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CHAPTER 6

Central and Local Government Expenditures

WE have examined the pattern of growth of government expenditures from the points of view of the behavior of global expenditures and of expenditures of particular types and economic characteristics. We turn next to changes in the size and character of expenditures by central and local government authorities respectively. In this examination we shall keep two questions in mind. First, how have the spending activities of the different authorities changed over time, in relation to government activity as a whole and to GNP? The question includes consideration of how the displacement effect is manifested in the expenditures undertaken at different levels of government. Second, in what way have any changes in the relative importance of central and local authorities come about?

In Chapter 2 we envisaged the possibility that economic and social change might bring with them a change in effective responsibility for public expenditures, with higher authorities growing in importance relative to lower ones.¹ The incidence of this—the concentration process—is not likely to be completely independent of the displacement effect and of the incidence of wars or other social disturbances. We have observed that it is not easy to show the precise character of the displacement effect in statistical series. Since the concentration effect is similar in its general nature to the displacement effect, it will cause no surprise to discover that here also our statistics provide no more than the most general evidence. In considering the concentration process, therefore, we once again use our statistics as a guide for interpreting history—in this case, the history of central–local relations during our period.

There is an additional interpretative difficulty in identifying the responsibility for expenditures. The authority which actually spends money is not necessarily the authority effectively responsible for decisions about the size and nature of expenditures. The complex division of real responsibility is reflected in the legal and political relations between local authorities and the central government, and also in the means by which locally administered services are financed. During our period, local authority income has come partly from local taxation and partly from a system of central government grants provided subject to a diversity of conditions. Such grants may be unconditional, in that they can be used for any purpose for which the local authority could use its own tax revenues. This leaves decisions about the *character* of spending with the local authority, though it could be argued that the central authority

¹ The statistics of expenditures by nationalized industries are excluded from the main body of the study but are examined separately in Chapter 7. Consequently, the only authorities studied in this chapter are central and local governments.

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can influence the *total size* of local expenditures if it alone determines the size of the grant. At the other extreme, grants may be for specific amounts and provided for payment of specific expenses. If the expenditure is obligatory, the local authority would seem to have no real influence upon either the extent or direction of the public expenditures concerned. If it is optional, local discretion is limited to a decision as to whether or not to spend money provided by the central authorities. Between these extremes, grants can take a wide variety of forms. In fact, both the size and character of grant aid have changed during our period in ways that are important for local autonomy in expenditure matters.

With this in mind, we endeavor in the following section to provide a background for the later discussion of the expenditure statistics by explaining and discussing the character and history of central-local relations, first from a legal and constitutional viewpoint and then from the viewpoint of sources of local authority income. This provides some insight into the changes that have occurred in local financial independence and in the scope of local functions, and from it we can derive some initial, though restricted, ideas about how the concentration process may have operated. The local authority expenditure statistics presented in the subsequent section provide some further understanding of the operation of the concentration process and displacement effect at the local level. In the final section, the conclusions suggested by the statistics as a whole are used to interpret the historical evolution of central and local authority activities.

The Character and Financing of British Local Government

LEGAL AND POLITICAL RELATIONS

The relations between central and local governments in Britain are discussed in the companion study to this volume, in the special context of the problems of public employment.² Here we provide only such additional information and comment as are necessary for continuity and for discussion of the questions just raised.

For purposes of local government, England and Wales and Northern Ireland are divided into administrative counties and county boroughs. The administrative counties are further divided into three types of county districts: the municipal or noncounty boroughs, urban districts, and rural districts. Except in Northern Ireland, these districts are subdivided into parishes. Each of these regions is administered by an elected local council, set up by Act of Parliament and deriving its powers from Parliament. The overall pattern is complicated by a separate legal code governing

² See Moses Abramovitz and Vera F. Eliasberg, *The Growth of Public Employment in Great Britain*, Princeton University Press for National Bureau of Economic Research, 1957, Chapter 5.

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the local authorities for London, and by distinct arrangements for local government in Scotland.³

As with so many British political institutions, the actual relations between the central government and the local authorities differ markedly from their formal constitutional position; the conventions that affect the true situation are as important as the legal background. In law, the duty of local councils is to administer policies prescribed by Parliament. These policies are sometimes obligatory, sometimes permissive, they may be special to the authority concerned, which has initiated enabling legislation by the passage of a Private Bill through Parliament. It might appear from this that the local governments are simply the spending agents of the central government, and that discussion of local "responsibility" for expenditures has no point. Certainly, local councils are obliged by legislation to carry out certain duties and to make certain expenditures, and they cannot undertake activities except for purposes for which they have been granted legal authority.

Nevertheless, such a view would be oversimple; the scope and activities of British local authorities are less different from those of their counterparts in the United States, for example, than such a formal statement of their legal position suggests. While local authorities are the creatures of Parliament, they are in no sense under the absolute control of the central government's administrative departments. Ministries exercise control over local authorities only to the extent that specific legislation permits; there are no general powers of interference. Indeed, local governments can introduce Private Bills into Parliament, concerned with their own

³ The authorities in existence in 1955 were:

<i>England and Wales</i>	<i>Northern Ireland</i>
County councils (61)	County councils (6)
County borough councils (83)	County borough councils (2)
Noncounty borough councils (309)	Noncounty borough councils and municipal town councils (8)
Urban district councils (571)	Urban district councils (28)
Rural district councils (476)	Rural district councils (32)
Parish councils (7,000), or	
Parish meetings (4,100)	
<i>London</i>	<i>Scotland</i>
The London County Council	(The local authorities in Scotland are regulated by the Local Government (Scotland) Act, 1947)
The Corporation of the City of London	County councils (31)
The metropolitan borough councils (28)	Counties of cities: Edinburgh, Glasgow, Dundee, and Aberdeen
	Town councils:
	Large burghs, over 20,000 population (20)
	Small burghs (173)
	District councils (199)

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activities, and for this purpose have direct access to Parliament without reference to departments.⁴ This has not been a negligible power; the history of government activity in Britain is to an important degree a history of the evolution of services by individual local governments, the successful experiments later being taken up and generalized by legal action of the central government. The development of the present education and public health services, for example, owes a great deal to the initiative of pioneering local councils that stimulated the central government to encourage emulation elsewhere. This kind of activity was especially important in the nineteenth century, when, as Abramovitz and Eliasberg point out, public enterprise obtained its most ready acceptance at the local level.⁵ This is reflected in the statistics of local expenditures before 1890, given in Chapter 3. Further, both the central government and the local councils are elected bodies, and the electorate as a whole can be greatly influenced by policies implemented at the local level (such as the present education and housing policies). This limits the extent to which the central government can ignore the broad wishes of local governments and electorates, and emphasizes the importance that local authorities may have in policy making—and hence in the evolution of public expenditures—at least in certain directions.

