the case of both private and public concerns, the higher taxation falling on individuals on account of social services, which has reduced their consumption and therefore tended to increase costs as a result of lowered output, has, by facilitating expenditure on social services, led to a corresponding if not equal enhancement of consumption. It has thereby created an offset to these negative effects. The conclusion is, then, that the general taxation levied for social service costs cannot materially have affected industrial costs of production.

The analysis may therefore confine itself to the effects of local rates and contributions. The Balfour Committee estimated the dual burden of these to be between 2 and 3 per cent of total production costs, divided as to roughly one-

half for each.¹ In arriving at this figure, the Committee took account of only four social services (unemployment and health insurance, contributory pensions and workmen's compensation), but of the whole of local rates payable by industry. For the present analysis, it is desirable to form some estimate of the actual amount of local rates falling on productive industry which is due to the social services alone. Unfortunately no exact estimate of this can be made for the whole period. The figure assumed for the 1929 derating scheme may, however, be used as the basis of an illustrative calculation. From this it appears that the total of local rates falling on productive industry in Great Britain in 1928 was in the region of £40 m. Since social services rates costs in 1928 were about one-half of the total local rates levied, it may be assumed that the social service rates costs falling on productive industry in that year were about £20 m. In the same year employers' contributions to social services amounted to some £40 m. If it is assumed that the latter are entirely borne by employers and the total of £60 m. is now related to the "gross" and "net" value of the 1924 Census of Production, the resultant percentages are respectively 2.08 and 3.52.² How do these burdens compare with those of 1913-1914? No exact data are available; but if it is assumed that the social service rates costs falling on productive industry bore the same proportion to the total of rates as in 1928—about one-quarter—since social service rates costs in 1913-1914 were some £37 m., the figure carried by productive industry was about £9.25 m. Adding the employers' social service contributions of £9.35 m., and relating the total of £18.60 m. to the "gross" and "net" output of the 1907 Census of Production, the comparable percentages are 1.36 and 2.63. As total output in 1913 was probably not materially larger than in 1907,³ these figures may be deemed to apply roughly to the later year. Comparison of the two results suggests, then, that the burden of social service costs on productive

¹ *Final Report* (Cmd. 3282), p. 254.

² As the total of social service rates costs on industry as a whole is not available, these figures are valid only for purposes of comparison with those derived on a similar basis for the pre-war year, as stated below.

³ Cf. Clark, *Economic Journal*, September, 1931, p. 361, Table XII.

industry was certainly heavier in 1928 than in 1913, but that the increase was not absolutely large. On the strength of this illustrative calculation it may therefore be supposed that social service costs bearing on productive industry were not increased prohibitively during the post-war period.

Less specific and measurable than these items, however, it has often been contended in recent years that the various social services—and especially unemployment insurance—did, in other ways, create heavy burdens. In the case of unemployment insurance it has been argued that this led to undue rigidity of wages—and particularly from end 1922 to end 1929. It has been contended, indeed, that rigidity was entirely due to this factor. The argument was stated in its most extreme form by M. Rueff in 1925 and repeated with even stronger force in 1931.¹ Sir W. H. Beveridge has declared that, of two new factors causing post-war money wages to be less plastic, one was “. . . the generalisation of unemployment insurance in 1920 and its conversion into unlimited relief, by extended benefit in 1921 and by statute in 1927.”² Prof. Pigou has expressed the opinion that extra unemployment has certainly been caused by this factor. As, however, real wages rates in 1924 were not considerably higher than in 1911 he did not think that the amount was large, and he suggested that something like 5 per cent extra unemployment might tentatively be assigned to higher real wages.³ Mr. Clay has declared that “To-day trade union negotiators can afford to take the risk that a wage-rate on which they insist will cause unemployment because their constituents will be provided for by the national relief scheme.”⁴ He has also declared that “We have interfered with the harsh but effective correctives of wage-demands that restrict employment, namely, the loss of income by unemployment and the expansion of employment where wages are not held up.”⁵ Prof. Bowley, in discussing post-

¹ *Revue politique et parlementaire*, 10 December, 1925, and *Revue d'économie politique*, March-April, 1931.

² *Unemployment* (1930 edition), p. 369.

³ *Economic Journal*, September, 1927, pp. 356-7; cf. also *Industrial Fluctuations* (1st edition), p. 182.

⁴ *The Post-War Unemployment Problem*, p. 155.

⁵ *Economic Journal*, September, 1929, p. 341.

war wages, has argued that they were forced up to a level "... not warranted by the economic situation, which has been rendered more possible by the development of the unemployment insurance scheme."¹ The Balfour Committee did not consider this problem explicitly but did so implicitly by comparing the post-war experience of the U.S. and this country of unemployment. Finding that, even before they reported, the unemployment experience of America had been of serious dimensions, they concluded that

"It cannot be said that the figures of industrial unemployment in the United States give any support for the view that the mass of unemployment in this country is to a material degree the result of the measures taken for mitigating the resulting hardships and could be appreciably reduced by discontinuing those measures."²

Before dealing with these arguments it is desirable first to consider how far such an outcome might have been facilitated by restricted mobility of labour. The Inter-Departmental Committee on Migration of 1926 found that, while other social services did not greatly restrict mobility, unemployment insurance did so, and it discouraged mobility among young people in particular. The extension of poor relief had a similar effect.³ Mr. Clay has argued, too, that the unemployment insurance scheme has checked it by encouraging short-time working,⁴ even though generally the scheme did not impose an insuperable check upon mobility.⁵ The Balfour Committee agreed "That the provision of unemployment benefit should to some extent lessen the incentive to migration and to industrial re-distribution is perhaps inevitable."⁶ Obviously, anything which reduces the acute necessity to find work, when unemployment exists, must restrict mobility. This is especially true where other—e.g. society—monetary assistance has been available also. On the other side, statistics show that unemployment benefit has neither been widespread nor permanent and that there has been a sizably large redistribution of labour

¹ *Some Economic Consequences of the Great War*, p. 209.

² *Final Report* (Cmd. 3282), p. 135.

³ Cmd. 2608, p. 25.

⁴ *Economic Journal*, March, 1928, p. 12.

⁵ *Ibid.*, September, 1929, p. 335.

⁶ *Loc. cit.*, p. 131.

in the period. Thus it was shown to the International Labour Conference of June, 1931, that from 1923 to 1930 only 1 per cent of the males receiving benefit had received it in each year and .3 per cent of the females ; while no more than 30 per cent of the males and 40 per cent of the females had received it for one calendar year.¹ Again, Sir Walter Layton, writing in the *Revue de Paris*,² showed that, while the number of workers in the north of England and in Wales increased by only 17,000 in 1923-1929 (inclusive), in the Midlands and the south of England the increase was some 575,000 : and additionally there was movement from industry to industry. Despite these figures, however, which, after all, are only evidence that movement is occurring, it is reasonably to be expected that some reduction of mobility has occurred as a result of the social services—seen, perhaps, most acutely in the South Wales coalfield ; and this has undoubtedly gone to promote more rigid wages than otherwise would have obtained.

Returning now to the original problem, it can hardly be doubted that, since unemployment insurance benefits have been widespread ; and since they have remained unchanged in nominal terms and have therefore grown in real terms ; because of laxity in administration, leading to evident abuse of the scheme ; because of the reduction of mobility ; but above all because the benefits have given a new and strong weapon to trade union leaders, they have thereby fostered the post-war policy of high standard rates and consequent high unemployment. To state this is not to deny that, in the case of unskilled workers, the insistence by unions on higher wages has also been—as Prof. Bowley has suggested —“ . . . quite possibly a deliberate policy of the workers’ organisations, who desire a ‘living wage’ for their members.”³ Again, even remembering that the incidence of unemployment has been changing and varied during 1921-1931, the fact that, despite individual wages declines, the maintenance of general nominal wages has obtained con-

¹ *International Labour Office, Annual Review* (1930), pp. 323, 325, 329.

² 1 April, 1931, pp. 568, 577-9.

³ *Some Economic Consequences of the Great War*, pp. 154-5.

currently with an intractable substantial amount of unemployment, suggests the presence of a persistent abetting factor such as unemployment benefit. Moreover, it is difficult to find another equally insistent separate factor. Possibly the development of the minimum wages system has been partly accountable—but only to a very minor extent and over a limited period. Nor did the revival of trade union restrictions after the war cause the position as affected by these to be materially different from the pre-war period. Nor can it be seriously suggested that the fact that wages in export industries have shown a substantial decline points to the irrelevance of the contention; for an explanation is available in that the declining demand for this country's exports, coupled with the large amount of surplus capacity and labour in the export trades caused by the war—to select only two points—were obviously more important factors than that under discussion. Again, it cannot be suggested that English employers shared the view apparently widely held in America's more prosperous days that high wages were desirable because they induced prosperity as a result of the larger purchasing power available for spending. The explanation of the normal wages "lag" is unconvincing also because of the relatively long duration of high wages, and the "stickiness" of post-war wages. Finally, it is of little avail to point to the gap existing between ordinary wages and unemployment benefit, since it is necessary to consider family income in total rather than the separate incomes of individual wage-earners. In this connection, too, it must be remembered that unemployment insurance is not the only benefit: for the preceding analysis has referred to the attempts made—with some degree of success—to invoke the aid of health benefits—to say nothing of the larger poor relief and the various pensions schemes. Nor must it be overlooked that in cases of "marginal" employment, employers have been influenced in their decisions about this by the incidence and collective weight on expenses of production of social service contributions.

Probably the strongest rejoinder of all which can be made is that wages costs do not ordinarily comprise, on the aver-

age, much more than one-half of "net value" as the term is used in the census of production. Again, wages as a cost vary from industry to industry. Because of these facts it may be expected that the rigid maintenance of wages is less likely to produce widespread unemployment. Nevertheless, this argument can be met by the simple point that, of all costs, wages have been, on the whole, the most intractable. Almost all other costs have fallen, and some have fallen very materially along with the persistent decline of prices. Something, however, might be allowed to the contention of the International Labour Office that wages vary just as much in countries having an unemployment scheme as those which have not. Yet this body also admitted that "It is true that to some extent this insurance acts as a barrier against a serious lowering of the workers' standard of living." The conclusion is that, on balance, unemployment insurance in particular and the social services in general have to some extent adversely affected the plasticity of wages and therefore caused unemployment.

In attempting to summarise the various preceding arguments on both sides and to reach a judgment, the one thing which is certain is that the arguments have not been, nor can they be, stated with sufficient accuracy and definiteness to lead to an unassailable conclusion. It may nevertheless be suggested that, as examined above, the negative arguments about social service expenditure have less force than is commonly attached to them in popular contemporary discussion; for in this it was long fashionable to suggest that one of the scapegoats—if not the only one—responsible for the domestic depression was to be found in iniquitous social service expenditure. If, then, the negative arguments are not so strong, it is possible to suggest, with more probability of accuracy than not, that the affirmative arguments are relatively strong. The latest authoritative body to deal with social service expenditure, set up at a time when public opinion on the disabilities entailed by the abnormally heavy payments made for unemployment insurance benefits was running high, declared that "It is with reluctance that we have to suggest a reduction in existing rates of benefit.

For every reason we desire to maintain the rates of benefit at the highest possible level.”¹ The real and principal advantage of the social services is bound up with their favourable reactions on both national and individual efficiency, especially as affecting the possibility of realising inherent or acquired capacity. Not much less important, however, is the assistance they have given to a decent standard of living for the Poorer in general, and the vital significance this has had in combating poverty and in generating social content.

This verdict, reached after a balancing of the many arguments for and against, is, it must be observed, without prejudice to the various and in some cases important criticisms which have been cited. It does not, therefore, presuppose that there is not a case for reform both of the social services as a whole and of some individual services in particular. Suggestions to this end are, nevertheless, better deferred until a later chapter.

¹ *First Report of Royal Commission on Unemployment Insurance*, p. 32, g. 88.

CHAPTER IX

DEFENCE AND WAR (AFTERMATH) SERVICES

I

IN discussing the various effects of the services included under this heading, it is desirable at the outset to point out that, despite the large sums involved, owing to the paucity of published data, analysis cannot be carried out in detail.

Attention may first be turned to a consideration of the economic effects of expenditure on War (Aftermath) Services, of which easily the largest has been for War Pensions. The general effects of this outlay have been to transfer resources from a large number of taxpayers to a smaller number of beneficiaries. Since the fighting forces called into being by the war drew very heavily upon the Poorer classes, it would seem that there has thus been a very substantial transfer from the Richer and the better-off of the Poorer to the Poorer as a whole. Some modification of this dictum is necessary, however, because the basis of award of pensions has not been relative poverty or wealth, but a scale varying with the disability suffered as a result of the war. This means that pensions have actually gone both to the Poorer and the Richer. Even so, despite higher awards to officer ranks, the preponderance of benefits has undoubtedly gone to the Poorer. Owing to the payments being at their maximum in the case of death and to graduation according to physical disability, the effect has been to transfer largely according to the volume of economic suffering which would have been entailed in the absence of pensions, so that it might further be said that the payments have tended to be adjusted to the degree of potential economic disability. This is probably true despite numerous exceptions.

From this argument it follows that the pension moneys

must, besides going to pay for medical treatments and appliances of all kinds, have led to a very substantial demand by pensioners for consumption goods and services. Owing to this, it is likely that the result of the transfer has been to cause a net addition to the total of individual welfare and content, so that the favourable reactions induced have been very similar to those obtaining in the case of social services. Nor have the benefits been confined to individual recipients of pensions; for dependants and relatives have been relieved of burdens which otherwise they would have had to shoulder.

From the standpoint of the national income, adverse effects thereon have resulted from the pressure of the concomitant taxation in the shape mainly of reduced enterprise, but also of reduced total saving. It is possible, too, that in some cases pensions have been so large as to reduce the stimulus to recipients to engage in productive activity. This has been the more likely because pension scales have not generally been reduced in a period of falling prices. Nevertheless, it has been shown earlier that the scheme has on the whole been efficiently administered, and ordinarily rates of pension have been lower than wages. On the other side, favourable effects on the dividend have often resulted from the restored employability due to medical care, while the allowances for children have permitted their economic capacities to be developed and nourished. Again, it is clear that in the absence of pensions social service costs would have been increased.

The analysis may now proceed to a consideration of the expenditure on the Disposals and Liquidations Commission. The net costs entailed by this body were more largely on account of payments made under agreements to pay compensation for governmental use during the war of private properties and resources. Such costs entered into the period only because they were deferred. The payments made to the Railways and Canals and to Shipping were equivalent to ordinary purchases and sales. As such they involved a levy on taxpayers the proceeds of which were passed over to the beneficiary concerns, shareholders, and employees.

What specific economic reactions were thereby induced it is impossible to discover. All that can usefully be said is that, if the payments were in excess of the actual value of the goods and services received in exchange—as possibly they were—the excess was equivalent to a subsidy to the beneficiary concerns and persons at the expense of the general body of taxpayers. From the economic standpoint, since there were no special or specific reasons for a subsidy, it is probable that more loss accrued to the taxpayers than gain. The balance of loss and gain to the community would, however, be conditioned by the use made of the subsidies ; for, if spent on new equipment or reconditioning of old equipment designed to add to efficiency, the effects would be more favourable than if the moneys were not put to such uses. Another material line of expenditure took the shape of payments to coal-mining concerns designed to offset deficiencies in the selling price of coal occasioned by conditions prevailing subsequent to the passing of the Coal Mines (Emergency) Act, 1920. These payments were made during the interim period between the cessation of governmental control and the restoration of mines to unrestricted private ownership. In this case the analysis of effects is similar to that preceding. Into the many minor payments made under war-time agreements it is not necessary to enter beyond saying that, if and in so far as they represented an excess over the real worth of the goods and services derived the loss fell on to the general taxpayer, who was thereby deprived of a command over goods and services in favour of the beneficiaries.

As for the expenditure in disposing of surplus war stocks, owing to the special character of the commodities, the redundant volume of them, but above all to the haste with which they were disposed of, it is certain that the proceeds accruing to the Exchequer were less than the costs previously incurred. Because of this, the loss fell on the general taxpayers and the gain passed to private purchasers. A further loss fell on taxpayers on account of the large staff employed to effect sales.

To pass to the next largest item—that of Middle-Eastern

services—this had the effect of appropriating a sizable volume of funds from taxpayers which were spent more largely without, than with economic advantage to the community. For the outlays took the shape more of moneys spent abroad than at home and without any *quid pro quo* in the shape of economic goods and services. Again, they were in favour of foreign peoples rather than of the inhabitants of this country, and there is no reason to expect that the moneys were disposed so as to add to the economic welfare of this country. To this generalisation there is the possible offset of the derivative political advantages, the principal of which is the strengthening of the Empire defences, and a more remote one of which is the possibility of acquiring trading concessions and openings of various kinds as a result of the goodwill generated by effective administration in Mesopotamia, Palestine, Arabia and in parts of Africa. Again, some of the expenditures took the shape of loans. Certain of these are being repaid, but as a whole there is little likelihood that the moneys will be repaid in full. The size of these offsets cannot be estimated; but, in view of the relatively heavy expenditures incurred in the Middle-East, it is more likely than not that they have been insufficient to stamp the outlays as very productive and worth while on economic grounds.

The costs of Training Ex-servicemen may be regarded in a different light. The favourable effects of this expenditure are seen in the additions to employability derived from training. This, so long as the training was properly directed or adjusted as far as possible to the potential demand for labour, was economically valuable in that it added to personal capital from which both the national income and the trainees might subsequently benefit. Incidentally it served to offset the possibility that untrained and unskilled ex-servicemen—especially those suffering from disability—might become a burden on the social services. Further, the maintenance allowances awarded enabled the beneficiaries under the scheme to retain their employable capacity and efficiency during the training period. Apparent offsets to the expenditure may be found in the criticisms of the

Geddes Committee that excessive maintenance allowances were being paid in 1921, and that fit men were benefiting equally with unfit. Obviously the first of these criticisms is admissible, but it appears that subsequently maintenance allowances were reduced to a more reasonable level. The second criticism is open to the rejoinder that there were manifest cases where war service had operated to the serious detriment of skill and capacity; and in particular many young ex-servicemen had been denied the opportunity of acquiring qualifications for employment. While it must be recognised that the cost of offering training facilities to all who had an equitable claim thereto would have been very heavy, it is nevertheless true that by restricting them to disabled men it was possible to inflict real hardship, and indeed to induce diseconomy, as a result of the necessity for providing maintenance out of social services subsequently. Since, in fact, training was restricted to disabled men after 1921, it would therefore appear that on balance the favourable effects were substantial, but not so large as might have been possible.

The last item calling for mention is that for the Imperial War Graves Commission. Of this expenditure little falls to be said on economic grounds. It must be regarded as strictly a cost of the war and as an obviously desirable expenditure which came into being to meet the demands of the public conscience. It is of course probable that, as instanced by the fact that the average cost of each grave fell at one time from £10 to £7 10s., a lesser burden on taxpayers might have been possible.

Turning now to the Defence Services, it may be recalled that these have called for an annual expenditure of some £123 m., compared with the peak pre-war expenditure in 1913-1914 of some £78 m. In considering the comparative effects of the post-war outlays, it will be convenient to divide the total into two broad groups, viz. (1) Cost of personnel (including administration, inspection and pensions); (2) Cost of war material and equipment. The cost of the first item is determined by actual numbers and rates of pay. Compared with 1913-1914, numbers have on

the average throughout the period been lower by approximately one-fifth. On the other hand, rates of pay have been substantially higher in the case of both the Army and the Navy. No comparison is, of course, possible for the Air Force; but it may be noted that the *per capita* cost of the Navy in 1921-1931, which was much higher than that of the Army, was followed closely by that of the Air Force. An indication of the degree to which pay for the executive branches of the services personnel has increased compared with the last pre-war year is found in that the 1930-1931 figures—which, incidentally, were the lowest of any post-war year—averaged £187·5 per head for all ranks of the Navy compared with £82·2 in 1913-1914, for the Army £136·0 and £74·9, while for the Air Force the 1930-1931 figure was £183·3.¹ In the case of Pensions and Retired Pay, owing to the adoption of new scales in 1919 which remained virtually unaltered until 1930, and to an increase in the number of pensioners, the average cost in 1921-1931 has been nearly two and a half times that of 1913-1914. The absolutely smaller charges for administration and inspection, which have not increased so largely as pay and pensions, have nevertheless ranked high.²

From this summary data it is plain that the increased *per capita* costs of personnel have much more than outweighed the decline of strengths in the post-war period. In consequence it is found that whereas in 1913-1914 expenses of personnel were somewhat less than one-half of the total gross cost, during 1921-1931 they averaged approximately two-thirds. It is also found that the average total of personnel costs during 1921-1931 has been more than double that of 1913-1914.³ In view of the fact that the average national nominal income during 1921-1931 was probably somewhat less than double that of the pre-war year the presumption is that the cost of personnel has shown a real increase.

¹ *Report of the May Committee* (Cmd. 3920), p. 38.

² In 1914, for instance, the Admiralty staff consisted of 1,900 persons with a total personnel of 151,000. In 1928, with a personnel of 102,275, it was 3,026. (*Select Committee on Estimates, Second Report* (1928), p. 3.)

³ *Vide Navy, Army and Air Force Estimates* (1921-1931).

The result of this analysis indicates that, during the post-war period, the community has been called upon to set aside a larger real share of its income in order to meet the charge for services personnel. Since it would appear that no large economic valuation can be set on their services—for members of the forces are not ordinarily engaged in adding to the national income—this suggests that the civil burden has been augmented. Remembering that the 1913-1914 figures represented the culmination of a series of annual progressions in expenditure, the seriousness of the result is manifest. Nor is this all: for it is fairly certain that the heavy discharges entailed by reduction of personnel were made so speedily and insistently, and the contemporary qualifications for civil employment of discharged personnel were so low as to provoke severe unemployment. This, in turn, added to the costs of social services. Again, the cost of pensions was added to substantially.

But there are certain offsets to this conclusion. First, in the lower ranks generally it may be supposed that pay and allowances were so moderate in the pre-war years as to admit of but low standards of living for both pensioners and their dependants and the dependants of servicemen. Since the total average cost per head for naval ratings—which was higher than the actual rates of pay—in 1913-1914 was but £69.0, and for soldiers £60.0 per annum, this would seem to be a fair presumption.¹ In so far, therefore, as the higher real scales have permitted living standards of pensioners' and servicemen's families and dependants to be raised, the favourable reactions by way of better health and efficiency induced by larger demands for goods and services as well as by savings in social service costs may be taken into account. Second, as shown earlier, the higher post-war expenditure on personnel has to some extent been occasioned by schemes of education and technical training. This, moreover, has not been entirely directed to improving efficiency whilst on service, but also to enhancing the chances of obtaining civilian employment on the completion of service. The greater civil productive capacity of discharged personnel

¹ *Report of the May Committee* (Cmd. 3920), p. 38.

must therefore be taken into account.¹ Third—and probably most important—the definite decline in the post-war personnel has meant that less of the nation's personal capital has been absorbed to undertake the virtually non-productive work of defence, so that more has been set free to assist in productive industry. Fourth, and last, if it is assumed that the personnel actually involved have constituted a factor making for the possibility of peace, then the cost must be ranked as a quasi-productive expenditure. How far this view can be sustained, however, is a matter rather for personal opinion than for definite assertion. Taking all these points into account, and remembering that the charge for non-effective services has shown a progressive increase over the post-war period, so that it has been a fertile cause of the expansion of personnel costs, it may be concluded that the larger real expenditure has had less deleterious effects than at first appear.

To pass to the second branch of Defence expenditure—that on the *matériel* and equipment for war—from accounting for a little more than half of the total expenditure in 1913-1914, during 1921-1931 it fell to an average of approximately one-third. Since, in fact, the nominal figure of the earlier year has been no more than roughly identical with the nominal average figure of the later period, remembering that the nominal post-war national income was nearly doubled, it would seem that there has been a material decline in real costs. This decline has, in fact, been much more than sufficient to offset the real increased cost of personnel, so that total real expenditure has declined compared with the last pre-war year. This means that a much smaller proportion of the productive resources of the country has been devoted to the instruments for waging war, so that the possible supply of capital and consumption goods available for civil economic purposes has been increased. Is this, however, an unqualified gain? There is one important negative

¹ Speaking in the House of Commons on 8 March, 1932, the Financial Secretary to the War Office stated that "Even in these bad years, the proportion of those leaving the vocational centres who have obtained employment is high—something like 75 per cent." The comparable figures for 1928, 1929, and 1930 were 81.5, 76.0 and 69.4 per cent. (Cmd. 3798, p. 4.)

aspect of the policy of reduction. This is found in the speedy cancellation and curtailment of orders for war materials which occurred when the war was over. This imposed a burden on those industries and trades which had been called upon during the war to incur heavy costs in order to meet inordinate demands ; for they were unable immediately—or even swiftly—to re-adapt themselves to peace needs. Thus, special capital equipment had been provided on a lavish scale—some of which, indeed, is known not to have been ready for use until the war was over ; large supplies of labour had been attracted and settled into the manufacture of war equipment of all kinds ; and special business organisations had been established. Only granted that the transition from the astronomical war-time expenditures could have been effected in the twinkling of an eye and without economic loss would there be no offset to the above-cited advantages. In fact, however, to disband and disburse special capital equipment, labour forces and business organisations on such a large scale was a matter of no small difficulty. Nor, since the industries were mainly connected with export, was the transition rendered easier by the interim economic development of non-belligerents, by the substantial changes in the direction and volume of post-war international trade, and other adverse factors due to the war—not the least of which was general uncertainty about the future. This meant that the concerns affected suffered reduced profits or losses, capital equipment was rendered useless or idle, and a material amount of unemployment was created and additional burdens laid on the social services. This, in turn, involved reduced demands for goods on the part of those directly and indirectly associated with the war industries—although this was probably offset by increased demands by taxpayers on the one hand and social service beneficiaries on the other. With the progressive decline of expenditure on the nuclei of war the burden of the initial disturbance has been augmented.¹ There are grounds, too, for thinking that

¹ This generalisation is subject to specific provisos in respect of payments to certain war material contractors, who have received retaining grants, e.g. firms supplying armour plant, aircraft manufacturers, and transport firms.

the unemployment created was often of a rather intractable type. Thus in some cases it must have been true that the kind of technique required for producing armaments, naval vessels, and all the paraphernalia of war was not that required for civil production. Again, the concentration on the heavy industries and certain specific branches of industry called for by the war inevitably led to labour surpluses when peace conditions were resumed. Large-scale migrations, too, were involved at a time when the supply of houses was insufficient to meet the need. Similar difficulties were involved in the case of capital investments and business organisation, and obstacles to conversion to peace uses were many. Of these not the least was occasioned by the activities of the Disposals Commission, and such policies as those of attracting private shipbuilding and ship-repairing into H.M. Dockyards, and locomotive building at Woolwich Arsenal.¹

From this summary enumeration of the consequences of the heavy curtailment of spendings on material, it is clear that there was loss as well as gain. In contrast to the loss, however, which was more temporary in character, the gain has endured and increased throughout the period. Despite the painful character of the transition, therefore, bearing in mind the economic waste induced by the manufacture of war equipment, and that the moneys saved to taxpayers have been available to be spent in other ways—thereby giving rise to new employment to offset the loss of the old and tending to the creation of goods and services having economic value—the reduced expenditure has conferred a real gain.

