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A STUDY IN ENGLISH LOCAL AUTHORITY FINANCE

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BRITISH PUBLIC EXPENDITURE

THE PRESENT POSITION OF ENGLISH JOINT STOCK BANKING

THE COAL INDUSTRY OF THE EIGHTEENTH CENTURY
(JOINTLY WITH T. S. ASHTON)

THE AMALGAMATION MOVEMENT IN ENGLISH BANKING

A STUDY IN ENGLISH LOCAL AUTHORITY FINANCE

BY

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PREFACE

THE aim of this study is to examine and appraise the working of the system of English Local Authority Finance during the post-war period 1919–35.[1]

Various reasons can be found for undertaking the task. Of these, the first is that local authority expenditure exhibited a persistent, if not continuous, absolute growth in the period—a growth which is higher even in real than in nominal terms. Second, there was a concomitant rise of local revenues. Not only did this involve higher local rates, but also additional "other receipts" and national taxation and larger capital receipts. Third, large-scale and distinctive changes took place in the kinds of local authority expenditure which, combined with alterations in the scheme of revenue-raising, inevitably influenced production and distribution.

To appraise the working of the system, it has been thought best first to give a brief Historical Survey of the main factors causing alterations of expenditure, and of the changes occurring on the side of revenue; then to attempt an examination of the resultant social and economic effects; and, lastly, to deal with some of the major issues relating to policy.

The book is a comparatively short one. During the work it was found that there were so many important matters calling for attention that to deal at all adequately with them would have called for a large volume. As the preparation of this would have entailed long delay in publication, I have chosen to reserve matters not now dealt with, or touched upon but briefly, for another volume.

I wish to express deep and sincere thanks to the Trustees of the Leverhulme Foundation, who very materially aided

[1] The year 1934–35 was the latest year for which figures were obtainable when the book was being written.

the work by granting a Research Fellowship extending over the whole of one academic year. Thanks are also offered to officials of the Ministry of Health. The Ministry of Transport, the Board of Education, the Board of Trade and the Home Office gave valued help concerning statistics. I am very grateful to the many local Government officials who replied to questionnaires: the pains they took merit thankful acknowledgment. Other local authority officers and professional associations have given guidance which it is a pleasure to recall. Lastly, Mr. W. S. Steer and Mr. F. M. Lewis have substantially helped in the preparation of the manuscript for publication.

J. SYKES.

EXETER, *December*, 1938.

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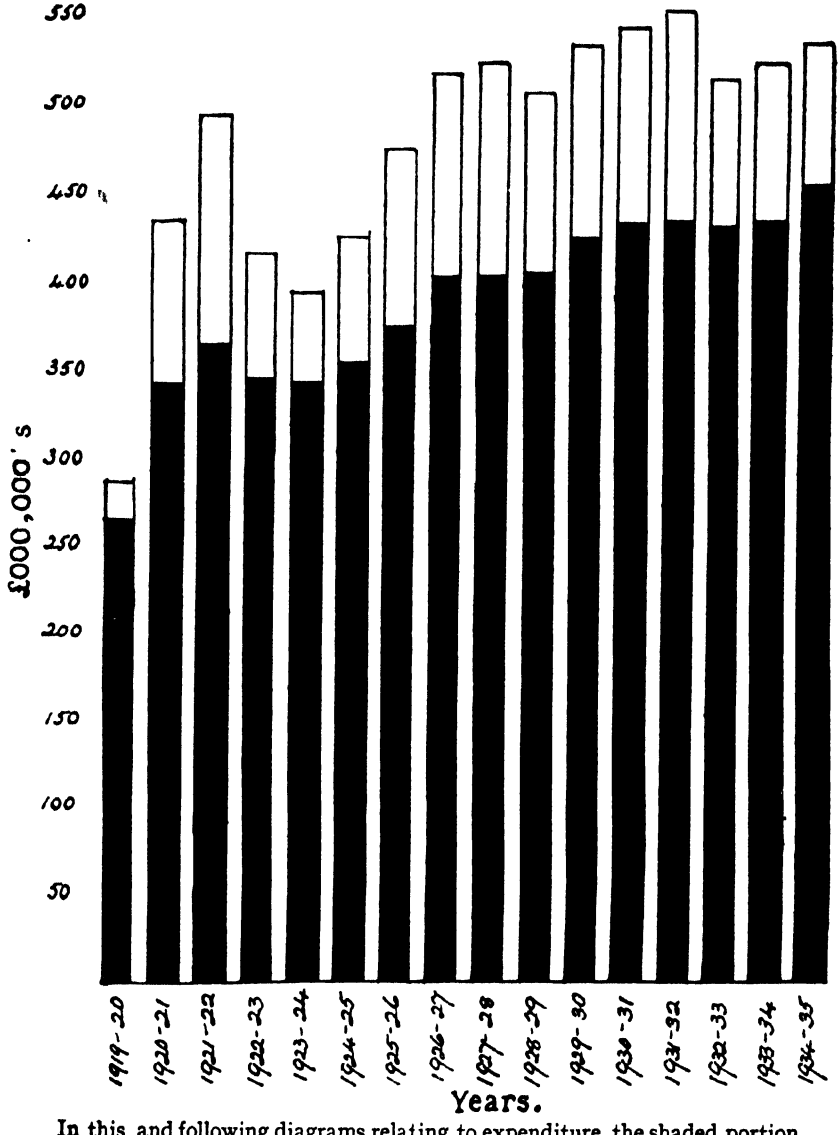
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HISTORICAL SURVEY : 1919–35

EXPENDITURE

To begin with Expenditure, the annual statistics of local authorities in England and Wales for 1919–35 are as follow:—



In this, and following diagrams relating to expenditure, the shaded portion represents expenditure on revenue account, and the clear portion expenditure upon capital account. The relevant statistics are given in the Appendix.

EXPENDITURE OF LOCAL AUTHORITIES IN ENGLAND AND WALES, 1919–35 [1]

Year	£m.		Total
	On Revenue Account	On Capital Account	
1919–20	265·48	23·87	289·35
1920–21	343·15	94·45	437·60
1921–22	365·03	128·73	493·76
1922–23	346·71	71·57	418·28
1923–24	343·26	50·02	393·28
1924–25	354·93	70·33	425·26
1925–26	373·11	100·66	473·77
1926–27	402·22	117·37	519·59
1927–28	402·63	119·96	522·59
1928–29	405·93	102·82	508·75
1929–30	423·65	108·87	532·52
1930–31	432·70	110·88	543·58
1931–32	435·02	116·78	551·80
1932–33	430·32	84·75	515·07
1933–34	433·22	89·29	522·51
1934–35	454·76	80·66	535·42

The outstanding feature of the table is the general upward trend of expenditure, and as the course of wholesale prices in and after 1920 was one which exhibited a material downward movement, it may be assumed that the real rise of expenditure was distinctly larger than the nominal rise. Second, expenditure on revenue account was definitely of greater importance throughout, and also fluctuated less than did expenditure on capital account. Third, by the end of the period, total outlay was considerably higher than at its beginning.

It is interesting to analyse the expenditure as between its components in order to see which items were more prominently associated with rising commitments. The following table is arranged on the basis of grouped items [2]:—

[1] *Local Taxation Accounts*, net expenditure. Up to 1928–29, expenditure on capital account consists of expenditure out of loans; thereafter it consists of net expenditure out of capital receipts of all kinds.

[2] The constitution of the various groups is as follows:—

Housing: Assisted schemes under Housing Acts; other State-aided schemes; other schemes; Small Dwellings Acquisition; Town Planning.

Trading: Cemeteries; Water; Gas; Electricity; Trams, Light

LOCAL AUTHORITY EXPENDITURE ACCORDING TO GROUPS OF ITEMS, 1919–35 [1]

Group	On Revenue Account		On Capital Account		Average Increase, 1920–35		
	1919–20	1920–35 (Average)	1919–20	1920–35 (Average)	Over 1919–20		Total
					Revenue	Capital	
			£m.				
Housing .	1·49	27·86	4·84	41·89	26·37	37·05	63·42
Trading .	82·86	105·64	10·06	25·16	22·78	15·10	37·88
Highways .	26·49	48·77	1·19	11·42	22·28	10·23	32·51
Education .	56·35	79·36	0·74	4·28	23·01	3·54	26·55
Health .	33·97	47·63	1·29	8·98	13·66	7·69	21·35
Poor relief .	19·20	33·68	0·09	0·76	14·48	0·67	15·15
Police . .	18·48	22·34	0·06	0·19	3·86	0·13	3·99
Administration	7·73	11·18	0·63	0·99	3·45	0·36	3·81
Minor specific.	8·27	13·69	4·63	1·88	5·42	—2·75	2·67
Miscellaneous	10·64	6·29	0·34	0·94	—4·35	0·60	—3·75

Railways and Omnibuses ; Harbours, Docks, Piers and Wharves ; Ferries ; Markets ; Corporation Estates ; Miscellaneous Trading.

Highways : Roads ; Bridges ; Scavenging and Watering ; Private Street Works ; Sea Defence.

Education : Elementary ; Higher ; Industrial Schools and Reformatories.

Health : Sewers and Sewage Works ; Cleansing of Streets and Disposal of House Refuse ; Tuberculosis ; Venereal Diseases ; Other Infectious Diseases ; Maternity and Child Welfare ; Mental Hospitals and Mental Deficiency ; Salaries of Medical Officers, Sanitary Inspectors, Health Visitors, etc. ; Parks, Pleasure Grounds and Open Spaces ; Baths, Washhouses and Open Bathing Places ; Public Conveniences ; Prevention of Adulteration of Food and Drugs ; Slaughter Houses ; Notification and Prevention of Disease and General Disinfection ; Port Sanitary Service ; Vaccination ; Rivers Pollution ; Welfare of the Blind ; Other Health Services.

Poor Relief : Poor Relief (excluding rate-aided patients in Mental Hospitals).

Police : Police ; Administration of Justice.

Administration : Costs of Rate Collection ; Legal and Parliamentary Expenses ; Other Administrative Expenses.

Minor Specific Services : Agriculture (including Small Holdings and Allotments, Land Drainage, Diseases of Animals, Fisheries, Fertilisers and Feeding Stuffs) ; Public Lighting ; Fire Brigades ; Public Libraries ; Valuation ; Registration of Electors ; Registration of Births and Deaths ; Council Elections ; Weights and Measures ; Inspection of Shops ; Explosives Acts ; Other Minor Services.

Miscellaneous : Sinking Funds ; Reserve Funds ; Superannuation and Pensions Funds ; Income Tax ; Insurance Funds ; Bank Interest and Charges ; Transfers to Capital Accounts ; Trusts and Charities ; Various non-classified services.

[1] *Local Taxation Accounts*, amplified and emended by figures supplied by the Ministry of Health (Statistical Branch).

The striking characteristic of this table is the dominance of Housing and Trading services. Between them they accounted for about one-half of the increased aggregate expenditure of 1920–35. Next, the first six items were responsible for the predominant part of the growth of aggregate expenditure during 1920–35. Third, the ratio of expenditure on capital account to that on revenue account varied considerably from one item to another.

These general changes noted, it is next desirable to seek explanations of them. Since each particular grouped item was affected by influences peculiar to itself besides by factors common to all services, in the first place each group will be treated of separately. But later a summary can be made of the more important reasons underlying the increase of expenditure in the aggregate.

HOUSING AND TOWN PLANNING

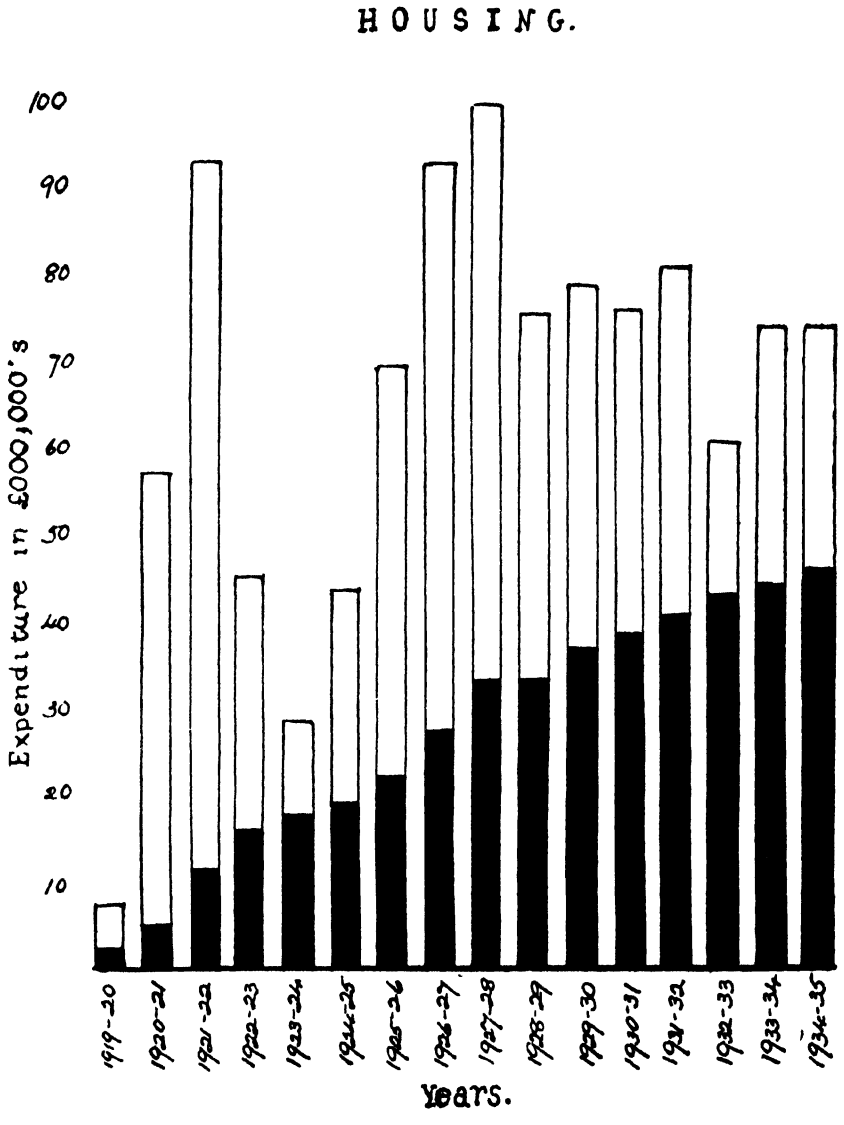
The fundamental cause of the post-1919 increase of expenditure on this subject was the original decision of Parliament to cause the provision of new houses by means of subsidies to both local authorities and private persons, and the subsequent development of this policy.