SOURCES OF LOCAL AUTHORITY REVENUES

The one important source of income under the direct control of local authorities is the local rate, a tax levied by them upon the annual value of land and buildings.⁶ Such an independent source of income serves as an important means for maintaining the freedom of action of local authorities, and its existence provides a further argument against the view that local authorities are simply agents of the central government in expenditure matters. The relevant statistics of the changes in local rate income during our period are given in Table 11 and in Appendix Tables A-18 and A-19. Rate and other local income has grown over the period covered from £31.3 million in 1890 to £461 million in 1955.⁷ These are statistics of revenues at current prices; the real rate of increase was of course much slower.

⁴ In fact, consultation with the ministries likely to be concerned with the activities envisaged by a bill is usual, for obvious administrative reasons. But it is not obligatory, and no consent is required.

⁵ *Op. cit.*

⁶ Local authorities also have some direct income from trading and other services. If imputed rent income is not included, the size of these items is not large enough to warrant our attention in the present context.

⁷ There are other sources of local income apart from grants and rates. But since income from trading services is excluded, the column "Other Revenues" in the tables is comprised almost entirely of rate income and is an accurate measure of the growth of such income.

TABLE 11
 PERCENTAGE DISTRIBUTION OF TOTAL LOCAL GOVERNMENT CURRENT EXPENDITURE, BY FUNCTION AND REVENUE SOURCE,
 SELECTED YEARS, 1890-1955

Year	Administration and Other		Law and Order		Civil Defense ^a		Social Services	
	Allocated Grants	Other Revenues ^b	Allocated Grants	Other Revenues ^b	Allocated Grants	Other Revenues ^b	Allocated Grants	Other Revenues ^b
1890								
1900								
1910	5	95	47	53			39	61
1928	3	97	48	52			37	63
1933	3	97	48	52			28	72
1938	3	97	48	52	63	37	28	72
1950	8	92	47	53	(100)	—	56	44
1952	6	94	49	51	(100)	—	56	44
1955	6	94	49	51	(100)	—	56	44

Year	Housing		Economic Services		Environmental Services		All Services	
	Allocated Grants	Other Revenues ^b	Allocated Grants	Other Revenues ^b	Allocated Grants	Other Revenues ^b	Unallocated Grants	Other Revenues ^b
1890							25	75
1900							30	70
1910							31	69
1920	34	66	12	88	1	99	1	70
1928	81	19	29	71	4	96	2	64
1933	82	18	20	80	7	93	18	54
1938	77	23	20	80	6	94	16	56
1950	68	32	23	77	3	97	9	48
1952	67	33	24	76	1	99	9	47
1955	73	27	25	75	2	98	8	46

SOURCE: Appendix Table A-19.

^a Official sources show grants for civil defense as larger than total expenditures for that function in some years. This is an accounting problem. The figures are given in parentheses to avoid confusion.

^b Rate income and other miscellaneous (nontrading) revenues.

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In fact, the increase in rate income has been slower than the rate of increase of local expenditures. It can be seen from Table 11 that 75 per cent of all local current expenditures was met by rate income in 1890 and 64 per cent in 1928. By 1938 only 56 per cent was coming out of rates, and in 1955 more than one-half of local expenditures was financed by other means. One reason for this decline must be that the local rate has become a less fruitful source of revenue since the 1930's as a consequence of the derating of agricultural premises and the partial derating of industrial premises by central government decree. As a corollary, wars seem to have had less effect upon the local rate than upon government revenues as a whole. The most striking example of this is the period of World War II. Rate revenues rose only from £206.2 million in 1938 to £315 million in 1947 (Table A-18), which means that local authority rate income was probably smaller in real terms in the latter year. Over a similar period, central government revenues increased about $3\frac{1}{2}$ times. In sum, it would appear that one manifestation of a shift in responsibility toward the central government (i.e., of a concentration process) over our period has been a decline in the dependence of local authorities upon their own tax source, and this decline has occurred at least in part by the failure of rate revenues to share in the general expansion of government revenues as a whole at the time of World War II.

The decline in the relative importance of rate income has been associated with a growth in local dependence upon central government grants. The general position can be seen from Tables A-18 and A-19, which give details of grant income in relation to local government current expenditure.⁸ In these tables, grants are divided into two groups, allocated and unallocated, following the classification in the *Blue Book*. Broadly, allocated grants are paid to meet local expenditure on specific functions, more or less narrowly defined, while unallocated grants are made available to meet any local authority expenses. It will be seen from Tables 11 and A-19 that grants as a whole provide for a steadily increasing proportion of local expenditures up to the 1930's, when little less than one-half of local government current expenditure was being financed by grants, as against 30 per cent in 1920. From 1940, grants failed to provide for as much as one-half of all current expenditure in only one year, and the proportion has been roughly constant between 50 and 54 per cent since

⁸ The tables give details of current grants and current expenditure only. Grants for capital purposes have been relatively unimportant (£14 million in total, including war damage compensation, in 1954) and can be ignored for present purposes. The central government has in fact used measures to encourage capital creation by local authorities, but primarily by provision of grant assistance to meet the current obligations entailed rather than by direct grants for capital development. The actual financing of local authority capital development has been done by stock issues or, particularly since World War II, by borrowing at favorable rates from the Public Works Loan Board, a Treasury agency.

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1948. Unallocated grants have been less significant than allocated throughout the period. They are of greatest importance during the 1930's, after the introduction of the General Exchequer Contribution, which was the first large general grant-in-aid from the central government to local authorities and was intended at least in part to make up for the losses of local revenue caused by the derating measures. More recently, unallocated grants have declined in importance again as a consequence of further changes in the grant system. The General Exchequer Contribution was replaced after World War II by the Exchequer Equalization Grant. Unlike the grant it replaced, this did not accrue to all local authorities but only to those whose weighted rateable value per head was below the national average. The more restricted scope of this new general grant is reflected in the statistics; unallocated grants provided for only 8 per cent of local expenditure in 1955 as against 18 per cent in 1933.