There are, moreover, certain indirect effects resulting from the curtailment of spending which ought to be noticed. The most obvious of these relates to the higher efficiency which it has brought about in the services. There are many ways in which this could be illustrated, but reference need only be made to a few instances. In 1919, for example, under pressure from the Select Committee on Estimates, and

¹ *Vide, e.g. Select Committee of Public Accounts (1922) (Third Report), p. 31; Ibid. (1923) (First Report), p. 44; Ibid. (1924) (Second Report), p. 19.*

guided by the Committee on the Administration of, and Accounting for Army Expenditure, the War Office introduced a modern costings system into its accounting. By the aid of this it became possible to detect many discrepancies and much waste, and thereby to secure bigger utilities from each line of expenditure.¹ A similar reform was introduced into the naval dockyards following upon the Reports of the Biles and Hilton Committees in 1926 and 1927. Other instances are given by the inter-departmental consultation system which has been developed to give the Treasury a measure of control over spending programmes; by the investigations of the Mond-Weir Committee of 1923 into costs of Headquarters establishments; and by the device of co-ordinated contracts established in 1920. Another favourable effect has followed the curtailment of foreign service forces, the payments made to and on behalf of which conferred few discernible benefits on domestic economic life and livelihood. In this connection the contributions derived from Empire and foreign governments towards the cost of defending and policing Empire and non-Empire countries have served to alleviate the burden falling on domestic taxpayers. More remote, the reductions achieved in defence expenditure by this country have instigated or countenanced reductions by other countries: for decisions taken by an important spending country cannot have been without effect.

Taking Defence expenditures as a whole, it may be concluded that the reactions of the reduced real expenditures of 1921-1931 have been generally favourable from the economic point of view. The most serious disability has probably been that caused by the relatively sudden early post-war decline, causing definite difficulties of readjustment. The short-period disutilities resulting were, however, outweighed by the utilities achieved in the long run.

In conclusion, for the purpose of subsequent appraisal, reference is needed to the transfer incidences of the various expenditures treated of in this chapter. From the side of

¹ *Vide Reports of Select Committee of Public Accounts*, e.g. *Third Report of Select Committee of Public Accounts* (1922), pp. 26-7; *Second Report of Select Committee of Public Accounts* (1928), pp. 10, 11; (1929), pp. 8, 9.

benefits, while many of the services have been in the general interest, the large sums disbursed in war pensions have conferred much greater benefit on the Poorer as a whole, and probably the lower strata of the Poorer in particular. This dictum requires modification in so far as it is unlikely that pensions awarded in case of death have entirely offset the loss of income consequent therefrom, while also this may be true in cases of severe disability. On the other hand, the continuance of pensions—both in time and in nominal amount—has possibly often afforded higher incomes than would alternatively have accrued during the depression. The outlays on training ex-servicemen must similarly have benefited the Poorer more largely than the general community. Against these, the heavy restriction of expenditure on defence probably hurt the Poorer as a whole more than the Richer. From the side of taxation, following the general analysis of Chapter VII, the fact that the Richer contributed more largely to taxation, taken together with the incidence of benefits, entailed a net transfer to the Poorer. Obviously, moreover, this may have been sizable and relatively important.

II

Not a great deal falls to be said by way of critical estimate of Defence and War (Aftermath) services; for these services, exceptionally, have shown a substantial contraction over the period. Even so, it must be realised that they have done, and still account for a substantial part of the national expenditure.

Dealing first with War pensions, while the cost of these has declined over the period, they were nevertheless still responsible for a large block of expenditure in the last year of it. The principal cause of this was the maintenance at an unchanged level of the nominal amounts of pension. It is clear that very substantial benefits have been conferred upon recipients, and that a material addition to economic and social welfare has resulted, reflected in certain favourable reactions on the national dividend but more largely in individual circumstances. Against these advantages have to be set

the disabilities caused by the resultant taxation. In considering how far the burden entailed may outweigh the advantages, or vice versa, it has to be recognised that, although such pensions are not strictly demandable as a right, they have to be regarded as a war cost which must in equity be undertaken by the State. Since this service provides a very effective example of how administrative costs may be reduced, so that no exception could be taken to the expenditures on this account,¹ the only question to be raised is as to whether equity demands that, owing to the rise in the value of money after 1919, the same nominal rates of pension should be paid in ensuing years. This problem, however, is deferred for consideration subsequently; for other kinds of pensions call for concurrent consideration.

About the work of the Disposals and Liquidation Commission it is unnecessary to say much: for the expenditure sank to a low level by the end of the period, and the service was temporary only. The costs of the Commission, together with the heavy losses realised on sales, were clearly incidental to the war and were therefore essentially a war charge. There were obvious examples of inefficiency in the conduct of the service, but many of these were due to the novelty of and the difficulties attendant upon the task as well as to neglect of the interests of economy—such as was instanced by the Geddes Committee and referred to earlier.

Somewhat similar comments apply to the expenditures upon Middle-Eastern services: for these again arose directly as the outcome of the war. It has been shown that undesirable diseconomies resulted from the large expenditures in the early part of the period, but that against the relatively low costs reported towards its end might be set certain political and trading advantages—the value of which, nevertheless, it is exceedingly difficult to assess. Such expenditure—on account of the peculiar conditions under which it originated—is likely to continue for some years, and in judging it this consideration must be borne in mind.

The cost of Training Ex-servicemen is a line of expense

¹ In 1922 the cost of administration was 1s. 2½d. per £ of benefit expenditure; in 1931 it was 5½d. per £.

which has been at a low level for some years, and will probably shortly disappear. Reasons have been offered to show that again this expenditure ought to be regarded as a war cost, and that if the scheme had had a wider ambit, possibly a further large measure of utility would have been derived additional to that which actually resulted. For, despite the persistence of some amount of reminiscent patriotism, it is only too clear that unemployment falls more heavily on those least able to display efficiency in employment. This is unfortunately true of many ex-servicemen; and it has added to social service costs. It is to be assumed, therefore, that this item of expense carried with it a high degree of utility.

In conclusion, scarcely any critical appraisal is called for about the costs of the Imperial War Graves Commission, since, while it is obvious that at one period higher costs were probably incurred than were actually called for, the total expense in future will trend downward owing to the reduction of work to be done.

Passing now to Defence services, the reductions effected in these have undoubtedly been large, and especially in the absence of any concerted agreement on disarmament. More credit should be given for this because the effects have been definitely good from the economic point of view. Moreover, the reductions since 1923 or so have really been larger owing to the fact that until this time stocks of materials were being used which had accumulated during and immediately after the war; because the post-war defence scheme has had to meet the new costs of the Air Force; because all services have been burdened with constantly increasing charges for pensions and other non-effective items; and lastly, because there has been a wider area of territory to protect than in 1913-1914. It is also to be credited that the reductions of outlays have not been accompanied by a strictly *pro rata* decline in effectiveness owing to the notable developments of efficiency which have been brought about in various departments of expenditure—not the least of which is the attention paid to education and training, and to better accountancy systems. Lastly,

greater contributions to Defence have been made by the Empire generally. /

Against all these favourable points, however, remembering that the 1913 total of expenditure of £78 m. does not afford a fair basis for comparison, it is significant that an average outlay of £123 m. per annum has been needed during the period for such relatively unproductive expenditure. This has been the case, moreover, despite a substantial decline in prices for equipment and foodstuffs, and the burden imposed on the civil community by a long period of economic depression. There is no doubt, too, that despite many notable achievements in the field of economy, waste and inefficiency prevailed in the period. Many instances of this could be cited, but the following will perhaps suffice. As for the Navy, reporting in 1929, the Select Committee on Estimates said,

"While the review of the Naval Staff has been productive of substantial economy, the results achieved in the Technical Departments appear to your Committee to be disappointing. . . . With the present-day shipbuilding programme the requirements of production cannot possibly justify the retention of professional staffs even on the scale provided in 1914, and your Committee are not satisfied that it is impossible to slow down other activities of these Departments without detriment to the ultimate efficiency and progress of the Navy."¹

In 1927 they pointed out that the Admiralty Staff was 3,026 compared with 1,900 in 1914, while the personnel had declined to 102,275 in 1927 compared with 151,000 in 1914.² These conditions obtained despite the conclusion expressed by the Committee in 1923 that ". . . the administrative departments stand in need of reorganisation and reduction."³ Again, in connection with 100 drifters and 60 trawlers built for use in the war, and costing \$19 m., the lack of attention to these was so marked as to lead the Committee to declare that "There appears to have been complete failure to arrange for adequate supervision of this valuable property."⁴ As for the Army, in 1922 the Committee had occasion to note the Army Accounting Officer's report that ". . . the

¹ *Report of 29 April (1929)*, p. 9.

² *Second Report (1927)*, p. 3.

³ *First Report (1923)*, p. vi.

⁴ *Third Report (1922)*, p. 30.

history of-accountancy in Mesopotamia is a very black chapter indeed . . ."; and that a loss of £3 m. had been incurred in Bulgaria because the official Army rate of exchange had been held widely different from the market rate.¹ In 1927, owing to a wrong diagnosis of glanders in Egypt, over £13,000 was lost by destruction of horses.² The reconstruction of Catterick camp, estimated at £890,000 in 1922 had, through faulty estimates, to be increased subsequently to £1,438,000.³ As for the Air Force, large discrepancies in store-keeping accounts were referred to in 1924.⁴ In 1923 a reference was made to excessive expenditure incurred in restoring pig-styes and other buildings in Ireland which had been occupied under the Defence of the Realm Act, £9,000 being spent instead of the estimated £1,000.⁵ In the same year it was shown that the cost of training cadets at Cranwell was as much as £650 each per annum.⁶ In 1926-27 it was found that by sending a whole winter's supply of cheese to Iraq in one consignment instead of at periodic intervals, £1,083 16s. was lost.⁷ It was also reported as a result of a Court of Inquiry that ". . . there had been a steady and probably considerable loss over an extended period . . ." of petrol stolen by Air Force personnel.⁸

There would also seem to be a possibility of reducing expenditure by more close co-ordination of the three services, on the lines laid down by the Balfour Committee of 1923⁹—but more particularly in general administration. Concerning this latter the May Committee expressed the opinion that ". . . considerable improvement has taken place, and certain economies have been effected; but we are not convinced that the process has been carried as far as it might be."¹⁰ It is to be suspected, moreover, that even yet there is room for more efficient administration in the individual services. Thus, in the case of the Army, besides the staffs

¹ *Third Report* (1922), pp. 26, 27. ² *Second Report* (1930), p. 11.

³ *Second Report of Select Committee of Public Accounts* (1928), p. 12.

⁴ *Ibid.* (1924), p. 16.

⁵ *First Report of Select Committee of Public Accounts* (1923), pp. 34, 35.

⁶ *Second Report of the Select Committee on Estimates* (1923), p. 6.

⁷ *Second Report of Select Committee of Public Accounts* (1928), p. 10.

⁸ *Ibid.* (1929), pp. 8-9. ⁹ *Cmd.* 1938. ¹⁰ *Cmd.* 3920, p. 65.

required for the five divisions at home, there appear to be nine commands whose total average staff costs over £200,000 per annum. The number of civilian staff at the War Office, which was 1,579 in 1913, was stated in Parliament to be 1,934 in 1931 although total personnel was lower. The annual cost of the extra staff was about £90,000.¹

Other possible economies, apart from those due to reduction of waste and bad administration, are probably of small importance only, and particularly because real reductions of expenditures have been made earlier. It is unlikely, therefore, that outlays on such things as research, educational training, works and buildings, and clothing could be reduced substantially. It has to be remembered that the cost of personnel has assumed much larger importance in post-war years, so that any further practicable reductions would probably have to be in this branch of expenditure. In this connection, it may be noted that cuts in pay were made in 1931, as a result of the economies introduced in that year.

Finally, the possibility of reducing the burden of Defence services is more profoundly and certainly a function of international effort. It has been explained that this has hitherto been less fruitful than might have been the case, and that, granted swifter attainment of international agreement, the possibilities in this direction are large.

Taking the expenditures dealt with in this chapter as a whole, it is obvious that they conduce to substantially larger disutilities than utilities. In particular, while taking away materially from the national dividend they add very little to it by way of return. In this way they impose a real burden on the nation as a whole. The only large exceptions to this generalisation concern war pensions and the training scheme, from which the direct and indirect benefits are far more material than in the case of the other services.

¹ *Vide* Reply of the Financial Secretary to the War Office in the House of Commons to Colonel Gretton, 31 May, 1932.

CHAPTER X

UNEMPLOYMENT SCHEMES AND ECONOMIC DEVELOPMENT

I

FOLLOWING the example of the preceding chapters, owing to the existence of various separate heads of expenditure, it is necessary to analyse them separately. When this has been done it will be possible to undertake a critical estimate of each of the two groups of outlays.

Adhering to the order set in Chapter IV, the first item of expenditure to be discussed is that on Roads. The initial point to notice is that in 1913-1914 only £94 m. were contributed by the central authority, while in 1921-1931 the amounts progressively increased up to £16.74 m. It would seem obvious that, as the extra outlay in the period was almost covered by receipts from the taxation of motor vehicles and oils, in strictness there was no burden on the Exchequer. Indeed the Exchequer gained in the post-war period by the receipts derived from one-third of the taxation falling on private vehicles and from the "raids" of 1926 and 1927.¹ Nevertheless, as distinct from expenditure on the Post Office—the other so-called "self-balancing" service—it is plain that roads expenditure has in distinct measure been a burden. This is so because, as shown earlier, it has been to a substantial extent increased by the provision of unemployment works. If such a policy had not been embarked upon taxpayers and ratepayers as a whole would patently have been better-off, not only by the amounts

¹ Probably these gains ought to be offset to the amount of £8.25 m., advanced for road expenditure in 1918 by the Treasury and not since repaid.

so expended in the period but in respect of future commitments also. What effects have followed?

The first point to notice is that the nation has thereby added to its real assets in the shape of a more efficient road system. This in turn has produced an annual addition to the national income and production—less, perhaps, than more evident—in the shape of reduced transport costs due to saving of mileage, time,¹ reduced wear and tear of vehicles and—possibly—to fewer accidents. How large this gain has been it is impracticable to estimate. Nevertheless, it has been smaller than it might at first appear in that, even from the long-period standpoint, certain of the expenditures were greater than in happier circumstances might have been deemed essential. Without going so far as to say that some road outlays have conferred no real economic benefit, they have produced less utility than others—e.g. road works undertaken especially in depressed areas with the primary object of providing employment; those involving some amount of duplication of road facilities; and where road works and methods of surfacing have been preferred which offered the greatest possibility of absorbing labour. It is equally obvious that the efficiency derived from each unit of expenditure on labour has been reduced by the necessity for employing labour unfitted for, or little suited to, such work. There is evidence, too, that the persistent, and therefore relatively inelastic demand for road materials and equipment has, similarly to the case of housing, tended to maintain supply prices high. Finally, there is a manifest tendency to regard the heavy road expenditures as a direct subsidy to road transport inflicting real damage on the country's rail system.² In so far as there is any validity in the argument, clearly a serious diseconomy has resulted. It is not desirable to enter into this controversy now, but it seems impossible to ignore the one fundamental point that road transport has not been called upon at any time to

¹ *Vide*, e.g., *Britain's Industrial Future*, p. 291.

² Cf. Clay's review of the above volume—"A country does not grow rich by transferring its suburban population from perfectly adequate trains to omnibuses, or its parcels from railway vans to motor lorries." (*Economic Journal*, June, 1928, p. 201.)

provide the whole cost of its track, and to this extent has been privileged and subsidised.

The second point is that the outlays on roads have added to employment. Moreover, the primary addition to employment has induced additional secondary, or derived employment. Against this there is the offset of employment which might have resulted from the absence of taxation. Some benefit has also been felt by the reduction of social service expenditures. Furthermore, the larger expenditures made in areas of high unemployment have had certain favourable reactions on local economic conditions—to the extent of taxpayers' funds diverted to these areas.

Third, road schemes represent in general a desirable and appropriate way in which public authorities can intervene to offset the adverse effects of reduced private capital investment.

Fourth, while the substantial contributions to total costs of road works made by the national exchequer have eased the total burden upon them, the local authorities have been called upon to bear very materially enhanced burdens for road charges; for during 1905-1915 the average annual expenditure borne by local authorities in Great Britain was no more than £3.46 m., compared with about £45.34 m. during 1921-1930. Plainly, therefore, road costs have been a weighty cause of added local burdens in the post-war period. This is true even if account is taken of the benefits of the Local Government Act, 1929, the improvement in local transport facilities, and the partial resort to loan finance: for the proportion of total costs met by local authorities has been greater than that by the central authority. The burden on the taxpayers as a whole has been absolutely less because it has been more widely spread and because part of the necessary funds at least have been contributed by vehicle-users on the basis of a *quid pro quo*.

Passing next to the item of Exchequer Contributions to Local Authorities, as the effects of the 1923 Act relieving agriculture of part of the local rates burden were similar in essence and principle to those of the 1929 Act, attention will be concentrated on the latter.

The first obvious effect of the 1929 scheme was similar to that of the 1923 scheme in that it transferred away from agriculture and eligible industries gross rate burdens which may be estimated at some £33 m. annually (compared with a little over £3 m. remitted to agriculture under the 1923 Act), and passed them on to the general taxpayers. Since it is generally accepted that local rates enter into costs of production while this is only true to a relatively minor extent of general taxation, it follows that costs may be reduced. To this generalisation there are certain qualifications; for it is possible that some part of the cost of the reduction in rates may be transferred back to the beneficiaries in other ways. Part of the extra general taxation levied, for example, is derived from the Road Fund. While a share of this taxation is borne by private motorists, a larger share falls on general commercial road users, including those benefiting from de-rating. Since, however, the net extra levy is no more than £3 m., and there are many road users who do not gain from de-rating, the amount turned back on to concerns benefiting from the 1923 and 1929 Acts is likely to be very small. The remaining part of the levy on general taxpayers is spread over the taxpaying body as a whole, so that again it is unlikely that the concerns benefiting from de-rating contribute substantially. This point may be reinforced if it is recalled that joint-stock companies—who presumably gain largely from de-rating—suffer no more than the standard rate of income-tax and escape other important taxes. In sum, the spreading over a large body of taxpayers of charges which before were closely restricted to a small number of local areas and industries suffering acutely from the trading depression must result in a more equitable diffusion of the burden.

The second main effect of the scheme also relates to the incidence of de-rating, and it is bound up with the well-recognised drawback specially inherent in post-war local rate burdens—that they varied inequitably from one area to another. In turn, a main cause of the inequality was the very large expenditure on social services and developmental and relief works which the heavily depressed areas had to

provide. The outcome was that both rate poundage and assessments on properties in these industrial areas were driven up to a higher level than in the less depressed areas. Since the relief under de-rating was given as to three-quarters of the rateable value of industrial hereditaments and ultimately the whole of agricultural hereditaments, the more depressed areas must have gained from reduced assessments greater than those less depressed. Since, moreover, the new formula grants were arranged to take special account of unemployment and excessive child population as two of the four factors causing high rate burdens, a further gain by way of lower rate poundage accrued to the more depressed areas. The inference would seem to be possible, therefore, that the greater benefits have gone to the more depressed localities. Of larger importance, because of the heavy favourable loading of the formula on account of the above items, the separate industries concerned have obtained substantial relief.

Of this conclusion there are nevertheless some qualifications. For the increases in local rates in depressed areas had been large and cumulative over a relatively long period ; and since the reduced assessments were based on the 1925 valuations they have not infrequently still left the actual rateable values at a high level. This has particularly applied to areas almost, or indeed entirely dependent on one main industry, e.g. coal-mining and textiles ; or, where they were dependent on more than one main industry, when all or most of them were depressed contemporaneously, e.g. coal-mining, iron and steel, shipbuilding, engineering and textiles. Again, it is unlikely that this disability has been completely offset by the application of the new grant formula, for this has not taken account of *all* factors making for high rate burdens, and it has been based on general ratios not specifically adjusted to peculiar local conditions.

The third main point is that the rating relief was made applicable to all industrial and agricultural concerns eligible under the Act, so that the benefit of the thirty odd millions has been less concentrated on the more needy concerns. Thus the arrangement has not sufficed to stem the tide of migration from areas of high, to areas of low rates as much

as would have been justifiable in view of the economic waste to which this has given rise. It has also *pro tanto* failed to adjust the balance of advantage as between "sheltered" and "unsheltered" industries. In the case of agriculture, enjoying full exemption, the effect has been to force down the margin, so that infra-marginal producers have become marginal. In so far as classical economic theory may correctly be applied this means that rents may be raised and in this way part, if not the whole, of the de-rating benefit may pass to land-owners. Lastly, as pointed out by Mr. H. Clay, the benefits of de-rating are uniformly applied to individual producers irrespective of their actual economic need. Thus monopolistic and quasi-monopolistic and prosperous concerns generally have in effect been assisted at the expense of concerns having to bear the brunt of heavy competition.¹

A fourth important point is that discrepancies in rate burdens in different areas have been due not only to the incidences of the depression but also the higher cost in certain areas of working the semi-national and quasi-national services such as education, police, roads, and health. These discrepancies, too, have been of longer standing. The Act made provision for offsetting them by way of the new formula grants, and in this it has achieved a substantial measure of success. It has, however, already been suggested that, complex as it is, the formula does not take accurate account of the peculiar conditions prevailing in separate areas. The child element in the formula, for example, does not recognise the widely different standards of expenditure on education which had come to prevail in the country as a result of the diverse policies of a very large number of separate education authorities. Nor does the density factor take enough account of the different road standards in existence prior to, and not yet offset by the grants systems of recent years. Nor is uniformity of valuations over the country an unassailable fact, despite the various recent valuation acts. The minimum requirements for standards of health services, again, cannot take sufficient account of the varieties to be found therein. Finally, there

¹ *The Post-War Unemployment Problem*, pp. 123-4.

are still wide differences in capital expenditures incurred by different local authorities under one sort of scheme and another, e.g. in housing and unemployment works.

Sufficient, however, has been said by way of critical appraisal of the results of the scheme. It is not desirable to carry this to excess. Indeed it is preferable to generalise by saying that, despite unevenness in the individual effects of the scheme, on the whole it has had very desirable and beneficial results—first, by leading to a more equitable assignment of local rate burdens; and second, by reorganising their incidence to the economic advantage of the community.

Attention may now be turned to expenditure on Agriculture, and first to that on the subsidy to beet. The result has been to promote the cultivation of beet sugar and to lay the foundations of what conceivably might become a desirable industry. In greater detail the outcome has been that by 1930–1931, 40,413 farmers were producing under the scheme, the acreage being cultivated was then 348,920, and 3,062 tons of beet sugar were grown. It is estimated that employment was provided on the land and in factories for some 30,000 persons, while also it has to be recognised that beet pulp is useful for cattle fodder and that the beet crop is good for cleaning the soil. On the other hand, despite the fact that home producers managed to reduce production costs in the period after 1924 by about 5s. 6d. per cwt., owing to the heavy fall in world sugar prices from an average of 21s. 9d. per cwt. in 1924 to 6s. 8d. per cwt. in 1930—with a mean for the period of about 12s. 8d. per cwt.—even with a subsidy averaging 17s. 8d. per cwt., domestic growers have suffered losses. According to a Report of the Ministry of Agriculture, however, the sugar-producing companies appeared to be making substantial profits—during 1924–1930 some £8 m.¹ It has further been calculated by the *Economist* that, of some £30 m. which had been paid during these years, the taxpayer, in his capacity as consumer, had received no more than a little over £2 m.² Another adverse point is that, after

¹ Ministry of Agriculture, *Economic Services*, No. 27, p. 288.

² *Economist*, 4 July, 1931, p. 8.

six years' working under the subsidy, the yield of beet per acre had only risen from 8·1 to 8·8 tons since 1924, while the yield of sucrose had only expanded from 3,027 lb. per acre to 3,288 lb. per acre—both yields being lower than in any other producing countries.¹

The analysis to be construed from these details is that the volume of agricultural production has been increased—but, since some part of this replaced pre-existing production of other crops—not by the full amount of beet grown. Against this there is the offset of monetary losses to producers and taxpayers as a whole. Employment in agriculture was also increased—but again it was not a net increase.² The direct advantages of this, moreover, together with the indirect advantages of lower social service charges, have to be balanced against the cost in subsidy. On the basis of the modified rates operative during 1928–1931 it was calculated by the May Committee that the annual cost per man employed was actually about £200.³ Lastly, it has to be recognised that world sugar prices may be expected to recover as the depression recedes and therefore that the losses throughout the remaining years of the ten-year subsidy period may be reduced.

Taking Afforestation next, advantage may be taken of a special report covering the years 1919–1929 (September) provided for in the Forestry Act, 1919. During the period the total expenditure was £4·5 m., of which £3·65 m. fell on the national exchequer.⁴ For this outlay 310,230 acres of land were acquired, 215,105 trees were planted, while 618 forest workers' holdings were completed and 245 partially completed. Additionally, grants were made for the education and training of forest workers and towards research equipment. It is difficult to assess the value of the work done, but the Select Committee on Estimates reported in 1929 that the commercial return on 60 per cent of the expenditure was about 3·7 per cent., and virtually nil on the

¹ *Report on the Sugar Beet Industry at Home and Abroad* (1931).

² The above report referred to the fact that certain farmers had ceased to grow both cereal and root crops in favour of beet.

³ p. 127.

⁴ *Tenth Annual Report of Forestry Commissioners*, p. 6.

remainder. It appears also that the annual expenditure per man employed on forestry holdings averaged about £140, while the capital expenditure on each holding varied between £400 and £600.¹ It appears, then, that the national wealth has been added to by the reserve of wood created, which may conceivably come to possess a definite value. Post-war circumstances, however, have hitherto caused wood prices to be low and have resulted in ample external supplies. Nor does there appear to be any likelihood that in the more immediate future this country will suffer from a dearth of wood supplies, while the possibility of large exports is out of the question. Nor, again, has the expenditure gone far to relieve unemployment; for the numbers employed—even if they be ranked as newly productive—have been small. There has, therefore, not been any material saving in social services.

Land Settlement may be considered in relation to the data cited previously. The schemes have had the advantage of adding to the country's material assets and assisting agricultural production, but since it has been calculated that no more than about 17,000 men were settled under the post-war schemes the latter cannot have been substantial. As distinct from afforestation, however, much of the capital expenditure is capable of adding to the national income. There is the further advantage of extra employment; but how much of it is actually new is not ascertainable. Assuming that much is new, the schemes have saved social service costs probably to a material extent. Allowing for these advantages, and for the special difficulties attendant upon the scheme in the earlier years, weekly deficits of over £1 per man and of about 12s. per man have to be faced under the respective schemes, and, further, these will persist in smaller or larger measure for periods up to 60 years. For the Scottish scheme an estimated loss of £1·87 m.—or 53·6 per cent of the total cost—was reported to the Select Committee of Public Accounts in 1930.² Lastly, under the post-1926 scheme, while part of the costs have been transferred to

¹ *Report of May Committee* (Cmd. 3920), p. 131.

² *Second Report of the Select Committee of Public Accounts* (1930), p. 10.

local authorities it is difficult to realise what advantages they derive by way of return—except, perhaps, in some increase of rating receipts.

As for Land Improvement schemes, and notably Land Drainage, and Water Supply, these have been devised more largely in order to relieve unemployment, rather than to assist agricultural production ; to meet the needs of rural communities for adequate water supplies ; or to counteract the bad effects of inadequate drainage. Something must be counted in favour of them under all of the above headings. It is clear also that the works are of high utility inasmuch as they are long-lasting ; and this is suggested by the fact that such expenditures have for some time past appeared regularly in the budgets of a number of local authorities. Lastly, probably the employment provided by the works undertaken in the period has in large measure been new work.