Because of the decline in private construction of small houses during the pre-war years, the inevitable restriction of war-time and the intervening growth of population, the end of the war saw a serious inadequacy of working-class dwellings. The great need for new accommodation was ventilated in 1917,[1] and the Ministry of Reconstruction investigated the problem. This body reported that, owing to the acute rise of costs engendered by the war, coupled with the shortage of labour and materials which was to be expected during the early post-war years, unassisted private enterprise would be unable to meet more than a fraction of the expected demand.[2] The Government therefore decided to instigate public construction, and, eventually, in order to

[1] Returns made to a Circular of July 28th, 1917, indicated an immediate need for 400,000 working-class houses.

[2] Cmd. 9197, 9087.

ensure the co-operation of local authorities over the period 1919–21, it resorted to a subsidy equivalent to all costs in excess of a 1*d.* local rate. The Act of 1919 providing for this



was quickly followed by a second, which granted large subsidies for private building.

Despite the unlimited subvention to local authorities and the financial assistance to private builders, as well as resort

to various devices to facilitate municipal building (such as widespread borrowing powers), the acute rise of prices, added to labour shortage and soaring interest rates, restricted the number of dwellings erected during 1919–21 to 176,000. And the average cost of these was so high as £1,080 [1]—a figure nearly three times that which ruled by the end of the period.

Although harassed by persistent clamours for economy in public spending, the pronounced shortage of working-class houses induced the Government to pass a new Act in 1923. While this did not provide the *carte blanche* of 1919, it did, nevertheless, offer generous subsidies—£6 per house per annum for twenty years, and one-half of the annual deficit on slum clearance. For diverse reasons, but principally because costs remained high and the new subsidy was less attractive to the local bodies, the response was unexpectedly low. In the year following, therefore, the Government resorted to further legislation. This, especially intended to call forth a supply of dwellings to be let at controlled rents, granted £9 per house per annum for forty years, with a special figure of £12 10*s*. for rural houses. Although the control of rents and stipulations about the minimum amount of construction were disliked by the local bodies, the higher grants elicited a considerably greater output. It was originally contemplated that the subsidy could be reduced in October, 1926; but, as the response by then was deemed inadequate, this was not essayed until another year had elapsed. Then, as against the 1923 subvention of £6, and the 1924 subventions of £9 and £12 10*s*., the new grants were lowered to £4, £7 10*s*. and £11 respectively. In the meantime a new Act had been passed—in 1925—to expedite slum clearance, and the Housing (Rural Workers) Act, 1926, sought to stimulate rural building. But neither initially nor later did these have important effects on total demand.

Late in 1928 the rates of subsidy were again curtailed. The Order then issued provided that, after September, 1929, the 1923 grants should cease and further cuts to £6 and £9 10*s*. were to be made in the 1924 grants. Actually, the 1923

[1] Report, *Ministry of Health*, 1921–22, pp. 40, 42.

subsidies were withdrawn, but the proposed revision in the grants awarded under the 1924 Act did not become effective for—

> " In view of the still unsatisfied demand for houses to be let, and to avoid or mitigate the dislocation of the building industry . . . the matter was reconsidered and the proposed further cut in subsidy under the Act of 1924, was not made." [1]

The decision was embodied in the Housing (Revision of Contributions) Act, 1929.

Further legislation occurred in 1930. This, designed to stimulate slum clearance, provided still more subventions—ranging from £2 5*s*. to £3 10*s*. per annum per person displaced and re-housed, over forty years. In the following year, although due to expire then, the Act of 1926, providing special subsidies for rural housing, was continued for a further five years, and the subventions were increased. The Housing (Financial Provisions) Act, 1933, did not provide fresh grants, but concluded those available under the 1924 Act—after these had been prolonged beyond the period first contemplated. It also sought to stimulate new construction by providing for the guarantee by local authorities of building society advances in excess of a certain percentage of cost. The Housing Act, 1935, however, resumed the subsidy policy. Representing a new effort to reduce overcrowding, grants of £6 to £8 per annum per house for forty years were given where it was necessary to re-house in flats ; grants up to £5 per annum per house for twenty years were awarded for ordinary re-housing ; and special Exchequer assistance, varying from £2 to £8 per annum per house for forty years, was made available for rural districts.

Legislation, then, was the outstanding factor giving the original impulse to, and subsequently fostering, expenditure on housing. The initial Acts promulgated a massive demand, and the subsequent portentous growth of this evoked by later Acts created highly inelastic demand. These made for high prices and prevented any significant fall after 1922 until supply facilities were augmented—and, for various

[1] Report, *Ministry of Health*, 1929–30, p. 77.

reasons, this was tardy. Undoubtedly, however, legislation would have been comparatively ineffective without the subsidies. For these were the vital factor. But the height of the subventions apparently inflated prices.[1] It is not easy to establish this point definitively, but certain observations can be made. During the period of unlimited subsidy from July, 1919, to July, 1921, prices rose acutely. The official figures for these early years are neither very adequate nor very accurate. But apparently the price of a parlour dwelling was £833 in July, 1919, and a year later touched £955.[2] Although doubtless closely affected by the general price slump of 1920–21, the figure fell to £752 in July, 1921 —the date when Exchequer assistance was withdrawn. More significant still, however, was the large drop between then and January, 1923, to £373, a period when no grants were available. With the new subventions of 1923, a clear upward trend reappeared; from the figure of £373, by the second quarter of 1924 an advance to £497 was recorded. Then the higher 1924 subsidies seem to be associated with a further rise to £507 in the following quarter. Until the last quarter of 1926, which saw the first curtailment of Exchequer aid, prices remained steady, although by then supply facilities had been increased. Actually, prices moved between a high level of £513 and a low level of £491. After the subsidy reduction became operative, prices fell—the highest quarterly figure between then and the date of the next alteration of grant being £483, and the lowest £424. Towards the end of 1928 a further reduction of subventions was decided upon, only to be rescinded—in the case of grants made under the 1924 Act—before it was due to take effect. An initial tendency for prices to fall was succeeded by relative stability—the quarterly figures for 1929 averaging £411 against £424 for that quarter which immediately preceded the announcement of the cut in subsidy. The 1930 Act had comparatively

[1] Especially at times when there was no reserve capacity of supply.

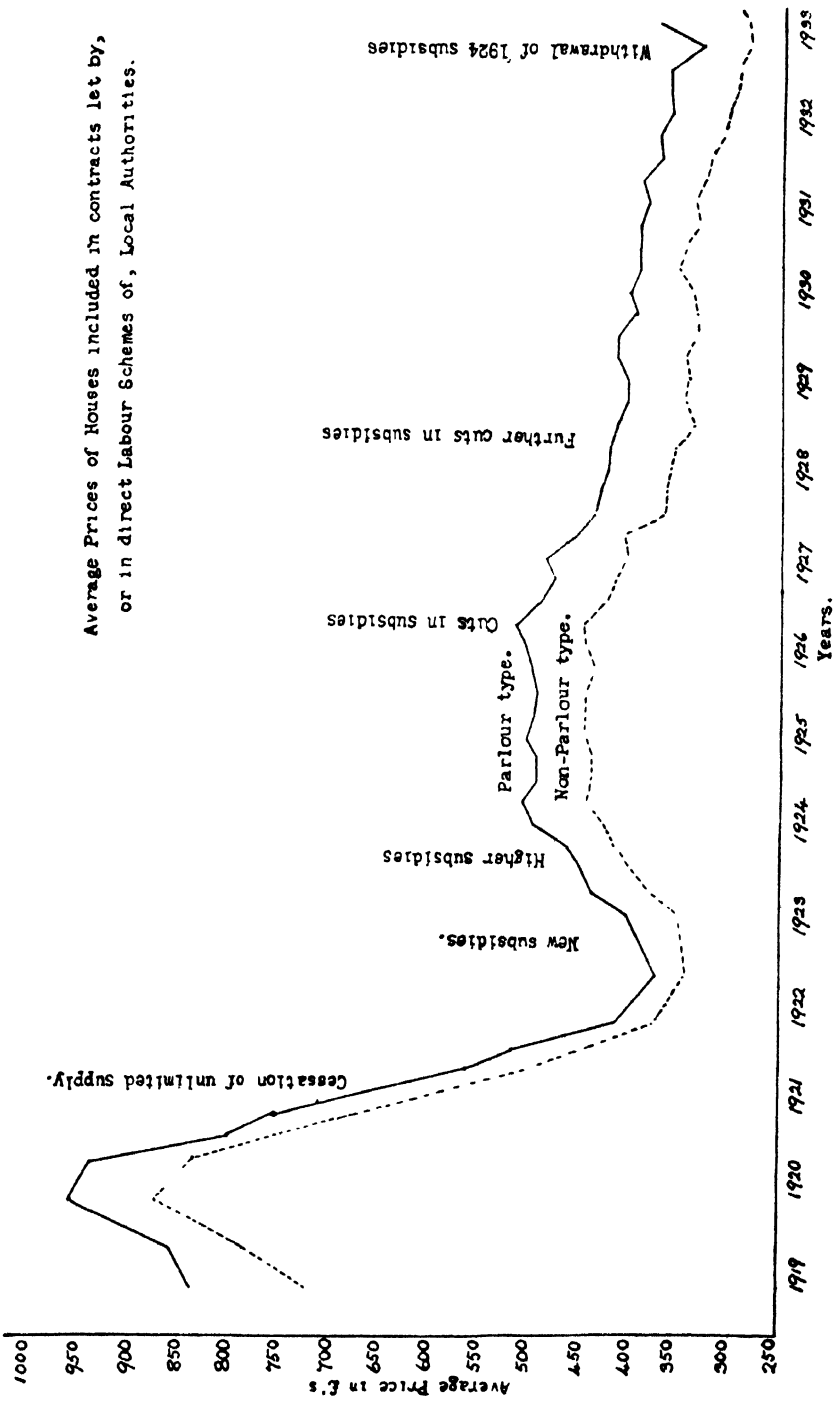
[2] These, and following figures, were supplied by the Ministry of Health. According to Connor, the large expansion of demand caused by the subsidy, was met at first by a progressive price rise, and not until later by an increase of supply capacity. (*Journal, Royal Statistical Society*, 1936, Pt. I., p. 44).

little significance for municipal demand in the aggregate, so that the Exchequer assistance available thereunder could hardly influence prices. But the continuance of the 1923 grants prevented the flagging of demand, and prices altered little during 1930–32 (both inclusive). Further general legislation occurred in 1933, but this did not affect municipal activity to any noticeable extent during the remaining period covered by this volume. For completeness, however, the withdrawal of the 1924 subsidies, which was effected in 1933, was accompanied by a decline of prices. From a (quarterly-based) figure averaging £305 for non-parlour dwellings during 1932, prices fell to a (quarterly-based) figure averaging £292 during 1933, and demand (and prices) would probably have fallen further but for the stimulating influence of lowered interest rates.

In view of the difficulty of allowing for other factors, it does not seem valid to make a definite assertion to the effect that changes in subvention were causative of changes in prices. For example, there is the factor of general price changes; the extreme shortage on the supply side of 1919–21; the important effects of trade union restrictions on labour supply—applying especially up to 1925; other monopoly elements on the supply side; the large extension of building society activity; and the effects on the demand schedule of enhanced private building. But public authorities did exercise an important influence on demand conditions throughout the period under review, and the above facts—illustrated on the accompanying graph—certainly suggest that alterations in subsidies were not unconnected with changes in price.[1]

Predominance as a factor causative of high spending must therefore be assigned to legislation, and its handmaiden, subsidies. A second factor is an amalgam of various influences. In part, of course, population growth and a rise in marriage rates had influence. More important, there was

[1] This verdict is apparently shared by Connor, whose conclusion is that "... large-scale interference with economic forces is hopeless unless those in control possess adequate statistical information coupled with effective means of remedying maladjustments as and when they occur". (*Journal, Royal Statistical Society*, 1936, Pt. I., p. 45).


Average Prices of Houses included in contracts let by, or in direct Labour Schemes of, Local Authorities.
Withdrawal of 1924 subsidies
Further cuts in subsidies
Cuts in subsidies
Parlour type.
Non-Parlour type.
Higher subsidies
New subsidies.
Cessation of unlimited supply.
Average Price in £'s
1000
950
900
850
800
750
700
650
600
550
500
450
400
350
300
250
1919
1920
1921
1922
1923
1924
1925
1926
1927
1928
1929
1930
1931
1932
1933
Years.

an upwards movement in both the quantitative and qualitative aspects of demand for accommodation by the poorer classes. Further, the municipal building of the first post-war decade resulted in the production of houses which were often too costly to meet the needs of the poor—whom, in fact, the housing legislation was specifically designed to benefit. Thus the Marley Committee declared in 1931 that,

> " At present, the provision of working-class houses to let is undertaken on a large scale only by the local authorities, the rents of whose houses, as we have pointed out, are often higher than the poorer workers can afford." [1]

A similar verdict had been reached two years earlier by an independent enquirer—Sir E. D. Simon [2]—and the views of the Marley Committee were shared by the Ministry of Health.[3] When, later, efforts were made to repair the defect, demand was inevitably swollen by more than was envisaged in earlier post-war years. Lastly, even from the first years, local authorities were urged by the central authority to charge rents which were so low as not to cover annual charges. Such a clear subsidy to rents undoubtedly augmented demand to a level which otherwise would not have been attained.