Taken together with our analysis of rate income, the increased dependence of local authorities upon central government grants strengthens the inference that local autonomy, and with it the importance of local government as an influence on public spending, has diminished during our period. But for an adequate appreciation of the significance of the changes in grant aid, and hence of the changes in central-local relations, it is necessary to examine the statistics of grant aid a little more closely. We have just seen that the amount of grant aid provided in unallocated grants has varied in importance over the period. It can plausibly be argued that such grants interfere less than other types with the freedom of action of local authorities, since they demand the performance of no specific service. Even though unallocated grants are always a relatively minor part of all grant aid, therefore, they nevertheless vary sufficiently in importance from year to year for comparisons of grant aid at different times to need careful handling. Thus, in 1928 grants provided for 36 per cent of local expenditures, and less than 6 per cent of local grant income was unallocated. In 1933, grants amounted to 46 per cent of a slightly larger total expenditure, but almost two-fifths of all grant aid was unallocated. That is, local dependence on grants increased between the two years, but the form of the grants changed in a way that might give the central government less control over their spending. In addition, the division of grants into the two groups so far used is not entirely satisfactory, in that the allocated group includes grants for a wide diversity of purposes and subject to a variety of conditions. This diversity is a reflection of the multiple and sometimes conflicting aims of the government in making grants, and also of changes in those aims, and in the activities of local governments, over time. To illustrate, grants for a particular service may be conditional, in that their payment depends upon the performance of specified duties, or, less often, unconditional.

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They may be completely specific—as for expenses such as salaries of specified employees⁹—or they may be general or unallocated in the sense just discussed. They may be fixed or variable in amount and the variability may take a number of forms.¹⁰ Finally, their size may or may not be related to the means (rate resources) of local authorities; the Exchequer Equalization Grant was directly related to rate resources.¹¹ Most combinations of these attributes are to be found in one grant formula or another, and the general pattern has varied from one type of local government function to another. The evolution of types of grant aid over time, in terms of these characteristics, reflects the changes in the relations of central and local authorities in an interesting way. Briefly and very broadly, the pattern has progressed from allocated to unallocated grants. Initially grants have been made to stimulate the attainment of a general minimum standard in some particular service. Such grants tend to be conditional, more or less specific, and variable in some fashion with total expenditure on the service concerned. As their purposes are achieved, legal minimum standards can be prescribed and maintained by use of the administrative apparatus. The financial assistance can then become less specific in nature. “Encouragement” grants thus tend to be replaced by general grants, made subject only to much broader conditions. Then, as a further step toward autonomy, grants conditional only upon the willingness of local governments to meet their general legal obligations appear—the unallocated grants.

This evolution, and the changing character and importance of grant aid generally, is also reflected in the statistics of grant aid to particular services. Tables 11, A-18, and A-19 give details of allocated grants classified by function, in accordance with the method used generally in this study for expenditures. It is apparent that allocated grants have been of varying importance for financing different services. The importance of such grants to the social services is striking. Those functions (including housing, shown separately in the tables for convenience and comparability) have always absorbed the greater part of the allocated grants and, compared with other functions, have depended upon them to a great and increasing degree. We shall see later that education expenditure has grown to dominant importance in local social service

⁹ Thus, before 1921, detailed grants were given to aid the teaching of cookery.

¹⁰ The grant may be proportionate, for example, to expenditure of a particular type, as with the main grant for education, or to the physical amount of a service provided, or a variant of either of these.

¹¹ This classification follows that given in D. N. Chester, *Central and Local Government: Financial and Administrative Relations*, London, 1951, Chapter V. This is a valuable book for readers wishing to examine central-local relations in more detail. There is also a useful short survey: Central Office of Information, *Local Government in Britain*, 3rd ed., London, 1957.

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spending during our period. The largest allocated grants in recent years have been the education main grants, which by 1954 accounted for one-half of all local authority grant aid (including unallocated grants) and around one-quarter of all local current expenditure.

The conclusions of this highly condensed survey of local revenues might be summarized in this way. We have found some sign of a concentration process in the growing importance of central grants and the declining importance of rate income. The latter change is fairly continuous over the whole period, but it also shows some particular relation with the period of displacement of World War II. The loss of local responsibility entailed by growing dependence on grants has perhaps been mitigated over some periods by the more general form of the grant aid. On the other hand, particular functions—especially in the field of social services—have come to depend very heavily upon fairly specific grants.

So far, however, we have information only about the financing of local expenditures and not about their absolute size. The discussion provides little evidence that the concentration process has been associated with a general decline in the relative importance of local authorities in the scheme of government activity, as distinct from a decline in their overall financial independence. For information about this, we turn now to the statistics of central and local government expenditures.

Central and Local Government Expenditures

Here, the statistics of expenditures by particular authorities are presented and considered against the background sketched in above. To explain our procedure, some short preliminary observations are necessary about the method adopted to present the statistics of central and local spending, the treatment of local housing expenditures, and the derivation of data of real expenditures.

The emphasis in this chapter is upon the development of local authority activities. Although the financial transactions of the central government are of greater quantitative importance, there would be no point in placing them at the center of attention here. Further, we are interested, among other things, in the concentration process, which is most simply understood by consideration of the changes in local expenditures and responsibilities. However, any conclusions reached by a study of local authority expenditures in the context of government expenditures as a whole must provide, by implication, information about the expenditures of the central government also.

From the point of view of statistical presentation, our approach lends itself to a method we have used elsewhere; we show the relation of local expenditure and its components to total government expenditures, to

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GNP, and to appropriate components of government expenditure as a whole. For exposition, this method is adequate. But used alone it might be deficient from the point of view of some readers, in that the local statistics can be presented without giving central government expenditures directly; they could appear only implicitly, as differences between total and local expenditures. Since this chapter is concerned with both central and local government expenditures, statistics of both central and local expenditures are given in all text and appendix tables where useful, but only local expenditures are shown in the form of ratios, indexes, and so on. To show these for central government expenditures also would add nothing to our understanding.

The treatment of housing expenditures differs from that in the official statistics, in that such spending is treated here as a local social service, not as a trading service. This is explained in detail in the Appendix notes.¹² However, to avoid confusion, and because of the great importance of housing in some contexts, housing expenditures are shown separately in text and Appendix tables wherever appropriate. A final difficulty is how to deflate the statistics of local expenditures in order to give information about real expenditures per head, a problem dealt with in Chapter 5. Here a similar procedure is used. We give deflated and per head statistics only in contexts where meaningful, and only where the computation has value because separate price indexes are available. This procedure causes no serious problems, since much of our interest is in the comparative development of local expenditures in relation to public expenditures as a whole. For this purpose it is unlikely that the relative price changes in the goods and services purchased at the central and the local level have been different enough to affect our results significantly.