On the negative side, government policy has vacillated on the question of how far such works merited State assistance since sometimes, although not always, they have obviously been due to be performed by private owners. Again, if not part of the responsibility of the private owners, the undertaking of the works by the State and local authorities has been frequently tantamount to a subsidy to agricultural interests. More important than any of these reasons, however, owing to the nature of the work and to the relatively low efficiency of unemployed labour, costs in relation to results have been distinctly high.

A word now falls to be said about the cost of the Empire Marketing Board. This has had the unusual characteristic of expenditure undertaken predominantly in the interests of the Empire rather than of this country. To assess the outcome of this is difficult since the larger proportion of the moneys expended has gone to subsidise research or publicity. Nevertheless, as these expenditures have been very largely in the direct interest of Empire producers, they have assisted domestic producers to a relatively small extent only. Nor does much indirect gain accrue to the nationals of this country as a result of the greater buying of Empire products ; for there seems to be no valid reason for assuming that

British exports have been larger except to the extent to which Imperial preference may have somewhat offset tariff barriers prevailing in foreign countries. In sum, therefore, the preponderant advantage has gone to the Empire, and the only noticeable gains to this country have been by way of greater political intimacy and goodwill, to some small extent to home agriculturists, and to various research bodies.

The outlays made on Agricultural Education, Research and Marketing may, for convenience, be taken together with those on Livestock. As the reports of the Research and Education Division show, solid progress has been achieved in researches, and substantial advances made in the provision for education. Such reports are, however, difficult to compress; for "The volume and variety of the work are such that any summary is bound to be either inadequate, or lengthy and technical." But

"It is perhaps sufficient to say here that they range from such work as the Rothamsted inquiry into the fluctuations of bacterial numbers on field soils to the actual production at Cambridge of a pure breed of poultry in which the male chicks are sharply distinguished at birth from the females by the character of their down—a result which may have a direct and very marked commercial value."¹

From this it follows that, while there is no guarantee of unit productivity for each line of expenditure on research, the results have in general been such as to assist production. Again, as distinct from much similar expenditure by the Empire Marketing Board, it is in the interests of home producers. The real problem of such expenditure is as to how large it may justifiably bulk, and whether it necessitates State assistance. Similar comments apply to Education, the effects of which appear to have been favourable—and the more so owing to the relatively backward state of this country's previous provision for it. Again it is hardly possible to apply an objective test designed to ascertain the actual results of the expenditures. Judged by numbers of students, the work has progressed—steadily, if not evenly—over the period, but nothing more definite can be said on

¹ *Report of Research and Education Division (1929-1930)*, pp. 6-7.

these lines. It is perhaps more informing to point to the greater variety of work done both by way of the teaching of more subjects and the opening up of many new centres for teaching designed to cater for the needs of wider geographical areas, and also to offer courses at lower costs. Reference ought also to be made to the substantial extensions made in the period of various advisory and peripatetic agricultural services, e.g. instruction in dairying and in poultry rearing, and training schools for butter and cheese making. Lastly, the employment given to education and research officers may be regarded as new.

Of Agricultural Marketing and Livestock grants little need be said except that the former has operated to advertise home-produced commodities and thereby to stimulate demand for them. Livestock grants have been given by way of compensation mainly for stock destroyed under the regulations for controlling foot and mouth disease and also to encourage breeding. As there is a substantial export of domestic breeds, this latter has *pro tanto* acted to no small extent as an export subsidy; but favourable reactions on home stock also have occurred by way of improved and selective breeding.

Attention may now be devoted to the outlays of the various bodies specially devised by Act of Parliament to establish unemployment works, and first to those of the Unemployment Grants Committee. These outlays have been widely varied, but usually they have been on account of capital expenditures of the sort normally undertaken by local authorities. In order to understand the more general effects of these expenditures it is desirable to ask the question as to how the expenses have been shared as between the two kinds of authorities, and how far this sharing has been equitable. To answer these questions is not easy: but it is very desirable to make an attempt. On the one side, then, the expenditures have been substantially devoted to works conferring local benefit, both directly and indirectly. This is obvious in the case of electricity supply, gas and water, sewers and sewerage works, civic and public buildings, baths, washhouses and conveniences, local transport services, parks

and cemeteries. Even in the outside case of trunk road schemes, there may be some measure of local benefit seen in cheapened local transport, lower costs of local social services, and the benefits of larger local incomes.¹ It could also be argued—as indeed the May Committee did in the Majority Report² that, owing to the long period during which the grants had been operating the various expenditures had been largely for normal outlays properly to be undertaken by local authorities but not ordinarily eligible for grants as high as were actually paid. Furthermore, it must be recalled that the Local Government Act, 1929, did endeavour, in the new scheme of grants, to take account of special local burdens induced by the depression. On the other side, it is essential to bear in mind that the expenditures were undertaken primarily and fundamentally because of unemployment, which is, after all, the first concern of the State. Moreover, where the unemployment was due in small or large part to high local rates these had often been the outcome of the performance of functions which were only belatedly recognised as being semi-national—if not more so. Again, it would be inequitable to suppose that the expenditures benefited only the local areas where they were incurred, e.g. those on roads, docks and harbours and ferries, sea defence, electricity “grid” schemes, river and land improvements especially were inherently capable of aiding national development and national production, while local health expenditures might have an intimate bearing on the nation’s health. Nor must it be overlooked that even where substantial national grants have been given, since the various works have been more largely undertaken by a relatively few local areas suffering more heavily from unemployment—although the greater part of the works has been financed by loan—the burden on such local areas has pressed heavily. Lastly, it has been shown that, taking the period as a whole, the State grants have actually been less than half of the total expenditures incurred. On balance, then, it would appear that the

¹ One instance of this is given by the road programmes of the later years of the period which provided special excess grants to local authorities whose financial position was relatively unfavourable.

² p. 138.

incidence of burden has been heavier on the local authorities concerned in the carrying out of the various schemes.

As for the economic effects, first both taxation and local rates have been increased, but offsets have been created by the additions made to capital assets or wealth. From all of these a minimum utility has been derived, and in some cases the utility has been relatively high. Examples of schemes affording but a low economic utility are found in certain civic buildings, road and footpath schemes, parks, recreation grounds, gardens, tennis-courts and bowling-greens. In such schemes as those for electricity, gas and water works, river and land improvements, sewerage and other health services the economic and social utility has undoubtedly been material: and these have accounted for the larger part of total expenditure. In some cases it is possible that the works undertaken have conduced to lower general costs of production. It is clear, however, that while a part of the actual outlays would normally have been incurred in the execution of ordinary local authority functions, and may therefore be regarded as merely accelerated ordinary spendings, the direct assistance to private industry has been small rather than large. Indirectly, also, although public works have undoubtedly created some new employment owing to such projects being limited to public enterprise, it cannot be overlooked that, in the absence of the extra taxation and rating necessitated therefor, taxpayers and ratepayers could have exercised private demands for goods and services and thereby created employment. It is essential also to observe that, instead of certain constructional trades being stimulated, the advantage would probably have gone to industries functioning to meet more regular and ordinary private demands—including export firms catering also for the home market. This is a point of some importance for, as Professor Gregory has declared, "... I cannot believe that the policy of Public Works has much to offer to the *export industries*, in which, after all, the bulk of our unemployment is concentrated."¹ Second, the return to each unit of expenditure has not been so large as might have obtained under more normal

¹ Cmd. 3897, Addendum III, p. 230.

auspices. It has necessarily happened that schemes have often been planned hastily and without proper or sufficient reference to contemporary or future needs. To take an extreme case, unless it was clear that certain areas in parts of South Wales, Durham, and Northumberland, were destined to recover their pristine industrial importance, new capital expenditures designed to augment local public authority equipment and amenities were less justified than otherwise they might be. Again, the schemes have had to be devised to absorb the largest volume of unemployed and British labour and materials. The efficiency of the labour directly employed has not been of the maximum order owing to the need for absorbing men of varied types and varied capacities and skill, ex-servicemen and "transferred" labour. The existence of the social services, by providing alternative grants without exacting a *quid pro quo* in direct effort, has detracted from zeal in, and willingness to do such work; while, for diverse reasons, the unemployed persons actually carried by the schemes have not infrequently been less, rather than more, efficient. A summary illustration of these points is afforded by a report made in 1921 by the Ministry of Health, showing that their efficiency was then about 25 per cent less than normal.¹ It is also shown by the calculation of the May Committee that the cost of maintaining one man in work for a year has averaged about £250. Deducting the £60 cost to the community of maintaining a man in idleness over the same period—in the circumstances, an extreme supposition—they inferred that, since it was unlikely that each man's work was worth £190, economic waste was induced.² Third, as against this argument, it may be recognised that there are certain offsets. For example, owing to the persistent and large-scale unemployment existing in certain specific areas, such a policy was possibly needed on social grounds: for it provides an antidote to declining morale, the bankruptcy of skill, capacity and willingness to work—and to generally unfavourable personal and group reactions. Fourth, it is but fair to note separately that the burden on highly-depressed areas was lightened by the large-

¹ Cmd. 1713, p. 54.

² pp. 139-40.

scale resort to loan finance and by the enlarged exchequer grants to distressed areas. Even so, the ultimate burden of the loans is not entirely escapable. Fifth, and last, where there was a likelihood that, in the absence of such schemes, taxpayers and ratepayers would elect to save instead of to spend, and the resources saved would not be drawn upon by ordinary commercial borrowers but would remain unused, then it is possible for such schemes to relieve unemployment and to exert a favourable psychological influence. These conditions probably obtained towards the close of the period.

The schemes sanctioned under Part I of the 1929 Development (Loan Guarantees and Grants) Act may, for completeness, be included here. It will be recalled that these apply to public utilities and that the assistance might take the shape of guaranteeing the principal and interest of loans or of defraying interest charges in whole or in part. For the purpose of the analysis it is desirable to remember that, subject to certain conditions, similar grants were made by the Unemployment Grants Committee during 1923-1929. Expenditures under these schemes have mainly been undertaken by such concerns as Railways, Canal and Dock Authorities, and Water and Gas and Electric Supply Companies. While in some cases the outlays have been deemed to be normal developmental and replacement expenditures, in the later years especially a response has frequently been made to the invitation offered by the scheme to assist in relieving unemployment. Because of this, works have been expedited or have been specially devised. It is nevertheless probably true that the economic utility of the outlays has on the whole been higher than in the case of those of local authorities; for the expenditures have been undertaken with a view to yielding future revenues, and their effect has therefore been more utilitarian. The onus of the charges has been to a limited extent only on the taxpayer, not at all on the local authorities, while in so far as the yields prove to be less than normal, part of their incidence will fall on shareholders. Where, however, the burden falls on taxpayers, there is no *quid pro quo* in the shape of benefits. Nevertheless, such outlays do add to the economic wealth of

the country, and in so far as they are productive, to the national income also.

As for the rest of the general points cited in connection with the schemes under Part II of the Act, these again apply ; so that there are both advantages and disadvantages to be considered. It would nevertheless seem that, since the schemes are voluntary and since the proportions of State contributions are relatively small, the total advantages to the promoters must be larger than the total disadvantages. Both from their point of view and that of the community, it is therefore to be inferred that sufficient economic utilities might be created to justify the expenditures.

Expenditures due to the Colonial Development Act, although planned on a sizable scale, do not enter largely into the period owing to postponement of proposed works after 1929 on account of the world depression. Actually £750,000 was voted for 1930-1931, but less than this was spent. For the greater part, the schemes devised under the Act were those granting loan moneys free of interest or free capital grants, e.g. at March, 1931, the total of projected schemes was £2.90 m., of which £1.81 m. fell into this category ; while the remainder consisted of ordinary direct loans. The effect of the former is to transfer funds from the domestic taxpayers. In return for this, domestic firms are, in certain cases—e.g. the Zambezi bridge scheme—virtually guaranteed the award of contracts for the diverse kinds of capital equipment, and may reasonably expect to receive contracts for part, if not the whole, of other works. The benefits attaching to the expenditures are, therefore, the profits on the contracts and the employment of labour. These benefits, however, primarily inure to the industries and employees concerned, and only secondarily—in the shape of reduced social charges which might be involved by unemployment and the benefits accruing from the expenditure of the profits and wages—may the taxpayer gain. Furthermore, since the capital assets created by the levies made on the domestic taxpayers do not add to the wealth of this country, advantages which might be derived from an overt subsidy to British industries do not accrue. Where

the expenditures take the shape of ordinary direct loans, as and when these may be repaid the domestic taxpayers will have restored to them the funds of which previously they were mulcted so that no loss of economic resources occurs : instead this country may benefit, as stated above, from the award of contracts.

The next expenditure is the item of Coal Subsidies. The main cause of this was a desire to avoid industrial trouble in a vital industry. Actually, in each of the years during which a subsidy was given, the dominant purpose was to assist the payment of wages which employers declared they could not otherwise afford, pending the working out of new agreements. The effect, in brief, was to transfer funds from taxpayers which assisted the competitive power of the industry abroad and permitted the maintenance of home supplies which might otherwise have been curtailed. To the extent of the assistance provided, profits and other incomes were larger than what they might have been. The outcome was that employment was greater and therefore the costs of social services were lower. Another favourable effect was the maintenance in working order of collieries which might have been closed down and injured by inadequate attention. The greater immediate gains, however, accrued to the workers : for coal-mining costs are much more largely composed of wage payments. On the other hand, only in small part—if at all—did the subsidies operate to prevent or shorten disputes and stoppages. Moreover, since the subsidies could not be continuous, they failed to prevent the necessity for readjustments imposed by the post-war labour surplus, marketing conditions, and especially by falling prices. They therefore bolstered up the weak as well as the strong units and thereby hindered effective rationalisation. This criticism applies more equitably to the later subsidies, for in the early post-war years the industry had been unable to adapt itself swiftly enough—and with more reason—to the changed post-war conditions.

The effects of expenditure falling under the heading of Scientific Investigation do not readily lend themselves to analysis. The more apparent effect is to increase general

industrial technical efficiency, and that this has been materially enhanced by the post-war large expenditures is undoubted. Thus the wireless industry was notably assisted by the application of the results of work on valves, e.g. the thermionic valve, and by the special committee on atmospherics; the production of cast iron was helped by the research done on moulding sands; by the introduction of new table grinding machinery an untrained girl working in the cutlery industry can now produce 66 dozen ground blades in one day; valuable work has been done on the spinning value of cottons, the weight of size giving the most efficient weaving of cloth, and the control of warp tension in looms; an important new process was discovered which considerably cheapened and made more permanent the bleaching of wool; and last, but not least, discovery was made of a harmless way of colouring sausages!¹ It is obvious from these random citations that the research work undertaken has important effects not only in reducing production costs, but also in enhancing qualities—both factors likely to have favourable effects on the national dividend.

Another line of expenditure incurred—partly at any rate—with a view to relieving unemployment, is that on Overseas Settlement. The idea that the policy was actuated by the wish to reduce the unemployment prevailing in this country in post-war years has repeatedly been denied in the reports of the Overseas Settlement Committee, in Parliament and elsewhere. The following, however, is an extract from a report issued by the above committee:

“ . . . in existing circumstances they (the committee) are convinced that over-population exists to such an extent as to menace the well-being of the whole community. They believe that the best remedy for this evil is to be found in a policy of State-aided migration and settlement. Such a policy, . . . directs that part of the population of this country which is surplus to its industrial requirements to those parts of the Dominions where it is needed to hasten development, stimulate production and provide new raw materials for the factories of this country and markets for its manufactures—in short, to remedy the destruc-

¹ *Report of Department of Scientific and Industrial Research (1929-1930)*, p. 131.

tion and waste of the War by the creation of new wealth for the whole Empire."¹

From this, and similar statements which have appeared from time to time in other of the committee's reports, the inference that migration is sought as a means of clearing surplus population, and therefore persons who would otherwise presumably be unemployed, is irresistible: hence it is illogical to suggest that the effects of the policy ought not to be looked for in reduced unemployment.

What, actually, have been the effects? From 1921-1931 the total of emigrants was 1,453,442—or an annual average of 145,344. For the ten years prior to 1914 the annual average was 361,774.² Evidently, therefore, there has been a substantial decline in the post-war period, and this is emphasised if it is remembered that emigration in pre-war years was not assisted by this country. Apparently, however, the decline would have been greater but for the operation of the Empire Settlement Act of 1922; for during the period 1922-1929 (both inclusive) an annual average of 78,599 persons migrated under the assisted scheme.³ The outlays made in consequence of it have therefore aided migration. In order to judge the effects of this expenditure, it is desirable to know the answers to such questions as from what sources emigrants benefiting from the Act were recruited, whether they were previously unemployed, and in what occupations they have been absorbed. Statistical and other data referring to these points is, however, scanty. It appears that persons applying to emigrate have mainly been led to do so because of unemployment. In the earlier post-war years a sizable proportion, nevertheless, was attracted by the greater prosperity and opportunities prevailing in Empire lands, or included ex-service-men willing to risk themselves in overseas employment. In later years a substantial proportion were children or young persons with-

¹ Cmd. 1804, p. 8. Cf. this statement with that of Prof. L. Hersch: "... the conclusion seems inevitable that the increase of population plays no great part in the severe unemployment in that country" (i.e. Great Britain). *International Labour Office, Unemployment Problems in 1931*, p. 187.

² *Vide Statistical Abstracts.*

³ Cmd. 4075, p. 80.

out good prospects of home employment, and women. The emigrants as a whole were by no means restricted to agricultural workers, and indeed were largely drawn from towns. Since arriving in the Dominions and Colonies, however, they have largely been employed in agricultural occupations. Again, on the whole, more males than females have emigrated, and more males between 18 and 30 years of age than any other age category,¹ so that ". . . emigration accentuates the already large excess of females in this country, and draws disproportionately upon persons in the prime of life."² Lastly, as for the quality of the emigrants in general the Committee on Empire Migration reporting in 1932 said,

"We also know that persons of sub-normal health and intelligence are refused admittance by every country. We know, further, that the standards imposed by the Dominions require a physical and intellectual capacity that is probably above the average. Further, and probably more important, there is the self-selecting aspect of emigration. Whether assisted or unassisted, the emigrant tends in each category of the population to be the least obviously surplus. Thus, emigration takes the men rather than the women, the young rather than the old, the bright and ambitious rather than the dull and lethargic. . . . Thus emigration draws unduly upon those elements in the population of which this country has most need."³

From these arguments the inference to be derived is that this country has lost in personal capital a corpus of its population which in happier times might have been employed. If so employed, it would have added to the national wealth and income. Since, however, some persons might have been unemployed for long periods during 1921-1931, a saving to this extent may have occurred in the cost of social services and therefore equivalent claims on the national income. How far the emigrants as a whole would have actually been unemployed for long periods cannot be known. But it has to be recalled that the unemployed have never been a "standing army" during 1921-1931; and

¹ In 1928, for example, 55 per cent were between 18 and 30 years of age, 30 per cent under 18, and only 30 per cent over 30 years of age (Cmd. 4075, p. 11.)

² *Ibid.*, pp. 11-12.

³ *Ibid.*, p. 12.

even at July, 1930, the Ministry of Labour contended that no more than 103,000 persons could be so ranked. And as for the more immediate future there is reason to agree with the hopefulness of the Economic Advisory Council's Committee that, because labour was slowly becoming better re-distributed following the obvious maldistribution of the earlier post-war period, new industries were being created, and the rate of increase of population was falling definitively ". . . unemployment will in due course resume the general character which it had before the war, i.e. that of a phenomenon of fluctuations of business activity rather than of a quasi-permanent surplus of labour."¹ Also important, is the fact that the post-war unemployment problem was not assisted by allowing 468,179 immigrants during 1922-1929 (both inclusive) when coincidentally migration was subsidised. Lastly, the apparent saving in social costs mentioned above was reduced by the arrangements whereby emigrants might continue to receive certain social service benefits after migration.

The strongest arguments for migration are undoubtedly bound up with the desirability of a more balanced distribution of the white population of the Empire and the promise that domestic exports may be increased. As for the first point, referring to the fact that 48 out of the 66 millions of white persons are concentrated in the British Isles, the Economic Advisory Council's Committee declared that

"We believe, indeed, that the solidarity and internal strength of the British Commonwealth will come to depend more and more on the continued growth of the British elements in the population of the Dominions, and we believe further that the maintenance of this solidarity is an important factor in maintaining world peace."²

How far the first and second parts of this argument can be reconciled is a matter of no small doubt. It would, however, be futile to deny the force of the political argument for redistribution. As for the second point, the foundation argument is that the Empire has for long taken much larger exports per head from this country than have non-Empire

¹Cmd. 4075, p. 15.

²*loc. cit.*, p. 29.

countries.¹ For this, however, there have been a variety of reasons, a full examination of which is hardly feasible in this volume. In recent years, at any rate, the explanation is largely to be found in the tariff preferences for British goods and the fact that, whereas in 1909-1914 Empire capital issues were 44 per cent of the total, in 1921-1931 they were 65 per cent. Even so, domestic imports from the Empire have increased *pari passu* with exports thereto, e.g. in 1926 and 1927, whereas nominal imports from the Empire were respectively 33 and 32 per cent greater than in 1913, nominal exports were but 30 and 24 per cent greater. Granted, however, a continuance of such favourable tariffs, and relatively large capital exports, inter-Empire trading might increase and the preference for exports from this country might continue.

These favourable and unfavourable points may now be related to the cost of migration. Since the net expenditure in 1921-1931 was no more than £6 m., the cost of each emigrant was apparently no more than about £15. This, however, was not the total cost. For all the expenses of rearing and training emigrants prior to actual departure have fallen on this country, and in view of the early ages at which emigration occurs, it is obvious that this has constituted a burden with very little by way of *quid pro quo*. It is not practicable to say what net costs have thus had to be borne, but the average cost per person must run into several hundreds of pounds. Taking all the points for and against State outlays on emigration during 1921-1931, it is obvious that a very careful balancing is required to determine whether, and to what extent, the outlays have been justified.

Consideration may now be given to the scheme for Export Credits. This has not involved large expenditure at any part of the period—and especially since 1926 when the business has been purely of an insurance character. It is unnecessary to say more, therefore, than that its existence has undoubtedly furthered the transaction of business which otherwise would presumably not have been possible. In this way, although to a moderate extent, it has stimulated

¹ *loc. cit.*, p. 82.

domestic enterprise engaged in export—in itself a very desirable outcome during the period of depression—and probably assisted domestic employment. From these have followed savings in social service costs.

The small expenditure under the Trade Facilities Acts undoubtedly stimulated domestic capital expenditure. How far the outlays would have been incurred in the absence of the scheme is not determinable ; but some, at least, would probably not have been undertaken. In almost all cases they represented capital outlays designed to add to the country's economic equipment and efficiency—among the larger items being £21 m. for ships, £13 m. on underground railways, £7 m. on electrical schemes, £3 m. on shipyards and £2 m. on sugar factories. The policy therefore increased the national wealth, and thereby added to the possible volume of economic utilities derivable therefrom and additive to the annual national income. It also probably provided extra employment and reduced the costs of unemployment and other social services to which the unemployed might have had to resort.

The results of the moderate outlays made in order to provide Training for young Unemployed Workers, can hardly be assessed in specific terms. The schemes were not developed sufficiently in the period to give comprehensive training courses, or courses designed to lead to responsible work. Even so, to the extent that labour careers are saved thereby which otherwise might be wasted, a gain to the national dividend results. Further, if the training is directed to remedying labour shortages in particular trades, and to offsetting probable labour surpluses, it may perform a very useful function. For, as a memorandum issued by the Ministry of Labour on the basis of local reports in 1929 showed, during 1928–1933 there are likely to be difficulties in adjusting the areas of demand to the areas of supply.¹ Further, there is no doubting the utility of the general and non-vocational training given in Juvenile Unemployment Centres, for this adds to the work value of juveniles, and yet

¹ *Memorandum on the Shortage, Surplus and Redistribution of Juvenile Labour* (Cmd. 3327).

does not specialise them to particular occupations prematurely. Besides the generally favourable effects on the national dividend, favourable individual effects are observable in so far as such schemes either add to the working capacity of young unemployed persons, or assist poor families to bear the burdens of maintenance which have pressed heavily in areas such as South Wales and Durham.

Something must now be said on the second part of the analysis of this chapter whereby it is sought to discuss the sort of transfers induced by the various expenditures and to estimate their significance. To no small extent, however, the analysis preceding has involved constant reference to the various transfers induced ; and the expenditures treated of in this chapter differ from those on debt services and on social services in that they are not ordinarily intended to be in the interest of particular sections, but in that of the whole community. For these reasons it is unnecessary to add to what has already been written, except to refer to the general transfer as between Richer and Poorer. It is obvious from the analysis that expenditure on roads, on unemployment works, on overseas settlement and part of that on agriculture has been directly or indirectly in the interests of the Poorer. For, while the primary and ostensible aim may have been to add to the resources available for general economic development and for purveying economic utilities, or to avoid other uneconomic expenditure, the secondary object has undoubtedly been to give employment to unemployed persons. Indeed, in some cases it is difficult to determine which has been the real secondary and which the real primary aim. This being so, transfer has been brought about to the Poorer, and normally, it must be presumed, to the worse- and worst-off of the Poorer. Part of the benefits so transferred have of course been derived from funds provided by levies on the general body of the Poorer. Applying the general analysis made in earlier chapters, however, since the Richer have been relatively more heavily taxed and have also contributed more largely to local rates, even though it might be assumed that they stood to gain substantially from the resultant additions to the capital assets and wealth

resulting, it is plain that on balance more was transferred away from them than they received back. As for those expenditures which have been entirely or largely for purposes of economic development or for the advantage of the community, it is clear that often—e.g. in de-rating, coal-mining subsidies and part of agricultural expenditures—they have gone materially to benefit the Richer, either by reducing costs of production, or by adding to capital resources or by direct transfers of funds. It is no less clear, however, that these expenditures have been much less substantial than those directed to the interests of the various sections of the Poorer referred to earlier; while the Poorer have also reaped a material part of the advantage of the resources expended. While, therefore, such outlays may have redounded to the greater benefit of the Richer, it is not likely that the gain has been sufficient to upset the general conclusion that more has been taken from this social category than has been received back.

II

The difficulties in the way of appraising the utilities and disutilities entailed by the expenditures included in this chapter are especially apparent, first, because it is not possible closely to distinguish between those undertaken for economic development and those instigated by the idea of relieving unemployment, and second, because the schemes are very diverse in character. Something may be attempted, however, by way of collective grouping of similar outlays.

First it is desirable to pass judgment on the Exchequer Contributions to Local Revenues, for this mainly involved transfers between the central and local authorities and did not result in new expenditure in total. As such, it was unusual if not unique. Apart from this clear advantage, it has been shown that the scheme was economically good principally because it produced a more balanced adjustment between national and local burdens, and because it engendered a more equitable assignment of burdens as between the more and the less depressed areas. Again, the savings

of costs to productive industry are obvious. It is unlikely, too, that the small extra levy on general taxpayers has induced any material hardship, while consumers have not suffered visibly. Against these advantages, it is probably the case that benefits were too widely diffused and therefore less effective, while partiality was shown to "sheltered" or *quasi-monopolistic* branches of production. More generally, the formula grant has not successfully offset all local vagaries and peculiarities. Obviously, however, the scheme as a whole has been profoundly more favourable than unfavourable in its effects.

As for expenditures on Unemployment Works, it is obvious that there are strong arguments on both sides. It must be recognised that certain of the works were indispensable or inevitable, e.g. road schemes, replacements of health equipment, and river and land improvements. Others again were inherently desirable, e.g. electricity, gas and water schemes and schemes affording a counter-part revenue to expenditure. Furthermore, others were probably called for on social grounds. Lastly, at any rate towards the end of the period, private capital investment and spending were probably defective as compared with available savings. On the other hand, the rating burdens of acutely depressed industries were often materially augmented. The export trades gained very little from such spendings—even indirectly. A small burden, too, was suffered in extra taxation and a larger one from extra rating levies, while waste was inevitable to the execution of the policies. Lastly, at the best, such public spending as was undertaken did not serve materially to assist in essential rationalisation and re-organisation of private production and equipment. On the whole, however, the opinion may be ventured that, in the special post-war circumstances of prolonged depression, more justification attaches to the actual outlays than not.