Third, both central and local administration of housing policy enhanced spending. This was certainly done by the facilities given to increase the borrowing powers of local bodies. Again, the Ministry of Health actively and persistently stimulated the local administrations to build with less regard for aggregate financial commitments than to satisfy popular demand. The mechanism of subsidies fortified central control over minimum standards, specifications and lay-out, and these were raised above the level prevailing in pre-war times. The Ministry's policy of low rentals was highly significant in expanding demand. Later, the central body insisted on slum clearance. Besides, house building was used as a public works policy to combat economic depression. Lastly, the indictment was made—*e.g.*, by the

[1] g. 34.
[2] *How to Abolish the Slums.*
[3] Report, 1931–32, p. 96 *et seq.*

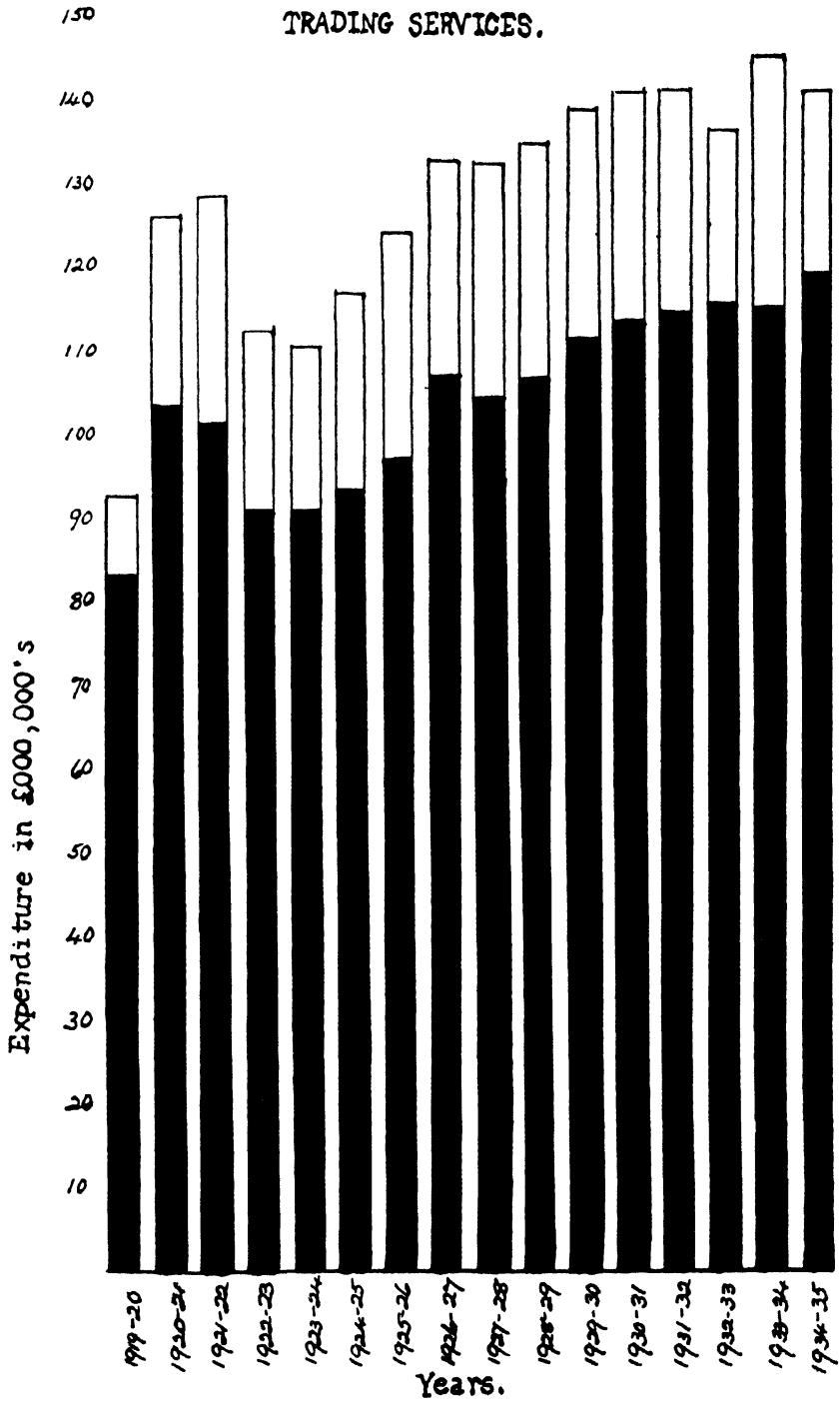
Geddes Committee,[1] by the May Committee some ten years later,[2] by the Ministry of Health (especially in the Report for 1931–32),[3] and by the Committee on Local Authority Expenditure in 1932,[4]—that not enough regard was paid by local bodies to possible economies.

TRADING SERVICES

An outstanding factor inciting expanded outlay on this group was the general willingness and, frequently indeed, the desire of local authorities to render their services both more efficient and more adequate in meeting the needs of local communities. This is suggested initially by the markedly continuous growth of spending, both on capital and on revenue account, which occurred despite the long-persisting falling trend of the general price level after 1920. It is particularly exemplified by the relatively large ratio to the total of increased expenditure for which capital outlays were responsible—some 24 per cent.—for this was entailed by a policy of improving and extending equipment. It is supported by the substantial growth which took place in Labour representation upon municipal councils. Still further, the voluntary development of Trading Services was favoured by prospects of applying surpluses to rates. This stimulated willingness to spend even in areas where political control did not pass to Labour representatives. Still another impetus to local zeal to improve and expand was provided by the policy of taking steps to meet the competition of private enterprise. This applied especially to Electricity, Gas and Transport.

In addition to the spontaneous activity manifested by the local bodies, the growth of demand on the part of industrial and domestic users was undoubtedly an important cause of development. The influence of post-war population growth is obvious. Somewhat less obvious is the post-war redistribution of industrial and commercial location, with which

[1] Cmd. 1581, pp. 129–32.
[2] Cmd. 3920, pp. 174–84.
[3] Report, 1931–32, p. 97.
[4] Cmd. 4200, p. 62, g. 87.


TRADING SERVICES.
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
Expenditure in £000,000's
1919-20
1920-21
1921-22
1922-23
1923-24
1924-25
1925-26
1926-27
1927-28
1928-29
1929-30
1930-31
1931-32
1932-33
1933-34
1934-35
Years.

may be coupled the varied significant alterations in the scheme of production. For these entailed the development of economic enterprise in new or different areas and necessitated extensions of Trading services there. Moreover, the declines of population and economic activity in the areas forsaken or more acutely affected by depression were not accompanied by a marked curtailment of Trading service facilities there. Notably important, besides, was the widespread erection of new houses. This necessitated larger outlays upon Water, Electricity and Gas on account of the need for new or larger mains and service lines, and the multiplication of other equipment requisite for supply. Usually involving expansion outwards from pre-existing municipal boundaries, the greater distance of many new houses from work places and the town centre evoked demands for additional Local Transport. The extensive re-housing, associated as it was with the town planning movement, instigated spending on Parks, Playing Fields and Recreation Grounds and other amenities—demands for which also increased in consequence of more widespread communal recreation coupled with greater opportunities for leisure. Nor should the post-war upward trend in the real income of the working classes be overlooked. For this materially increased requisitions for such services as Gas, Water, Electricity and Transport. But the acute economic depressions of 1920 and 1931, and the persistence of high unemployment in certain areas, caused more widespread resort to retail markets, with a view to cheaper purchase of necessaries. To meet this, local authorities either extended their own Markets or acquired control over private Markets. Nor must the profound influence exerted by substantial reductions in unit supply prices in the case of services such as Electricity, and to a lesser extent in those of Gas and Transport, be ignored, for demand—both on the part of industrial and domestic users—has proved to be highly elastic.

For these varied reasons, then, probably the policy under which the local administrations sought to improve their services ranks first as a cause of additional expenditure. Second is the encouragement and incitement to spend given by the

central authorities. This is evidenced by new legislation, Orders and Regulations. Electricity is the outstanding example. Even under the unfruitful legislation of 1919–22, local authorities did undertake some expansion of generating stations. But it was the Act of 1926 which entailed the larger additional post-war spending. This required heavy outlays on fresh capital equipment to establish the grid system; to enlarge and equip "selected" stations; to connect these by transmission lines; and to standardise frequencies. Expenditure on revenue account was magnified besides by the very appreciable growth of demand engendered by the almost continuous reductions of unit prices resulting chiefly from legally-prescribed technical re-organisations. The activity of the governing powers also added incited spending on Water supply. Thus the findings of the Water Power Resources Committee (1921) initiated attention to the adequacy of country-wide supply. The report of the Advisory Committee on Rural Water Supplies of 1929 fostered extensions in rural districts. In undertaking these, distinct help was provided by certain provisions in the Local Government Act, 1929. The Public Works (Facilities) Act, 1930, authorised and enabled works designed to relieve unemployment—in which schemes of Water supply bulked prominently. The Rural Water Supplies Act, 1934, extended the Ministry's powers to grant to rural authorities. The Ministry persistently called for water purity and secured large outlays thereon. It also advocated schemes of regional grouping. So comparatively successful were the Ministry's efforts in total that by 1933 ". . . the progress made in water supplies in recent years has been such that the provision in urban areas generally is at present satisfactory." [1] The service of Tramways, Light Railways and Omnibuses was not directly affected by legislation. But in earlier years heavy outlays had to be incurred as a result of Orders made by the Ministry of Transport requiring improved maintenance of tramway tracks and lines. Again, facilities to raise charges, granted by the central body, stimulated expenditure. The Final Report of the Royal

[1] Report, *Ministry of Health*, 1932–33, p. 11.

Commission on Transport definitely incited new spending on omnibuses and trackless vehicles, because of that body's animadversions against trams. And certain passages of the Road Traffic Act, 1930, removed obstacles to the substitution of other vehicles for trams.[1] Legislation and Orders had important consequences for outlay upon the item of General Corporation Estates. Thus the various Town Planning Acts necessitated materially enhanced expenditure for the acquisition of lands, buildings and estates. The Health Resorts and Watering Places Act, 1921, fostered competitive spending upon amenities by seaside and inland spas. Regulations concerning the provision of playing-fields, recreation grounds, parks and other developmental projects provoked expenditure thereon. Acts of Parliament and Regulations called for inspection, licensing and control of Slaughter Houses, and permitted improvements of local Markets. More costly was legislation relating to works designed to relieve unemployment. Repeated Parliamentary activity concerning this led to very considerable spending on Trading services (particularly Electricity, Water and Gas). Lastly—although this enumeration is not complete—the legislative raising of borrowing limits, and their final removal in 1929, was a powerful Ministerial weapon.

A third separate factor was the rise in real remuneration of staffs, referred to in fuller detail later.[2] Wages and salaries did not move downwards after 1920 by enough to match the fall occurring in the cost-of-living index. And apparently personnel costs of Trading services exceed those of Rate Fund services.

Fourth, dis-economy in working was induced by the relative failure to promote a greater measure of combined working between neighbouring authorities. This applied in the earlier years to Electricity, where the economies of large-scale production and distribution are particularly evident—even though joint action was permitted under an Act of 1909. Again, little progress was effected towards the co-operative provision of Gas supply. There

[1] Part V.
[2] Pp. 151-4.

was also a clear lack of response to the schemes for regional working prescribed by the Committee on Water Power Resources of 1918–21, by the Advisory Committee on Rural Water Supplies of 1929, and by the Ministry itself. Instead, certain of the larger municipalities undertook portentous extensions of supply facilities on their own behalf. And the Royal Commission on Land Drainage of 1927 declared that :—

" Nothing has been more striking in the course of our enquiry than the revelation of the complete mutual independence of the various drainage authorities over the country." [1]

Lastly, in the case of Town Planning, it was some years before a noticeable degree of associated working could be secured between the appropriate authorities.

HIGHWAYS, BRIDGES AND PRIVATE STREETS

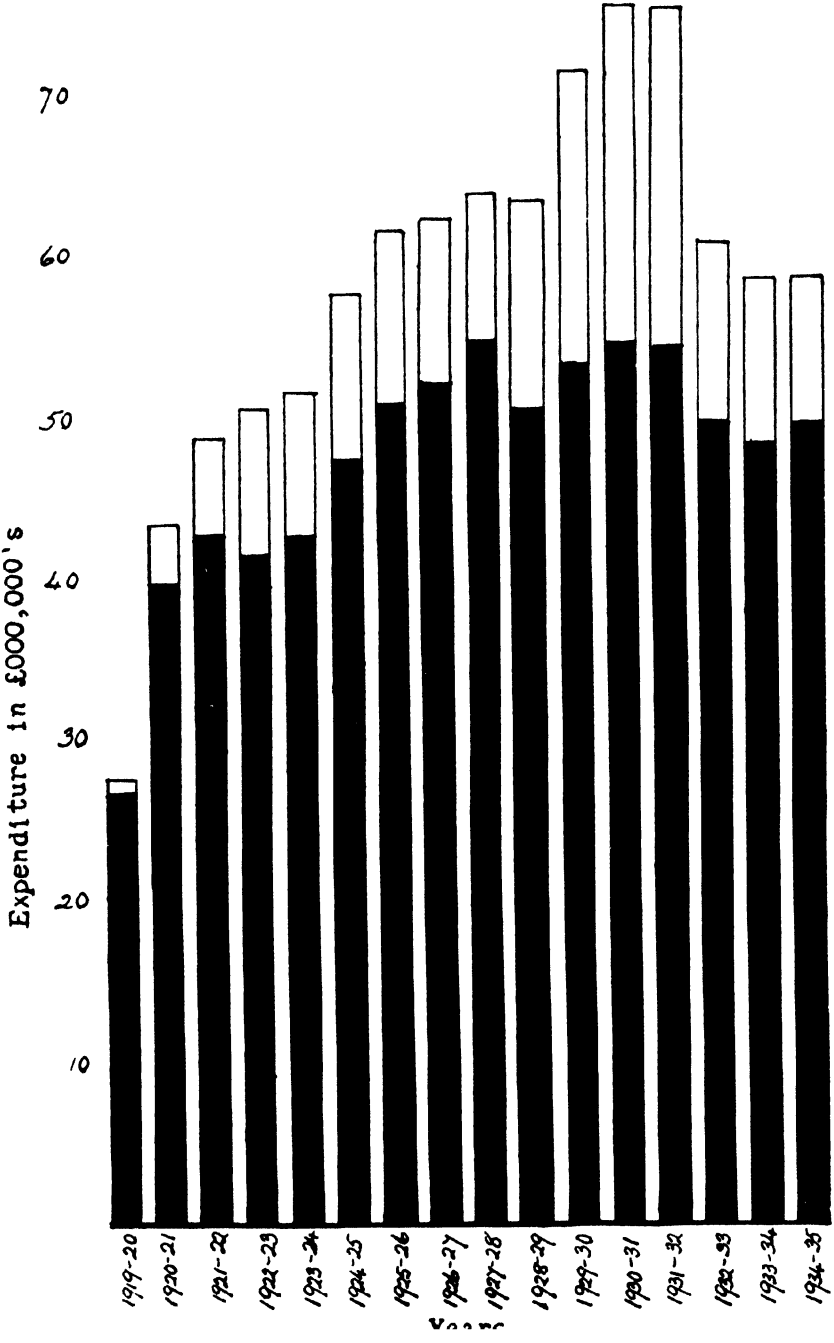
To deal first with Highways and Bridges—easily the predominant branch of this expenditure—the post-war growth of costliness appeared early. The basal cause was developments of the later pre-war years relating to the growth of mechanical transport. Thus, the Royal Commission on Motor Cars of 1906 adumbrated the need for an adequate and systematic highways policy.

The roads suffered in war time from the hastily-intensified use of such vehicles and the lack of repairs. The Select Committee on Transport of 1918 was so evidently impressed with the need for reform that it recommended a separate Ministry of Ways and Communications. The proposals being deemed inadequate, in 1919 an autonomous body having larger powers in general, and in particular a greater faculty to initiate new development, was set up—the Ministry of Transport. To it were given extremely wide powers to secure the making of new highways as well as to obtain the improvement and better maintenance of old. Discretionary powers included the classification of roads. In addition, a Roads Advisory Committee was created.

[1] Cmd. 2993, p. 19.

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HIGHWAYS, BRIDGES, ETC.