TOTAL EXPENDITURES

Tables 12, 13, and A-20 give details of central government expenditure, and of local government expenditures in relation to GNP and total government expenditures, in money and real terms. The relative changes in magnitudes can also be seen from Charts 19 and 20. In money terms, local government expenditures in 1928 and 1933 were around three times the 1910 figure and about eight times the 1890 figure; the 1955 expenditure was four times the 1933 figure. But as we know, these money figures are misleading. The growth of local expenditures in real terms can be seen from Chart 19 and from Appendix Table A-20. The index of real expenditures (1900 = 100) reads 52 in 1890, 206 in 1928, 230 in 1933, and 311 in 1955—almost a sixfold growth over the whole period. This

¹² See Appendix, "Government Expenditure."

TABLE 12
CENTRAL AND LOCAL GOVERNMENT EXPENDITURES, BY FUNCTION, AT CURRENT PRICES, SELECTED YEARS, 1890-1955
(millions of pounds)

Year	Administration and Other			National Debt			Law and Order			Overseas Services		
	Total	Central	Local	Total	Central	Local	Total	Central	Local	Total	Central	Local
1890	15.8	8.6	7.2	23.8	23.8	—	9.0	3.9	5.1	0.4	0.4	—
1900	16.5	7.8	8.7	19.6	19.6	—	9.8	3.7	6.1	1.0	1.0	—
1910	22.1	11.4	10.7	20.2	20.2	—	12.9	4.1	8.8	1.1	1.1	—
1920	71.5	50.5	21.7	324.8	324.8	—	33.3	11.5	21.8	2.5	2.5	—
1928	49.1	29.7	19.4	305.1	305.1	—	30.8	6.7	24.1	1.3	1.3	—
1933	44.3	27.6	16.7	228.4	228.4	—	30.9	6.4	24.5	1.7	1.7	—
1938	60.6	36.3	24.3	212.5	212.5	—	38.7	7.5	31.2	3.0	3.0	—
1950	175.0	122.0	53.0	507.0	507.0	—	79.0	17.0	62.0	179.0	179.0	—
1952	167.0	115.0	52.0	609.0	609.0	—	96.0	18.0	78.0	77.0	77.0	—
1955	182.0	124.0	58.0	707.0	707.0	—	115.0	23.0	92.0	80.0	80.0	—

Year	Military and Defense			Social Services			Economic Services		
	Total	Central	Local	Total	Central	Local	Total	Central	Local
1890	34.9	34.9	—	27.3	7.9	19.4	14.4	0.9	13.5
1900	134.9	134.9	—	50.6	13.5	37.1	36.4	1.2	35.2
1910	74.3	74.3	—	89.1	28.9	60.2	37.8	1.6	36.2
1920	519.7	519.7	—	411.8	238.2	173.6	203.2	126.9	76.3
1928	125.1	125.1	—	434.3	212.3	222.0	117.1	13.7	103.4
1933	112.4	112.4	—	497.2	278.8	218.4	111.8	18.9	92.9
1938	473.2	469.0	4.2	596.3	291.2	305.1	151.4	30.6	120.8
1950	836.0	834.0	2.0	2,094.0	1,379.0	715.0	572.0	434.0	138.0
1952	1,641.0	1,638.0	3.0	2,438.0	1,506.0	932.0	629.0	461.0	168.0
1955	1,606.0	1,603.0	3.0	2,739.0	1,686.0	1,053.0	531.0	336.0	195.0

(continued)

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TABLE 12 (concluded)

Year	<i>Environmental Services</i>			<i>All Services</i>		
	Total	Central	Local	Total	Central	Local
1890	5.0	0.1	4.9	130.6	80.5	50.1
1900	12.0	0.2	11.8	280.8	181.9	98.9
1910	14.5	0.2	14.3	272.0	141.8	130.2
1920	25.3	0.7	24.6	1,592.1	1,274.8	317.3
1928	31.9	1.5	30.4	1,094.7	695.4	399.3
1933	39.3	2.1	37.2	1,066.0	676.3	389.7
1938	51.3	5.7	45.6	1,587.0	1,055.8	531.2
1950	97.0	7.0	90.0	4,539.0	3,479.0	1,060.0
1952	120.0	9.0	111.0	5,777.0	4,433.0	1,344.0
1955	183.0	48.0	135.0	6,143.0	4,607.0	1,536.0

SOURCE: Table 7 and Appendix Table A-23.

TABLE 13

TOTAL LOCAL GOVERNMENT EXPENDITURE AT CURRENT PRICES, AS
PERCENTAGE OF ALL GOVERNMENT EXPENDITURE AND OF GROSS
NATIONAL PRODUCT, SELECTED YEARS, 1890-1955

Year	<i>Local Government Expenditure as Percentage of:</i>	
	GNP	Total Government
1890	3.4	38.4
1900	5.1	35.2
1910	6.1	47.9
1920	5.2	19.9
1921	8.2	28.0
1928	8.8	36.5
1933	9.4	36.6
1938	10.0	33.5
1950	9.1	23.4
1952	9.6	23.3
1955	9.2	25.0

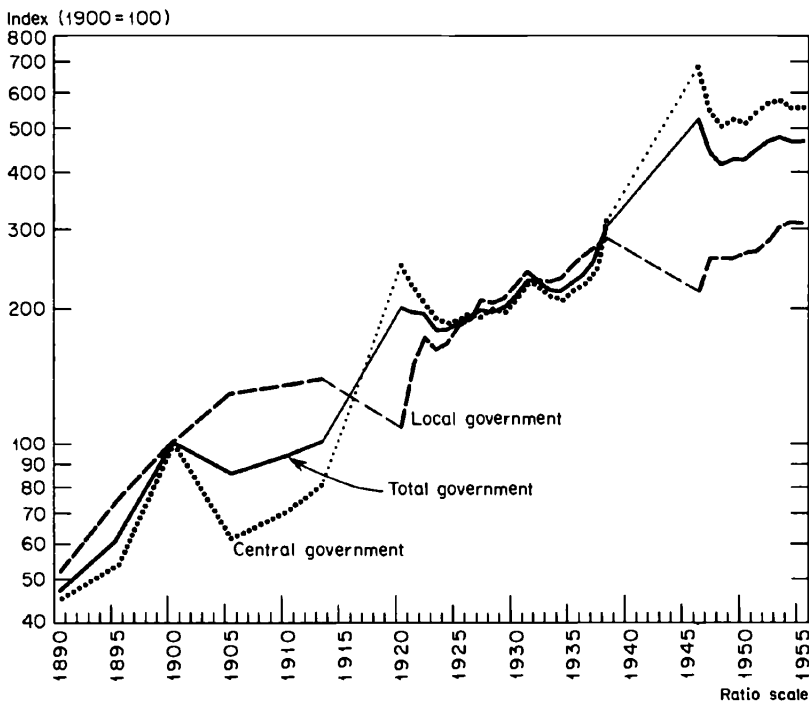
SOURCE: Appendix Table A-20.