If this generally favourable verdict may be applied in the case of government schemes, a more favourable one is clearly warranted for those undertaken by public utility concerns; for these have had the marked advantage of not adding to

local authority expenses, and not heavily to taxpayers' burdens. There is, further, much more likelihood that the works have been productive and perhaps less costly, and beneficial to the national dividend. Granted that the works involved much new employment, and that they would probably not have been undertaken without State aid, the general desirability of this expenditure may be admitted.

Turning now to the special outlays made on Road works, while these are similar in general character to the schemes operated by the Unemployment Grants Committee, there are yet certain points of difference. It is probably true to say, for example, that the expenditure on roads was somewhat more productive than was generally true of the unemployment grant schemes ; for the remarkable post-war growth in road transport obviously called for improvements designed to check traffic congestion, and to secure the savings of time, transport costs, and the economic advantages possessed by certain forms of road transport over rail as illustrated earlier. It was therefore possible for such expenditures to add more definitely to the national dividend. Again, there is a greater certainty that, since road works are not undertaken by private industry, both new work and new indirect advantages caused by demands for materials and services result. Such works, too, share the general advantage possessed by the other unemployment schemes of involving relatively large payments on account of direct labour or labour used in materials, and of offering a refuge to persons whose chances of employment in their own occupations have, by the special incidences of the depression, been rare. Lastly, they have not involved heavy net levies on taxpayers. On the whole, therefore, the advantages of road works have been larger than other unemployment works.

The drawbacks have, however, also been larger. For the very large outlays actually made in the period, despite some resort to loans, were a material cause of discrepant local rates. Again, there can be no doubt that, so far as unwise duplication of road and rail facilities has resulted, manifest diseconomy has been produced. Such expenditure would have been more wisely applied to railway reorganisation on the

lines laid down by the Royal Commission on Transport and such special committees as the Duckham Committee on coal transport, and the Weir Committee on railway electrification. Despite these special negative arguments, however, the relatively high general utility of the actual outlays made has probably been sufficient, in the special and persistent unemployment found in the period, to supply a broad justification for them.

Lastly, reference may be made to the small outlays made in the period under the Colonial Development Act. These conceivably go to stimulate exports, and in this way may confer a measure of benefit on export trades. This, and the derived indirect advantages, nevertheless represent all the gain received; for the capital assets created do not provide subsequent utilities additive to the domestic national income to offset the loss to taxpayers. Such schemes, therefore, are not to be ranked as being so economically desirable as those dealt with above.

The developmental expenditures undertaken through the Agricultural votes may now be discussed. As for Afforestation, the strongest favourable argument is the political one of securing a reserve of home-produced timber. This argument is fortified by the small total available supply existing in this country. The contention has been repeatedly advanced by Royal Commissions and committees and received the approval of the Agricultural Tribunal of 1924.¹ This body suggested that home-produced food supplies were more likely to be increased than decreased thereby.² Prof. Macgregor further pointed out that it adds to the numbers of the rural population.³ In view of the desirability of preventing excessive rural migration, there is force in the argument. Against the expenditure the Royal Commission of 1909 showed that deficits were hardly avoidable up to the fortieth year, while afterwards the commercial return is meagre. Again, the earlier discussion showed that the scheme has no high employment value. Lastly, there seems to be some truth in the criticism that the outlays have not been con-

¹ Cmd. 2145, p. 187, g. 271.

² *Ibid.*, p. 82, g. 229; p. 188, g. 273.

³ *Ibid.*, p. 188, g. 275.

ducted with sufficient regard for economy.¹ While a favourable conclusion is suggested by the political argument, there is therefore no justification for expansive spending.

Land Settlement has involved much larger expenses for both State and local authorities and commitments are likely to endure for some time yet. The Agricultural Tribunal of 1924 took the view that the 1908 Act had been "... to a very encouraging extent successful" so that "... the time has come for a fresh and large effort. ..."² Their favourable opinion was mainly based on the check to the socially undesirable rural efflux, the advantages of greater social content, and above all, the opportunities afforded by small holdings to workers without capital of developing their agricultural capacity.³ What weight can be given to these reasons? It is undeniable that both political and social advantages are obtainable by the prevention of rural decline and the assistance given to the production of home food supplies. Larger gains, perhaps, accrue from the development of potential individual farming capacity. The general political and social argument that no country should be entirely dependent on external food supplies, although largely founded on the psychology of protection, is probably sound as applied to this densely crowded country. Yet it is likely that future supplies will continue to be—as they were before the war, but pronouncedly so during the period—more inelastic than this country's demand, and therefore comparatively low in price.⁴ There is, however, the more vital argument that, as Prof. Macgregor contended, no really strong reason exists to prevent agriculture from being made more efficient in this country.⁵ On general grounds, then, there is a reason for the expenditure. Further specific support can be found therefor in the relief of post-war unem-

¹ *Vide* E. P. Stebbing, *The Forestry Question in Great Britain*, Chap. XVII.

² Cmd. 2145, p. 40, g. 103; p. 41, g. 106.

³ *Ibid.*, p. 41, gg. 106-7; p. 42, g. 110, g. 113; pp. 104-5, g. 8; p. 134, g. 111.

⁴ During 1880-1925 the price of food relative to other commodities fell from about 114 to 90. (*Vide* R. A. Fisher, *The Overproduction of Food*, *The Realist*, July, 1929.)

⁵ Cf. Cmd. 2145, pp. 192-3, gg. 287-9.

ployment, since of the 17,000 new post-war holders, probably many entered on new employment. On the other side, the substantial losses and heavy costs to the national and local exchequers cannot be dismissed lightly ; and they have been heavy in proportion to the new employment. Nor can the possibility of alternative employment which might have resulted from the absence of such expenditures be overlooked. Again, the small-holdings are not conducted with the maximum of efficiency because of the dearth of co-operative marketing schemes, and inadequate attention to production costs and training for the work. On balance, however, in the circumstances prevailing during the period, there would seem to be a stronger case for, than against the expenditure.

Land Improvement schemes may in essence be regarded similarly. In particular they are likely to confer real benefits on agriculture and to be of long-lasting value, e.g. land drainage schemes. The more vital question has apparently been as to how far the State is justified in shouldering responsibility properly belonging to private owners. If, however, as assumed above, there is a political and social argument for aid to agriculture, the expenditure can be justified.

Agricultural Education and Research grants, and those for stock-rearing and treatment of disease, may be judged to have a relatively high degree of economic utility ; for, as the Council of Agriculture declared in a report on policy,

"The future prosperity of Agriculture must, to a very large extent, depend upon the improvement and development of Education and Research. We regard these matters as fundamental to almost all the suggestions that are being made for the advancement of the industry."¹

The Agricultural Tribunal, again, cited several instances of the value of research, e.g. an experiment made at Cockle Park in Northumberland showed that pastures could be so improved as to double or quadruple their productivity: experiments at Cambridge showed that new varieties of wheat could be bred to give much larger yields ; the degree of success attending arable stock farming could also be

¹ *Report on Agricultural Policy*, 6 August, 1925, p. 5.

demonstrated.¹ The obvious complement of this is an efficient scheme of education able to utilise such research results. Disease of stock has notoriously been responsible for much economic loss—particularly tuberculosis of milk cattle, and foot and mouth disease. Expenditure thereon is fairly supported by such affirmative arguments.

Against these advantages, education has probably been too heavily subsidised at an average of 67 per cent of net cost, while it is possible that some diseconomy in research has resulted from the variety of grants obtainable—from the ordinary State grants, those of the Development Fund and the Empire Marketing Board. Taken on the whole, however, there is little reason to doubt the economic value of the above group of expenditures.

Lastly, what shall be said of the outlays on the Empire Marketing Board? A main argument for it is the possibility of increasing this country's exports owing to the expanded importation of Empire agricultural products. The foundation argument for this is that the Empire countries have for some years past spent more *per capita* on British exports than other countries. In pure theory, of course, this argument would be inadmissible—unless the extra imports from the Empire in fact represented net additions to the total of imports; and there is no reason for thinking this to be the case. Because of the lower tariff discrimination observable in Empire, as contrasted with foreign countries in the period 1921-1931, however, it is possible that greater domestic purchases of Empire products would assist domestic exports to expand. It would, nevertheless, be incorrect to assume that this was by any means the sole cause of the larger exports to the Empire actually recorded. For it has been pointed out that the direction of this country's post-war foreign lending definitely veered round to Empire countries—to no small part as a result of the Colonial Stock Acts. Since Empire tariffs were actually raised against this country by more than tariffs in general during the period, the latter explanation is likely to be the more important. Furthermore, as the cost of the Empire Marketing Board in effect

¹ Cmd. 2145, p. 121, g. 69.

reduces the advantage which this country derives from its exports to the Empire without adding to the facilities derived or lowering the price of imports of Empire products; there is but a weak economic case for the expenditure. The political case may be—and probably is—stronger.

Passing next to the developmental outlays on Scientific Investigation, the nature of the work does not lend itself to monetary evaluation. The main point to be stressed is that the research work is directed to a very wide variety of needs, but in particular to the possibility of assisting industrial technical efficiency. As for the first, the Report of the Advisory Council of the Department of Scientific and Industrial Research for 1929-1930 declared that

"Our experience demonstrates conclusively that the greater application of science to industry through Industrial Research Associations is one of the most important factors in industrial recovery. The work of Associations has yielded and will continue to yield results in increased efficiency of production and consequently increased competitive power in world markets far transcending the expenditure involved."

Again

"... we wish to point out that the taxpayer obtains a direct benefit from the work of these Associations and of other centres of industrial research. In the long run the consumer obtains the advantage in the better quality of the article supplied for which he pays no more, and in some instances even less, than he did for the less efficient product of earlier days. The standard of living of the nation is thus gradually raised as a result of the application of discovery to production."¹

As a prominent instance of the latter, the case of electric lamps may be mentioned. Originally having an efficiency of .25 candles per watt of power, this was finally developed to over 1.0 candles per watt. It is interesting to note, too, the growth of what are termed Development Sections, which make it their business to carry results to the manufacturers and to assist in their installation in the scheme of production. A last point is the large measure of financial support which has been received from industrial and trading firms, the

¹ pp. 14, 15.

reason for which is based on the effective value of the work done. It is evident, therefore, that no small measure of economic utility has been derived from the outlays on research, and there is reason to agree with the Advisory Committee that it is high in relation to the expenditure involved. The same generalisation applies—even if with somewhat less force—to the moneys spent on museums, libraries and galleries.

The problems presented by Oversea Settlement do not lend themselves to such a ready judgment, because there are closely balanced arguments to consider and these are both political and economic. The chief favourable arguments appear to be that migration within the Empire probably fosters an expansion of exports relative to imports from and to the home country; it makes for a more equal distribution of the white population; and—to some extent—it relieves unemployment. Against these the main arguments are that migration inevitably entails the loss of good human stock the cost of raising which has fallen heavily on the domestic community; that emigrants have been persons who probably would not have been unemployed for long periods at home; that substantial losses on loans to settlers are involved—the report of the Comptroller and Auditor General for 1931 refers to loans made since 1925 of £812,894 of which only £89,093 had by then been repaid; that it was rendered necessary to accept larger imports from Empire countries and hence smaller imports from foreign sources; that—above all—during a time when migration was being publicly subsidised, a heavy influx of immigrants was permitted. In passing judgment, it is evident that these arguments do not constitute a whole-hearted and arbitrary case for migration. But the case for it is certainly established on political grounds—the facts testify to the excessive concentration of white people in this country. On economic grounds, a similarly favourable verdict could only be given if it were correct to assume that this country had passed the zenith of its economic power and the post-war period represented the beginning of economic decline. As Sir W. H. Beveridge has declared

"Beyond a very few years there will be no need to find room in Britain for an increasing people ; if British industry can keep its present place in the economic structure of the world, there will be room and to spare in it at present standards. But the condition named, that Britain keep its present place in the economic structure of the world, may not be fulfilled." ¹

It may be suggested that all the evidence goes to point rather to the zenith having been passed owing simply to the rise to economic power of nations formerly lagging as the result of later exploitation of their economic capacities ; so that Britain may not keep her pristine place in the economic structure of the world. If this conclusion is shown to be justified in the light of later experience, then migration during 1921-1931 was probably justified on economic, no less than on political grounds.

The small outlays called for by the Export Credits scheme and the Trades Facilities Act imposed no more than minor burdens in the period. It is probable that, although they have not been operated on a large scale, their effects have been almost unexceptionally good ; thus the Select Committee on Estimates reported that ". . . the present facilities given by the Department are of great practical advantage to the development of the Export Trade of this country." ² The former has certainly encouraged exports during a period when they declined severely, and has done this without artificial disturbance. The latter encouraged useful capital expenditures from which valuable economic utilities are derivable. Again, even though some part of the works would probably have been undertaken without assistance, it is unlikely that the Exchequer has lost materially—if at all. Both these expenditures, therefore, may be approved.

Judgment is next called for about the moneys spent on Training Unemployed Workers. The advantages of the training to young persons are evident : for it may considerably enhance their employability throughout their relatively long working life. It would appear, however, that real advantages may also occur from training given to older

¹ *Unemployment* (1930 edition), p. 398.

² *First Report* (1928), p. 3.

workers who have no chance of re-absorption in their former occupations—provided that their aptitudes are such as to enable them to benefit therefrom and careful selection of the training and trainees is made. Another useful result may occur in special cases, e.g. many of the workers transferred by the Ministry of Labour during 1929 were not able to retain their jobs owing to unemployability induced by long absence from regular work. Thus, of 40,000 men interviewed in mining areas in October and November, 1929,

“ . . . only about 7,500 were considered to be both available and suitable for immediate transfer to industrial employment. Nearly 10,000 appeared to stand in need of a course in Transfer Instructional Centres, while some 4,000 were regarded as suitable for, and in need of, more specialised training.”¹

The relative degree of success resulting from the work is suggested in that out of 11,515 completing industrial training, 10,823 passed into employment up to the end of 1929 :² of 1,754 completing training for outdoor work, 1,608 obtained work ;³ of 3,800 women and girls trained for domestic service, 3,435 obtained posts.⁴ It may be judged, therefore, that this rescue work has had relatively favourable results which have gone far to offset the costs incurred.

What, in conclusion, may be said about the subsidies to Coal and Sugar Beet ? Over a longer period, it is conceivable that better results might have been secured in the production of beet sugar, so that a reduction of national expenditure might have been achieved. The high price of sugar in the immediate post-war period was, however, essentially the outcome of the special conditions caused by the war. The situation was therefore abnormal : and as there is no material reason to doubt that in ordinary times abundant supplies of sugar will be forthcoming at reasonable prices, there is a *prima facie* case against this highly specialised and relatively costly subsidy. A more fundamental point is that taxpayers have been mulcted to provide substantial profits for sugar-factories rather than to reward growers. Even if it is granted that there is a case on general and political grounds

¹ *Report of Ministry of Labour (1929)*, p. 17.

² *Ibid.*, p. 35.

³ *Ibid.*, p. 38.

⁴ *Ibid.*, p. 42.

for extending assistance to agriculture, such a general argument does not over-rule the major specific objections adduced above.

How far must this decision be modified, however, in the light of the value of new work created by the subsidy? The previous analysis showed that no very large amount of new direct work was created, since other work was forsaken. Possibly, however, a sizable part of the indirect work ranked as such: but how large this has been is not known accurately. In view of these facts and the transfers of substantial portions of the subsidy payments to shareholders in sugar factories, it would appear that the employment value of the scheme has not been high. In consequence, the above decision is not profoundly modified.

The Coal Mining Subsidies, it is significant to notice, needed almost as much State expenditure in the three years when they were applied as the whole of the grants for unemployment works. The subsidies were doubtless instrumental in effecting some savings in the cost of social services over a short period, and some damage to unattended mines was probably avoided. Further, there was undoubtedly something of a case for subsidies to such an important basal industry, vital both to export and to domestic industry. This is all, however, that can be said in their favour. It is obvious that they failed to prevent adjustments which were made inevitable by forces outside of governmental assistance of this sort. In these circumstances, therefore, they stand condemned. Moreover, there is little doubt that harm was actually caused by their existence: for, instead of leading to constructive action, they delayed it. For these reasons the negative judgment passed on the subsidy principle by the Samuel Commission was unequivocally justified.¹

¹ Prof. J. H. Jones has pointed out that, although exports increased as a result of the subsidy from 12.75 million tons in the June quarter, 1925, to 13.25 million tons in the December quarter, 1925, the average price declined from 20s. 7d. to 18s. 5d. per ton. He adds: "A sum greater than the wages of the additional workers employed was paid out of public funds; if such workers had been paid full wages for doing nothing, and April-June prices had been maintained, we could have paid for a greater volume of imports with a less volume of exports, retained the surplus coal as an asset, and saved a considerable amount of public money." (*Economic Journal*, June, 1926, p. 286.)

as also the caustic comment of the *Economist* during the period of the dispute that

"... if the alternative be further bribes from the taxpayer's pocket, it is better to face trouble now than to purchase a purely temporary reprieve through a method which is indefensible in principle and unjustified by the state of the national finances."¹

In attempting to make a summary judgment of the varied expenditures dealt with in this chapter, since the bulk of them may be regarded as having been devised with the ideal of making a direct attack on the problem of providing employment, there was a strong *prima facie* case for them. For it is patently better to prevent unemployment than—as in the case of certain social services—to incur expense in order to enable its consequences to be borne. Again, it may be allowed that some part of the outlays did constitute spending in ways which are not only restricted to public action, but which also are essential to economic progress and development. It may furthermore be argued that the very intractable and unyielding character of a part of the prevailing unemployment led simply to a choice between giving a lesser amount of relief without doing anything else and giving a larger amount of relief by undertaking works having a public utility. The argument affirming the need for increased public investment to offset decreased private investment must also be reckoned in. Lastly, if the Exchequer Contributions to Local Revenues are regarded as being an inherently desirable transfer, and Motor Licence Duties are offset against Road expenditures, the outlays were small in relation to expenditure as a whole.

The analysis has shown, however, that, in general, the actual schemes resorted to had as their outcome less effect in preventing unemployment than in relieving it. It has also been demonstrated that public spending was sometimes pressed so far as to bring about a materially reduced marginal utility. Again, the provision of larger relief was accompanied by a heavier public cost than the provision of smaller (social services) relief. Lastly, the Exchequer Contributions

¹ 17 April, 1926, p. 772.

did not avail to prevent a definitely heavier post-war burden for the very depressed areas involved in high local expenditure. In view of all these considerations it would seem to be inevitable to rank the expenditures as a whole and as actually organised in the period as somewhat less merited than social service expenditures. This conclusion is fortified, too, by the fact that, in proportion to the outlays involved and their incidence, they were less beneficial to the community regarded as a whole than were the social services, i.e. they were not proportionately so widespread over the Poorer.¹ Nor can it be contended that they were less burdensome than social services in that they involved proportionately lower imports or assisted more largely the recovery of the export trades; for imports probably increased materially, and while certain of the export trades possibly benefited from an increased domestic demand and a lowering of production costs, the "sheltered" industries received a greater stimulus.

This conclusion is without prejudice to the individual conclusions concerning individual schemes. It is also without prejudice to the general principle of the *possible* advantage of public expenditure designed to promote economic development and to prevent unemployment—which is peculiarly apparent where the requisite funds are provided not out of taxation but out of loans. Its application is to the actual policies pursued in the period and to the incidence of the concomitant benefits and burdens.

¹ It appears that the maximum volume of employment provided by unemployment schemes claimed by governments did not at any time exceed 200,000 workers.

CHAPTER XI

OTHER SERVICES

I

IN considering the effects of the conglomeration of items grouped in this chapter, it is desirable to recall that, despite the fairly large number of separate items, the increases in expenditure 1921-1931 over 1913-1914 were the lowest of any of the other groups. The whole expenditure was little more than double that of the pre-war year, while also administrative services accounted for about one-half of the total charges. Furthermore, the total post-war annual outlays were smaller than for any other group.

Taking first the item of General Administration, etc., to which, for convenience, the outlays on superannuation payments may be added, the nominal cost was nearly two and a half times as high as in 1913-1914. Since the nominal national income was no more than nearly twice as high, clearly the real burden of administration has grown. Because there were very substantial increases in staffs, there is the further burden that the contributions to the national income which might have been made by the extra staffs called into being have been lost to the nation. The total loss resulting, however, has not been a net one; for the executive and administrative functions performed may have indirectly enhanced the nation's income by adding to the productivity and productive capacity of its members. In some cases, indeed, it is feasible to grant that the work has had a relatively high degree of utility. In the case of the Department of Overseas Trade, for example, the post-war new arrangements leading to the establishment of commercial embassies, trade commissioners and the like in

foreign countries have probably assisted foreign trading to a material extent by the supplying of trade and commercial information and generally by the care shown for the foreign interests of domestic traders. In the case of the Board of Trade, the establishment of the *Board of Trade Journal* has undoubtedly further assisted in this line, while the work done in promoting and securing British representation at fairs, exhibitions and the like has also been of value. The Census of Production similarly, is economically desirable, while the Mines Department has proved useful at times of difficulty. It has to be recognised, too, that the Board of Trade staffs were materially inflated by the various branches of work added by the war, e.g. liquidation of food and timber supplies, clearing of ex-enemy debts, handling of reparations claims, clearing up sea wreckage caused by the war, and the registration of business names. While this work cannot be claimed to be very productive, it was nevertheless inexorably imposed by the war. As for the Ministry of Labour, staffs were increased in the period to deal with such matters as unemployment, re-settlement of ex-servicemen, transference and training of surplus unemployed workers, the production of detailed labour statistics, to prepare the *Ministry of Labour Gazette*, and to constitute an industrial relations division. Some parts of this work were more productive than others, but on the whole a fair measure of utility has been derived. The Ministry of Health has done laudable work in raising and unifying public health standards, in administering the national health insurance scheme, in directing the provision of houses, unemployment works, in administering pensions schemes, and controlling the distribution of poor relief as well as other local government services. Here also some branches of the work have been more fruitful than others, but most of it was desirable in small or large part. The Ministry of Agriculture has undertaken responsibility for encouraging and controlling agricultural work of one sort or another such as land settlement, afforestation, beet sugar production, research and education and the handling of diseases. The Ministry of Transport was, like the Board of Trade, encumbered with numerous

duties emanating as a result of the war, and subsequently has been concerned with developing the roads system, with railway administration, and with undertaking responsibility for harbours, rivers, canals—and many other incidental duties. Lastly, the Treasury has had to increase its staffs to cope with the larger and more ramified work of finance with a view to fulfilling its function as watchdog. Into more detail it would not be profitable to go: sufficient has been said by way of enumeration of the main duties performed to show that there is something material in the offset suggested on the ground of the economic utility of the work. It is obvious, moreover, that the additions to staff expenditure have been much more the outcome of the larger and more complicated batch of legislation passed in the post-war period than of inefficiency in administration—even though this may have been substantial.

Next it has to be recognised that a sizable part of the expenditure was involved by miscellaneous items not included elsewhere. It is neither necessary nor worth while to examine into the effects of these in detail. Those induced by war remanets may be summarily treated of by saying that they were properly war costs and must be regarded as ordinary purchases and sales the economic utility of which to the community was, from the standpoint of the period, low—or indeed non-existent. Another war item—the scheme for purchasing Australian zinc and spelter—was continued throughout the period. Owing to the fixed contract terms payable by the domestic government and the post-war declines in prices, substantial losses have been regularly incurred—amounting apparently to some £8 m. at 1 March, 1930.¹ This scheme has entailed the transfer of tax funds to shareholders of the Australian companies concerned without anything in the shape of a *quid pro quo*. Granted that savings might have accrued in the first few years following the agreement of 1917, owing to the subsequent heavy fall of prices this has created an obvious burden for domestic taxpayers. The heavy payments made to the Mint in the period fall into a similar category; for these

¹ *Vide Trading Accounts and Balance Sheets* (1929), p. 128.

consisted mainly of the cost of withdrawing from circulation coins not intrinsically worth the amount paid for them. The profits realised on their issue during war years constitute an offset, but this did not relieve the burden obtaining during 1921-1931. Whether the payments made on account of losses sustained by the sale of imported coal at prices lower than the purchase price were burdensome depends on how far taxpayers gained as consumers. While this may have occurred in part, it is likely that the greater advantage went to the foreign suppliers. The cost of the League of Nations, while apparently a burden, may nevertheless be regarded as quasi-productive expenditure. The expenses of various legal services have the offset of reduced risk of social upset and disturbance due to crime. On expenditure for parliamentary salaries it is hardly possible to pass a dogmatic judgment! Yet it may be assumed that economic utility is derivable from sane and wise government. Lastly, outlays on Royal Commissions have been palpably small in relation to the possible economic utilities which might be obtained.

About the second item, the expenses of Tax Collection, here much applies that has been written above. First, for example, the real cost of this expenditure has increased—but by a larger amount than the preceding item, for tax salaries have shown a rather greater nominal increase. Numbers have also grown by more, so that the further loss due to withdrawals of personal capital from possible productive uses has been heavier. What offset, if any, is available? Since the collection of taxes is not readily assumed to be a constructive process, this is not so evident. As the State must have revenue, however, tax staffs are inevitable: and owing to the growth in post-war revenues they have had to be expanded. Since, moreover, it has previously been shown that the expenses of collection have declined *pro rata* to the revenues resulting, this may be regarded as a favourable point. Nevertheless, to this the qualification must be attached that no small part of the increase has been due merely to the post-1913 lower value of money.

Ranking next, it is observable that expenditure on the

Police Force has shown large increases in the period compared with 1913-1914 and that both the costs of Exchequer grants and local rates have expanded in consequence. Further, as total authorised numbers only grew from 60,411 in 1913 to 64,701 in 1930 the cost of each member of the force increased substantially from £90 to £348. The national dividend being hardly double on the average during 1921-1931, it follows that a greater real share of it has been required for the police. To some extent this unfavourable result is neutralised because the small increase in numbers—an increase not proportionate to the growth in population—has permitted relatively more of the population to be employed in civil production. This offset, however, is not very material. Another unfavourable point is that, as it may be assumed that the higher real cost per unit has tended towards the maintenance of a smaller force, the work has suffered in effectiveness. The loss here is partly counter-balanced by the admittedly higher efficiency and capacity of the individuals comprising the force ; since the remuneration has attracted a better type of candidate. By way of rejoinder to this it would seem undoubted that virtually as much efficiency would have resulted even if lower scales of remuneration had obtained. Moreover, the smaller local authorities have been compelled by the greater costs to suffer an unwarranted decline in their police strengths. Lastly, since the central authority has undertaken the payment of a larger part of police costs a desirable recognition has been given to the semi-national characteristic of this service. Because it relieved local burdens, this particular change has been doubly desirable.

Expenditure on Works, Buildings and Stationery has done little or nothing to add directly to the national income. Wealth has been added to by the erection of new buildings, and alterations and conservation of old ; but the utility of most public buildings is rather of a less obvious and more indirect character so far as additions to national income are concerned. Much the same is true of the lavish expenditures on stationery and printing, except that these are expenditures on consumption and therefore of a different economic

order. Another substantial part of the expenditure has gone in local rates on Government property. In so far as this has permitted a contribution to local revenues greater than the local expenditures called for by way of local services—as may be expected—it has resulted in a transfer of funds from the taxpayer to the ratepayer ; and it is likely that this has been of some advantage despite the burden on the taxpayers.