It was the establishment of the new Ministry which inaugurated a new high level of spending. For to the grant of virtual oligarchy, there came to be added an extraordinary Ministerial zeal, and both could be made effective by power to award large grants. New standards of surfacing and repair were prescribed—supported initially by lump sum grants to the Ministry. In 1920, the Roads Act imposed a horse-power tax providing further revenue, out of which generous grants were made thenceforward. As from early 1921, the new Road Fund grants were 50 per cent. for Class I roads and 25 per cent. for Class II roads, plus certain minor allowances. And from 1920 onwards a further form of subsidy was forthcoming from the Unemployment Grants Committee.[1] Although also largely due to the early post-war rise of costs, expenditure upon maintenance per mile increased greatly—from £249 9*s.* in boroughs and urban districts and £95 1*s.* in rural districts in 1913–14, it rose to £534 for county councils, £580 for urban and rural district councils, and £1,336 for county boroughs for Class I roads in 1921–22.[2] To meet acute unemployment the Road Fund instituted besides special improvement schemes (the 1920–25 five-year plan) carrying special grants. In 1926, a new grant was introduced for " scheduled " roads. In the following year, the Exchequer assistance for Class II roads was raised to 33⅓ per cent., and meanwhile block grants had been put into force to enable rural authorities to meet heavy financial burdens occasioned by their inordinately long mileages of road. These amounted to some £7½m. between 1923–28.

In later years, still more central aid was given. A new five-year plan was instituted in 1929, and grants were raised by as much as 15 per cent. above normal where transferred persons from depressed areas were found work. Other special schemes providing employment—mainly repair work —were generously helped. Again, restrictions applied to the

[1] The grants were high—at first 65 per cent. for capital schemes, later they were raised to 60–75 per cent. for wage schemes, and 65–75 per cent. for loan schemes. These latter persisted until December, 1925. The whole scheme was revived in 1928 (November).

[2] Report, *Local Government Board*, 1914–15, Pt. I., p. 41; *Report on the Administration of the Road Fund*, 1926–27, p. 46.

financial assistance given by the Unemployment Grants Committee in December, 1925, were lifted as from November, 1928, and even larger moneys than before were rendered available. In 1929, under the Local Government Act, grants for Class I and Class II highways were scaled up to 60 and 50 per cent. respectively, and a new block grant of £3m. per annum was provided for unclassified roads to replace " scheduled " roads grants. Then, besides, the Development (Loan Guarantees and Grants) Act provided 90 per cent. conditional subsidies for special " works of magnitude "—a new Trunk Roads programme. Lastly, the Bridges Act, 1929, gave 75 per cent. subsidies for bridges. In 1930, the Public Works (Facilities) Act added still further to the types of road eligible for State aid.[1] And, from time to time, the Ministry of Transport grant-aided the provision of traffic signs and signals.

Clearly, the most important factor in spending was the influence wielded by the new, repeatedly enlarged and multifarious grants. These highly tempted local administrations—especially because road works offered a simple facility for work creation against high average unemployment. But besides, great activity was manifested by the Ministry of Transport.

Second, there is no need to stress the increase in unit costs of both new construction and repairs and maintenance. Basically, this reflected the higher post-war prices. Yet, as in Housing, road costs were abnormally inflated by the promulgation and persistence of a highly inelastic demand for materials and technical staffs. Nor, owing to the employment of sub-average workers, was labour efficiency maximised. Of greater significance, however, was the raising of standards of both fresh construction and maintenance. The unparalleled growth in cost per mile between 1914–22 has already been remarked. Despite the considerable fall of general prices after the latter year, the maintenance outlays only declined from an average cost for all authorities per mile of £514 in 1921–22 to £443 in 1931–32.[2]

[1] Section 2.

[2] *Report on the Administration of the Road Fund*, 1926–27, p. 46; 1931–32, p. 53. Class I and II roads and bridges only.

Third, expenditure would have been generally smaller if the local bodies had responded less enthusiastically to invitations and incitements to spend. On the whole, they cannot be charged with lack of will to acquiesce. Rather, they did not shirk undertaking heavy commitments to provide work for their unemployed; to cater for the ever-expanding needs of local traffic; to reduce the toll of accidents; and, in general, to seek to improve highways, bridges and footpaths.

Fourth, and last, comes the factor of the added costliness of Private Streets. By comparison, however, this was unimportant, and as it was self-liquidating, approximately, detailed consideration may be omitted.

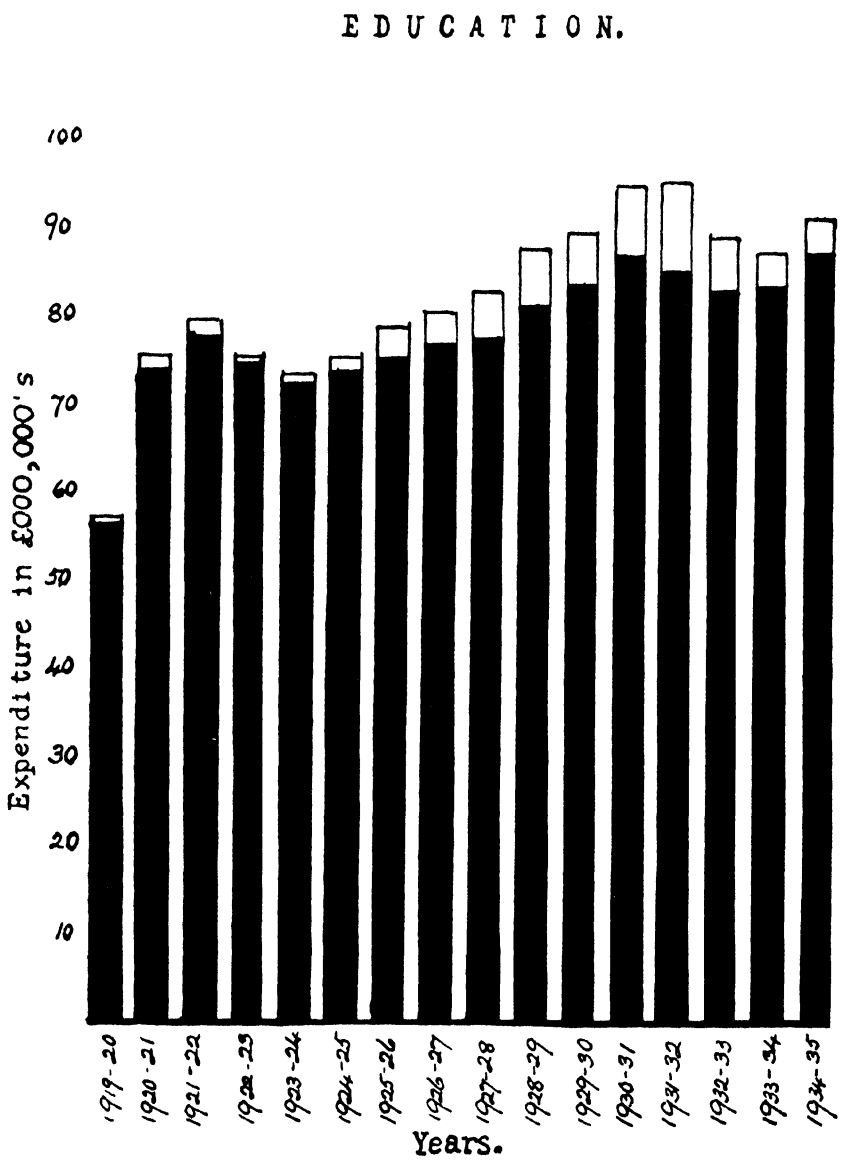
EDUCATION

Of the various factors contributory to expenditure upon Education one stands out conspicuously. This was the bill for teaching salaries. In 1919–20—a year in which already the influence of diverse post-war causes of higher remuneration was being felt—teaching salaries cost about £35m., or some 61 per cent. of total expenditure upon revenue account. In 1934–35 the figure was about £49m.[1] Predominantly, the higher salary aggregate was due to upward revisions of average salary. These were chiefly needed to meet higher living costs, but the Burnham awards were also influenced by the new legislation of 1918, promulgating a "new deal" directed towards revitalising national education. The higher central grants awarded in 1917, and under the 1918 Act, were particularly instrumental in securing local acceptance.

Summarily to indicate the significance of the change in average salaries, compared with £97 in March, 1914, the average salary of all local authority elementary school teachers advanced to £189 in March, 1920, and to £251 in March, 1923. That of all teachers in grant-aided secondary schools moved up from £174 in January, 1914, to £271 in March,

[1] Figures supplied by the Board of Education.

1920, and to £381 in March, 1923.[1] Figures for technical school teachers altered in roughly similar measure to those



of secondary school teachers. Such increases obviously affected profoundly aggregate salary costs. And, as from

[1] Cmd. 2386, pp. 20–1.

1923 onwards, no important changes were recorded despite the intervening downward trend in costs of living, the influence of the early changes persisted. Average salaries of elementary and secondary school teachers respectively were about £223 and £359 in 1934–35.[1]

It is not implied that other influences did not affect cost. Thus there was necessarily some change in the average age of staffs. Again, the ratio of male to female teachers (separate scales operated) changed. There were slight revisions of the Burnham scales, and also local education authorities came to contribute towards superannuation. With the re-organisation of elementary education after 1926, and the general raising of secondary and technical standards of education, more specialist teachers came to be employed, as well as greater numbers of teachers carrying special responsibility. More important, individual teachers' academic qualifications, too, improved. Not all these changes worked in the same direction, however, and their net effect was not pronounced.

Besides the scaling up of mean salary, there was some growth in the number of personnel. Compared with 165,531 full-time local authority elementary school teachers in March, 1920, fifteen years later there were 170,574.[2] The increase would have been greater but for an intervening decline in the elementary school population—in March, 1920, there were 5,187,334 children in average attendance, and in March, 1935, 4,907,453.[3] On the other hand, growth of staff numbers was fostered by a larger teacher-pupil ratio (31·4 per 1,000 in 1920 and 34·8 in 1935) and by measures taken to re-organise elementary education. The rise in the number of grant-aided secondary school teachers was very substantial—from 16,104 in March, 1920, to 23,425 in March, 1935.[4] Principally this resulted from the commodious increase of pupil numbers (310,465 in March, 1920, and 456,783 in

[1] Figures supplied by the Board of Education. These figures would have been higher but for the influence still being exerted by the 1931 "cuts."

[2] Cmd. 2386, p. 21. Cmd. 5290, pp. 122–3.

[3] Cmd. 2386, p. 21. Cmd. 5290, p. 115.

[4] Cmd. 2386, p. 22. Cmd. 5290, p. 164.

March, 1935 [1]), a tendency to stay longer at school and higher standards of work.

Ranking second in order as a factor making for added cost was expenditure upon new schools and equipment, other new educational premises and upon improvements of old premises and equipment. Fundamentally, these outlays were the result of the steady application of the legislation of 1918. The response of the education bodies to the Board's policy was demonstrably reinforced by the adoption of a new formula grant for elementary education providing for a minimum grant of 50 per cent. (against 40 per cent. previously), and permitting a maximum grant of 66⅔ per cent., and by the fact that the Act made available a 50 per cent. subsidy for Higher Education. Further, in 1929, a singularly important increase occurred in grants for re-organisation and development—from 20 to 50 per cent.[2] In the elementary sphere, the problem of reducing the number of "black-listed" school premises engaged the assiduous attention of the Board—especially after 1924. From 2,827 such schools then listed, there was a fall to 1,102 in 1935.[3] Further, from time to time, re-organisation was accomplished; but the major reform was that evoked by the adoption of the Hadow recommendations of 1926. These postulated the acceptance of advanced concepts in elementary education, which incidentally involved thoroughgoing improvements of premises and equipment. The all-round expansion of secondary education, bringing continual enlargement of pupil numbers and enhancement of standards of instruction, necessitated new schools and improvements of old. In the technical sphere there were new or extended developments, such as continuation schools, junior technical schools, art schools and various works of modernisation. These often necessitated new buildings or equipment—or both. Besides, certain more general factors provoked expense. Thus, massive new house building entailed additional construction and re-adaptation owing to the migration

[1] Cmd. 2386, p. 22. Cmd. 5290, p. 149.
[2] Even though the life of these grants was prematurely extinguished in 1931.
[3] Cmd. 5290, p. 40.

of school populations. And often the opportunity thus afforded persuaded authorities to adopt higher standards. Again, local education bodies, particularly after 1925,[1] pursued a forward-looking policy. This included structural alterations espousing modern conceptions of building, many excellent special schools for defectives, better facilities for recreation, and generally more effective equipment. Lastly, aggregate costs were heightened because much new building was carried out at a comparatively high level of costs.

A third factor was the quantitative and qualitative improvement of varied educational facilities associated with the improvement of the educational scheme. Primarily assignable to the basic legislation of 1918, the thoroughness with which this has been implemented by the central authority, and the degree of response manifested by the local authorities, must also receive due recognition. It was more costly in the elementary branch. Here the item of Special Services consistently called for greater outlays—in 1919–20 the cost was £2·0m., in 1934–35 it was £5·3m.[2] The provision for teaching and maintaining defective children was conspicuously augmented and improved. In 1919 there were 469 special schools ; in 1935, 610.[3] Explanation must hark back again to the 1918 Act, which newly subventioned such work. Hardly less prominent was the amelioration of medical services. From time to time the number of inspections grew portentously—by 1934–35 routine inspection at the ages of five, eight and twelve was almost complete ; special inspections were numerous ; examinations for cleanliness were legion ; nearly all authorities gave treatment for minor ailments ; and most of them provided for dental, visual, aural and other treatments.[4] Another Special Service was that of school meals. This branch of work was profoundly expanded because of persistent economic depression, but recently it has been influenced by the national fitness campaign and the interest shown in nutrition. Meals have

[1] In this year Circular 1358 conferred a pronounced stimulus upon new buildings—greater than was officially expected.
[2] Cmd. 2386, p. 8. Cmd. 5290, p. 224.
[3] *Statistics of Public Education*, 1919–20, p. 63. Cmd. 5290, p. 143.
[4] Cmd. 5290, p. 32 *et seq.*

been proliferated and costs have grown accordingly. Mention may also be made of more numerous nursery schools, play centres and facilities for physical training.

Such concern for efficiency and well-being as these, and those cited earlier—in the matter of buildings, equipment and general facilities—was not without effect on maintenance costs. In fact, more spending was needed on such maintenance items as rent, rates and taxes, insurance, fuel and light, cleaning, wages, apparatus and stationery and repairs.

Although less expensive, a roughly similar story can be told about Higher education. In secondary schools, for example, latterly there was distinctive progress in medical services. The bill for equipment, materials and maintenance increased appreciably both for secondary and technical schools. Greater spending also occurred on Aid to Students. Concerning all branches of Higher education, this covers the payment of fees and maintenance allowances. The number of free places in secondary schools grew from about 25 per cent. in 1919 to nearly 66 per cent. free places and special places in 1935 [1]; and the aggregate of places is, of course, considerably larger in the later year than in the earlier year. Maintenance awards totalled 63,673 in 1920 and 256,894 in 1935. Of greater moment, because the average grant was ordinarily higher, was the increased number of awards to students attending university institutions—2,539 in 1920 and 6,526 in 1935.[2] Lastly, increasing claims for local authority training colleges and adult education were satisfied.