real rate of growth was slower than that of central government expenditure over the period, and during the later part it was also somewhat slower than the growth of GNP. Comparison of the evolution of local expenditures, GNP, and total government spending during the period brings out sharply, in fact, the interrelation between the displacement

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CHART 19

Indexes of Total and of Central and Local Government Expenditures,
at 1900 Prices, 1890-1955

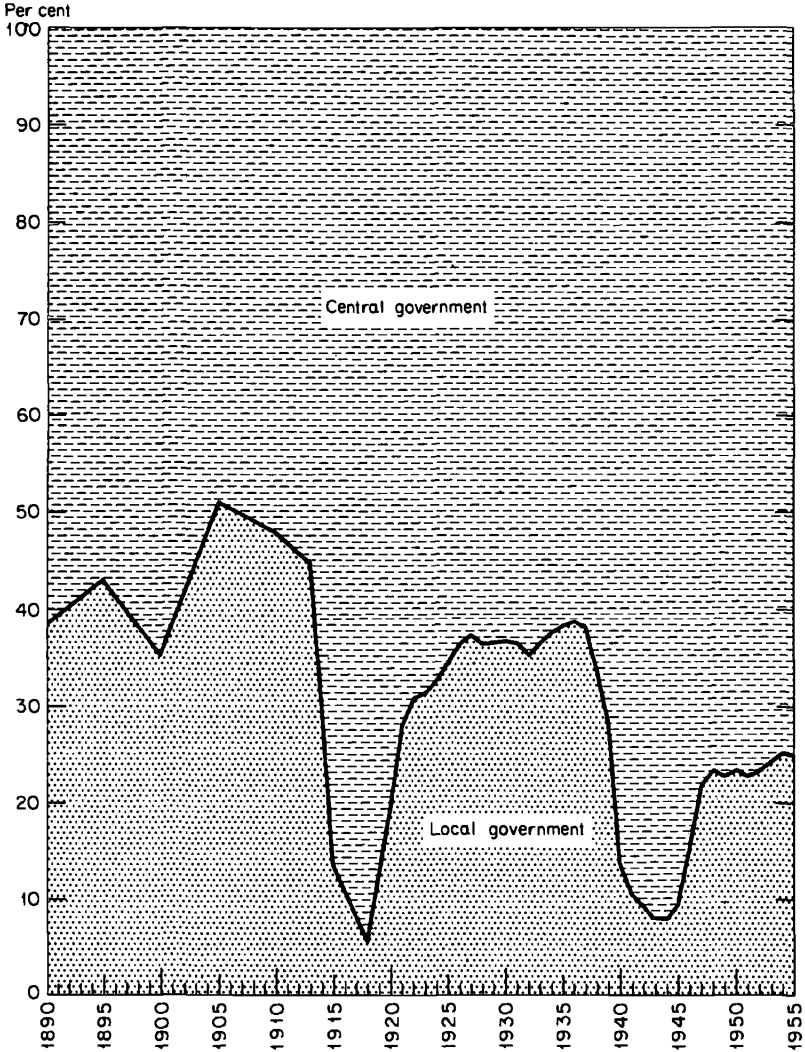


and concentration phenomena. This can be seen from Table 13 and, perhaps more clearly, from Charts 19 and 20 and the detailed statistics in Table A-20. Over the period as a whole, local government expenditure has taken an increasing part of GNP (3.4 per cent in 1890 and 9.2 per cent in 1955). During the same period the share of local authorities in total government spending has declined from 38.4 per cent in 1890 to 25.0 per cent in 1955. We have here a first indication of the existence and nature of a concentration process in British public expenditures. It occurred, not by diminution of local activities over the period, but by restriction to the central level of the important growth in government activities and responsibilities as a whole. As to displacement, the two wars also provide us with contrasting developments. In 1910, local expenditures were 6.1 per cent of GNP and almost 48 per cent of all government expenditure; in 1921, 8.2 per cent of GNP but only 28 per cent of total government spending. That is, local authority expenditures

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did share in the displacement effect of World War I, but not to the same extent as the central government; the concentration process takes the form of a relatively more rapid growth of central responsibilities. Between the wars, the share of local expenditures in total government spending

CHART 20
Percentage Distribution of Total Government Expenditure, by
Spending Authority, 1890–1955



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and its proportion of GNP remained roughly constant, as the charts show. Further, the share taken of GNP is little affected by World War II; it was 9.6 per cent in 1936 and 9.5 per cent in 1948. But over this same period the share of local spending in total government spending fell from 38.8 per cent to 23.4 per cent. Thus the displacement effect seems to have occurred entirely at the central level over the period of World War II. That period must also have been one of relative growth in central responsibilities as against local, with local activities failing to share in displacement at all. These findings confirm and extend the conclusions reached in the examination of local revenues in the previous section.

LOCAL EXPENDITURE BY ECONOMIC CATEGORY

Following the procedure used in Chapter 5, we shall discuss expenditures on goods and services and transfers, and on current and capital account.

The first point of interest suggested by Tables 14 and A-21 is the relative unimportance of local transfer payments (which include housing transfers). Transfer payments never account for much more than a tenth of all local expenditures, and the proportion is both more constant and much smaller than for government expenditure as a whole, of which transfers and subsidies were nearly two-fifths in 1955, around one-half in 1928, and 20 to 25 per cent before 1913. Local authorities have always been providers of local communal services rather than redistributors of income, as the statistics of transfer expenditures reflect. Nevertheless, over our period, local transfer payments have become rather more important. At the turn of the century, transfers were less than 4 per cent of all local spending, and around 10 per cent of all government transfer expenditure (Table A-21). Since World War II the proportion of transfers to all local spending has been between 7.5 and 10 per cent (3.5 to 6.3 per cent of all transfers).¹³ The nature of transfer payments has also changed in a way that illuminates the changing character of local responsibilities. Table 14 shows that all local transfers were for social service functions during the period under review. Table A-22 shows how the different types of social service shared in total transfers payments. Up to World War I, transfers with negligible exceptions were for relief purposes. Housing and education transfers were introduced after that war, but local transfers continued to be primarily concerned with the relief of poverty and distress; as was indicated earlier, local authorities have played an important part in the development of this kind of social service. The situation was very different by the 1950's, all important relief activities

¹³ These figures include the central government housing subsidy, for reasons discussed earlier. As this is a significant item in the context, it is shown separately for the relevant years in Table 14 and in Appendix tables.