In view of their real decline over the period as contrasted with 1913-1914, and the wholly different post-war situation, it is not feasible to say much about the levies made for Irish services. The funds derived from British taxpayers were spent in a variety of ways. Thus substantial sums went to pay for land purchases which it was expected would be recouped in large part in ensuing years. Various heavy aleatory expenses such as payments by way of compensation necessitated by the Irish disturbances of early post-war years, for damage to property, for personal injury, and for other purposes are, by contrast, not recoverable and must be counted as creating a direct burden. As to how far, too, the large payments made for Irish constabulary pensions and other payments to them will prove recoverable, depends the amount of burden falling on British taxpayers. The outlays on various judicial buildings in Ireland cannot provide any sort of material *quid pro quo* to the inhabitants of this country. In addition to the economic considerations, it is very desirable, however, to bear in mind the probability that favourable political reactions have been induced by the various expenditures. It is also necessary to remember that the larger part of the deadweight outlays were undertaken in the earlier years of the period, and that since the 1925 agreement matters have been adjusted much more in the interests of this country.

Foreign and Colonial services, as earlier, may be taken separately. An important item in the Colonial costs has been the expenditure of moneys on territories suffering from the war, or from the trade depression and from inadequate local revenues. In many cases assistance has taken the shape of grants-in-aid due to be repaid with interest. Assuming that such repayments occur, the effect of the expenditure is

to transfer funds from taxpayers, which will be restored to them subsequently. In that case no losses will eventually be suffered ; indeed in so far as the loans were used for productive investments and expended here (e.g. on railway equipment), gain may accrue. In the period 1921-1931, actually no sizable repayments have been received, however, so that a burden has been suffered. Other grants have been unconditional, and have frequently been devoted to assisting to balance budgets. In the case of the grant to Somaliland the expenditure was regarded as having a strategic value : in the case of the grant to the British South Africa Company it was assumed that the expenditures were properly the burden of this country. To outlays such as these, it is difficult to sort out an economic return. It may be, of course, that an indirect economic advantage will lie by way of special facilities for trading, preferential treatment, and the like. Onceover, however, the outlays must be ranked as more burdensome than not from the point of view of the period 1921-1931. Other expenditures included in this category under separate headings have mainly been for administration. As such, the immediately preceding analysis applies.

Diplomatic and Consular expenditures have been partly for political, and partly for economic reasons. It can be argued that the political advantages may in turn have favourable economic results, in so far as preferences are thereby obtained for British traders. As before, something may be allowed on these grounds. Examples of the economic reasons are seen in the direct attempts made—in the earlier post-war years in particular—to extend British exports. As the reports of various missions have indicated, there is no doubt that favourable results have often accrued. It may further be noted that some parts of the 1921-1931 expenditures were the outcome of the war, and as such did not ordinarily confer benefits available in the period.

Turning to the expenditure on Prisons, it has already been explained that, if anything, this declined in real terms compared with 1913-1914 ; and for this reason alone little need be said about it. The obvious advantage of the expense is that it supplements the provision made for dealing with

crime, and in so far as imprisonment is effective, it reduces the risks to the community associated with personal life and property. To the extent that real expenditure has been curtailed, the taxpayers have gained.

About the last item—on account of outlays for the maintenance of the Currency Note issues—little needs to be said. This was an obvious duty and although it need not necessarily have fallen on the Treasury, it is unlikely that costs could have been avoided.

Reference now needs to be made to the incidence of benefit from the various expenditures. The principal point is that all the services provided have been outstandingly—if not entirely—in the general interest of the community. It may be thought that some exception to this occurs in the case of Police and Prisons since the Richer have larger possessions to protect than the Poorer. Even so, the protection of life is of much more importance than the protection of property, while the services performed by police are of such a widely varied character and so freely available to all that no useful purpose would be served by attempting to maintain the distinction. There would appear to be more substance in the argument that the enhanced costs of general administration have been due in greater measure to the need for administering the various increased social service facilities; for in fact these have needed much more comprehensive staffs. Since this expenditure does not rank as a preponderant part of the whole, however, and as social services indirectly benefit the Richer, it is hardly reasonable to press the point. In conclusion, then, it may be assumed that the category of expenditure examined in this chapter does not, in practice, give rise to transfer as between Richer and Poorer; and since the former have contributed more largely to taxation and rates, the net burden on them is evident.

II

In turning to make a critical estimate of the services dealt with in this chapter, as in former chapters the wide diversity of them suggests that greater clearness will result if they are

taken separately than if they are assembled. Moreover, a better perspective concerning each group of expenditure will be derived.

Turning first to General Administration, etc., Tax Collection and Superannuation payments, the higher real cost of these, and therefore the larger comparative burden in the period has already been noted. What shall be said of the countervailing utilities derivable from the economic value of the work done? The four main considerations to be borne in mind appear to be first, that heavy burdens were imposed by the services arising out of the war—this is evidenced by the large decline in costs of these items from over £25 m. in 1921-1922 to a little over £12 m. in the following year. The greater part of the fall was due to the closing down or restriction of such services. Second, it is evident that much of the new work has had a measure of economic utility. Third, where the degree of utility has been low, this has been due more to complex, if not wasteful legislation than to diseconomy in the various departments. Fourth, it has been shown that while basic salaries were only slightly higher, increments have been based on the cost of living. The result has been to force individual salary costs down by more than general wages. There are, however, certain points which call for criticism. Of these the most apparent relates to diseconomies induced by inefficiency. It is but fair to say that the cases reported to the Select Committee on Estimates and of Public Accounts are fewer than for Defence services, but examples of waste nevertheless exist. One of these is found in the prominent and costly sites frequently occupied by Labour Exchanges to which reference has been made by the Select Committee on Estimates.¹ Again, while, if the work needed this, no exception could be taken to a staff of 184 in the Statistics department of the Ministry of Labour, it was found by the Committee that this was caused by the accommodation of the work in three distinct buildings. In consequence, there was both "administrative inconvenience" and "uneconomical

¹ Cf. also *Report of Ministry of Labour*, May, 1925, pp. 3-4; *Second Report from Select Committee of Public Accounts* (1931), pp. 9-10.

use of staff, entailing a duplication of common service branches. . . ."¹ In a branch of the service where administrative costs have averaged around £5 m. per annum, the existence of such waste is to be deplored. Although, moreover, the bulk of the cost has fallen on the Unemployment Insurance Fund, the taxpayer is mulcted as a contributor. The Treasury was held blameworthy in connection with subsistence allowances for members of a food mission to the U.S.A. The authorised rate of £2 2s. per member per day was exceeded to the extent of £1 8s. 3d., and the resulting loss of £3,000 was held to be due to a lack of care.² As for the Ministry of Transport, in 1921 it was found that out of a total cost of £453,000, £353,000 was paid in salaries, wages and allowances—one salary being at the rate of £4,250 per annum and many others being above normal rates.³ In the case of the Ministry of Health, in 1921–1922 it was found that owing to the verbal variation of a written contract, 1½ million unwanted bricks had to be paid for by the department concerned.⁴ What would appear to be a substantial example of waste is found in stationery and printing. This occurred more particularly in the earlier years of the period, e.g. in the estimates for 1922–1923 the large decrease of £1·50 m. was recorded, while in the following year another decrease of £1·03 m. was stated. Part of this was due to falls in cost but part also was brought about " . . . as the result of economy measures. . . ." ⁵ Another point is the extra cost caused by the employment of temporary staffs. This was frequently testified to the two Select Committees, but it was shown to be normally due to the desire to give employment to ex-servicemen. To some extent, therefore, the criticism is robbed of its point: for alternatively social service costs would probably have had to be increased. Again, it was occasionally found that efficient accounting systems were not employed, which led to waste, e.g. in the Mint and the

¹ *Second Report from Select Committee of Public Accounts* (1931), p. 3.

² *Third Report from Select Committee of Public Accounts* (1921), p. x; (1922), p. 21.

³ *Report of Select Committee on Estimates* (1921), pp. 2–3.

⁴ *First Report from Select Committee of Public Accounts* (1924), p. 21.

⁵ *Estimates for Civil Services* (1922–1923) and 1923–1924, p. x.

Stationery Office.¹ The criticisms are, however, mild rather than severe and it is but fair to state that the defect was subsequently made good.

Without any special reason other than that, it is impossible to resist the impression that the post-war staff increases have been unduly large. In particular the large annual expenditure of nearly £12 m. per annum for tax-gathering leaps to the mind. In the absence of further knowledge it would be inequitable to do more than point to the fact that in 1927 a programme of reduction was drawn up under which it appeared that between that year and 1932 provided that

"... the departmental estimates are not varied by new legislation or important decisions of policy entailing considerable increases of staff, and provided that the Ministry of Labour in particular is entitled to assume, for the purpose of fixing the numbers of the Employment department, that during the next five years trade will become good, and that as far as may be necessary to meet the requirements of the reduced establishments, departments will be at liberty to recruit candidates at the right age by open competition"...

an aggregate reduction of 11,127 officers could be made out of a total staff of 61,994.² The assumption is, therefore, that there is a certain amount of justification for the above impression. Further support for it might be found in the possibility of amalgamating ministries and departments which have suffered in the post-war period from the megalomania of war years under which separate ministries, departments and staffs were created almost *ad libitum*. This is necessarily a matter for explanation by a competent committee of inquiry rather than for a perhaps unjustifiable animadversion in the present volume. While, doubtless, there are decided advantages in specialisation of departments and function, it is yet difficult to resist the impression that, in such a large service, there are dangers of costly duplication.

As for expenditure not devoted to administration, it is obvious from the previous recital of examples that waste has

¹ *Second Report from Select Committee of Public Accounts* (1924), pp. 21-2; *Ibid.* (1925), p. 7; *Third Report from Select Committee of Public Accounts* (1922), p. 13.

² *Civil Staff Reduction Programme (1927-1932)* (1928), pp. 2-3.

not infrequently occurred: Mostly, however, such waste was the direct or indirect outcome of the war, and is therefore not indictable as normal waste. Furthermore, the regular ordinary expenditures have been small rather than large, and have had a measure of economic justification. Thus the contributions to the League of Nations have often been criticised, and it has been suggested, for example, that it was not equitable for this country to be contributing, in a given year, 10 per cent of the cost but to have one vote in 54. There is some ground for this criticism: but since the expense is not large, and this country has played a prominent part in the work of the League, the criticism might be tempered.

To proceed, the annual cost of the Police Force, it has been shown, has been appreciably higher in real terms in 1921-1931, and the only extra advantage derived has been a gain in efficiency. In view of the social usefulness of the work done by the police, this may be estimated highly. It may also be assumed that more rapid transport has raised the efficiency of total personnel. Lastly, the reputation of this country's police system has continued to be high. But it is an anomaly, for instance, that there should be nearly 60 pensioners to every 100 active service officers, requiring nearly one-half of the total salary bill. In view of the comparative ease with which ex-officers obtain industrial and other employment and the relatively short length of effective service, pensions have undoubtedly been raised inequitably high. There seems ground for assuming, too, that the ordinary rates of pay have not been reasonably adjusted to the changed economic circumstances of the post-1920 period, and that these could be reduced without a material loss of efficiency—more especially in view of the burden of cost imposed on local authorities. A further criticism relates to the undue additions to duties in the period, part of which—e.g. traffic duty—might, without apparent loss of police efficiency, be reduced.

Of the expenditures on Works, Buildings and Stationery, little can be said by way of criticism: for the increases in expense have been more largely governed by external factors

such as general building costs, the levels of local rates and the contemporary scales of rents. Moreover, it is but rarely that strictures have been made by the two Select Committees of Parliament. Again, a sizable part of the annual bill is concerned with repairs and re-conditioning. As for stationery and printing, however, it has before been shown that expenditure has been incurred which was plainly avoidable. Even at the end of the period, the fact that about £1·5 m. per annum was still being spent, suggests that there is a *prima facie* case for investigation into duplication and other avoidable waste. Here, probably, sizable reductions of expense would result from amalgamations of separate departments and Ministries.

As for the Foreign and Colonial services, a large share of the increased post-war expenditure was caused by the war—inasmuch as it added to Empire territory, especially in Africa. This explanation applies also to more recent costs incurred for such territories; for while these were associated with the trade depression, the territories were less able to meet this on account of the depredations suffered during the war. Not all of the increased costs, however, can be set down to this explanation; for loans have been made to pre-existing territories, the possibility of the repayment of which is not established. How far the political advantages derivable from the possession of the territories have justified such expenditure in the period is a matter for debate. At the worst the cost may be regarded as part of the price to be paid for a "far-flung Empire"; at best the ultimate advantages may far outweigh the actual costs. During the period, however, it would appear that a distinct burden resulted. There is less room for criticism of the expenditure on Diplomatic and Consular services. In many ways, such outlays can be justified on the grounds of the advantage accruing to export trading: for the lack of incisive and adequate penetration of both new and old marketing territory has long been a remediable defect. The need for entering and developing new foreign markets has been especially pronounced during the period on account of the relative lack of prosperity experienced by the exporting industries. In

sum, then, little objection can be taken to the moderate outlays on this service.

Little can be said about the Prison service, the expense of which is so largely inelastic and conditioned by uncontrollable factors. It may be noted, however, that in 1924 the Select Committee of Public Accounts reported that ". . . serious irregularities have occurred in connection with the purchase of stores for use in His Majesty's Prisons."¹ These were found to be due to defective control over contracting procedure.

Lastly, about the costs of the Note Issue there is nothing to be said by way of critical estimate. In the circumstances this was inescapable.

To summarise briefly the results of the discussion made in this chapter is difficult owing to the very wide differences between the various services. The main observation to make is not that money has been spent on unnecessary services so much as that the actual ways of spending it have been open to criticism on the ground of economy. This again is less true of some, than of other services. Moreover, the criticism turns rather on the degree of possible savings which might have been achieved under a different scheme of organisation than on those feasible under the prevailing form of organisation. More important still, unwise spending has been occasioned as the outcome of statutory duties imposed by legislation. The evil fruits of this were insufficiently realised by governments at a loss to handle, so effectively as they might have done, a concatenation of economic problems of major importance and significance. Finally, it has to be observed that the transfer of funds from taxpayers has possibly led to an increased total demand for goods and services, for the larger proportion of the expenditure has gone to meet salary and wages costs or payments for actual consumption goods.

¹ *Second Report*, p. 7; *Ibid.* (1925), p. 8.

CHAPTER XII

LOCAL EXPENDITURE

I

IN seeking to analyse the outcome of the increased local spending seen during the years 1921-1930, an attempt will be made first to sort out the more obvious effects of the changed expenditure on specific services as falling to be met out of local rates. Since the full effects, however, are the result not only of spending made out of local rates but also out of exchequer grants, despite the fact that the latter have been considered in earlier pages it is desirable to add a few general observations designed to show the influences exerted by the growth in the amounts of these during the period. This done, progress can be made to an estimate of transfer effects, and the whole changes may then be subjected to a critical survey.

To deal first with Poor Relief, as the detailed effects have been surveyed in Chapter VIII, it is unnecessary to do more than to recapitulate them briefly. From the individual standpoint, the effects of the increased expenditure have been to relieve persons receiving both indoor and outdoor assistance more generously than in pre-war years. Assistance has, moreover, been on a more widespread scale. In consequence, the living standards of beneficiaries have been raised considerably, and there have been fewer cases of real hardship and border-line suffering. The favourable reactions on individual health and happiness and on chances of recovery to a less dependent economic position are apparent: and in particular more and better opportunities for self-realisation have been available for poor children. From the general standpoint, a larger real share of the

national dividend has been diverted to the very poor, against which there is likely to be some, but probably not a *pro tanto* measure of economic offset due to favourable reactions on health, efficiency and on morale. The offset is likely to have been small where relief was indiscriminate and when in fact it induced an aversion from economic effort. Despite this there have, however, probably been relatively few cases of pure parasitism.

As for Education, from the individual standpoint the outstanding effect of the augmented expenditure is that many more children of the Poorer have had a larger opportunity to realise the benefits accruing from education—both by way of developing individual economic capacity and by a sharing of the non-material advantages. Again, owing to the attraction of better teachers, a larger teaching force, bigger expenditure on equipment and buildings, and reorganisation of teaching methods the standards of education have been raised. The children of the poor and very poor and physically sub-normal children again, have gained highly from the extra "Special Services" expenditure. Lastly, more widespread maintenance allowances have reduced the economic pressure upon the incomes of the Poorer involved by the acceptance of educational facilities. From the general standpoint, gain must have resulted in the shape of higher physical and mental efficiency, from better social standards of conduct and from the more equal opportunity to develop innate and acquired capacity. While slow to mature, such gains are evident. Against this, a heavy extra real burden has been imposed by the peculiarly large increase of expenditure. Furthermore, it is to be doubted if the large part of the augmented levy which has gone to pay salaries has had proportionately favourable effects on professional efficiency.

The effects of the substantial growth of expenditure upon Highways and Bridges from the individual standpoint have been to augment the incomes of persons who in large measure might otherwise suffer the lower standards of social service relief and to provide work where otherwise no work would be obtained. Such persons have therefore suffered less depletion of personal living standards than they might have

done, and their employability has been in some measure conserved. From the general standpoint, the country's road system has been considerably improved, leading to reduced transport costs—seen in the fostering of a competitive source of transport, the better adaptation of transport facilities to demands, savings of time and in wear and tear of vehicles. The favourable reactions on the national income are apparent. Against these favourable points, the optimum advantages have not been obtained from the expenditures because real harm has been inflicted on the country's rail system, there have been instances of but weakly-justified outlays, and the desire to provide employment has led to high costs per unit of production. The secondary reactions on the demand for goods and services may have been comparatively important, for domestic firms have probably benefited materially from road outlays.

The relatively small absolute expansion of the cost of Miscellaneous services has conferred benefits on individuals concerned in the shape of higher real wages and possibly higher real salaries. Real living standards have therefore been raised. Those employed on the land have probably also obtained the advantages following from some amount of new employment. The community has benefited to some extent, if not roundly; for public lighting is an essential service, the higher efficiency of fire brigades is a real gain, as are better and more adequate public libraries, while the proper administration of justice is also an essential of community life. Land and river drainage improvement have clearly added to the efficiency of production or protected the achievements of both agricultural and industrial enterprise, while social advantages have also accrued from small-holdings and allotments. These and the other small items are, therefore, either essential or desirable services. On the other hand, the higher nominal levies have fallen disproportionately more on ratepayers, and this cannot be overlooked.

As for the sizably increased real outlays on Police, the individual members of the force have gained in the shape of materially enhanced living standards due to the fact that

virtually all the expenditure takes the shape of remuneration in money and in kind. From the general standpoint, the community has gained by the somewhat larger numbers of police, and the undoubtedly higher level of efficiency resulting in better protection of life and property. Against this, a much larger real share of the national income has been required, and the growth in numbers has been small compared with that of cost. In particular, it is difficult to visualise the gain from the large sums called for to meet pension costs.

The extra outlays on the non-social service Health services have undoubtedly had beneficial reactions on individual health and welfare; for such expenditures have mainly been concerned with the provision or the extension of services vital to individual health. The higher real wages paid by local authorities have also favoured the living standards of health employees. Since much of the spending was on capital account, beneficial effects have also obtained for those concerned in supplying the equipment. The gains have, however, been rather to the general community body. For the improved health standards, seen in the better performance of elementary health functions—e.g. sewage disposal, cleansing and sanitation, the work of medical and sanitary officers—are more of general than personal concern. Against this, it would appear that, even in the provision of such rudimentary facilities, there existed a somewhat wide disparity owing to the highly varied sizes and efficiency of the numerous local areas existing throughout the period. Moreover, despite some recourse to loans, the improvements have been effected at the expense of much heavier levies on local rate-payers as well as on taxpayers.

Augmented expenditure upon the Social Service Health services has conferred very real benefits upon the individual beneficiaries. Thus, lunatics and mentally deficient persons, victims of tuberculosis and other infectious diseases, and mothers and their children have been much better cared for by these public services. In many cases life itself has been saved, while health has certainly been fostered, and at the least the burdens entailed by economic disability have been

sensibly relieved. From the general standpoint, the community must have gained somewhat from the more scientific attention devoted to mental affliction, and certainly it has reaped a rich indirect and direct harvest from the attention to the various specific forms of sickness and to the health of mothers and children. The reactions on economic efficiency and capacity are apparent. Against these advantages have to be set the somewhat heavy increases in the cost of treatment, involving increased burdens for local authorities.

About the item of moneys devoted to services not separately allocated, little that is precise and exhaustive can be said. It is assumed that the greater part of the extra cost is for administrative salaries. As such, the individuals concerned have benefited—probably materially—in living standards. From the general standpoint, higher real levies have been necessary, the economic return to which has, despite some raising of efficiency and the utilities flowing from the work, been lower rather than higher. For there is ground for assuming that some waste has occurred as a result of hasty legislation and inefficient co-ordination of work.

The benefits of Housing expenditure are preponderantly individual. Granted that the subsidy system has probably caused higher costs, it is nevertheless fair to presume that occupiers of the houses have gained from the earlier housing supply, and from the reduced costs of housing facilities falling to be met by them. Again, the building industry has gained substantially. On the general side, the more adequate adjustment of the supply of houses to demand, and the larger supply of houses erected to satisfy minimum standards has certainly had favourable social effects by way of greater social happiness and well-being and has facilitated that industrial labour re-transfer needed by post-war conditions. These must have had favourable reactions on the national dividend. It was noticed earlier, too, that the expenditure has conferred benefits of a more permanent kind than other expenditures. Again, the levy on local ratepayers, although larger than in pre-war years and likely to be prolonged, has not been, as yet, absolutely heavy.

Lastly, the higher outlays on Trading services have conferred individual benefits for the incomes of those supplying the many new capital goods and those engaged in operating the services. The community has gained from the better and more adequate supplies of such things as gas, electricity, water, local transport, and local markets. Production has probably been facilitated by most of these services, for power, heat and water are vital, while the resultant greater mobility of labour has had important favourable results. Costs of production have probably been assisted to some extent, too, by the larger volume of orders placed in this country for the new capital equipment and indirectly-generated demands for goods and services. Against this it is but fair to argue that trading services should not entail a levy upon the community and especially upon local rates. Both have definitely increased in the period.

Passing now to the transfer effects of the extra spendings, it is but necessary to recall the analysis of the causes of them given in Chapter VI to realise that the Poorer have benefited more largely. Poor relief, it was argued in Chapter VIII, has gone to benefit a relatively wide section of the Poorer, but the degree of benefit has been larger as economic incapacity has been greater, and since benefit has necessarily been more frequent in the case of the poor and very poor transfer to them has been very material. In the same chapter an argument was conducted to show that, while the advantages of educational expenditure are in theory open to all, actually the greater measure of benefit accrues rather to the poor and very poor. On highways and bridges, while the rich obviously gain from the improved transport facilities, and certain sections of the Richer have benefited from the award of contracts, it has to be remembered that primarily the aim has been to provide employment. Moreover, road works entail proportionately large outlays on labour. The general body of the Poorer therefore shared in the whole benefits. As for the item of other health services, these were necessarily in the interests of the general community rather than of any particular section. Nevertheless, no small part of the actual expenditure went to deal with the

insanitary and unhealthy conditions emanating as a result of poverty, while it must be remembered that the heavy capital outlays benefited the workers receiving employment on account thereof. Police expenditure was in the interest of the whole community, but the higher real pay clearly benefited the members of the force who rank in the category of the Poorer. The social service health services again conferred some measure of general benefit, but the individual sufferers and beneficiaries were closely confined to the Poorer. As for the services not specifically allocated, the advantage of the work was general, but the incidence of the higher pay was rather to members of the Poorer class. In the case of miscellaneous services, benefits were intended to be for the general community as a whole, but again the higher real local authority wages must be reckoned in. Housing costs redounded to the specific interest of beneficiary occupiers, but the stimulus to building and the high proportion of cost ascribable to labour conferred advantage on this body of wage-earners as well as on housing contractors. Lastly, trading services were in the general interest: but again it must be recalled that heavy capital outlays were undertaken specifically to relieve the unemployed of the Poorer, and again the advantages of higher local wages were obtained.

To summarise, roughly two-thirds to three-quarters of the total increased rating expenditure may possibly be ascribed as benefiting the Poorer, while the remainder was shared between the general community and the Richer.

As against this summary analysis of benefits, what has been the incidence of the increased rates? Because of the persistence and effectiveness of control of rents, working-class dwellings, it has been shown earlier,¹ escaped any material real addition to local rates. On the other hand, it is true that a small proportion of rents of previously controlled houses became de-controlled during the period, and these, together with new working-class dwellings (including new municipal houses), have suffered relatively higher assessments and real

¹ *Vide* pp. 221-2.

increases in rating burdens. The post-war valuation acts, however, have apparently raised considerably the assessments of such properties as non-working class houses, shops, offices, factories, railway property and business premises generally, with the result that heavier real rate burdens have been suffered. The conclusion is, then, that the onus of the extra local rates has fallen much more heavily on the Richer. Taken in association with the above incidences of benefits, their burden has undergone a total change of clearly adverse character.

Passing now to make some general observations about the effects of the larger post-war expenditures, after allowing for increased charges for personnel, materials and equipment, the main noticeable outcome has been to add roundly to the range and the efficiency of local authority services. It is impracticable here to measure even roughly the various consequences, but in brief it may be said that poverty has been more generously relieved and the victims of unemployment have been succoured ; health has been more carefully and adequately fostered and sickness treated more efficiently and more thoroughly ; education and educational facilities have been progressively developed ; and other essential communal services have been extended and improved. The outcome of this—the reactions of the extra costs apart—must have been favourable to personal and social welfare and hence to economic efficiency. So much has to be said about the favourable effects.

As for the unfavourable effects, the more obvious and important have been those resulting from the increases of local rates—despite a greater resort to loans. Among other things, this has led to a rise in costs of production. Where, as in the case outstandingly of the more important export trades, but even in the case also of certain domestic industries, it has not proved feasible to pass on the burden to consumers, unemployment has often been caused. This, in turn, has provoked further additions to local rates, and again enhanced their burden. It is not so much, however, the actual growth in the total of local rates which has had bad economic effects as their inequitable comparative growth

in a small specific number of local areas.¹ For the highly disparate burdens suffered in the areas where the great export industries are located have affected their ability to produce, and to add to the national dividend and general prosperity. Even the more moderate variations have had bad effects by inducing a migration movement of some considerable dimensions on the part of old industries able to shift the geographical locus of their activities from high- to low-rated areas, while the new industries have naturally sought out those places which, compatible with their requirements, have offered the greatest inducement by way of small rates. The outcome of this movement has been equivalent to destroying by atrophy and disuse some millions of the country's capital assets. If it persists, local problems of major importance may arise.

Another obvious effect of the larger spending has been to facilitate the production of goods and services having less of a primary than of a secondary degree of economic utility, and to increase the claims on the national dividend of the less productive sections of the community. For, while certain local services are clearly essential, and others have a large measure of justification, during a period of economic depression there is less ground for spending on the more secondary utilities and for increasing the claims of the less productive sections of the community at the expense of the more productive sections. Direct production, moreover, has to some extent suffered by the reduced willingness to work due to the greater and freer availability of assistance in case of economic suffering, and the induced reactions on wages rates discussed earlier.