A fourth factor concerns the enhanced financial burden of Administration. More largely, perhaps, this was the outcome of higher average remuneration, granted initially to meet higher costs of living and since inflated by more executive posts and staff regrading. Yet, apparently, there was a constant tendency for numbers of personnel to swell. For the continued rise of teaching staff and student numbers; the widespread new building and reconstruction; the varied and extensive developments of Special Services; the extension of

[1] Cmd. 5290, p. 46.
[2] Cmd. 5290, p. 204.

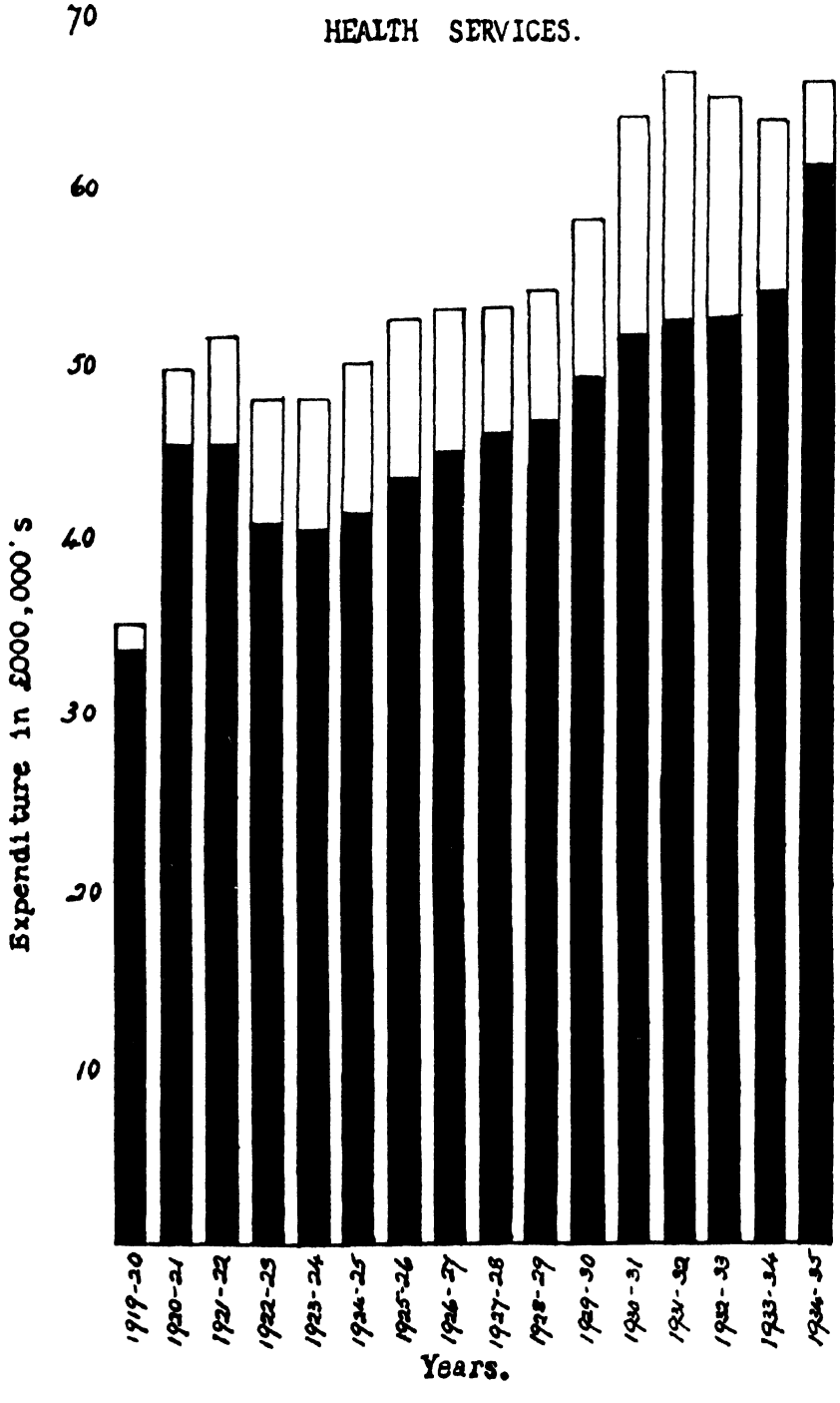
grants to pupils ; the implementation of the Hadow reforms ; and last—but not least—the necessity of complying with the spate of central regulations and thoroughgoing inspection of grant-aided work—all these seem to have involved larger staffs.

These four specific factors may be supplemented. The above analysis has repeatedly referred to the effects of legislation and the activity of the central department. It may now be said explicitly that such a growth of spending could hardly have eventuated but for this new legislation. For it gave new power and opportunity to the Board of Education, and greatly facilitated enlarged commitments by means of more generous grants. The Act of 1918 vastly extended both compulsory and optional educational powers and duties devolved on to local authorities. Departmental pressure brought about a thoroughgoing execution of central mandates and progressive response to the new powers. The Act also enabled the Board to secure higher standards of performance. As for the grants, their rise in 1917 facilitated the new salary outlays maturing them. The basic revisions effected by the 1918 Act not only financed further salary improvement, but evoked general local willingness to spend. Further, they attracted poorer authorities to extend commitments—the equalisation of educational facilities over the country was a fundamental central aim. Finally, the raising of grants for re-organisation and development in 1929, although not long enduring, provoked a measure of new provisioning not otherwise contemplated.

PUBLIC HEALTH

The outstanding general factor predisposing to the greater cost of Health services was new legislation and a spate of official Orders. In the case of Mental Hospitals and Mental Deficiency, the Mental Deficiency Act, 1913, required local authorities to ascertain and make provision for the defectives located within their boundaries. The legislation of 1927 and 1930[1] provoked further outlay by permitting

[1] Mental Deficiency Acts, 1927, 1930.


70
HEALTH SERVICES.
60
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20
10
Expenditure in £000,000's
1919-20
1920-21
1921-22
1922-23
1923-24
1924-25
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1927-28
1928-29
1929-30
1930-31
1931-32
1932-33
1933-34
1934-35
Years.

voluntary treatment, by rescinding the necessity for prior certification and by raising standards of treatment and maintenance. The Royal Commission on Lunacy and Mental Disorder testified to the extraordinary effectiveness of the 1913 Act, showing in detail how the scope of the services had been increased,[1] while the effects of the legislation in general are obviously exhibited in the very substantial increase of cases.[2] Housing legislation necessarily entailed outlays on Sewers, Sewage Disposal and Collection and Disposal of House Refuse. Moreover, costs were enhanced by the tendency for fresh housing development to be undertaken outside pre-existing housing areas and even beyond. Progressive technical improvements in systems of treating and disposing of refuse—improvements mainly sponsored by the central department—also added to cost. In the Hospitals group, outlays on Tuberculosis were markedly influenced by the Public Health (Tuberculosis) Act, 1921, and successive Orders and Regulations issued thereunder. The Act, embodying a nation-wide attack, required all county and county borough councils definitely to provide prescribed treatment. Again, Section 62 of the Public Health Act, 1925, secured compulsory treatment of all diseased persons. Joined to unrelenting activity by the Ministry, the effects were marked. Whereas in 1921 (March) there were already 11,163 beds and 421 dispensaries, by 1933 (December) there were 21,445 beds and 464 dispensaries.[3] The Maternity and Child Welfare service was greatly raised in stature—principally because of the fundamental new legislation of 1918. Besides removing previous limitations, this virtually revolutionised the scheme. Facilities were prescribed for pre-natal treatment and attention on the one hand, and on the other hand, the child could receive public care until the age of five. The Midwives Act of the same year paved the way for a continual increase in the number of trained and certificated

[1] Cmd. 2700, pp. 12, 22, 30, *et seq.*

[2] From 32 per 10,000 of estimated population in 1919 the ratio of registered insane persons rose to 38 in 1935; and from 6 per 1,000 of estimated population in 1921 the ratio of mental deficients rose to 21 in 1935.

[3] Annual Report, *Ministry of Health*, 1921–22, p. 2; 1934–35, p. 101.

midwives. Such was the effectiveness of the new planning and the earnestness of the Ministry, that even by 1922—

" The whole of England is now covered, more or less completely, by schemes for Maternity and Child Welfare, carried out by Local Authorities." [1]

But subsequent Orders and central enthusiasm secured developments far exceeding this.[2] Other instances of the outcome of new legislation occur in Other Health services. The Welfare of the Blind Act, 1920, obliged county councils and county borough councils to promote the physical and mental well-being of blind persons. Entirely new, then, by 1935, revenue expenditure attained £1·2m. The various Public Health Acts influenced outlays upon Public Conveniences. Other Acts and the many Orders made thereunder concerning the Prevention of Adulteration of Foods and Drugs—affecting such things as meat, milk, cream, jams, fats and also oyster fisheries, preservatives and colourings—entailed repeated fresh outlay.[3] Notification and Prevention of Disease called for added obligations for such component branches as Disinfecting Stations, Slaughter Houses, Privy Conversion and Prevention of Rivers Pollution. Vaccination and Port Sanitary Service entailed larger costs—especially the latter. Legislation was partly responsible for both, for the fees of Public Vaccinators were scaled up thereunder, while in 1920 special new Port Sanitary regulations (consolidated in 1933) secured more rigorous inspection and more adequate treatment.

Even in the case of items not directly legislated about, general health measures and Ministerial regulations affected financial commitments. Outstandingly, expenditure on medical staffs was implicated. Personnel numbers repeatedly grew, and the desirability of higher qualifications was frequently mooted by the central authority. The Maternity and Child Welfare Act, 1918, and the Midwives Act of the

[1] Annual Report, *Ministry of Health*, 1921–22, p. 13.
[2] *Ibid.*, 1934–35, p. 9. Compared with 1,754 Infant Welfare Centres and 1,607 equivalent whole-time Health Visitors in 1920, by 1934 there were respectively 3,186 and 2,602.
[3] Acts of 1922, 1927, 1928, 1929 and 1932.

same year, together with the Midwifery and Maternity Homes Act, 1926, involved Medical Officers of Health in high responsibility. The Tuberculosis scheme, based on the legislation of 1921, prescribed notoriously great activity and fresh duties. The Education Act, 1918, demanded inspection and treatment of school children, and called for special medical officers. The 1920 Port Sanitary Regulations also required additional technical officers. New measures under the Notification and Prevention of Disease enjoined more medical staff work. The Local Government Act, 1929, securing the transfer of Poor Law public health services, and followed by critical surveys by the Ministry, started an avalanche of fresh duties and re-organisation.

General social legislation was also not without consequences. Acts and Orders concerned with Housing and Town Planning [1] involved commitments for the purchase of lands, and for Parks, Pleasure Grounds and Open Spaces. These, moreover, were enhanced by Parliamentary enactments creating the Unemployment Grants Committee, for that body incited—by means of subsidies—considerable outlays on Sewage works, Baths and Wash-houses and various building schemes. Sections 85–87 of the Public Health Act, 1925, fostered local authority zeal to increase the supply of, and to improve Swimming Baths and Bathing Pools: for these revoked earlier restrictions on charges. Further, the Ministry required greater precautions to be taken against disease.

The second factor is the growth of Exchequer Grants. Not only did these become more comprehensive, but their ratio to total cost was sufficiently high to incite heavy spending. It is doubtful if block grants would have evoked equally marked local activity. Specific reference may be made to such revised or new grants as those for Venereal Diseases (75 per cent.); Mental Deficiency (50 per cent.); Tuberculosis (50 per cent.); Maternity and Child Welfare (50 per cent.); Salaries of Medical Officers, Health Visitors and Sanitary Inspectors (50 per cent.); Port Sanitary Regulation (50 per cent.); Rats and Mice Destruction (50 per cent.); and

[1] Acts of 1919, 1925, 1932.

Welfare of the Blind (50 per cent.). General reference may be made besides to the repeated subventions of the Unemployment Grants Committee. These especially related to schemes of development affecting Health items not normally grant-aided—such as Parks and Playing Grounds, Baths and Wash-houses, Sewers and Sewage Disposal. While such subventions were available, they were instrumental in stimulating local authorities to enter upon new projects —especially so because the grants were usually higher than the permanent Exchequer grants available for other services.

Third, definitely high significance attaches to the altered policy of the local authorities themselves, for they exhibited a markedly progressive outlook about public health. In general, they willingly complied with the requirements of additional legislation and multifarious Orders and Regulations. The altered political constitution of local councils probably accounts for this in part. As elsewhere, too, there are instances of high enthusiasm for improvement and advance. The regrouping of areas into larger units partially dissipated the drag of unambitious, if not ultra-conservative, parochial authorities. Relatively high percentage grants stimulated poorer and backward units to attack discrepancies in facilities (especially the smaller urban areas). The raising and final removal of borrowing limits, associated with heightened powers for charging must, of course, rank as important. Greater responsiveness to electoral pressure and local agitations may also be suggested. Finally, health progress was but a part of the general social progress which is a distinctive and distinguished feature of post-war communal history.

Fourth, explicit mention seems to be merited of somewhat numerous instances of dis-economy. Partly, it is true, this is because specific examples of extravagance are available, but also because the Public Health services were so organised as to conduce to disparate unit costs or general dis-economy. The following cases are not exhaustive, but are offered for illustration. The Royal Commission on Lunacy and Mental Disorder of 1926 referred to " . . . the uneconomic certifica-

tion of many cases . . .",[1] and said " . . . . a considerable number of persons are certified who might easily avoid certification, if certification were preceded by a period of observation and treatment, coupled if necessary with temporary or provisional powers of detention." [2] Examination of *per capita* costs shows that, generally in the period, these exhibited marked dispersion from the average[3]—so wide as not to be adequately explainable by differences in local régimes. Failure to achieve the maximum of economy may be cited in the services of Sewers and Sewage Disposal.[4] Concerning the Collection and Disposal of House and Trade Refuse, the Ministry in later years became insistent upon accurate costings, for " The Minister is satisfied that economies could be effected in many districts with added, rather than diminished, efficiency." [5] About returns of costs of Sewage Disposal, the Ministry said in 1934: " . . . there prevails a wide divergence in costs, not only (as might be expected) between different classes of works but also between the same kind of work." [6] The voluminous development of the Maternity and Child Welfare service was not brought about without eliciting remarks from the Ministry on the score of economy, *e.g.*, " . . . by closer scrutiny of expenditure and more efficient administration (local authorities) are able to effect improvement at no greater, or even at less cost than was previously incurred. " [7] Because " . . . the law designed to prevent avoidable contamination is to a large extent not put into operation," [8] the attack on Rivers Pollution was not very effective. In a special report on Public Health Services made in 1934, the Ministry deplored the backwardness of a number of authorities in promoting that degree of co-ordination required by efficiency and economy.[9]

[1] Cmd. 2700, p. 43.
[2] *Ibid.*, p. 22.
[3] Reports, *Board of Control*, *passim*.
[4] Report, *Ministry of Health*, 1923–24, pp. 41–2.
[5] *Ibid.*, 1931–32, p. 24.
[6] *Ibid.*, 1933–34, p. 17.
[7] *Ibid.*, 1923–24, p. 14.
[8] Joint Advisory Committee on River Pollution, *First Report*, p. 4. A similar opinion was expressed in the *Second Report*, 1930, p. 8. See also Report, *Ministry of Health*, 1928–29, pp. 14–18.
[9] Report, 1933–34, pp. 34–96, especially pp. 52–4.