TABLE 14
 LOCAL GOVERNMENT EXPENDITURE, BY FUNCTION AND BY ECONOMIC CATEGORY, AT CURRENT PRICES, SELECTED YEARS, 1890-1955
 (millions of pounds)

YEAR	ADMINISTRATION AND OTHER			LAW AND ORDER			CIVIL DEFENSE			SOCIAL SERVICES			
	<i>Goods and Services</i>			<i>Goods and Services</i>			<i>Goods and Services</i>			<i>Goods and Services</i>			
	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Transfers
1890	7.2	6.9	0.3	5.1	4.8	0.3	19.4	14.3	1.9	37.1	25.8	7.6	3.2
1900	8.7	7.1	1.6	6.1	6.0	0.1	60.2	49.2	6.6	60.2	49.2	6.6	4.4
1910	10.7	9.2	1.5	8.8	8.7	0.1	127.9	116.3	3.6	127.9	116.3	3.6	8.0
1920	21.0	19.0	2.0	21.8	21.6	0.2	162.8	133.5	9.8	162.8	133.5	9.8	19.5
1928	19.4	17.7	1.7	24.1	23.8	0.3	172.9	138.8	9.6	172.9	138.8	9.6	24.5
1933	16.7	13.9	2.8	24.5	24.2	0.3	4.2	3.5	0.7	225.1	171.6	28.2	25.3
1938	24.3	18.6	5.7	31.2	29.5	1.7	2.0	2.0	—	411.0	316.0	56.0	39.0
1950	53.0	48.0	5.0	62.0	57.0	5.0	3.0	3.0	—	526.0	401.0	77.0	48.0
1952	52.0	47.0	5.0	78.0	69.0	9.0	3.0	3.0	—	658.0	505.0	82.0	71.0
1955	58.0	51.0	7.0	92.0	83.0	9.0	3.0	3.0	—				

YEAR	HOUSING			ECONOMIC SERVICES			ENVIRONMENTAL SERVICES			ALL SERVICES			
	<i>Goods and Services</i>			<i>Goods and Services</i>			<i>Goods and Services</i>			<i>Goods and Services</i>			
	Total	Capital	Transfers	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Transfers
1890				13.5	9.5	4.0	4.9	3.0	1.9	50.1	38.5	8.4	3.2
1900				35.2	15.5	19.7	11.8	7.3	4.5	98.9	61.7	33.5	3.7
1910				36.2	20.4	15.8	14.3	10.7	3.6	130.2	98.2	27.6	4.4
1920	45.7	43.8	1.9	76.3	42.7	33.6	24.6	21.5	3.1	317.3	221.1	86.3	9.9
1928	59.2	44.2	15.0	103.4	63.2	40.2	30.4	23.6	6.8	399.3	261.8	103.0	34.5
1933	45.5	27.0	18.5	92.9	58.3	34.6	37.2	27.2	10.0	389.7	262.4	84.3	43.0
1938	80.0	57.1	22.9	120.8	63.5	57.3	45.6	33.3	12.3	531.2	320.0	163.0	48.2
1950	304.0	264.0	40.0	138.0	91.0	47.0	90.0	63.0	27.0	1,060.0	577.0	404.0	79.0
1952	406.0	352.0	54.0	168.0	107.0	61.0	111.0	74.0	37.0	1,344.0	701.0	541.0	102.0
1955	395.0	318.0	77.0	195.0	127.0	68.0	135.0	89.0	46.0	1,536.0	858.0	530.0	148.0

SOURCE: Appendix Table A-23, for totals only.

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(unemployment, health and old age insurance, and most medical care) being the responsibility of the central government and its organs. Even outdoor relief became the responsibility of the central government in 1948. Now, therefore, all local government transfers are for housing or education, services not related solely or directly to the amelioration of poverty. Housing subsidies accrue to tenants of local authority houses, a group by no means confined at present to the poverty stricken. Education transfers, which have increased greatly in relative size—almost 45 per cent of all local government transfers in 1954—accrue to all families with school-age children, being subsidy payments for school meals and milk.

The breakdown of expenditure by current and capital outlays in Tables 14 and 15 informs us about other aspects of the evolution of local expenditures. Current expenditure by local authorities has fluctuated less than expenditure on capital account. This would be expected in view of the nature of capital expenditures. It accords with the behavior of total government capital expenditure, discussed in the preceding chapter. However, capital expenditures are a more significant item in local than in central government spending. Whereas capital spending is never as much as 20 per cent of all government spending, its proportion in total local spending was higher than that in most years, reaching one-third in some years before 1938 and as much as 40 per cent in some years after World War II. For much of the period the explanation of the difference lies in the responsibilities of local authorities for housing, which from 1918 on has been easily the most significant item of local capital expenditure and has been growing in relative importance. Its growth accounts for the increased importance of capital expenditure in local expenditures over the period as a whole, and for a great deal of the displacement in local expenditures observed over the years of World War I. Negligible before 1918, housing capital expenditures were one-half of all local capital expenditures in 1920 and three-fifths in 1955.

The statistics of local capital formation are shown in Table A-21 in the context of total capital formation by government. Local governments were responsible for around 60 per cent of the (relatively small) government capital creation before 1914. After the war, with the growth in housing expenditures, they accounted for almost the whole of public capital formation until the mid-1930's. Since World War II, local governments have remained important in the process of government capital formation, but new types of central capital spending have developed, with the result that the share of local authorities in capital formation by government has fluctuated widely since 1948. It is noteworthy, however, that as recently as 1954 local authorities accounted for more than 90 per cent of the annual public capital creation.

TABLE 15
 PERCENTAGE DISTRIBUTION OF LOCAL GOVERNMENT EXPENDITURE, BY FUNCTION AND ECONOMIC CATEGORY, SELECTED YEARS, 1890-1955

YEAR	FUNCTION						ECONOMIC CATEGORY			
	Administration and Other	Law and Order	Civil Defense	Social Services	Housing	Economic Services	Goods and Services			Transfers
							Environmental Services	Current	Capital	
1890	14.4	10.2		38.7		26.9	9.8	76.8	16.8	6.4
1900	8.8	6.2		37.5		35.6	11.9	62.4	33.9	3.7
1910	8.2	6.8		46.2		27.8	11.0	75.4	21.2	3.4
1920	6.6	6.9		40.3	14.4	24.0	7.8	69.7	27.2	3.1
1928	4.9	6.0		40.8	14.8	25.9	7.6	65.6	25.8	8.6
1933	4.3	6.3		44.4	11.7	23.8	9.5	67.3	21.7	11.0
1938	4.6	5.9	0.8	42.4	15.1	22.7	8.6	60.2	30.7	9.1
1950	5.0	5.8	0.2	38.8	28.7	13.0	8.5	54.4	38.1	7.5
1952	3.9	5.8	0.2	39.1	30.2	12.5	8.3	52.1	40.3	7.6
1955	3.8	6.0	0.2	42.8	25.7	12.7	8.8	55.9	34.5	9.6

SOURCE: Appendix Tables A-21 and A-23.