To proceed further, economic waste has been caused by unwise or unmerited local spending, e.g. on unnecessary or but faintly justified road works ; on unemployment works such as public buildings, parks and recreation grounds, not

¹ Even after the upwards revision of assessments following from the post-war valuation acts in 1927-1928 there were still 95 urban authorities whose rates were over 20s. in the £. Again, in 1929-1930, the coefficient of variation of rates levied in 83 county boroughs in England and Wales was 22.22 per cent compared with 10.86 per cent for 82 county boroughs in 1919-1920.

having high economic utility ; on excessive administrative staffs ; as a result of bad co-ordination of areas and services ; by the greater ease attaching to local spending as a result of generous government grants and extended facilities for borrowing.

Nor are the bad economic effects confined to local rating : for the upwards revision and extension of government grants have enhanced the burden of taxation. The progressiveness of this and the incidences of it on producers have led to impediments to production which, if mainly psychological, have not been without adverse consequences for employment and the national income. In saying this, it is necessary to realise that such grants have often been for useful purposes, and have frequently served desirable ends from the economic point of view so that greater economic utilities have been derived than, e.g. from outlays on defence. But the burden is apparent.

Lastly, the increase of nominal and real incomes going to local authority staffs of all kinds, and to individual beneficiaries under various schemes such as the social services and unemployment works, has led to larger demands for consumption goods and services in particular. Apart from the favourable reactions on certain domestic concerns, these, in turn, have increased the demands for imports and hence, except to the extent that countervailing exports have resulted, have added to the precariousness of the balance of trade. The full effects of this and of the other adverse reactions fall to be considered in the next chapter.

II

In endeavouring to frame a critical estimate, regard may be had initially to the favourable arguments concerning the increased expenditure as set out earlier. In essence, first, these showed that much of the new spending had a sound economic and social justification. This is particularly true of the large proportion of the whole required for the various social services, the strength of the arguments for which has been previously cited and acknowledged. Again, the

larger outlays on normal essential services had a strong practical basis, for such services are vital to community life. The moneys devoted to unemployment works and developmental schemes had the important favourable attribute of adding to no small extent to economic utilities. The expenditure on trading services especially had a high degree of utility, while also the net extra burden on rates was relatively light. Second, it may with some reason be claimed that where expenditure grew swiftly and came to be definitely burdensome on local communities, this frequently resulted from the execution by local authorities of functions which were semi-national and, indeed, quasi-national, e.g. roads, poor relief. Third, a good deal of the new expenditure was deflected from causing a contemporary burden by being made on a loan basis. Fourth, extra employment, and therefore larger incomes were probably induced by the larger spendings.

On the negative side, however, there are also strong arguments. The first is the obvious point that even net expenditure met out of rates has shown a real average increase in the period; and this has occurred despite any thoroughgoing attempt to devise a fairer system of revenue-raising than the old basis of rateable value. Taken in association with the wide variations in the expenditure of different local areas and the resultant disharmony of local rating levies, it constitutes a *prima facie* ground for criticism. This ground still persists, moreover, despite the Local Government Act, 1929, for the discrepancies in burdens are yet acute, if not chronic. The second point is that the changed scheme of spending has involved heavy transfers from the Richer to the Poorer and from the more active to the less active. Even though there may be substantial social reasons for such a transfer, the incidence of the burden has been such as to add to unemployment by penalising productive industry. Much more serious, the heaviest incidence has been upon the export trades, and the effect has certainly been to curtail their ability to compete. The process of transfer, moreover, has not infrequently been accompanied by economic waste caused by evasion practised by some social service beneficiaries, by local extravagance in

poor relief, by inefficiency and unwisdom in certain unemployment work schemes and by reduced willingness to work. Third, there has probably been a heavy real increase in the expenditure on local authority staffs some of which was avoidable, e.g. due to bad co-ordination of services, to excessively high salaries and wages, and to the persistence of areas ill-equipped to rank as economic units. Fourth, the over-generous flow of old and new exchequer grants has not conduced to economy in spending, but rather to extravagance. Fifth, while it is the case that the remarkable growth of local borrowing has had as its counterpart the creation of assets the greater proportion of which are inherently capable of producing revenue,¹ it is nevertheless true that those areas have tended to borrow heavily whose contemporary capacity to bear the loan charges was low, and that, in consequence, in some instances the future revenue from rates has been unwisely mortgaged to the service of the loans.

Taking both the favourable and unfavourable arguments into consideration, it is clear that the balance on the negative side is sufficiently strong to warrant a careful survey of the position existing in 1930 as contrasted with that prevailing in 1913.

¹ On 31 March, 1930, the net indebtedness of the local authorities was £1,158 m. Of this total, trading services and housing accounted for £855 m. Of the balance, education accounted for £52 m., highways £92 m., sewage and sewage disposal £54 m., and parks and pleasure grounds £15 m.

PART III
GENERAL ESTIMATE AND CONCLUSIONS

CHAPTER XIII

GENERAL ESTIMATE

HAVING surveyed the forces leading to the enhanced expenditures during the period 1921-1931, and having made an analysis of the main effects following therefrom, which, in turn, have been subjected to critical appraisal, it now becomes possible to derive a general estimate of the utilities and disutilities resulting. How best and most effectively to do this is not a matter upon which decision is easy. The problem is reducible ultimately to one of weighing the disutilities created or induced by the extra taxation levies made during 1921-1931 against the utilities brought into being by the expenditure of the proceeds of taxation; and the heart of the difficulty of how best to deal with this is that it is not feasible to assess the utilities flowing from the separate categories of expenditure and subsequently to offset against these the related specific amounts of taxation. For, plainly, taxation is not levied for specific categories of expenditure, but as a whole. Because of this, a balance cannot be accurately or properly struck between each line of taxation and expenditure. On the other hand, to endeavour to balance the effects of taxation as a whole against those of expenditure as a whole, would not reach far enough into the problem because the particular incidences of taxation as a whole and of separate taxes would be ignored, and—more important—the many-sided and widely-varied reactions of the numerous separate lines of expenditure could not be taken into account. Apparently the only way to resolve this dilemma is to resort to both methods, pursuing each so as best to attain the desired end.

Beginning then with two observations which will serve to clear the ground, first, during 1921-1931, the nominal

average amount of taxation has been more than four times that of 1913-1914. Assuming that the average nominal national income during 1921-1931 was nearly double that of 1913-1914, the real amount of taxation has been about two and a half times as much. Nominal local rates have averaged rather more than double those of 1913-1914, and therefore have not increased appreciably in real terms. Second, as according to the findings of the first chapter, outgoings and incomings for External Debts owed by, and to, this country were roughly in balance during 1921-1931, their economic reactions may be assumed to have approximately cancelled out. The analysis has shown, however, that for certain other purposes, a larger volume of external payments without, or with a relatively small *quid pro quo*, has fallen to be made over the period than in 1913-1914. The more prominent instances have been the outlays for Internal Debt held by foreigners, on Irish services, some part of expenditure on Defence, outlays on Middle-Eastern and Foreign and Colonial services, for Coal Importation, Oversea Settlement, Imperial War Graves Commission, and for materials needed for various services. The full amount of such outlays cannot accurately be known, but there is no doubt that, although proportionately larger than in 1913-1914, it has bulked small relative to total expenditure. Since, also, most of the outlays caused by local rates and local borrowings have been spent internally, it may be stated with safety that the predominant part of the funds raised by national and local taxation and contributions has been spent internally in the sense that levies have been made the proceeds of which have been used to benefit other—or indeed the same—nationals. The establishment of this point, although it is so obvious, is nevertheless of prime and fundamental significance.

It follows from the above considerations first, that the real amount of post-war public expenditure has not been so large as at first appears and second, that the economic and social significance of its post-war growth must be sought in the effects of the multitude of transfers. As it is patently impossible to consider these transfers in full detail, all that might conceivably be attempted would be to split both tax-

payers and beneficiaries into groups and to examine what effects have been felt in the various groups and as between one group and another. Unfortunately, however, it is only possible, owing to the absence of data, to distinguish and to deal with the two very broad groups of Richer and Poorer. In order, therefore, to discover the full complement of effects on general economic and social welfare it is necessary also to resort to objective tests of one sort or another. From the results obtained, however, it may be possible to derive a judgment on the consequences resulting from the larger public spending in the period, and in the light of this to make suggestions concerning future policy.

Dealing first with the problem of transfer between Richer and Poorer, it is necessary at the outset to remember that the total of national taxation was less than that of national expenditure by the amount of the various non-tax revenues. While it is essential, of course, to add these to the total of taxation moneys, this will not affect the discussion of transfer because it is not improper to assume that such revenues are derived on a general basis, involving no levy on either category. Recalling the supposition that the Richer contribute roughly one-fifth part of the total of indirect taxation, the following is a summary allocation of the revenue derived from each category during 1913-1914 and in the period 1921-1931:

	TOTAL REVENUE	
	(£ millions)	
	1913-14.	1921-31 (Average).
Direct and Indirect taxation of the		
Richer	103.0	491.2*
Indirect taxation of the Poorer	60.0	206.6
Non-tax Revenue	10.6	111.9
	<u>173.6</u>	<u>809.7†</u>

* Includes Exchequer appropriations from Road Fund of £29 m. during 1921-1931. The balance of Road Fund receipts is included under non-tax revenue.

† This figure differs somewhat from the average total of expenditure cited subsequently as it is based on the Annual Finance Accounts while the latter is based on the statistics contained in the May Report, Appendix I, which also take account of budgetary surpluses and deficits.

From this table the important point emerges that, while for every £100 paid by the Richer in 1913-1914, during 1921-1931 their average payment was £477, for every £100 paid by the Poorer in 1913-1914, during 1921-1931 their average payment was £344. Stated in another way, whereas the Richer and Poorer in 1913-1914 contributed respectively 63·2 per cent and 36·8 per cent of the total of taxation, during 1921-1931 their respective shares were 70·4 per cent and 29·6 per cent. It would appear, therefore, that the Richer were called upon to pay more proportionately to the Poorer over the post-war period than in 1913-1914. Before reaching a decision on this, reference must be made to the analysis in Chapter VII, where it was shown that the apparent heavy post-war burden on the Richer is partly counter-balanced by the quasi-transfer in their favour resulting from the preference for loan finance during the war. This, it will be recalled, conferred a larger measure of benefit on the Richer than on the Poorer. As, however, there are no means of assessing the amount of this quasi-transfer to them, there is no basis for judging how far the post-war taxation burden has pressed more heavily on the Richer. Nevertheless, reasons were given in Chapter VII for assuming that it was substantially less than would at first sight appear: so that there is a fair presumption that the remarkable increase of taxation falling on this category in the period has been materially heavier than that falling on the Poorer. This verdict will be held, therefore, as final.

If such a verdict is reached concerning the general incidence of taxation, what conclusion is suggested on the incidence of benefits derived from the correlated expenditures in the period? Fortunately, although in individual cases of expenditure there is room for uncertainty about the real or final incidences, in general it is possible to reach somewhat more concrete conclusions than in the case of taxation. An analysis may be made of national expenditure by first grouping together all expenditures from which the benefits derived are general, and therefore applicable to both categories equally. This is done in the following table. In the case of Roads expenditure, since this was paid for out of

taxation falling mainly on the Richer, and a substantial slice of it was due to the policy of providing work for the unemployed, only one half will be charged as being of general benefit, the remainder being *pro forma* divided equally between the two categories.

NATIONAL EXPENDITURE IN THE GENERAL INTEREST, 1921-1931
(£ millions)

Defence	1,227
Liquidation of War Commitments	145
Middle-Eastern Services	71
Imperial War Graves Commission	7
	1,450
General Administration, etc.	120
Tax Collection	112
Police	81
Works, Building and Stationery	54
Irish Services	119
Civil Superannuation	17
Prisons	11
Foreign and Colonial	22
Currency Note Issues	3
	539
Roads ($\frac{1}{3}$ share)	84
Exchequer Contributions to Local Revenues (less De-rating) *	88
Scientific Services	12
	184
Miscellaneous Grant Services, e.g. Health	25
	25
	£2,198

* De-rating under the 1923 Agricultural Rates Act and the Local Government Act, 1929, has been deducted as not being primarily of general interest.

Of the total of national expenditure (not including Post Office expenditure, but including Exchequer issues to the Road Fund) amounting in the period 1921-1931 to £8,048 m.¹ the proportion devoted to the general interest was, roughly, 27 per cent. This contrasts with a figure for 1913-1914 of about 66 per cent.

Although it involves a measure of greater uncertainty, it is next possible to group together a series of expenditures

¹ Report of May Committee (Cmd. 3920), Appendix I. Up to 1927 (inclusive) this consists of audited expenditure: thereafter it consists of expenditure as stated in the Appropriation Accounts.

which were undertaken primarily—the secondary repercussions are now ignored—in the interest of the Richer. Here the greatest difficulty is presented by the expenditures on Debt Services. It is obvious from the analysis on pages 179–81, that these do not exclusively benefit the Richer. Indeed, during the period the direct or indirect holdings of the Poorer have probably grown materially. If by nothing else, this is instanced by the 2.6 million separate holdings which fell to be dealt with in the 1932 conversion of 5% War Loan 1929–1947. Unfortunately no data are available for the period to show how the holdings have been divided as between the two categories. An argument has, however, been conducted in Chapter VII which suggested that a tentative conclusion would assign one-fourth to one-fifth share of the total of debt payments to this category and three-fourths to four-fifths to the Richer. The latter proportions will be assumed. Before the table can actually be drawn, it is yet necessary to assign the share of benefits going to the two categories for expenditure on De-rating, Agriculture, and the Coal-mining subsidies. There is, of course, no statistical or other basis on which to do this, but since benefits were certainly derived by the Poorer as well as the Richer one half will *pro forma* be assigned to each category. Such an arbitrary decision, it will be seen, is of little significance for the total, since this is much more largely determined by the assignation of debt benefits. The following is a summary of the expenditures assumed to benefit the Richer :

NATIONAL EXPENDITURE IN THE INTEREST OF THE RICHER, 1921–1931

(£ millions)

Debt Services ($\frac{1}{5}$ share)	2,930
Roads ($\frac{1}{2}$ share)	42
Agriculture ($\frac{1}{2}$ share)	38
De-rating ($\frac{1}{2}$ share of total granted under Agricultural Rates Act, 1923, and Local Government Act, 1929)	27
Coal-mining Subsidies ($\frac{1}{2}$ share)	15
Miscellaneous	3
	<u>3,055</u>

The proportion of national expenditure represented by these items amounts to nearly 38 per cent, compared with a corresponding figure for 1913-1914 of about 16 per cent.

Turning now to expenditures which may be supposed directly to benefit the Poorer, the following list may be drawn up on the basis of the broad results suggested by the earlier analyses :

NATIONAL EXPENDITURE IN THE INTEREST OF THE POORER, 1921-1931

(£ millions)	
Debt Services ($\frac{1}{2}$ share)	732
War Pensions	674
Education	488
Old Age and Widows', Orphans' and Old Age Pensions	313
Unemployment Insurance	150
Housing	104
National Health Insurance	67
Roads ($\frac{1}{2}$ share)	42
Agriculture ($\frac{1}{2}$ share)	38
Health Services (Social Service)	32
Unemployment Grants	31
Training of Ex-servicemen and Unemployed	30
De-rating ($\frac{1}{2}$ share)	27
Poor Relief	24
Lunacy and Mental Deficiency	18
Coal-mining Subsidies ($\frac{1}{2}$ share)	15
Overseas Settlement	6
Reformatory and Industrial Schools	4
	<u>2,795</u>

The proportion of national expenditure represented by this figure is nearly 35 per cent. The corresponding figure for 1913-1914 was a little over 18 per cent.

These analyses are necessarily approximate and hypothetical. It is nevertheless permissible to draw attention to the different incidences of national expenditure in the pre- and post-war periods as affecting the question of transfer. While there has been a large change in the proportion of expenditure which is assignable as in the general interest, the significance which might otherwise attach to this is greatly reduced by the surprising fact that the remaining expenditure has been so evenly divided between the two categories. It is

obvious that this conclusion might be specifically disturbed if it were true that the Poorer had benefited more largely or less largely from debt receipts, for this is easily the most significant item: but the general conclusion would not be substantially affected. It may incidentally be observed that, compared with 1913-1914, the outlays devoted to the interests of the Richer group have increased somewhat at the expense of those benefiting the Poorer.

If now the results of the analysis of taxation as a whole and expenditure as a whole in the two periods are compared, the following rough table of percentage benefits and taxation for both classes may be drawn:

PERCENTAGE ALLOCATION OF TAXATION AND BENEFITS					
		Benefits.		Taxation.	
		1913.	1921-31.	1913.	1921-31.
Richer	.	49	51.5	63.2	70.4
Poorer	.	51	48.5	36.8	29.6
		100.0	100.0	100.0	100.0

This table indicates that a net transfer has occurred from Richer to Poorer.

It is next desirable to add a consideration of local rating and local expenditure, and to do this the same sort of analysis may be applied. It follows from what has been said earlier that there is not enough data to justify a precise conclusion as to the ratio of expense falling on the Richer in the pre-war year and in the post-war period. What can be said with some degree of certainty, however, is that the Richer have been called upon to contribute in increased measure to the extra rating levies of the post-war period. Basing the figures on the argument on pages 324-5, it would appear that their contributions in 1921-1930 have averaged about £122 m. compared with £55 m. in 1913-1914. On the other hand, the equivalent figures for contributions by the Poorer may be roughly stated as £52 m. and £24 m. respectively. The larger burden falling on the Richer is apparent. What has happened about the incidences of benefits from the expenditure? Little that is precise can be said. It follows from the analysis of Chapter XII, however, that,

while in 1913-1914 about 52 per cent of the total may be assigned as benefiting the Poorer, in 1921-1930 this percentage rose to about 58.¹ The expenditure going to benefit the Richer exclusively in the two periods has been small. Comparing the incidences of expenditures and contributions on the basis of the earlier year, it is clear that on balance the Richer have contributed more in the post-war period than they have received back.

Lastly, if it is warrantable to regard the contributions made to certain of the social services as being induced by the post-war policy of enlarged State expenditures on them, these also must be taken into consideration. From the statistics cited on page 12 and the analysis of pages 222-4, it appears that the larger incidences of these have been on the Richer during the period. In view of the fact that the total of contributions was much smaller in 1913-1914 than in 1921-1931, even allowing for the manifest advantages derived by the Richer from such services, it appears that an extra burden has fallen on the Richer.

If now the conclusions attaching to the three lines of expenditure are assembled, it is seen that they are similar in essence, and that they agree in witnessing to a definitive degree of transfer from the Richer to the Poorer. How large this has been in the period as contrasted with 1913-1914 cannot, despite the preceding statistical approximations, be strictly or accurately evaluated : but there are more grounds for thinking that it has been material than there are for thinking that it has been small.

Such, then, is a summary of the general transfers between Richer and Poorer ; and a very general summary may next be made of the transfers occurring within each of the groups. In the Richer group, as compared with the pre-war year, inequality between the extremes has almost certainly been reduced. This has been instanced by the tables on pages 169 and 171, where it was shown that the burden of taxation on the highest strata of the Richer (i.e. incomes over

¹ Based on the rating expenditure on Poor Relief, Education, Social Service Health Services, Housing and three-quarters of that on Non-Social Service Health Services.

£15,000) had increased by very much more than their total of incomes. This has been the case despite their large absolute holdings of debt securities. Even if it were assumed that these incomes benefit sizably from such expenditures as those on de-rating, coal-mining subsidies, road and agricultural expenditures, it must be remembered that besides taxation they are mulcted heavily for local rates and directly or indirectly for employers' contributions to social services. The middle range (i.e. incomes from £5,000 to £15,000) have also probably suffered more than they have gained since 1913-1914; for the progression in taxation has been made markedly steeper in this range and these incomes have probably not benefited by proportionately as much as the highest strata from debt securities; while also they may be deemed to have borne a substantial share of the local rates and contributions to social services. The lowest range (i.e. incomes below £5,000) have clearly had to suffer in many cases by transfer to the middle and highest strata on account of debt securities, but they have equally clearly gained very largely from the low progression—which, it has been seen, was more than once adjusted to their benefit in the period. Owing to the very large numbers of incomes in this category, an assumption which is supported by the death duty statistics may be made that their *total* holdings of debt securities are not comparatively negligible. Nor have such incomes suffered proportionately quite so heavily from local rates and social service burdens—even though probably they are frequently heavily mulcted for rates—as their incomes are very often derived from personal services and trading and finance rather than from direct production.

In the Poorer group, the higher strata have not benefited much by debt-holdings, since those of the Poorer are mainly indirect. Nor—despite such exceptions as Housing and Education—have they gained proportionately from social service expenditures, or any other group of outlays. This is especially illustrated by the fact that there are not a few incomes in this group not derived from wages and therefore not eligible for social service benefits. On the other hand,

the higher strata have certainly contributed proportionately more to taxation, and it may be suspected that they have paid fairly heavily to local rates and to employees' contributions for social services. The lower strata of the Poorer have undoubtedly gained very substantially as a result of the altered post-war scheme of taxing and spending. They have shared to some extent in indirect holdings of debt securities by co-operative societies, trade unions, various banks, provident and friendly societies, national health insurance and the like bodies. Furthermore, they have profited outstandingly from social service benefits, unemployment works, war pensions and contributory expenditures. They have also gained materially from the smaller proportionate levies for local rates falling on them, due to the operation of rents control. On the other hand, they have suffered increased indirect taxation: but the actual burden was largely subject to their own voluntary decisions to incur or avoid such taxation.

To summarise: inequality as between Richer and Poorer has been definitely modified by the post-war scheme of expenditure and taxation, both by the more progressive levies made on the higher strata of the Richer—and especially on the highest strata—and by the large-scale diversion of expenditure to favour the lower and lowest strata of the Poorer. On general grounds, in view of the pronounced inequality of income and the still more pronounced inequality of wealth obtaining in pre-war years, it would seem that the process has been socially good. The degree to which wealth was unequally distributed in 1912 is seen in Mr. H. Clay's calculations, showing that 3.29 per cent of the number of estates accounted for 82.9 per cent of the total of property, while .182 per cent of the total number of estates had 43.2 per cent of the total of property.¹ As for incomes, Prof. A. L. Bowley showed that incomes over £160 per annum in 1910 were 5.46 per cent of the total number and accounted for 43.6 per cent of the total income.² Since these pyramidal distributions were associated with poverty

¹ *Proceedings, Manchester Statistical Society* (1924-1925), p. 79.

² *The Change in the Distribution of the National Income, 1880-1913*, p. 22.

and a low standard of living for a relatively large section of the population, the transfer occurring during 1921-1931 may be regarded as conferring real benefit. Despite its importance, there is no need further to labour this point: for economists are familiar with the many derived advantages—both to the Poorer as individuals, and to the community. On the other hand, the profoundly important consequential question arises as to whether the community has or has not, *per se*, suffered more than it has gained as a result of the induced economic reactions; and attention may next be devoted to this problem.

The answer to the question is not readily arrived at, but something can be done by a careful study of the results yielded by using some of the few economic barometers available—barometers which, however, serve as rough indicators rather than as precision instruments. The first of these concerns the volume of national saving. Unfortunately no specific attempt has been made to measure this accurately since that of the Colwyn Committee.¹ In defect of such a specific calculation, it is necessary to use the results of the analysis contained in earlier chapters. Obviously the most important reactions on saving are produced by the levies for the debt service: for these accounted for a total of some £3,660 m. during 1921-1931, or 45 per cent of total national expenditure. The analysis of pages 167-74 showed that, despite certain favourable transfers, there were reasons to expect that private saving had somewhat materially declined, principally because the "automatic" saving by the higher strata of the Richer and of private companies had been obviously curtailed. On the other hand, saving by public companies—say two-fifths of the whole—had apparently not declined by proportionately so much except in the last two years of the period. Social service expenditure, resulting in clear and heavy transfers to the Poorer as a whole, and in particular to the poor and very poor, also discouraged saving to a material extent, even though some was accomplished by

¹ Cf., however, the estimates made by C. G. Clark, referred to on p. 175, which became available after the above had been written.

beneficiaries and by suppliers of materials and services. Nevertheless, when all three kinds of contribution are taken into account, the capacity for saving of the Richer probably declined substantially more than the saving capacity of the Poorer was enhanced. A similar, though less extreme argument applies in the case of all the other services; for the net effect was to take away more resources from the Richer than they received back.

The inevitable conclusion is that total real national saving declined in the period compared with 1913-1914, and that private—especially “automatic”—saving declined more than public saving.¹ While there is little objective evidence to illustrate the former, the latter may partly be deduced from statistics of reserve appropriations of public companies. For the five years 1909-1914 the average percentage of capital placed to reserve was 2.40, compared with an average for the ten years 1921-1931 of 1.86.² Such a measure understates the position, because as the real volume of industrial and commercial capital was apparently higher in post-war years, a larger real total of saving must have resulted. The constitution of the index, however, prevents an estimate of this. Even so, it can at least be said that no small part of the decline in the above ratio may be attributed to business depression—this is suggested by the fact that in the less depressed years 1924, 1927 and 1928 both comparatively larger actual and percentage reserve appropriations were possible. It would seem, therefore, that post-war public savings have not been heavily reduced by taxation and rating levies.

A major effect of the reduced total of saving—and especially because this applies more largely to private saving—has been to lessen the volume of international lending. A rough index of this shows that, compared with an annual average of some £172 m. for the five years 1909-1914, during 1921-1931 the annual average of public foreign capital issues was only some £112 m.³ These figures

¹ Cf. also C. G. Clark, *The National Income, 1924-1931*, p. 136.

² *Vide* analyses of company profits made by the *Economist*.

³ These figures are “gross” in the sense that they do not take account of new lending made out of receipts from past foreign investments.

are not cited to suggest that the decline in foreign lending has been wholly due to the extra taxation, for there are many other factors to take into account. It is suggested, however, that the previous argument indicates that this has been one cause. Disregarding the problem of disequilibrium between foreign investment and the available foreign balance, and frictional factors such as the lack of adjustment of production costs,¹ the reduction of foreign lending must be counted as having adverse economic results. For this involves a curtailment of exports, and in this way the reduced lending is associated with the reduced activity of domestic firms trading abroad observable in the period. The position is not, however, entirely one-sided. For it appears that desirable openings for foreign investment have been less in the period than they were before the war. Writing in 1925, Mr. C. K. Hobson contended that the pre-war stage of development

"... has, however, in some parts of the world been followed by another stage, in which the advantages accruing to the United Kingdom from oversea investment are more problematical. For some countries opened up with British capital have not only grown very rapidly in population and wealth, but have sought to build up manufacturing industries of their own, usually behind the barriers of a tariff which makes the entry of our own goods difficult."²

The Macmillan Committee on Finance and Industry also pointed out that "Many of the loans incurred since the War have been for non-productive purposes, having been of a political character or to balance budgets, or to support the exchanges, or to build up currency reserves."³ So far as this country might, by larger saving, have participated more largely in such lending the full advantages of the more normal pre-war foreign lending would thus have been denied. Again, contrasted with pre-war experience, post-war foreign lending has not been so secure. Perhaps the most enduring and widely prevalent influence has been political uncertainty and distrust; but other very strong influences may be

¹ Cf. Keynes, *Treatise on Money*, Vol. I, Chap. 21.

² *Is Unemployment Inevitable?* p. 174.

³ p. 68, g. 153. *Vide also*, p. 165, g. 384, and p. 81, g. 179.

found in the currency vacillations of the earlier post-war years, periodical defaults, and the vagarious course of international trading—disturbed by such things as higher tariffs, import restrictions, reparations and war debts and a pronounced post-war alteration in international comparative advantages. Without going into greater detail, it is perhaps sufficient to refer to the larger proportion of English funds going to Dominion and Colonial borrowers—e.g. in 1909–1914 the ratio of this was 44 per cent of the whole, contrasted with 65 per cent in 1921–1931—partly, at any rate, due to the security afforded by the Colonial Stock Acts.