As in other services, the impetuosity displayed by both the central and local administration in undertaking the extension of old, or the initiation of new, services led to large public demands when the price situation was unfavourable, *e.g.*, especially in early post-war years, and in the case, above all, of new capital works, abnormal expenditure burdens were thereby entailed. Closely bound up with this, finally, was the dis-economy instigated by the grant-aided schemes of the Unemployment Grants Committee—the high subsidies and the avowed policy of attempting to create employment as such caused price considerations to be relegated to the background.

POOR RELIEF

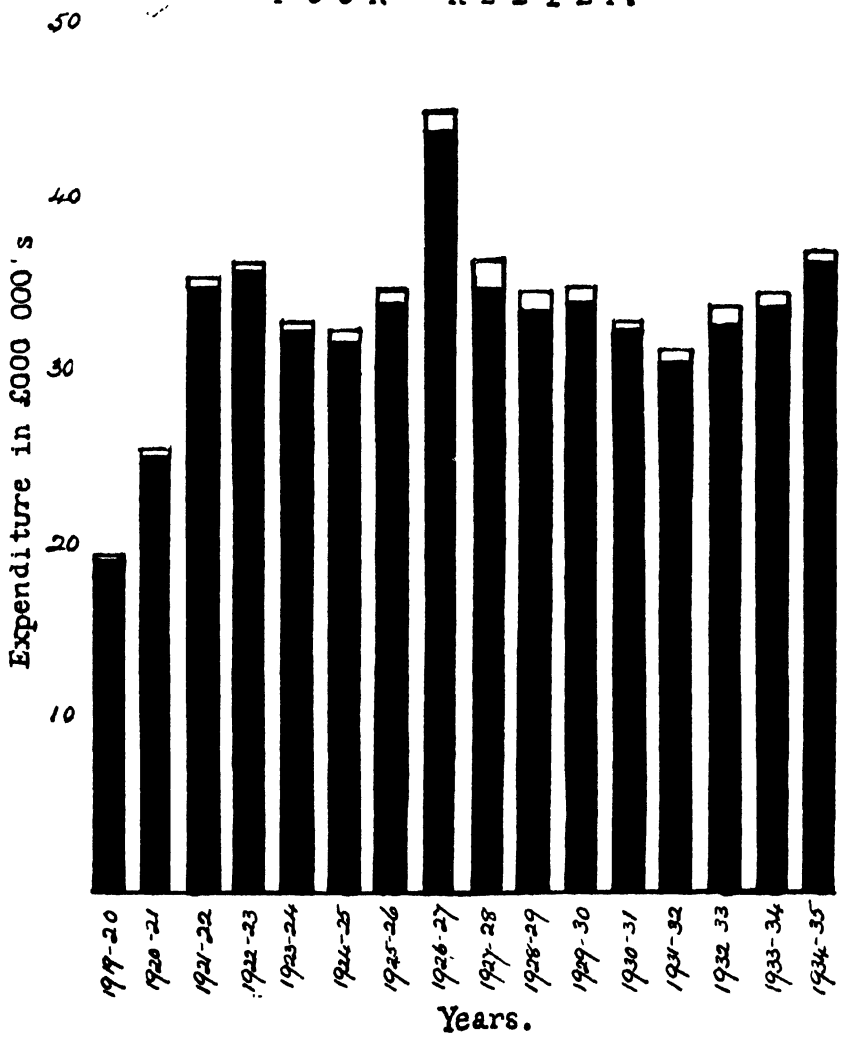
There is no ambiguity about the primacy of the factors occasioning the somewhat remarkable early increase of expenditure upon Poor Relief—an increase which later exhibited great pertinacity. This most significant factor was the rise in numbers relieved, as shown by the following table :—

AVERAGE NUMBERS IN RECEIPT OF POOR RELIEF IN ENGLAND AND WALES, 1919–35

Year	Outdoor Relief	Indoor Relief
1919–20[1]	297,834	180,927
1920–21	359,409	193,684
1921–22	1,049,465	209,750
1922–23	1,300,165	214,746
1923–24	1,084,599	216,832
1924–25	912,139	214,670
1925–26	1,003,399	217,865
1926–27	1,722,084	222,550
1927–28	973,599	220,717
1928–29	901,108	222,187
1929–30	854,036	218,140
1930–31	771,081	210,909
1931–32	862,621	197,774
1932–33	1,088,057	192,513
1933–34	1,156,834	185,497
1934–35	1,195,527	179,968

[1] *Mean* numbers for this year.

It is convenient to deal with the two sorts of relief separately. What caused the very expansive rise in numbers receiving Outdoor relief in the early years, and prevented



any marked fall thereafter? The first explanation to suggest itself is the post-1920 prolonged and high average unemployment. It was indicated by a report of August 17th, 1921, concerning numbers relieved that

"The most striking increase . . . occurred in connection with the men relieved on account of 'other' causes—*e.g.* destitution consequent upon unemployment owing to the depression of trade." [1]

And on December 31st, 1921, it was reported, ". . . 744,836 persons required relief on account of unemployment." [2] This number rose to about 848,000 by the end of March, 1922. Quarterly figures for following years show that the total numbers receiving outdoor relief (including dependants) coming within the scope of the Unemployment Insurance Acts varied during the period 1922–35 between about 36 per cent. and 60 per cent.

On the other hand, throughout the period, the Ministry of Health asserted that the connection was neither intimate nor inevitable. So early as 1921, the Ministry ascribed the increase of outdoor relief in London largely ". . . to the policy adopted by certain Boards of Guardians of affording unconditional out-relief on fixed scales to unemployed persons, often persons in receipt of unemployment benefit, without adequate discrimination." [3] Similar references to indiscriminatory resort to automatic scales appeared in the two following years.[4] By 1924, 220 unions—nearly one-third of the whole—were following it.[5] The immense increase in outdoor numbers in 1926–27 was associated with a general tendency—it was declared—to use scales and to increased laxity.[6] Further animadversions concerning the abuse of traditional methods appeared in 1928–30, 1932–34.[7]

The Ministry reinforced its argument that mal-administration was the root cause of large outdoor numbers by specific citation of cases. So early as 1920–21, it declared that

"The connection between local unemployment and distress requiring Poor Law relief has still to be discovered. It can only

[1] *Return of Persons in Receipt of Poor Law Relief*, p. 15.
[2] Report, *Ministry of Health*, 1921–22, p. 79.
[3] Report, 1920–21, p. 124.
[4] *Ibid.*, 1921–22, p. 78; 1922–23, p. 80.
[5] *Ibid.*, 1923–24, p. 91.
[6] *Ibid.*, 1926–27, pp. 116–22.
[7] *Ibid.*, 1927–28, p. 140 *et seq*; 1928–29, p. 132 *et seq.*; 1929–30, p. 164 *et seq.*; 1931–32, pp. 194–5; 1932–33, p. 191; 1933–34, p. 192 *et seq.*

be said that in some Unions a comparatively small degree of unemployment produces a number of applications to the relieving officers, in others acute unemployment may persist for considerable periods without such applications being made." [1]

In 1922–24 statistics relating to eighty-four unions were quoted showing considerable variation in awards of relief on account of unemployment.[2] Figures for March, 1926, exhibited pronounced differences between the averages of unemployment and pauperism in sixteen selected union areas.[3] In 1928, the results of a special investigation of eighty unions indicated the persistence of wide deviations of policy.[4]

An important factor making for loose working was the unwillingness or refusal to apply traditional tests of destitution—the " offer of the house " ; the imposition of task-work ; and personal investigation by relieving officers. The sudden and vast unemployment in 1920 led to a widespread clamour for relief, and the responsible authorities were held by the Ministry to have failed in their duty to apply the tests. And once the omission occurred it was rarely remedied.[5] During the General Strike, the central body reported, many of the unions implicated definitely evaded the Merthyr Tydfil judgment of 1900 (denying assistance to able-bodied persons unless they were physically incapable of work) by granting to dependants instead.[6] " It is unfortunately the case that a substantial portion of the relief to the able-bodied is still being given without the imposition of any conditions " was reiterated by the Ministry in 1928.[7] At last—in 1930—a Relief Regulation Order provided that able-bodied applicants should be set to work, and also trained for private employment. And the official body implied that this was so effective that even in the first year numbers declined noticeably.[8] By

[1] Report, *Ministry of Health*, 1920–21, p. 125.
[2] *Ibid.*, 1923–24, p. 94.
[3] *Ibid.*, 1925–26, p. 111.
[4] *Ibid.*, 1927–28, p. 141.
[5] *Ibid.*, 1920–21, p. 124.
[6] *Ibid.*, 1926–27, pp. 120, 259, 260, 262, 263.
[7] *Ibid.*, 1927–28, pp. 140–1.
[8] *Ibid.*, 1930–31, p. 205.

1932, however, despite the transfer of administration to the new Public Assistance Committees, the position had again altered for the worse; and the Ministry published figures to show that " . . . something more than variation in these (industrial and social conditions) is required to explain the wide differences obtaining in the numbers respectively relieved." [1] The figures ranged from 1,154 per 10,000 population in Sheffield to 62 in Halifax. And these conditions persisted later.

A last reason for the Ministry's attitude is the contention that there was a curious correspondence between the amount of relief and numbers currently helped. The earliest mention occurs in 1921.[2] In 1922, a comparison of both provincial and metropolitan unions showed clear association between high relief and high numbers, and, conversely, between low relief and low numbers.[3] Similar citations were made in later years up to 1930.[4] And a statement indicated that often relief applications were swollen when relief scales were higher than unemployment benefit, and that in not a few cases relief was greater than actual earnings from work.[5]

How far would it appear that the post-war rise of outdoor relief totals was accounted for by prolonged unemployment and how far by changes in the character and efficacy of local administration? Despite the protests of the Ministry, undoubtedly acute and persistent unemployment played a substantial part. For the hard core of unemployment failed to dissolve away in the period; average unemployment was appreciably larger than in the corresponding pre-war period; and under-employment and short-time working occurred in certain industries at repeated intervals and sometimes for lengthy spells. The fairly close correlation between unemployment and outdoor pauperism was not a statistical accident. Furthermore, the connection between the absence of work and domiciliary numbers was fortified

[1] Report, *Ministry of Health*, 1932–33, p. 192.
[2] *Ibid.*, 1920–21, p. 86.
[3] *Ibid.*, 1922–23, p. 82.
[4] *Ibid.*, *e.g.*, 1927–28, p. 159; 1928–29, p. 141; 1929–30, p. 170.
[5] *Ibid.*, 1926–27, pp. xix–xx; 1927–28, p. 144. See also First Report of *Royal Commission on Unemployment Insurance*, p. 20.

by the inability or unwillingness of trade unions to support their unemployed members on the scale traditional in pre-war years; by the apparent assumption by employers that newly developed State and local paternalism would in one way or another succour discharged or sporadically-employed labour, so that reluctance to discharge or to abstain from resort to short-time working became marked; and also by the fact that, for diverse reasons, assistance through institutional relief declined relatively to non-institutional relief. Lastly, the Ministry relaxed the stringency of its criticisms concerning mal-administration in the later years of the period.

Nevertheless, there are certainly grounds for acquiescing to a clear extent with the official view that greater leniency and laxity in administration prevailed. For, first, the widely prevalent resort to scales of grant militated against the individual investigation and testing of alleged destitution. Second, the divergences between different areas were unmistakable, they were sufficiently wide and they endured so long as to suggest that factors other than local differences in poverty were responsible. Third, a " purge " instituted by the Ministry in 1927 reduced the number of applications and awards so materially as to defeat the assumption that that measure of destitution traditionally accepted as warranting assistance was as widely existent as bare figures would imply. Fourth, the ' cushion ' interposed between unemployment and dire poverty by the various social services—a resource less available before the war—must have considerably alleviated financial hardship. To recall—the Maternity and Child Welfare scheme predominantly assisted the poor; the Unemployment Insurance Act, 1920, raised the number of eligible beneficiaries from 3·7m. in 1916 to 11·75m.; in 1921, dependants' allowances were added, and in 1924 rates of benefit were augmented; in 1920, too, the National Health Insurance Act was providing sickness grants for some 15m. persons, and later legislation maintained benefits which otherwise would have lapsed because of unemployment; in the same year Old Age Pensions were doubled, and pensions for the Blind were

introduced; in 1921 the large Tuberculosis scheme, benefitting the poor especially, was launched; in 1925 pensions for Widows and Orphans were established, and in 1929 and 1931 eligibility therefor was widened. While, possibly, these new developments especially advantaged those who were previously applicants for indoor help, they must also have augmented the incomes of potential outdoor relief beneficiaries. Fifth, and last, the proportion of total unemployment which persisted unintermittently was not high.

As for Indoor numbers, the rise of these was comparatively meagre and, actually, the inflation of numbers was limited to the first post-war decade. Probably the main factor inducing greater outlays was the rise in *per capita* costs. But the moderately large growth of numbers was undoubtedly influenced by the prolonged sub-normal employment of 1921–31—because of the cumulative effects of persistent poverty and sickness. Another obvious factor was the great attention paid to mental diseases—mainly due to new legislation. The traditional causes such as poverty in old age, widowhood, and the lack of means by unmarried mothers and deserted wives also persisted. Especial mention is warranted of the greater measure of care and consideration to poor children. Population growth also influenced the statistics. As for the failure of numbers to expand appreciably, and in later years to decline, doubtless the development of the social services had much to do with this. For they conserved the financial resources of the poor, and also they facilitated the provision of services at home which could only otherwise have been secured in the poor law institutions. The greater and freer outdoor relief often, probably, saved resort to indoor relief. Lastly, after the Local Government Act, 1929, transfers were made of Poor Law hospital patients into local authority hospitals.