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Examination of local expenditures thus sheds a little more light on the character of the displacement effect and the concentration process at the local level. Most significantly, we have found in capital (housing) expenditures one of the important reasons why local authorities shared in the displacement effect over the period of World War I. Less important statistically, but valuable as a clue to the nature of the concentration process, is the discovery that local authorities seem to have lost one of their traditional (transfer) functions in the amelioration of poverty and distress. Transfers of a previously less characteristic kind have come to take a rather larger (though still not important) share of local expenditures in the period since World War I.

LOCAL EXPENDITURE BY FUNCTION

Here the statistical examination of central-local expenditures follows the functional classification used earlier. Table 12, for example, is derived in part from the corresponding Table 7 in Chapter 5.

Tables 12, 14, 15, and 16, the corresponding Appendix tables, and Chart 21 bring out the essential features about the evolution of central and local services respectively by functional categories. Expenditure on social services has been the outstanding element in local spending over the whole period of study, and has grown in relative importance. Social services including housing accounted for almost 40 per cent of all local expenditures in 1890, 46 per cent in 1910, 57 per cent in 1922, and around 56 per cent in 1933. In 1952 and 1955 the proportion had risen to almost 70 per cent (Tables 15 and A-23). Over the whole period, the share of social service expenditure in local government spending is greater than the share of such expenditures in the aggregate of public expenditures. But the growth in importance of such expenditures in the pattern of government expenditure as a whole (see Table A-15 and Charts 16 and 17) is much greater than their growth in relative importance at the local level. Further, the statistics for social services other than housing show that they took a smaller share of total local government expenditure after World War I and again after World War II. The concentration process, that is, has operated partly by the decline in relative importance of local authorities as purveyors of social services other than housing, even though it remains their most important group of activities.

The social service expenditure of local authorities is so important in the pattern of local expenditure as a whole that a more detailed examination is required. The global statistics of social service spending in fact conceal important developments, foreshadowed in the discussion of local revenues. The observed significance of housing expenditure for the growth of local capital spending has been paralleled in current spending by the growth in relative importance of education expenditure. In 1933, little

TABLE 16
 LOCAL GOVERNMENT EXPENDITURE, BY FUNCTION, AS PERCENTAGE OF TOTAL GOVERNMENT EXPENDITURE ON
 EACH FUNCTION, SELECTED YEARS, 1890-1955

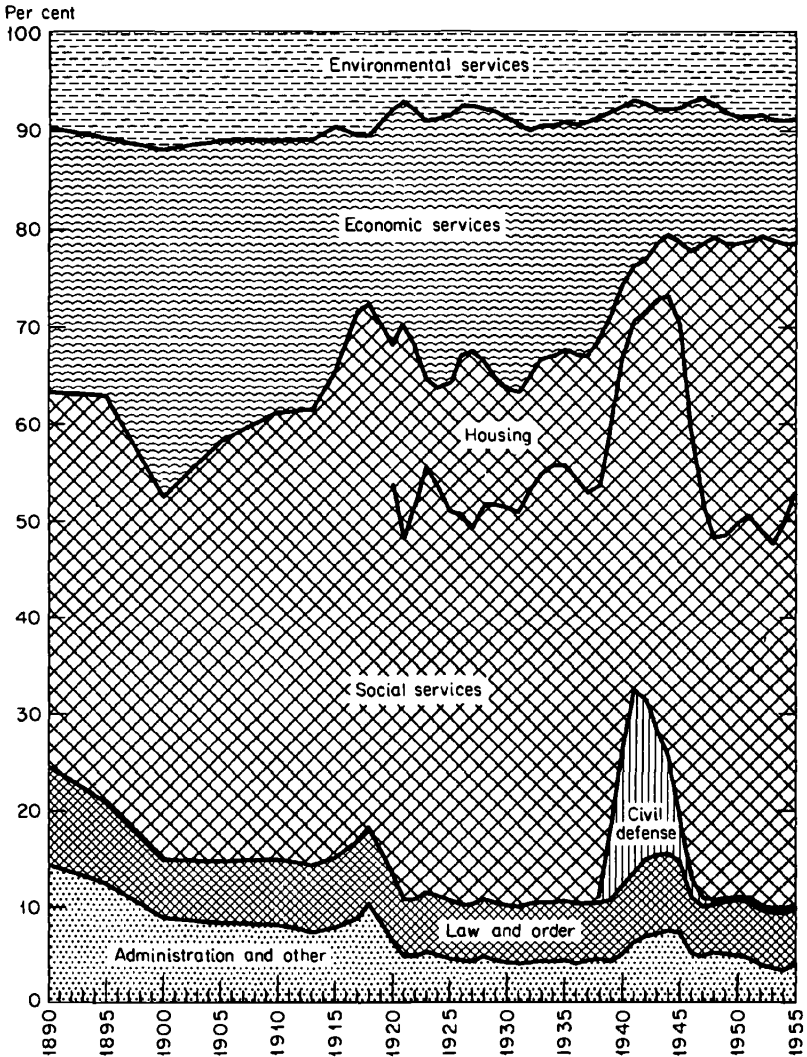
Year	Administration and Other	Law and Order	Military and Defense	Social Services	Housing	Economic Services	Environmental Services	All Services
1890	46	57		71		94	98	38
1900	53	62		73		97	98	35
1910	48	68		68		96	99	48
1920	29	65		35	100	38	97	20
1928	40	78		43	100	88	95	36
1933	38	79		38	100	83	95	37
1938	40	81	1	44	100	80	89	33
1950	30	78	—	23	89	24	93	23
1952	31	81	—	26	92	27	93	23
1955	32	80	—	28	94	37	74	25

SOURCE: Appendix Table A-24

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more than one-half of local social service expenditure was on education; in 1953, the proportion had reached 73 per cent. Even when housing expenditure became important after 1920, it was never more than two-thirds the size of current spending on education until the years after

CHART 21
Percentage Distribution of Local Government Expenditure, by
Function, 1890-1955



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World War II. The importance of the growth can be seen in another way: current spending on education was almost one-fourth of all local expenditure in 1920, 1928, and 1933, and around two-thirds of the total after World War II. In contrast, expenditure on health was around one-sixth of local current expenditure in 1917 and 1920, one-fifth in 1933, and rather less than one-sixth in 1952. Poor relief, the remaining part of social service expenditure, was one-fifth of current local expenditure in 1920, and almost one-fourth in 1933. In 1952 it was less than one-thirtieth, and smaller in money terms than in 1917. The figures reinforce our earlier conclusion about the decline of local relief functions.