The main explanation of the reduced foreign lending, however, must be sought in the decline of the favourable balance of payments in the post-war period—from £182 m. in 1913 to an average of some £93 m. for 1922–1931. During a decade of falling prices, to lend abroad more than the available annual surplus entailed the probability of further declines of the internal price level with consequent additions to the already high unemployment. Although, moreover, the further price falls might possibly have facilitated an increase of exports and a decline of imports, actually this could only have resulted if there had been a material decline and a ready adaptation of production costs in the export trades : and that these would have occurred in the period is doubtful. Taking all these points into account, despite the great and inherent advantage of larger foreign lending, the absence of the gains receivable therefrom during 1921–1931 in contrast to the pre-war period, was due directly less to a reduction in saving than to other factors ; and some of these will be examined later.

The fact that foreign lending fell by more than total savings paved the way for a proportionate expansion in the volume of savings available for domestic investment. In view of the various considerations adduced above, it is possible to argue that this must have had beneficial results. For, in so far as iniquitously high tariffs, import restrictions, reduced buying power of primary producers and many other hindrances to exports operated to restrict and indeed sometimes to prevent them, it was politic to seek to develop

old and to promote new domestic industries in order to check the lop-sidedness of imports¹ and to increase the domestic outlet for goods which might have been exported. It is recognised that this was a *faute de mieux* policy, but in the peculiar circumstances of the period it was apparently largely inevitable. Again, it was possible for such increased domestic investment to take care of some part at least of the unemployment due to reduced exports. More support for the argument is derivable from the now generally accepted point that it is unlikely that this country will regain her pre-war ascendancy in export. A further argument for increased domestic investment is supplied by the evident need for new capital, not merely to compensate for war-time arrears, but also to minister to new domestic needs evoked by post-war progress in industrial technique, reorganisation of business units, changed demand and higher living standards.² The strongest argument for larger domestic investment, however, relates to the necessity for attacking the obvious disabilities of one sort or another operating to reduce this country's power to compete in export markets—by re-adaptation and reorganisation of the productive equipment, not only of the older export trades, but also of newer and new export industries. The urgent need for this has repeatedly been demonstrated. Besides generally enhancing this country's power to export, since it has become abundantly clear that export recovery would be facilitated by a reduction of production costs obtainable partly by thorough-going rationalisation of capital equipment, it is unnecessary further to stress the argument except to add that the need was not only rendered more urgent by the general fall of world prices during 1921-1931, but was especially provoked by the circumstances under which reversion was made to the gold standard in 1925.³ Lastly, there was an ever-present need to keep pace with advances in the general technique of production rendered possible by both the technological and technical advance occurring in rival countries during

¹ Referred to on pp. 354 *et seq.*

² Cf. *Britain's Industrial Future*, pp. 44-5.

³ *Vide Report of Committee on Finance and Industry* (Cmd. 3897), p. 54. g. 123.

the period.¹ On these, and on similar grounds, therefore, a strong case existed for a substantial volume of domestic investment—and indeed an increase in the proportion of available funds devoted thereto—during the period 1921–1931.

It would, however, be a mistake to suppose that the investment which actually occurred had the optimum beneficial results. For misdirection and loss have been seen in home as well as in foreign lending.² Of greater moment, although it is hardly possible to make a detailed estimate thereof, it appears that a substantially large amount of the funds available have gone to develop “sheltered” industries, and but a small proportion to the needy export trades. In particular, there have been many capital issues on government account, for local authorities, for concerns engaged in such activities as transport, wholesale and retail distribution, “safeguarded” industries, building and public works construction. Such “sheltered” industries have been concerned less with additions to real and inherently desirable capital investment, and more with capital development rendered necessary by the growth in the general standard of living and particularly in the demand for consumption goods and services associated with the higher post-war living standards of the Poorer.

Before reaching a verdict as to the adequacy or inadequacy of post-war saving, it is necessary to notice the conclusions advanced by the Colwyn Committee. They calculated that, during 1921–1931, on the basis of £400 to each person employed, no more than some £50 m. per annum of saving was required to meet the need for capital to employ the growing home population in that

“... provision of capital according to old standards, and sufficient to maintain the existing rate of production and the *status quo* of the standards of living, can continue to be found

¹ This applies to domestic industries competing with foreign imports no less than to the export industries; for while imports of manufactured goods were in 1924 about 17 per cent of the total, by 1930 the figure was roughly 22 per cent. It is true that other countries, e.g. France, U.S., Germany, showed similar increases, but the effects were more likely to be serious in the case of this country, long accustomed to have a large surplus of “visible” imports.

² Cf. Cmd. 3897, *Ibid.*, p. 166, g. 386.

without the least difficulty, and is not imperilled by the present scale of direct taxation.”¹

Such a calculation does not, of course, seek to measure the *total* annual volume of desirable saving, for it refers only to the specific new capital needed to provide employment for the growth of population. It was presumably offered merely to show that, since the rate of population growth was lower in the post-war compared with the pre-war period, less additional saving was necessary on this account alone. Dealing with general saving the Committee declared that

“It is not clear that the recent lower standard of saving has been inadequate to the actual demand for capital. We have no doubt that, with trade revival, there will be an expansion in the margin of saving, and the increase may be very rapid, as Lord Bradbury suggested (Q.9242). At the same time, we cannot take for granted that there will be no shortage. In view of the large amount of revenue which has to be raised, we think that the general character of tax distribution in post-war years has been satisfactory, but we would emphasize that highly progressive taxation is a growth of the last decade, and it is still too early to speak of its final economic effects on the community.”²

In endeavouring to reach a conclusion on the basis of the arguments advanced the various points may be summarised conveniently as follows. On the one side, first, the decline in foreign investment is less deplorable in so far as there was an evident need for larger real domestic investment than in pre-war years. Second, the larger spending caused by reduced saving has been reflected in greater demands for consumption goods and services which have had very beneficial effects by raising the living standards of the Poorer, and by incidentally assisting home industries and concerns engaged in catering for these. Third, the decline in foreign lending was mainly due to a smaller available foreign balance—and was therefore necessary to check the possible disequilibrium between these—to the need for protecting the restored gold standard and to external causes beyond this country's control. Fourth, post-war foreign lending was more risky, and less certain to have the maximum benefit in

¹ p. 244, g. 699.

² pp. 241-2, g. 693.

stimulating exports. On the other hand, however, first, generally it is true that that decline in foreign lending which was due to reduced available savings had negative consequences for the export trades : and to no small extent this was occasioned by the general transfer to the Poorer resulting from the altered post-war scheme of taxing and spending ; for, it will be argued later, this involved large imports of consumption goods and materials therefor which did not necessarily provoke countervailing exports. Second, although the export trades—both old and new—plainly needed new capital to facilitate reduced production costs, this has been materially prevented by the comparatively large capital demands of “ sheltered ” industries, and by industries less concerned with producing primary and more with secondary utilities. Third, the taxing, rating and contributinal levies which have partly caused the reduced saving have burdened private industry and obstructed public company producers and hence restricted their enterprise and hindered the reduction of costs of production—particularly producers for export. This reduced willingness of private industry to undertake capital investment has in turn—despite larger public capital investment—induced a disequilibrium between total investment and total saving.

The conclusion to be reached is that, while the reduction of foreign investment has probably had less deleterious consequences than would at first appear, if the burdens imposed by the changed public finance had borne less onerously on the Richer and on private and company producers as a result of lower taxation and rates, not only might larger saving have occurred, but probably industrial capital investment of an inherently desirable character—especially in export trades—would have been more than proportionately stimulated. Not only, therefore, might total investment and saving have been better balanced, but more activity might have been generated in concerns associated with production for foreign markets.

The second barometer to be resorted to is that registering the alteration in demand and supply schedules for goods and services—both in total and in kind. Speaking generally,

there is no strong reason to show that total demand for goods and services changed appreciably during 1921-1931 by reason of the altered taxing and spending process. For, first, there is the simple and important fact that this involved little more than a re-distribution of domestic demand; and second, there is the further simple and almost equally important fact that the preponderant part of the resources derived from taxing levies was not diverted out of the country by the need for meeting external obligations of one sort or another. There is, however, reason to think that the constituents of demand were changed. Because real saving was reduced, this meant that the total of resources available for direct investment in capital goods was reduced—although since foreign investment was curtailed by proportionately more than the decline in saving, the volume of domestic investment was restricted by less than otherwise would have been the case. Taking domestic demand alone, it follows that, since there was no destruction of purchasing power as a whole—except that incident to the taxing process—proportionately more was spent in demanding consumption goods. In saying this, allowance has to be made for the offset to reduced private capital investment seen in the larger volume of capital investment undertaken during 1921-1931 by public authorities.

Nevertheless, real savings available for domestic investment were less both proportionately and in total. Explicit illustrations of the larger demand for consumption goods may be found by referring to the separate categories of expenditure. In the case of debt services, the earlier analyses suggest that, while saving was undoubtedly curtailed, the consumption expenditures of the Richer as a whole were probably not drastically or even severely reduced. Those of the Poorer were obviously curtailed. In the case of all other expenditures, however, it is likely that these have resulted in large transfers from the Richer to the Poorer—and considerably more than necessary to offset the levies made on the Poorer for debt services. Assuming, as is likely, that the consumption expenditures of the Richer have been much less severely restricted than

their savings, it is to be expected that total expenditure on consumption goods has grown. How much larger have been the sums available for such spending by or on behalf of the Poorer is suggested by the earlier analyses and by the following illustrative table :

CERTAIN COMPARATIVE SUMS AVAILABLE FOR CONSUMPTION
SPENDING BY THE POORER *

(£ millions)

	1913-14.	1921-31 (or 1930) (Annual Average).
War Pensions	—	67
Unemployment and Health Insurance	22	77
Defence (Personnel and Non-effective services)	42	96
Education	37	89
Poor Relief	15	40
Old Age and Widows' Pensions	10	31*
General Administration, Tax Collection and Superannuation	10	26
Police	8	20
Unemployment Grants and Loans (National Expenditure only)	—	3
	<u>144</u>	<u>449</u>

* The calculations are in certain cases no more than approximate owing to absence of specific figures. This table may be compared with one prepared by Mr. C. G. Clark, showing that, from 1921-1929, the index of the quantity of goods sold in Co-operative Stores rose from 92.6 to 109.3. (*Economic Journal*, September, 1931, p. 362.) The same writer has showed that, even during the period 1925-1930 inclusive, consumption spending averaged 105.4 per cent of the total in 1924. (*The National Income, 1924-1931*, p. 136.)

It is clear, of course, that this table cannot exactly represent the changes occurring, e.g. not all beneficiaries belong to the Poorer; and the contributions derived from the Poorer are not reckoned. These qualifications apart, the table under-states rather than over-states: for it ignores additional demands for consumption goods resulting from greater spending on civil service employees, local administration and other non-specific local services and certain unemployment and developmental schemes. As it stands, however, it is sufficient to illustrate the point that, despite the altered value of money, there was a definite real

increase in the resources which could be devoted to consumption spending by the Poorer.

What, in turn, have been the economic repercussions of this? It is by no means easy to sort them out. On the basis of the earlier analyses, and seeing that the transfers to the Poorer have mainly been occasioned by the social services and kindred schemes, it may be suggested that more has been spent on foodstuffs by this category and as a whole. It follows that this has led to an increase in the demand for goods supplied by home producers. Since, however, a large proportion of foodstuffs is imported, the following comparative table of imports is of interest :

IMPORTS OF FOODSTUFFS *

	Yearly Average, 1909-13 (Thousand Metric Tons).	Yearly Average, 1924-28 (Thousand Metric Tons).	Percentage Growth or Decline.
Cereals	3,855	3,586	- 6.9
Meat	1,070	1,462	36.6
Poultry, Eggs, Game and Rabbits	161	192	19.2
Fish	133	214	60.8
Dairy Produce	528	736	39.3
Fruit	930	1,472	58.3
Vegetables	694	889	27.9
Sugar, Cocoa, Chocolate	1,657	1,725	4.1

* A. W. Flux, *Journal, Royal Statistical Society*, 1930, Pt. IV, p. 541.

The growth in population "men" (i.e. population growth corrected for age distribution) was relatively slight—from 34.9 millions to 36.1 millions. In view of this small increase—3.4 per cent—an obvious expansion of food imports *per capita* occurred during 1924-1928: and this was in all probability typical of the whole period 1921-1931. Of greater importance, a larger total was spent in real terms in 1924-1928, for cereal prices were low compared with those of the other commodities—especially meat, dairy produce and fruit.¹ There were, of course, many causes of this

¹ Of £1,217 m. estimated to be spent on foodstuffs by Mr. Feaveryear and referred to overleaf, meat, dairy produce and fruit accounted for some £686 m.—compared with some £105 m. for cereals. Cf. also Macrosty, *The Overseas Trade of the U.K.*, *Journal, Royal Statistical Society*, 1932, Pt. IV, p. 611.

increase, e.g. the decline in the home production of certain commodities, higher real wages and the extensive decline in prices of foodstuffs during the period. For the reasons stated above, it may be believed, however, that the changed distribution of demand caused by the altered taxing and spending of 1921-1931 was not merely one, but an important cause. Since the total food bill of this country has been estimated, on the basis of 1924-1927 statistics, to be about £1,217 m.¹—nearly one-third of the national income—the importance of the conclusion is apparent. To take other illustrations, it is to be expected that a larger demand has occurred for other goods associated with the standard of living. Tobacco consumption, for instance, increased from 2.06 lb. per head in 1913 (unmanufactured) to 3.29 lb. per head in 1930, while values expanded by far more than necessary to offset the price-rise occurring between these years—from £6.71 m. to £14.64 m. This, of course, is very largely imported. Matches imported grew from £.53 m. in 1913-1914 to £1.01 m. in 1930.² Demand for clothing of all kinds almost certainly increased: and it is noticeable that, in addition to the larger imports of materials necessitated, such partly or wholly manufactured imported articles as garments, boots and shoes, hats and caps, hosiery, artificial silk yarn and manufactures grew by sizably more than the increases of price.³ More was spent also on furniture and furnishings, and although these are not strictly consumption goods, it is observable that the total imports of such things as wood and timber manufactures, carpets, carpeting rugs and tissues, clocks and watches, electrical goods and apparatus increased in real value.⁴ While some of the items obviously include goods not entering into articles used in the home and it is impossible to make a refined analysis, it is suggested that these items nevertheless reflect

¹ A. E. Feaveryear, *Economic Journal*, March, 1931, p. 54.

² *Vide Statistical Abstracts*.

³ Garments increased in nominal value between 1913 and 1930 by 56 per cent; boots and shoes by 79 per cent; hats and caps by 202 per cent; hosiery by 117 per cent. The increased total spending on these imports in 1930 amounted to 98 per cent of the 1913 figure. Nothing was entered for artificial silk in 1913; in 1930 imports totalled £7.54 m.

⁴ The total of these items in 1930 was 207 per cent of the 1913 figure.

the larger spending for such domestic goods. More was spent, too, on entertainments and sport; but it is not possible to do more than point to the relatively large amounts called for by such items as imported films, musical instruments, and foreign artists. Reading also accounted for more, and in this connection the large expansion in imports of printing paper and pulp may be noticed.¹ Minor extra expenditures (also involving imports or the equivalent of imports) are probably for such miscellaneous things as foreign travel, cosmetics, toys, games and miscellaneous fancy goods.

This analysis is far from adequate, but at any rate it is suggestive. It would seem to be fair to presume that the larger post-war expenditure on consumption goods which has predominantly been made by the Poorer has been reflected in substantial increases of goods—especially food-stuffs and clothing—associated with the higher real standard of living. These, in turn, have involved material real additions to imports, and while the rigidity of wages has been a main cause, it is to be assumed that partly the change has been brought about by the results of the altered taxing and spending process. Nor, as suggested earlier, is it to be expected that much of an offset to this has been derived from reduced consumption by the Richer: for their standards of consumption have almost certainly been reduced by less than those of the Poorer have increased, so that imports of various materials and manufactured articles—especially luxury articles—demanded by the Richer have probably not seriously declined.

Another point concerning the demand schedule is that the extra demands for consumption goods have been reflected not only in extra production and employment for domestic industries supplying these needs, but also for firms which might otherwise be engaged in producing for export. As, for example, of the large total of £1,137 m. of goods imported in 1924 only £463 m. were ready for distribution and sale, it is obvious that a good deal of extra work was necessary for manufacturing, making up, and preparing for sale.

¹ The 1930 values were 197 per cent of 1913 values.

This is reflected in the statement that, of the total volume of production, ". . . a definitely larger fraction was disposed of in the home market in 1924 than in 1907."¹ While again the proportionately larger incomes accruing to the Poorer during the period from all sources must be taken into account, it seems clear that the effects of the relatively greater outlays on consumption goods and services, due partly to the altered public spending, have had as a result the encouragement and stimulation of certain "sheltered" industries.

This outcome is seen also in the proportionately larger capital spendings devolved on to public bodies in the period. For, since these have been fairly heavily concentrated on industries such as building, some branches of engineering and iron and steel, and other constructional trades, only to a relatively limited extent have the great export trades in general benefited—either directly or indirectly—from such capital spendings. It is apparent, then, that one important consequence of the changed post-war demand, due partly to the new scheme of public finance, has been definitely to stimulate the "sheltered" group of industries.

Besides the additions to the demand for physical consumption goods, there has probably been a substantial increase in the demand for services of various kinds. As the results of the 1931 Census are not available at the time of writing, it is not possible to give comparative statistics on this point. Nevertheless, the preceding analyses of the altered scheme of public spending show that there has been a larger requisition for personal services. Thus there have been noticeable extensions of staffs engaged in merchanting, wholesale and retail dealing and distribution, for doctors, dentists, nurses, transport, for central and local government professional staffs and for entertainment and sport. Again, it is unlikely that the demands of the Richer for personal staffs have declined at all sufficiently to offset the increase: for where reduction of expenditure has occurred, it has

¹ A. W. Flux, *The National Income, Journal, Royal Statistical Society*, 1929, Pt. I, pp. 10-11; H. W. Macrosty, *The Overseas Trade of the United Kingdom*; *Ibid.* (1932), Pt. IV, pp. 616-17.

probably been in the substitution of cheaper services. This means that a smaller proportion of the population has been available to engage in direct production—although, of course, some personal services may have a fairly high degree of indirect economic utility.

As for the post-war demand for export goods and services, the figures show that, taking 1913 as 100, by 1930 the volume of exports had fallen persistently if not regularly to 67·5, contrasted with an increase in the volume of retained imports to 118·3. There are, of course, many diverse explanations of the fall in exports. Not a few of these apply, however, to special declines of exports at particular periods, e.g. during foreign currency disorganisations, at periods of imports control, on the occasion of the raising of tariff barriers, and as a result of the acute world depression originating in 1929. The number of reasons available to explain the virtually continuous contraction of export demand is, however, few. And of these certainly a basal reason can be found in the inability of this country to force down production costs to levels competitive with those of foreign rivals. But of this inability again there have been different causes. To the extent, however, that wages costs have been kept up by that rigidity of wages which has been occasioned by the wholesale development of the social services, and other extra costs have been engendered in the shape of reduced labour mobility, higher taxation and local rates and contributational levies, then some part of the contracted demand for exports must be laid at the door of the post-war alterations in taxing and spending. A further cause of contraction can be found in the larger demand for consumption goods; for this has done little to assist in reducing the costs of firms producing capital goods partly or wholly for foreign trade. And it has been noted above that even the capital spendings of public bodies have failed to benefit export trades materially, and hence have not served to assist their competitive capacity. Lastly, the lower volume of foreign lending, due mainly to the reduced available foreign balance, but which partly was the outcome of the factors previously noted—causing a reduced demand

for exports and a larger demand for imports—itself had adverse effects by way of reducing the potential size of the export demand.

The conclusion of the whole analysis is, then, that whereas total domestic demand has not changed materially in extent over the period 1921-1931, but if anything there has probably been an expansion therein, it has been altered by the new taxing and spending scheme definitely in favour of consumption goods and services. Broadly, this has induced larger imports of materials and goods required to meet the extra consumption demand, diverted production somewhat in export industries to production for the home market, led to a smaller proportion of the population being engaged in direct production, and has encouraged the "sheltered" industries. On the other hand, the total demand for export has been curtailed to some extent by the extra cost and other burdens imposed by the altered post-war scheme of taxing and spending.

Something next falls to be said about the complementary aspect of demand—changes in the supply of goods and services. It would apparently follow from the fact that real saving declined in the period that this must have reacted unfavourably on the capacity to produce, or the maximum efficiency of production—or both. It has been argued above, however, that the decline of saving affected the new funds available to domestic industry to a much less degree than it affected those available for foreign lending. It may incidentally be observed that, with the exceptions of the 1928-1929 Stock Exchange boomlet and its subsequent collapse, and the effects of post-war deflation policy, there has been no large wastage of capital savings during the period such as is frequently observable during a time of booming trade. Furthermore, the decline clearly affected public producing companies to a less degree than private; and since public companies account for much the larger part of total production, this is significant. Even in the case of private producers, the seriousness of the decline was tempered—as the Colwyn Committee showed—by the fact that not infrequently they had external capital resources available

for use.¹ On the other hand, the fall of savings was by no means equally distributed. It was least observable in the case of such more prosperous industries as those engaged in producing and purveying consumption goods and services for the domestic market and some new industries. Such industries, therefore, have been able to increase and to maintain the efficiency of their capital equipment. This contrasts with the experience of concerns suffering from the depression and especially those engaged in producing for, or associated with, export. Firms engaged in making capital equipment for ordinary commercial purposes have also suffered as opposed to those supplying the capital orders placed by public authorities.

More important effects on production and supply have followed from the incidence of the extra levies made in the period for taxation, local rates and social service contributions. The results of higher taxation were mainly to reinforce the above effects, for this fell on resources which would presumably have been mainly applied to capital purposes ; but, in addition, enterprise was to some degree reduced. Indirectly, also, in the case of joint-stock companies, certain adverse effects on production accrued from a somewhat reduced volume of capital available for industry, but more from the difficulties of raising money on equity stocks and the higher interest rates demanded on fixed interest stocks.² Both of the latter were partly, though not wholly, caused by the existence of a large mass of debt stocks and by the higher taxation. Here again, however, the extra taxation fell much more heavily on private firms. Nevertheless, the total burden on the latter was not so disproportionately heavier than it was on rival foreign producers as was taxation levied for debt charges alone ; for while most rival foreign producers have apparently suffered an appreciably less burden for debt, they have frequently been called upon to bear larger or additional taxes for other expenditures. The net result has very probably been to leave domestic private

¹ p. 158, § 421.

² It is observable that in 1913-1914 equity stocks accounted for 17·2 per cent of all new capital raised ; while during 1921-1931 the comparative figure was 14·3 per cent.

concerns in a less burdensome condition after taxation as a whole than they were in the case of debt taxation taken alone. It must be remembered in this connection that many private firms are of moderate or small size only, so that they have not been penalised by the very high progression applicable to large private enterprises. More important, however, is the simple consideration that if private producers were to withdraw entirely from enterprise it is unlikely that they would stand to obtain so high a return on their capital—and this is not the less true because of the relatively narrow differentiation between taxation on investment and earned incomes. Lastly, some private producers have benefited from the larger demands for consumption goods and induced demands for capital goods. By contrast, the taxation burdens on joint-stock concerns, as has been said, rank smaller rather than larger. For they have held important offsets by way of income from debt-holdings which in fact were possibly larger in many concerns than their total liabilities for taxation; while also taxation on profits was passed on to their shareholders. As in the case of private firms, some public producers have also gained by the larger demands for consumption goods. It may not be overlooked, however, that many large joint-stock concerns are engaged in export, and hence have suffered peculiarly from the extra taxation—as instanced earlier. Other joint-stock concerns have probably suffered because of the shift in demand to consumption goods.

The effects of higher local rates have been to add directly to costs of production. Moreover, it has been previously stressed that it is not that a burden resulted from the higher real total of rates so much as from their inequitable variation from one area to another. Because the export industries are highly concentrated in given local areas, the increase of rates due to social services and unemployment works and developmental schemes has fallen with much heavier force on them. Nor has this incidence been lightened as a result of the factors making for localisation of industries in that unlike other, and particularly new, domestic industries the export groups have been unable to migrate readily. On this

account, they have suffered additionally when other and new industries have, in fact, shifted to less highly rated areas. It is possible that joint-stock producers have been more largely affected in this way than private firms. Again, it must not be overlooked, however, that some joint-stock firms have benefited by the various outlays on schemes for economic development and unemployment works, while others have gained by the growth in demand for consumption goods.

As for social service contributions, they have had effects of a double-sided character. They are, necessarily, in themselves a "tax upon employment," and therefore discourage production. But also they have indirect effects in being associated with rigidity of wages and lower labour mobility. It is doubtful, too, if the advantages of higher efficiency derivable from the various social services have gone far enough to outweigh all these disadvantages, the more so as the increase of efficiency necessarily takes a long time to accrue to its full extent. The fixed and uniform character of social service contributions has induced a greater burden for the export industries employing large groups of labour and having lower profit and income margins to bear the charges. On the other hand, by refusing employment, they have been able to transfer part of their burden on to other industries—and in especial the weaker have thereby penalised the stronger. As for the variation of burden between private and joint-stock concerns, similarly to the case of local rates, it would seem that the former suffer less: for they are of considerably less importance in the total scheme of production, and therefore employ a relatively small number of workers for whom contributions must be paid.

To summarise the effects on the supply of goods and services as a whole, since total demand has not been very greatly reduced—this is true despite the serious decline in foreign demand, for the proportion borne by this to total production has apparently not been more than a quarter of the whole and has tended to decline during the period,¹ and the extra

¹ By the second quarter of 1930 the number of workers engaged in export production was no more than 23·5 per cent of the whole occupied population.

demand for imports has involved an added demand for domestic capital and labour employed in connection therewith—the conclusion is that no outstanding alteration in the total of supply has been induced by the changed scheme of post-war public finance. Special reasons for accepting this are found in the fact that joint-stock companies—responsible for the lion's share of production—have suffered comparatively light extra burdens; and while private firms have been hit harder, even the sum total of direct and indirect reactions has probably not been sufficient to affect their willingness to produce by so much as would initially be expected. Statistical illustration of this general verdict is derivable from the figures cited in the Report of the Macmillan Committee on Finance and Industry.¹ Thus the real value of output in 1924 was 21·5 per cent higher than in 1907, as against a rise of only 10·5 per cent in the number of workers. Again, the general output per head in 1930 (first and second quarters) was 113·2 per cent, and 110·4 per cent of that of 1924. Since it has been calculated by another authority that output per head was roughly identical in 1907 and 1913,² it would seem fair to infer that the post-war period showed that both productive activity and productive capacity were resilient enough to bear the extra post-war burdens of public finance with no marked disability—and this despite the long period of depression.

Summarising the effects of the post-war changes in taxation and spending on both the demand for and the supply of goods and services, the first thing to be said is that the totals of both have been affected to a much less extent than might be expected. Second, there has been a substantial increase in the demand for and supply of consumption goods and services. The correlatives of this have been an enhanced volume of imports and a diversion of personal productive capacity from more to less productive purposes, and an encouragement of "sheltered" industries. Third, even if account is taken of the greater fall in the cost of imports than

¹ Cmd. 3897, pp. 309, 314. Cf. also the favourable figures compiled by Mr. C. G. Clark, *Economic Journal*, September, 1931 (Table XIX), pp. 358, 360, 396 (Table XI).