The second basal cause of increased expenditure was the rise of *per capita* costs. This was exhibited outstandingly in the case of Indoor relief. From about £71 in 1919–20, a level of over £78 *per capita* was touched in 1930–31.[1] But in

[1] Local Taxation Returns, Part I.—expenditure on income account, excluding mental cases.

1934–35 the figure was over £74. Without doubt, the primary explanation of the rise was the general advance in standards of treatment and maintenance. Large amounts were spent on improving food and clothing, equipment, buildings and medical care—especially the last named. Throughout, general advances took place over pre-war conditions; but the effects of the Local Government Act, 1929, under which local authorities had poor law patients transferred to their hospitals, were particularly prominent since it was normal to provide maintenance and treatment at higher standards. Another important factor was the scaling up of staff remuneration. Due more to the rise of *per capita* pay than to increased numbers, this, too, was emphasised by the 1929 Act.[1] For the absorption of Poor Law staffs by the local authorities has been accompanied by an unmistakable raising of pay. Comment is also called for on the highly divergent costs—not merely between one type of institution and another, but also between one area and another. For infirmaries, in 1919–20 weekly *per capita* costs varied between 19*s.* 3*d.* and 34*s.* 11*d.* in one district. Ten years later, for unions outside London, they ranged between 9*s.* 6½*d.* and 19*s.* 7¼*d.*[2]

Compared with about 333*s.* *per capita* in 1919–20, annual costs for Outdoor relief (on revenue account) were some 343*s.* in 1930–31, and in 1934–35 they were still higher at about 346*s.*[3] As the rise between 1919–20 and 1934–35 was not in accord with the downward trend exhibited by the Ministry of Labour cost of living index, evidently the Poor Law authorities increased the real rates of relief.[4] This is the basal explanation. Another factor is the higher expensiveness of administration—due, however, less to individual increases in salary than to staff growth. Further, despite the " purge " of 1927, and the supersession of Poor

[1] In the last year of the period, over one quarter of the total cost of institutional relief was incurred for salaries and superannuation.

[2] Report, *Ministry of Health*, 1920–21, pp. 125–6; *Local Taxation Accounts*, 1929–30, Pt. I.

[3] *Ibid.*, 1919–20, 1930–31, 1934–35.

[4] The actual *per capita* costs of the relief itself in money and in kind were roughly 274*s.* in 1919–20; about 301*s.* in 1930–31; and about 315*s.* in 1934–35.

Law unions by Public Assistance Committees, *per capita* costs were clearly inflated by the persistence of disproportionately high awards on the part of a—somewhat large—number of authorities.[1]

To summarise the principal causes of the greater commitments on Poor Relief, these were: the persistence of unemployment and, in particular, of prolonged unemployment; administrative leniency and even sheer laxity; the more generous treatment of both outdoor and indoor poor; higher real staff remuneration and certain kinds of diseconomy.

POLICE AND JUSTICE

To deal first with the Police service, predominantly the explanation of the greater expensiveness lies in rises of *per capita* remuneration. Major advances in pay were granted by the Desborough Committee,[2] to whose recommendations effect was given by the Police Act, 1919. The three main factors held to warrant the substantial increments[3] were: (1) The necessity to compensate for the rising costs of living; (2) recognition of the material additions to police duties and responsibilities attendant upon new legislation and altered social conditions; and (3) the desirability of unifying rates of pay and pensions over the whole national area in order to extinguish unwarranted divergences. To these may be added the loss of the right to strike. The acquiescence of the local authorities in what amounted to far-reaching increases in expenditure was assisted by the raising of Exchequer grants.

Even though the service secured notable concessions under the Desborough awards, subsequent further rises of living costs and the activity of the newly-established Police

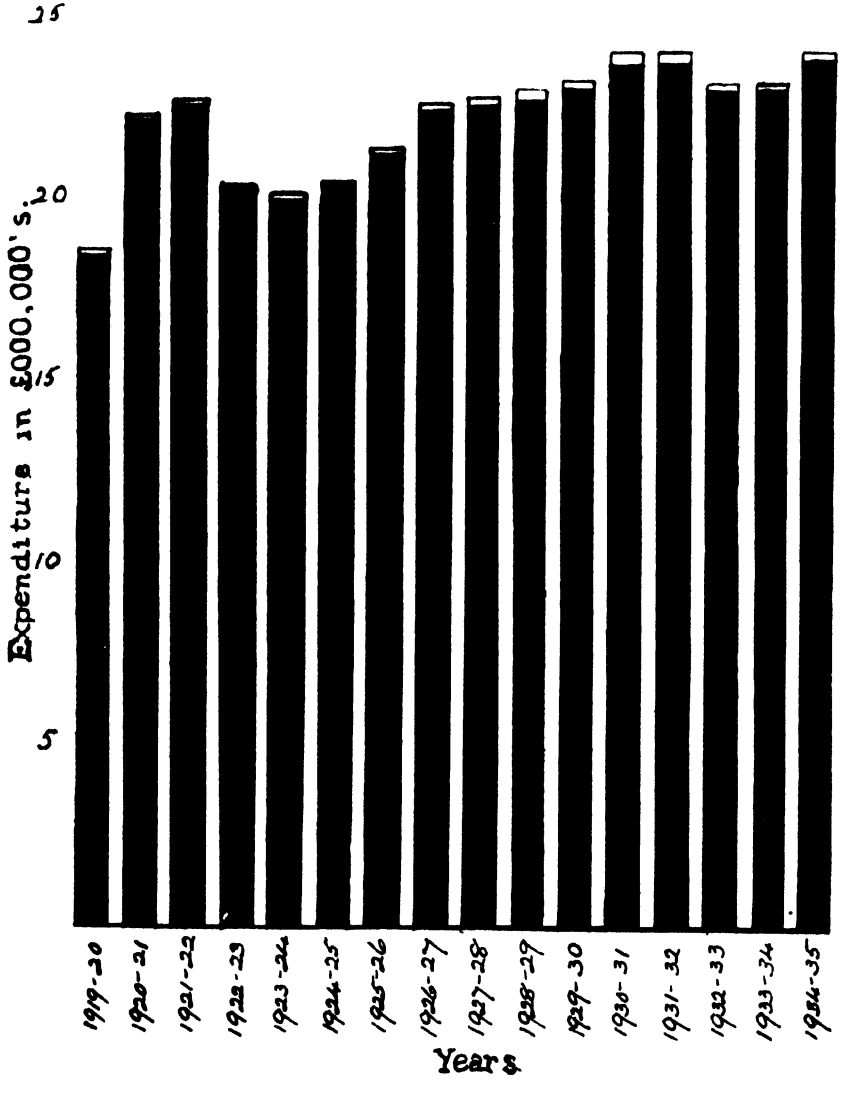
[1] *Vide*, in particular, Reports, *Ministry of Health*, 1922–23, p. 86; 1923–24, p. 97; 1927–28, p. 159; 1928–29, p. 141; 1929–30, p. 170; 1931–32, pp. 199, 202; 1932–33, p. 191; 1933–34, p. 233; 1934–35, pp. 218–19.

[2] Cmd. 574.

[3] In 1918 the highest—the Metropolitan—scale for constables was 43*s.*–53*s.*, and a "standard" scale for other areas was, in general, 3*s.* lower (Cmd. 1582, p. 70). The new Desborough scale was 70*s.*–95*s.*, plus free quarters, uniform and boots.

Federation resulted in additional bonuses, supplementing the rates decided upon previously. The next event was the

POLICE AND ADMINISTRATION OF JUSTICE.



passing of the Police Pensions Act, 1921. This lengthened the number of years' service required to qualify for maximum pension. As, however, the proviso only applied to new

entrants to the service it did not offset the rise of *per capita* costliness emanating from retirements effected throughout the ensuing years at rates of pension inflated by the upwards revision of pay noted above.[1] Moreover, pension costs were augmented as a result of awards by the Act to widows of men who died on service. Lastly, with the exception of temporary reductions of pay made to meet the budgetary crisis of 1931, as basal rates were not deliberately scaled downwards to correspond with the post-1921 fall in the Ministry of Labour Cost of Living index,[2] subsequently no mentionable relief was available to the cost burden imposed by the upwards revisions of the early post-war years. The policy of maintaining nominal rates of pay is apparently to be ascribed to the tendency for police duties to grow both in range and in detail, *e.g.*, the increased mobility of the population has been cited as causative of extra non-local duties, while reference has also been made to the effects of more comprehensive legislation and regulations and the large additional work entailed by the increase of road traffic duties.[3]

A second factor causing expenditure growth, but of distinctly less significance, was the rise of personnel numbers. Compared with an authorised strength of 56,166 in 1919, the figure advanced to 58,303 in 1934. Such a comparatively small increase does not call for detailed explanation. Population growth, greater urbanisation and the continuous addition of new duties may be cited as being chiefly responsible. The establishment of special officers for particular types of work—*e.g.*, mobile units such as wireless patrols and road patrols—was also a contributory factor.

Third, costs of equipment, buildings and general overhead expenses rose in the post-1919 period not only on account of

[1] Pensions costs rose from about £2½m. in 1920–21 to approximately £5¾m. in 1931–32, although the Police Pensions Act, 1926, increased the contributions of officers to 5 per cent. of pay.

[2] A general reduction of 2½ per cent. was made on the recommendation of the Geddes Committee, but the Lee Committee of 1925 cancelled this, and substituted a deduction from pay of 5 per cent. instead of 2½ per cent. as contribution towards pensions. This policy was promulgated by the Police Pensions Act, 1926.

[3] In a letter from the Home Office.

higher prices for goods and materials, but also because the policy was adopted of more comprehensive provisioning at higher standards. Thus, motor vehicles were purchased in larger numbers; new and more up-to-date police stations were sporadically erected; extensions to, and improvements of, married quarters were undertaken from time to time; and the capital costs of special units were material.

Fourth and last, reference should be made to the failure to achieve reductions in cost through the amalgamation of small police forces and other devices associated with the joint working of separate forces. Although it was shown to the Select Committee of 1932 that economy would have been achievable by amalgamation, a negative decision was taken by that body.[1]

Little needs to be said about the item of the Administration of Justice. Increases of salaries and other remuneration rank predominantly as causes of greater cost. But additions to staffs and the creation of more posts as well as various incidental expenditures were involved by such items as Children's Courts, Probation of Offenders and Prison Reform. Besides, certain branches of work such as those concerned with road offences and prosecutions under various pieces of new social legislation expanded highly in magnitude and therefore in expense.

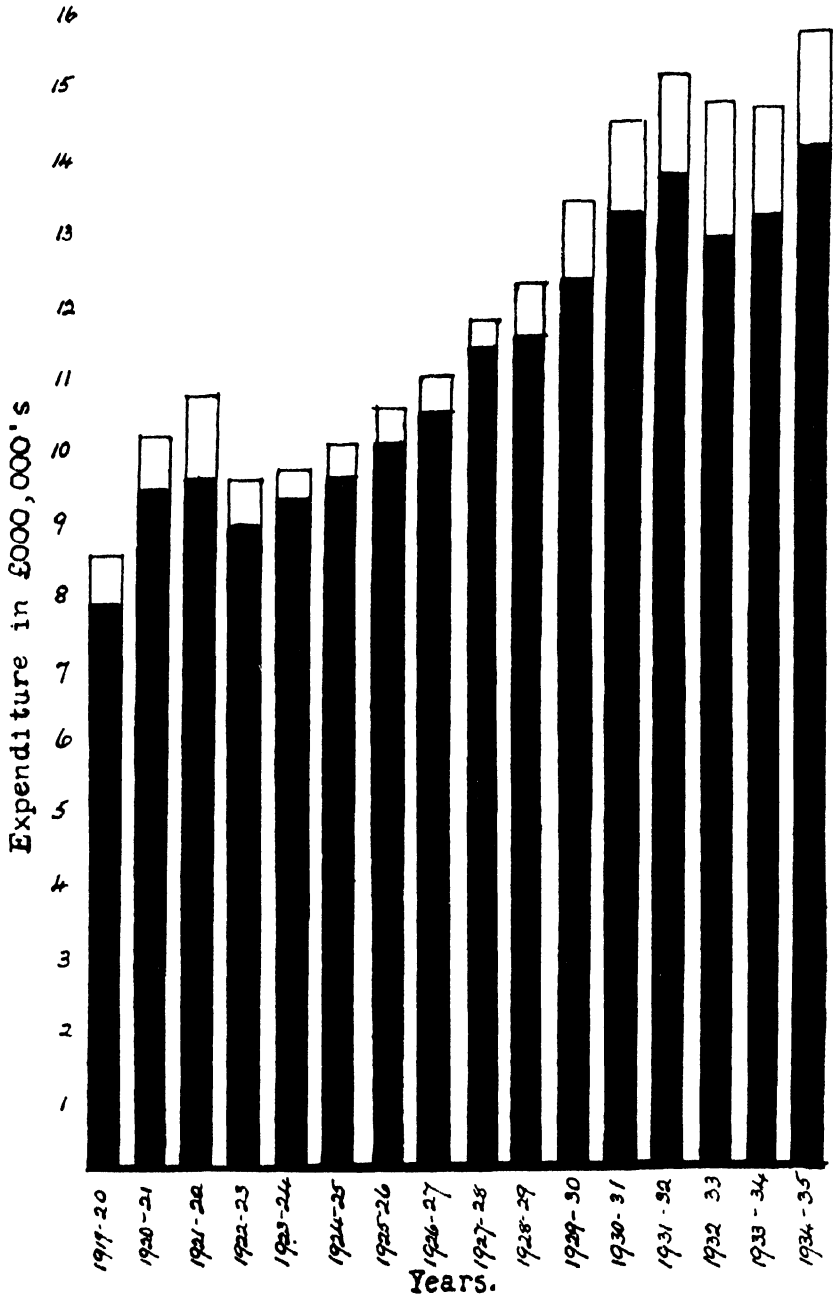
ADMINISTRATION

It is not feasible to enter into a detailed examination of the outlays upon Administration—first, because data are not sufficiently adequate, and, second, because, under counsel from the Ministry of Health, from time to time the local administrations partly relieved expense under this heading by transferring to the various separate services the administrative costs assignable to them.[2] But an attempt can be

[1] *Report of the Select Committee on Police Forces* (Amalgamation), 1932, pp. xv–xviii.

[2] " With regard to ' Administrative Expenses ' we have for many years urged local authorities to allocate their central administrative charges (salaries, office expenses, etc.) as far as feasible to the specific services ". (Letter, Ministry of Health, March 8th, 1934).

ADMINISTRATION.



made to sort out certain of the more outstanding factors affecting cost.