Of the other functions supported by local authorities, economic and environmental services are next in importance to social services for almost all of our period, but even together their significance is always much smaller than that of social service expenditure alone (Table 15). They are of greater importance in the pattern of local spending than in the pattern of government spending as a whole; for whereas at the local level they are the only functions of importance outside the social services, they account for a smaller share of central (and total) expenditure than either the national debt interest or military costs. Such war-related expenditures are of negligible importance at the local level. War debt interest does not exist at all,¹⁴ and the military spending of local government, confined to civil defense, has been quite unimportant except in the actual years of World War II.

Finally, Tables 16 and A-24 bring out the importance of local spending on particular functions in the scheme of government activity as a whole. Apart from the social services, the most striking feature is the importance of local authorities as providers of environmental services—these are primarily basic amenities that are often specifically local in character. The total expenditure concerned, however, is never much more than one-tenth of total local expenditure. In contrast, the relative importance of local authorities as providers of economic services declined markedly after both wars—this again was to be expected, since those services are particularly likely to be affected by economic change and the widening of possible market areas, and hence are highly likely to show the effects of a concentration process over periods such as the one being studied.

General Conclusions

It is evident that considerable changes have occurred in the relative importance and broad responsibilities of central and local authorities during our period. These changes are revealed in many ways in the statistics, and particularly by the fact that growth in local spending,

¹⁴ See Appendix, "Government Expenditure on Current Account."

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while a little faster than growth in GNP over the whole period, has been much slower than growth in government expenditure as a whole. That is, there has been a change in the relative importance of central and local levels of government—described here as the concentration process. Further, the concentration process has been shown to have some relation to periods of war, as demonstrated by the failure of local authorities to share fully in the upward displacement in government spending after World War I, or to share at all in the displacement after World War II. The concentration process can be seen also in the failure of local authorities to increase their revenues over periods of war to the same degree as the central government has.

Some such association of the concentration process with wars was to be expected. Wars are times when the resources of the community have to be mobilized for specific purposes and by inevitably authoritarian methods, with slight regard for such issues as the desire to decentralize authority or to preserve local autonomy. Consequently, it is the central government that finds itself with expanded revenue sources in the aftermath of war. However, the relative inadequacy of local resources which arises in this way need not in itself imply a decline in the relative importance of local expenditure. Financing for local activities can be provided by the central government, so that local authorities are enabled to share in the general growth of government. We have indeed seen that local authorities have become increasingly dependent upon grants-in-aid; the reduced relative importance of local expenditures has occurred despite this. For further explanation we have to look to the character of the displacement effect. The effect of war on the level of expenditures, as well as upon the availability of revenues, is more likely to show itself at the central than at the local level. This is not only because war-related expenditures are outside the scope of local activities, so that to the extent that such expenditures affect the continuing level of total spending they must enhance the relative importance of the central government. It is also due to the fact that it is at the level of central rather than local government that the "inspection effect" of war is likely to influence social ideas, providing a bias toward central rather than local control of new government activities.

It would be a mistake, however, to overemphasize the importance of wars to the concentration process. They are by no means the sole factor involved, and the concentration process (unlike the displacement effect) is not confined to such periods (Chapter 2). A number of other influences, some of them conflicting, have also affected the scope of local government functions during the period under review.¹⁵

¹⁵ For further discussion of influences upon the evolution of local government, see also Abramovitz and Eliasberg, *op. cit.*, pp. 21-23.

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First, the *nature of the economic environment* in which local governments operate has changed greatly since 1890. Local governments have been particularly affected by rising standards of living and by the ease, speed, and convenience of transportation, and the associated growth in size of economic and social organizations and of conurbations. At the same time, the major and inescapable problems of urban life—the creation of basic amenities such as sewerage, general public health services, and so on—have been understood and largely solved during the period, leaving local governments with the relatively less onerous task of maintenance of established standards. Second, the simultaneous *change in social ideas* has also influenced expenditure and activity. Local governments have shared in the growing acceptance of government intervention, which has encouraged the development of government activity as a whole. But within that activity, there has been a general shift in emphasis from relief of outright distress (e.g., in the provision of indoor poor relief) to provision of public services on the basis of desirability (as education) and a growing consciousness (undoubtedly related to transportation developments) of the state as one community to which common standards should apply. Such environmental and social changes have been found reflected in our expenditure statistics, and especially in the functional expenditures of local government. There can be no doubting their importance in encouraging a concentration process, particularly when we consider that the economic and social changes under consideration have carried with them a diminution of interest in safeguarding local powers, autonomy, and responsibility—often, when pressure for common standards of service is involved, generating positive opposition to such autonomy.

The effects of changes in the economic environment and social ideas, together with the incidence of wars (as an influence on the timing of changes), have been felt in all types of local activity. It would be tedious to attempt to iterate them; we must be content with some examples. We have already seen how the introduction of public housing after World War I, for example, enabled local authorities to share in the displacement effect generated by that war. More recently, we can find important instances of shifts in functions, such as in 1948 the removal from local governments of their responsibility for poor relief and for general health services, and the loss of their important trading services to the nationalized industries. Local responsibilities for education, on the other hand, have expanded, but the dependence of this service upon central financing has also become greater than heretofore.

The loss by local governments of their traditional relief functions, associated with the extent of the dependence of their expanding social service activities upon central financing, prompts the view that the true extent of the concentration process has been even greater than it appears when

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measured simply by the decline in significance of local expenditures. Certainly, there has been growing concern in recent years about the decline in prestige and importance of local government, and pressure for increased local autonomy. From the point of view of the present discussion, it is of interest to observe that recent measures of reform, ostensibly intended to establish a grant system more consonant with such autonomy, have generated controversy precisely because they appeared likely to conflict with the social aspirations and economic facts that we have described as encouraging a concentration process, and with it a decline in the importance of local responsibilities and autonomy.