² C. G. Clark, *Ibid.*, p. 361 (Table XII).

in the selling price of domestic exports, since this country's demand for imports needed for the higher living standards became more inelastic while the demand of other countries for its exports became more elastic, the effect was to narrow the gap between total exports and total imports. This diminished the balance available for foreign lending, and, together with other induced reactions on the export trades, the effects on them have been unfavourable. If the various points are now assembled, it is seen that they are *partly* responsible for the emergence of a fundamental economic problem—a discrepancy between exports and imports in a country whose capacity for self-sufficiency is less than that of most other countries.

Proceeding from what has been said, it is now possible to use another and more comprehensive economic barometer—that of the national income. It is not difficult to realise why this has been roughly maintainable throughout 1921-1931 at virtually as high a real figure as in 1913-1914. For production for domestic markets has increased in volume so as somewhat to countervail the reduced production for foreign markets—although obviously to by no means the same extent. The faculty for domestic demand has grown in volume absolutely, both for goods and for services: and in addition to stimulating domestic production thereof, has expanded the demand for the work and services of those engaged in handling imported materials and goods at all stages. Again, while it is clear that the diversion from direct production entailed by the larger provision of services has reduced the possible volume of goods, it does not follow that the dividend total would register the effects of this; for the incomes paid to the purveyors of services rank equally with those who undertake direct productive effort in calculating the dividend. The effects of the materially reduced demand for export goods have, of course, been serious by largely curtailing the dividend. While, however, the decline in exports and the contraction of certain branches of domestic demand provoked the unemployment of a large number of workers, the figures cited earlier attest that productive efficiency per head of the population has grown in the post-

war period, so that the dividend has suffered by less in concrete terms; and part, at any rate, of this growth of efficiency was the outcome of the higher living standards of the Poorer brought about by the post-war transfers induced by taxation and spending. From a different angle, another reason for the maintenance of the dividend inheres in the simple fact that, e.g. in the case of debt services—accounting for nearly two-thirds of the extra taxation levies in the period—assuming that external debt payments have been roughly balanced by external debt receipts, the internal debt services have after all only involved transfers and re-transfers of monetary resources. Incomes despoiled by levies have thereby been offset by those gaining from the disbursement of debt interest and debt principal repayments. In essence—although not actually—this means that the nominal total of the dividend stood to remain unaltered. The same principle applies, of course, to other expenditures; but its effects are not so plainly apparent: for such other expenditures—unlike debt services—do not necessarily partake of the character of re-transfers to virtually the same groups as were initially taxed. For this reason their effects are more likely to involve alteration of the dividend total. Lastly, there is no large reason to think that that part of the national income derived from “invisible” items has been changed much by the new scheme of taxing and spending. Income from foreign capital investments has not been altered appreciably; for the reduction in foreign lending during post-war years has not been large enough to make a very great difference to the average annual total of such investment income. Incomes derived from shipping have, of course, suffered from the contraction of exports, in some part due to the adverse effects of taxing and spending on costs of production, but have been compensated to some degree by the expansion of imports. It is hardly likely, however, that incomes from the various financial services have been curtailed at all materially, for these are more profoundly affected by other factors.

If, in addition to the items usually reckoned in calculating the national dividend, other less tangible and measurable

items such as social content and physical and mental welfare of the population as a whole are considered, it is obvious that the reduction of poverty and the raising of the standards of the Poorer achieved by the altered taxing and spending process have added very substantially to this—the more real—national dividend compared with the pre-war period.

To take the physical and material connotation usually attached to the term, however, it is plain that the same factors going to explain the maintenance of the real dividend serve also largely to explain why it has shown no clearly defined tendency to increase over the period. On the basis of the preceding analysis, it seems clear, for example, that if the export trades in particular had been subjected to a less burden of taxation, local rating and contributions, their costs of production would have been lower—even granted the many benefits associable with the burdens. In saying this it is necessary to repeat the caution that less stress should be placed upon the actual size of the money burdens and more stress upon the peculiar distribution and inequitable incidence of these. Again, in conjunction with this point, it is necessary to bear in mind the indirect adverse reactions on exports caused by the persistent growth of imports destined for consumption during the period; for while to some extent facilitating exports by way of return bargain, the more inelastic demand for imports for consumption uses, coupled with the many obstacles imposed by other countries and rigid costs to countervailing exports, have reduced the balance available for foreign lending and therefore tended to restrict the possible volume of exports associable with such lending. The importance of the favourable effects on the dividend which the restoration of the pre-war proportion of exports to the total of production would have is seen in that Prof. Bowley has estimated that between 700,000–800,000 additional workers could be employed.¹ This, in turn, would permit of the national dividend being expanded considerably in concrete terms. Inasmuch, therefore, as the above factors have reduced the possible

¹ i.e. involving one-quarter of the total of production. (*Some Economic Consequences of the Great War*, pp. 206–7.)

volume of exports, the dividend has been reduced. To take another example, apart from physical effects, the adverse psychological effects of the much heavier post-war taxation levies upon private producers have undoubtedly curtailed their enterprise. This, in turn, must have generally constricted direct production and productive activity, and hence the national dividend. The same argument applies to the effects of higher taxation in general; for business people have never lost the habit of projecting their minds back to the easier taxation of pre-war years, and therefore have never been able to regard the higher post-war levies as other than a specific, uncompensated, and indeed largely unwarrantable burden. It can hardly be expected that even old-established business enterprise has been so ready and eager to go forward, while the effect on willingness to undertake new enterprise is apparent. Less force applies to this argument when considered by itself and detached from the *milieu* of other specially adverse circumstances which were a feature of the period. When, however, account is taken of the repeatedly sinking prices and profits, especially in evidence during 1921-1931, it patently acquires much greater force. On more solid grounds, it is easier to understand the business attitude. For the crux of the transfer problems to which the extra taxation and spending have given rise—during a period of insistent deflation—is the lack of balance which obtains between burdens and benefits for individual persons and individual concerns, as between one producing concern (or group) and another producing concern (or group), and also as between the burdens falling on direct producers and the benefits going to that part of the community not directly concerned in production. Much has in recent years been made of the latter point; and it has often been suggested that while entrepreneurs have suffered higher real burdens from unchanged taxation during a period of falling returns to enterprise, their loss has been the non-producer's gain. While possibly the rentier element is not appreciably stronger numerically than in the pre-war period, it is nevertheless true that, until the 1932 debt conversions, they had in effect gained very materially at the expense of

entrepreneurs. Similarly—and this is probably more serious—wage-earners, salaried persons, and social service beneficiaries generally had obtained a higher real claim on the national dividend *pari passu* with the reduced real share going to the entrepreneurs.¹ In circumstances such as these it can hardly be expected that the dividend stands as much chance of being augmented as of being diminished. If data were only available, it would be possible to show much more clearly and concretely not only the many innocuous reactions, but also the actual range and importance of the adverse effects which have been brought about by the processes of transfer occasioned by the altered public finance of 1921-1931. Since this cannot be done, it is sufficient to emphasise their capacity for provoking inequities and disequilibria during the persistent deflation.

Another way in which the national dividend has been negatively affected has been by the decline of savings and the shortage of desirable capital investment. The effect of this on export trading has been cited above. The general effects on the community have been seen by way of reduced facilities for undertaking desirable capital developments—designed to enable production costs to be lowered and productive capacity to be extended. The former of these has probably been the more important in the period, owing to the declining prices received for products, and the fairly-attested disequilibrium between Saving and Investment. While there is always an amount of "slack" in the organisation of production which can be taken up, it is nevertheless the case that capital reorganisations on a large scale are inevitable for some of this country's industries; and these call for new capital accumulated by saving. The growth of new export industries is also very desirable, if not imperative. Moreover, larger saving is one certain way of reducing the costs of new capital—other things being equal, including currency policy.

Apart from the absolute size of wages, the dividend has

¹ *Vide* C. G. Clark, *The National Income, 1924-1931*, p. 72. He estimates that, compared with 11.9 per cent in 1911, salaries commanded between 21.8 and 24.2 per cent of the home-produced income during 1924-1931.

also been unfavourably affected by the lower resilience and plasticity imported into the wages system and the reduced mobility of the labour supply—both partly caused in fact by the defects existing in the provision for, and administration of, the social services. The economic consequences of such inelasticity are at any time deplorable, but have been markedly so during a decade when this country was called upon to suffer the burdens of deflation : for then the contrast resulting from a plastic monetary system and a rigid wages system was painfully apparent. Not the least danger attendant upon this disability is that artificial measures such as tariffs have to be resorted to in an endeavour to obtain the advantages of lower wages costs and adjustability of labour demand and supply—for these may involve very serious adverse consequences. It is, indeed, a case where the remedy may easily be worse than the disease.

Enough has perhaps been said by way of analysing the summary effects of the post-war changes in the scheme of public finance. It now remains shortly to state conclusions and to suggest what changes of policy appear to be called for as a result of the preceding analysis.

CHAPTER XIV

CONCLUSIONS

WHATEVER may have to be said by way of qualification, the analysis just concluded of the altered scheme of public expenditure to be found in the post-war period in contrast with the year 1913-1914 shows that no dire consequences have ensued for the national economy regarded as a whole. Indeed, viewed from this standpoint, and concentrating attention on the resultant transfers of resources, the lessening of social and individual inequality has had profound effects of a highly favourable character. And, in particular, the massive attack on the problem of poverty has been attended with distinctly good results and with vital additions to the country's material and non-material welfare. This verdict, at least, must stand.

It follows, however, from the arguments of the preceding chapter, that the scale and distribution of the various taxing, rating and contributory levies observable during the period were such as probably to prevent the striking of the best balance between the disutilities of taxing and the utilities of spending: and this is the pivotal consideration. The disequilibrium, in turn, was made much more pronounced by the unintermittent upward movement in the value of money; for this added measurably—and in particular—to the real burden of the levies made on producers. In the few pages remaining, it is proposed to suggest where expenditure policies appear to call for modification and what readjustments of the taxing levies seem to be needed (1) in the light of the effects of the policies pursued during 1921-1931, and (2) on the assumption that the deflation of prices is not likely to

be offset in the more immediate future by an inflation of prices.¹

In undertaking first a review of expenditure policies, it will be convenient to deal with the various groups of services as arranged in the earlier chapters. Beginning with Defence, it has previously been shown that this item alone accounted for more than one-eighth of the total of national expenditure during 1921-1931, and that of all branches of expenditure it is the least productive from the economic point of view. Credit is undoubtedly due for the strenuous efforts made to curtail this in the period. Granted that swifter progress in disarmament were to become feasible, there is a clear economic case for further reductions—especially in the costs of personnel and administration. The funds thereby released would permit of lower taxation and facilitate a greater demand for and supply of civil commodities and services. Coincidentally, there is a strong economic argument—although a narrower field—for reducing expenditure on defence forces abroad, on Middle-Eastern services, and on certain Foreign and Colonial services. As for War Pensions, while this charge is morally inevitable, it would seem that, in view of the large alteration upwards in the value of money since 1919, there is a case for some general scaling downwards in rates of pension.

In the expenditure group classed as "Other" services, there is a case for reducing the total of salaries and wages required for civil service administrative staffs—amounting to some £66 m. in 1930. The argument for this, however, rests almost entirely on the banishing of duplicated staffs and the substitution of rational co-ordination—and hardly at all on reducing salary and wage scales. There is a peculiarly strong reason for believing that tax staffs ought to be reduced in cost for the highly swollen post-war number is an economic anomaly. The above recommendations, and those to be made subsequently, should make this possible. Allied to the elimination of staff waste, the wastage observ-

¹ This chapter was written in September, 1932, and before the publication of the Economy Report of the Private Members of the House of Commons and the Reports of the Committees on Local Expenditure. (Cmd. 4200 and 4201.)

able in stationery and printing should be rigidly dealt with. In the same group, independently of any more general proposals, the earlier analysis showed that the *per capita* cost of Police was unduly high in 1921-1931. A reduction in this would also benefit local authority exchequers. Apart from such wasteful expenditures as that on Australian Zinc Concentrates, there is no strong argument for other reductions in this category.

Passing now to expenditure on Unemployment Works and Economic Development, the issue here is narrower. The negative arguments concerning these schemes apart, there seem to be three important considerations to bear in mind when contemplating expenditure in the immediate future. First, so long as an intractable "core" of unemployment persists, it is probably desirable on social grounds to have some minimum of such expenditure; for the effects of unrelieved idleness are pernicious and may have profoundly bad social consequences. Second, if and so long as it is possible to undertake public works which will assist private industry—e.g. by providing cheaper and more adequate supplies of water, gas, electricity and transport, or necessary works which are inevitably the function of public bodies—then there is a case for spending. Third, in view of the evident tendency of persons possessing investible and spendable resources to hoard, observable particularly since 1929, there is a good deal to be said in favour of mobilising such idle resources by spending on schemes of economic development. To these points it is necessary, however, to attach the reservations that as far as possible the economic waste discernible in the schemes in vogue during 1921-1931 ought to be avoided; there is no case for adding to the burden of taxes and rates by more than is called for as a result of finance by loan; careful regard should be had to the possibility that local burdens might be augmented unless the central authority plays a larger part in financing such schemes than during 1921-1931; and, lastly, the works should as far as possible be reproductive.

As for the schemes resorted to in 1921-1931, owing to the relatively large expenditure on roads, the fact that these

entailed some economic waste and particularly because there was unwise duplication of rail facilities, and that there is less scope for deriving high utilities in the immediate future, expenditure thereon ought to be somewhat restricted. Of the agricultural grants, the case for the beet subsidy is but a weak one, as is also—if less so—for the cost of the Empire Marketing Board ; while afforestation expenditure is justified to no more than a moderate extent. The remaining agricultural outlays, and outlays on other projects, have clearly had much greater justification.

Passing now to the Social services, some criticisms of the policies and methods pursued during 1921-1931 are called for. First, and most important, is the need for greater co-ordination. The obvious gaps in health insurance, unemployment insurance, and poor relief, leading to possible evasion, should be bridged over by closer amalgamation. There is an appreciably strong argument for lifting poor relief out of a purely local service and giving it the imprimatur of a quasi-national service, financed by the national authority in much larger measure than was the case in 1921-1931. Besides the benefits of co-ordination, this would relieve local industries and local productive activity in general of badly-distributed local burdens for the creation of which they are but remotely responsible. It may reasonably be expected that not only would the general administrative costs of social services be reducible by co-ordination, but that even greater savings would be achievable by a much closer adjustment of individual claims to the various kinds of benefits. Second, it is possible to comment adversely on the costs of non-administrative personnel engaged in social services. Thus, reasons have been offered to suggest that educational salaries were raised in the period by more than was justified to take account of low pre-war salaries, higher standards and greater efficiency. Some reduction of salary scales is therefore probably merited, although the greatest care is needed to avoid adverse repercussions on educational facilities, and on the quality of the work done. Medical services called for by the social service scheme might also be somewhat reduced in cost, for the data available sug-

gested that here, too, the advance in remuneration had been comparatively large. Third, what shall be said of benefit scales? In the case of unemployment insurance there is likely to be general agreement on avoiding the confusion of relief and insurance. If transitional beneficiaries were passed over to poor relief, or some such scheme,¹ provided that the relief were to be financed in large part by the State—as proposed earlier—and the principle of the present “means” test were preserved, the burden upon the poor-law authorities need not be augmented. Nor would it fall directly on employment, for it would be spread over the whole body of taxpayers. Such a plan might be combined with Sir W. H. Beveridge’s suggestion that industries having persistently excessive unemployment should be scheduled;² so that those employers loyally continuing to offer the maximum of employment should not in future be penalised. In this way the undesirable practice of borrowing to pay insurance benefits would be stopped. Further, if the reasoning of Chapter VIII is valid to the effect that partly, at any rate, unemployment is caused by the unemployment insurance scheme and speciously high poor relief, there is a *prima facie* case for preventing this. There is no specific way of removing the evil absolutely other than by the entirely futile device of discontinuing benefits. It is permissible to argue, however, that there is no ground for assuming that the value of money should be assumed to remain unchanged in social service payments when, in fact, its value has altered materially in all other uses. For otherwise a measure of disequilibrium and inequity is induced as between those who contribute to provide funds for benefits and those who receive them, and the capacity inhering in benefits to instigate unemployment is enhanced with each increase in their real value. This point has in fact received practical recognition in the past, e.g. by the raising of unemployment benefits in 1920, by the increases of old age pensions in 1916–1917 and 1920, and in connection with the

¹ Cf. the recommendation of the Royal Commission on Unemployment Insurance. (Cmd. 4185, pp. 278–94.)

² *Unemployment* (2nd edition), p. 411.

scales of pensions for civil services and defence and war services in and after 1919. All these represented upward adjustments to meet the contemporary lower value of money; but nothing has been done to recognise the post-war raising of the value of money beyond the pointed reference contained in the First Report of the Royal Commission on Unemployment Insurance to the real increase in benefits during 1920-1931 and a small subsequent reduction in benefit scales.¹ At once, of course, the objection leaps to the mind that no one single category of expenditure should be singled out for special treatment on this general ground. To this the answer is that on all public spending which is of the order of purchase and sale both the central and local authorities have, throughout the period, been subject to the prevailing price levels. During 1921-1931 these authorities have benefited from the falling trend of prices—including the price of the labour of their servants—while in 1932 the Government took advantage of the reduced price of money to convert to reduced interest allowances. Hence there can be no justification for holding one category of expenditure—i.e. contractual expenditure as exemplified by social services, pensions and debt services—distinct from the rest. Nor can this be justified on grounds of expediency: for it is impossible to ignore the profound change which has occurred in the value of money and the relatively long period during which this has differed from that obtaining when the obligations were assumed or revised. The case for revision of the nominal values of benefits and contributions, then, is evident: the practical problem is how to secure revision of *all* branches of contractual expenditure on an egalitarian basis.

These varied suggestions are likely to go far towards removing rigidity of wages and costs in so far as this is occasioned by the social services; for it might be expected that rigidity would be substituted by some measure of elasticity because of the greater incentive to find work and because trade union members would probably come to oppose the policy of sacrificing employment to the maintenance of high

¹ Cmd. 3872, pp. 33-4, gg. 90-1.

standard rates. Were the suggestions to be insufficiently effective, there might be reason to consider definite reductions in real benefits in order to widen the gap between actual wages and benefits. In view of the profound social disharmony that this would evoke, but especially because it would be a real retrograde step away from the many estimable social and economic benefits conferred by the social service scheme—principally by the virtual extinction of poverty—this should be a final resort only. It has to be carefully borne in mind, too, that the various advantages of social service expenditure are slow to mature, but may speedily be thwarted or lost by even a temporary abandonment of customary practices.

Passing now to Debt services, since these are contractual services, the burden of which has been augmented by the higher real value of money, on the preceding argument there is a case for nominal reductions of cost. Adjustment of debt interest, however, is a matter which to no small extent is not amenable to State control. Moreover, there is the special consideration that, above all things, the State cannot afford to impugn its reputation and its credit in the eyes of the world and of its own nationals. Whenever, however, the opportunity offers of reducing interest rates, conversions should be undertaken. It is important, too, to remember that the possibilities of favourable conversion are definitely fostered by careful control of expenditure designed to achieve budgetary balance. Moreover, as Mr. D. H. Robertson has argued, the net rate of interest does not appear to be materially higher than the pre-war rate, but the gross rate of interest is higher by the increased income tax.¹ Since reduced expenditure would be consistent with reduced income-taxation, it is possible to contend that the measures proposed in this chapter would conduce to a lowering of gross interest rates and therefore facilitate future conversions. As for capital repayments, there is a good deal to be said in theory for Mr. Keynes' suggestions to the Colwyn Committee that conversion of debt stock should be made into a new bond issue which should be repayable in

¹ *Economic Journal*, December, 1927, pp. 578-9.

an amount of sterling having a fixed commodity value.¹ Despite the precedent of the Dawes scheme, however, the practical difficulties are likely to be large. The only apparent alternative is to increase the Sinking Fund. Without entering into a long discussion of this, it may summarily be said that if there is a case for reducing taxation during depression there is no case for raising it in order to increase the Sinking Fund. There would, nevertheless, seem to be grounds for considering the desirability of floating a new loan designed to increase the Sinking Fund—since the post-1929 depression has induced low interest rates and led to the accumulation of large idle balances which might thus be profitably employed.

Reference is next needed to Local Authority expenditure. It will be recognised that, under the preceding proposals, this would be automatically curtailed by the transfer to the national authority of a much larger cost of the poor-law services, by the reform of the social services and by the reduction of expenditure upon certain unemployment schemes. Further justifiable reductions could in all probability be made by a realignment of local authority wages rates; for the indices prepared by the Ministry of Labour show that these have risen since 1913-1914 by substantially more than the cost of living² and by somewhat more than general wages rates. There may also be justification for some revision of salaries, but reasons have previously been offered to suggest that salary scales have not been appreciably higher in real terms. More important, probably greater economies in personnel and other costs could be effected by even wider and more economic local areas than were set up under the Local Government Act, 1929; for thereby the wastefulness of duplication and mal-organisation would be destroyed. There is, moreover, another cogent reason for such a step. For it is still true that the real problem of local expenditure is not its absolute amount but its inequitable variation from one area to another. This, in turn, is due

¹ Cmd. 2800, g. 1009.

² Cf. *Ministry of Labour Gazette*; also Cmd. 4200, pp. 100, 121-2; Cmd. 4201, pp. 120, 125.

mainly to the incidences of local social service costs and those of unemployment schemes.¹ While such wide variation exists, the export trades are penalised and even domestic industries are more heavily burdened in certain areas than in others. The proposed revisions would in large part exorcise the absurd economic effects entailed by the persistent migration of industries from areas of high rates to areas of low rates observable during the past few years. On account of the unwonted ease with which borrowing powers have been obtained during the period, resulting in loan expenditures having no great primary utilities by certain authorities, it is desirable to strengthen the central powers of control; for while loan finance is clearly to be preferred for some lines of expenditure, during 1921-1930 it was a fertile cause of discrepant rating burdens and of their prolongation.

As for other expenditure items, the earlier analyses suggest that there are no grounds for further restriction since the services concerned are vital to local and national communal welfare, and hence are of high utility.

Lastly, a word is necessary about Contributional expenditure. Since, however, the proposed reorganisation of the costs of social services would reduce this somewhat, the burden on the three parties would be curtailed. This, in turn, would encourage both the giving of employment and the acceptance of it—possibly to a material extent.

To pass now to certain adjustments of taxing and rating burdens which would be rendered feasible by the foregoing suggestions, the first claim to relief in taxation should concern that falling on productive industry. The deleterious effects of the post-war higher levies on company reserves have been stressed earlier. If these levies were reduced, assistance would be given to industry at a vital point: for to tax reserves is to tax initiative in reorganisation and re-adaptation. Since in the modern era more than at any other time in the history of production, perhaps, production depends on the efficiency of its material capital, to tax new accretions

¹ In a written reply to a Parliamentary question, the Secretary of State for Scotland stated in May, 1932, that the local cost per head of social services in 1930-1931 in the twelve chief towns of England and Scotland varied from £2 1s. 11d. in Stoke-on-Trent to £4 15s. in Glasgow.

of material capital is to put a brake on the wheel of progress. It is, moreover, illogical to seek to improve the quality and capacity of personal capital *via* social services and at the same time not only to abstain from doing the like for impersonal capital but actually to adhere to a scheme of taxation designed to reduce its efficiency. Again, the industrial recovery of this country is bound up with the re-conditioning of its productive material capital in extant industries, but above all with the free availability of new capital for new and re-planned industries. However large, therefore, are the practical difficulties in the way of lower taxation of reserves, a strong endeavour ought to be made to overcome them—if not by direct reduction of taxation, at least by substantial increases of allowances for depreciation, wastage and obsolescence. The position of private productive enterprise might next be considered by making a somewhat greater distinction between income derived from actual productive effort and income derived purely from investment. Incidentally this would reduce the unfair higher real income of rentiers. Here again the difficulties are large but not insuperable. If further relief were practicable, then there appear to be grounds for re-drafting direct taxation with a view to removing the more conspicuous anomalies such as that cited on page 140, where the steep graduation actually imposed more taxation than the total of income. This implies a somewhat less steep graduation of direct taxation. In undertaking this, however, there is a stronger economic case for remitting income-taxation rather than death duties. For, summarily stated, the direct effects of reduced income-taxation are more evident, more quick to reach and to affect taxpayers, more widespread in their incidence, and altogether of greater psychological moment. Again, since inequality of property is still much larger than inequality of income, and there is a growing recognition of the social drawbacks of inequality which is due to inheritance and to other non-socially desirable causes, the case for reducing death duties is less strong.

Beyond making these proposals it is not deemed advisable, in the present volume, to go. It will not be out of place,

however, to attempt to envisage their more obvious probable consequences. First, reduced taxation of reserve appropriations and less heavy direct taxation of private producers, coupled with lower rating and contributory burdens, may be expected not merely to give a psychological impetus to enterprise, but directly to assist cheaper production. For capital reorganisations and replacements would be fostered, and wages would probably become less rigid as a result of reorganised social services and the larger labour supplies set free by contracted spending on defence, administrative and personal services. The export trades especially might be expected to benefit from these revisions, and from the rearrangement of local expenditure. Second, the supply of savings might be expected to grow. Besides facilitating general domestic capital investment as a result of lower interest charges, the reduced taxation of reserves would reward efficient producers. Assuming greater competitive power in the export trades—old and new—and some contraction of imports destined for purely private consumption by social service beneficiaries, wage earners and pensioners, it ought to be possible to expand the volume of foreign lending. If rightly directed and controlled this should stimulate exports, while also it would serve to meet a major recommendation of the Committee on Finance and Industry, that the volume of foreign lending should be generally increased in order to promote greater stability in international trading and greater currency stability in debtor countries.¹ Third, while imports of goods destined for direct personal consumption would be curtailed, the expansion of exports—if only in part—would partly counterbalance this by leading to new demands for raw materials and, indeed, for foodstuffs and the essentials of the standard of living as a result of greater employment in export. Fourth, some loss would undoubtedly be occasioned to those industries and trades which have hitherto profited by the demands resulting from social service expenditures, pensions, and rigid wages. These are largely made up, however, of “sheltered” trades which have for long been

¹ Cmd. 3897, p. 111, § 258; p. 133, § 309; p. 135, § 315.

relatively prosperous at the expense of "unsheltered" trades, and some revision of their advantages is long overdue. The unemployment thereby created may be expected to be at least partially met by some revival of export production and the encouragement of new industry, while it must not be forgotten that sheltered industries also stand to gain from reductions in taxation, rating and social service contributions, so that their costs may be lower. Fifth, all the above induced effects may reasonably be expected to render the trade balance less precarious than it was during 1921-1931, although it is necessary to enter a *caveat* that world forces such as international price changes, tariffs, and currency instabilities are likely to have much greater consequences. Sixth, despite the dependence of this on international prosperity, it is probably not going too far to expect that the real national income would at least be prevented from falling so disastrously as it did during the last two years of the period: that indeed it might well gradually increase. This in turn would assist to redress the anomaly of the growing real claims of the rentier and fixed-income and non-directly productive elements, besides lessening the burden and disturbance of the various levies made for public spending.

To venture beyond these generalised assumptions may well be to enter too boldly into the realm of mere prophecy, so that it is desirable to limit this excursion into the land of promise, and to bring the present volume to a conclusion. In doing this it is realised that it involves neglect of many questions of principle and practice, such as the best method of controlling public expenditure, the detailed steps necessary to put the preceding recommendations into execution, more comprehensive discussion of individual items of expense, and, above all, a consideration of alternative expenditure policies. But these questions—especially the last one—are more germane to a later study which will have different aims from that of the present volume, the basal object of which has been to examine critically and in comparative fashion the actual expenditure policies pursued during the decade 1921-1931.

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