First, numbers of staff employed upon administrative duties were considerably augmented as the years passed. The Ministry of Health does not possess exact figures to demonstrate this. Nor is the Census Office able to supply precise information for Census periods, since no separate classification of local authority administrative personnel was made by the Census.[1] And no more information is possessed by the National Association of Local Government Officers than that, while in 1921 the number of officers—including Public Assistance staffs—was probably about 128,000, in 1934 it was some 133,000.[2] Some illustration of the thesis is, however, derivable from a questionnaire. Replies to this were received from thirty-seven authorities—five metropolitan boroughs, twenty-three county boroughs, seven municipal boroughs and two urban districts. This number is inadequate even for sampling purposes: but the fact that the returns relate to different types of authority affords a rough impression. The information supplied shows that between 1914–32 the percentage increase of numbers of personnel engaged upon administrative duties was over 90. It is believed that between 1914–19 staff growth as a whole was considerably less than that which occurred during 1919–32. Probably, then, there was a material increase in personnel numbers within the period 1919–35.

This conclusion agrees with expectation. For the period saw the passing of a surprisingly large volume of new legislation, and the conferment of such an extension of powers and duties upon central departments as to call for portentous new local activity. In particular, Health legislation was both comprehensive and detailed, and important new developments were inaugurated by enactments concerning Education, Highways, Housing and Trading services—as illustrated in other pages. Nor were other less prominent services exempt, *e.g.*, Poor Relief was subjected to pervasive

[1] The Census figures of all persons in the employ of local authorities were 862,746 in 1921 and 1,024,309 in 1931.

[2] In Great Britain.

changes by the Local Government Act, 1929, while Police and various Minor Specific services were touched intimately by statutory innovations. Further, as noted in other pages, voluminous new duties and powers were added through Parliamentary activity to the various central departments. Indeed, not only because of fresh Acts and Orders, but because these latter bodies evinced pronounced energy in prosecuting their mandates, local authority staffs were subject to heavy demands.

Probably the factor next in importance was the extensive and intensive re-orientation of the grants system. From £48m. in 1919–20, grants came to account for as much as £125m. in 1934–35. Besides, the additional measure of State assistance was usually accompanied by provisions for minimum efficiency in the many services implicated. Investigation to discover whether this was actually obtained involved further close inspection and survey by Whitehall. This, in turn, involved more work for local officials. That work was expanded, for one reason, because the grants system was re-arranged so as to affect a much wider range of items. Thus, new or altered subventions applied to Education, Housing, Highways, Police, Tuberculosis, salaries of Medical Staffs, Mental Hospitals and Mental Deficiency, Maternity and Child Welfare, Port Sanitary Service, Prevention of Disease, Blind Welfare, Public Libraries, various grants for Agricultural Services, Registration of Electors, Reformatory Schools. This proliferation of State subsidies distinctly extended the system of central control and thereby added roundly to the numbers of local administrative personnel needed to cope with it.

Apart from the alterations of the grants scheme, it appears that the central authorities exhibited greater inclination to exert supervision over the local units. Substantially, of course, this was stipulated for by the new legislation itself—and in particular where this led to the establishment of new central bodies such as the Ministries of Health and Transport, or gave more comprehensive controlling powers to old central departments. Nevertheless, whatever Parliament prescribed, plainly much depended on

the actual intensity and extensity with which the new machinery was directed; and apparently most of the national authorities were vigorous in their execution of mandates. The zeal of the Ministry of Transport has been apparent throughout the period; the Ministry of Health has manifested high enterprise; the unremitting ardour of the Board of Education has become a commonplace feature of post-war history; under the new philosophy concerning agriculture, the Ministry of Agriculture has repeatedly instigated new schemes of development; while—during its life—the Unemployment Grants Committee bravely tried to give effect to the policy of public works.

Another explanation of local authority staff growth relates to the cumbersome procedure required when local units sought to procure changes in powers and duties not available under general legislation, and sometimes indeed when they merely attempted to exercise delegated functions. The evidence given to the Royal Commission on Local Government affords manifest illustration of the complicated procedure and the resultant high cost attendant upon spontaneous moves to alter boundaries; the necessity to obtain sanction before obtaining financial powers to execute various developmental works imposed complexity; special local Acts had to be obtained more frequently than in pre-war years; Ministerial enquiries, enjoined by earlier legislation which was designed to restrict rather than to encourage innovation, ranged over a formidable variety of subjects; the defects of Adoptive Acts caused much expense; strict compliance with legal minutiæ provoked roundabout methods and involved heavy staff work; and, lastly, local authorities often found themselves singly or collectively at variance with the central bodies on matters of policy, on the interpretation of rights and duties, and on diverse points of administrative detail—witness the controversies on housing subsidies, teaching salaries, mergers of police authorities, poor relief, derating, assessment practice, the revision of areas and duties under the Local Government Act, 1929, and policy concerning the distressed areas.

A further explanation concerns the illogical and inelastic

structure of local government. As and when functions were newly prescribed and fresh powers were added, this—except where re-organisation was imposed—made for uneconomic increases in aggregate personnel. For, even after April, 1927, when a major reform took place, there were still nearly 12,000 spending bodies of all sizes and degrees of efficiency.

Last, the local authorities themselves were not free from responsibility for the inflation of administrative staffs. They are endowed with more than a modicum of civic pride ; they are less ready to accept co-operative working with neighbouring authorities than to follow their own idiosyncrasies ; and co-ordination between services is not maximised even within their own areas. In such circumstances, it is hardly to be expected that there would be the maximum reaching after economy in staffing.

So much for the growth of personnel. The factor of wage and salary increases constitutes a strong complementary explanation of greater outlay. How much so cannot be known in the absence of insufficient data. Official information is meagre ; that possessed by professional organisations is incomplete. The National Association of Local Government Officers knows that in 1914 only about 12 per cent. of its members received salaries of £260 or more ; that in 1920 some 27 per cent. possessed salaries of £300 or more ; and that in 1931 this latter figure was a little over 30 per cent.[1] These particulars suggest that there was some rise of average salary in the higher grades, but more information is desirable. The only alternative is to resort to the results of the questionnaire cited earlier. But this does not yield complete or even moderately accurate knowledge. For one reason, classification of staffs has changed materially in the post-war years, and new grades have been from time to time introduced. Again, the facts supplied relate to the range of salaries in different groups. In consequence, the only conclusion worthy of mention is that, between 1914–32, average salary ranges appear to have nearly doubled.

[1] Particulars supplied by the National Association of Local Government Officers, October 19th, 1934.

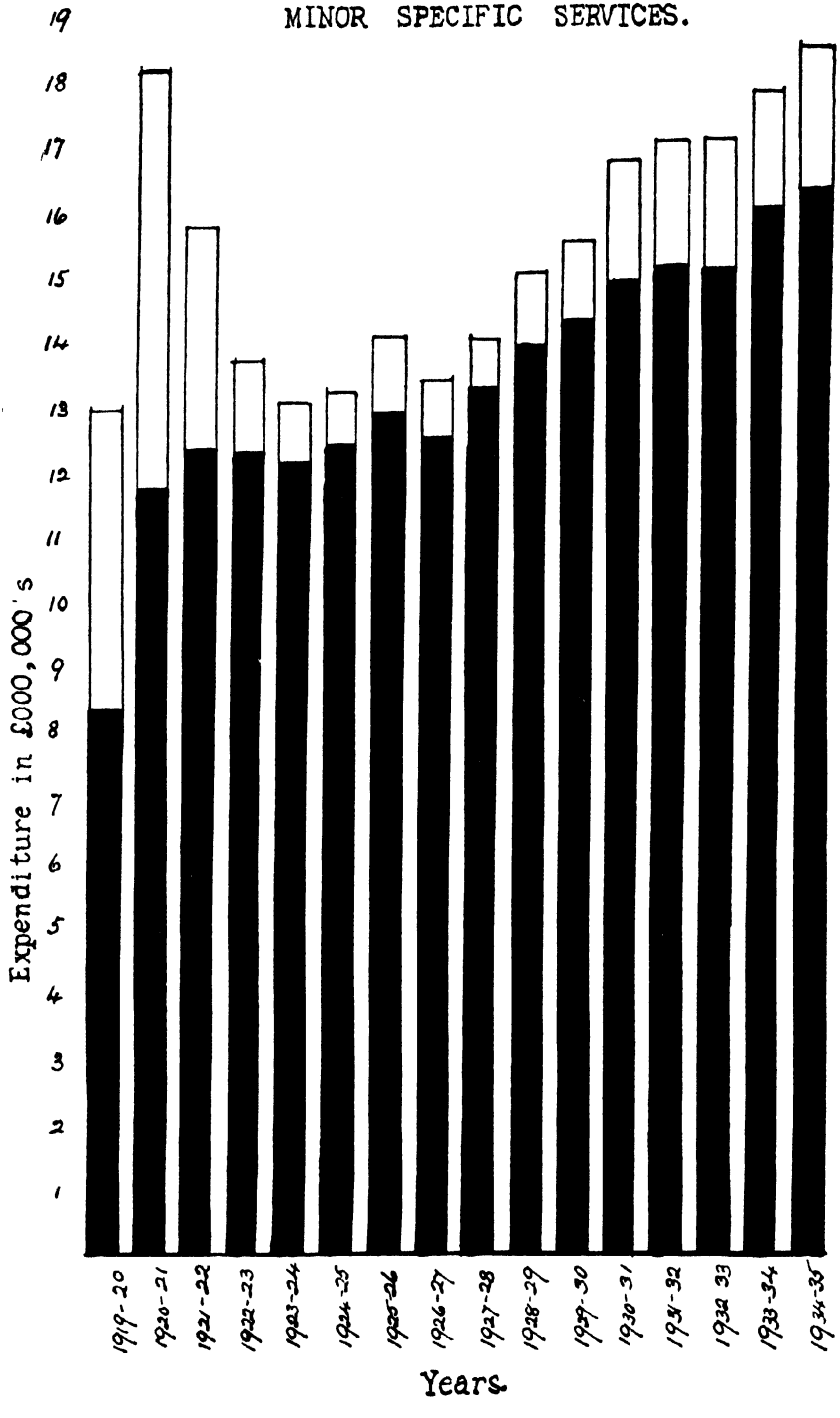
Actually, there are several indications that remuneration was scaled up in post-war times. Thus, local authorities were slow to grant rises of salary to meet the higher post-war costs of living. After the advances had been accorded, however, they were rarely readjusted strictly to match the trend of costs of living as displayed by the Ministry of Labour index. It is also known that additions to salary commitments occurred discontinuously but certainly as and when an increasing number of authorities accepted superannuation schemes—after the passing of the Local Government and Other Officers Superannuation Act, 1922. Lastly, it is believed that in the case of new administrative appointments there has been a tendency to substitute higher for lower salaries, on the ground mainly that the duties were regularly growing in responsibility and called for higher qualifications. For these diverse reasons, probably a material proportion of the greater aggregate cost is assignable to the rise in *per capita* remuneration.

No further complex explanations of this latter need be sought. Yet sight must not be lost of the greater effectiveness of various professional organisations which have ceaselessly worked for salary amelioration as well as for other things. By achieving a tighter organisation of local authority staffs over the country ; by imposing, or raising standards of professional examinations; and by bringing pressure to bear upon the local bodies, bargaining power has been enhanced.

These—increased personnel numbers and the rise of average remuneration—constitute the principal explanations of rising administrative costs. But a minor part was played by the post-war higher level of prices for materials and equipment, and the necessity for increasing their volume.

MINOR SPECIFIC SERVICES

Under this heading are grouped all other services separately designated in the Local Taxation Accounts, expenditure upon which was not sufficiently important to


MINOR SPECIFIC SERVICES.
Expenditure in £000,000's
19
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
1919-20
1920-21
1921-22
1922-23
1923-24
1924-25
1925-26
1926-27
1927-28
1928-29
1929-30
1930-31
1931-32
1932 33
1933-34
1934-35
Years.

warrant distinctive citation and discussion. As will be seen,[1] the number of such items is rather large.

It would appear that the most active cause of expanded financial commitments was new legislation and the spate of Orders and Regulations issued thereunder. Thus these provoked higher outlays on the most important single item —Agricultural services. The Land Settlement (Facilities) Act, 1919, the Land Settlement (Amendment) Act, 1921, and the Small Holdings and Allotments Act, 1926, induced considerable spending in early years especially because they offered tempting grants relative to those available in pre-war times.[2] In doing this, the Government was activated by a desire to settle ex-servicemen on the land and to stimulate domestic agriculture. The actual outlays were inflated because the bulk of them occurred when post-war land prices were at or near their peak, and when interest rates were high. Other new, although less costly, legislation—relating to Allotments—occurred in 1922 and 1925. The Land Drainage Act, 1918, conferred fresh powers on local authorities and, associated with grants from the Unemployment Grants Committee, led to expanded commitments. A new Act of 1930 evoked more costs. Further, the central body provided facilities for new work to be done concerning Diseases of Animals, for the extension of Agricultural Education and Research and gave power to spend on the supply of Feeding Stuffs and Fertilisers. Besides Agriculture, legislation affected the service of Public Libraries. The Act of 1919 destroyed various restrictions on local authority spending—especially that limiting commitments to the proceeds of 1*d.* rate—and advantage was steadily taken of the new freedom to make facilities more comprehensive.[3] The Representation of the People Act, 1918, called for more administrative staffs. The Rating and Valuation Acts, 1925 and 1928, together with the Rating and Valuation (Apportionment) Acts of the same years,

[1] Table in Appendix.

[2] During 1920–26, some 79 per cent. of total expenditure was met from the State's purse.

[3] By 1926, fifty-seven of the sixty-two administrative counties had adopted the new Act.

sought to remove anomalies of assessment and to introduce greater uniformity into the system. With the upward tendency of local expenditure in the aggregate, accuracy and flexibility of assessment came to assume growing importance: and expense mounted accordingly. It was further augmented by later legislation—particularly the Local Government Act, 1929 and the Rating and Valuation (Railways) Act, 1930. It was specific legislation, too, which influenced the costs of Inspection of Shops and other Minor services too insignificant to merit separate citation. Lastly, distinctive reference is necessary to expenditure promoted by the Unemployment Grants Committee: for this was established as a result of Parliamentary activity.

Second to rank is the enterprise evinced by the local authorities themselves in securing more effective and adequate provision of services. Doubtless, this was measurably inspired by rising demands: but spontaneous effort was a fertile cause of added outlays. Public Lighting was steadily improved with a view to making roads and streets safer and to meet the needs of new housing and roads development. And this was costly. Similarly, equipment and personnel required for Fire Brigade work were enhanced in efficiency and augmented in adequacy, to cope with additional fire-risks arising from more intense urbanisation, more combustible industrial processes and generally to afford better protection to the community. It is improbable that the local bodies would have undertaken such major financial obligations for Agricultural services if they had not been favourably disposed to the central authority's desire to check rural depopulation and to render what was deemed to be an industry of basal national importance more efficient: for this service involved large subsidisation without hopes of financial benefits to local councils. Records of progress indicate, too, that there was at least fairly general willingness to make the Library service more competent; some large authorities were, indeed, distinctly progressive in outlook.

A third factor is the combined effect of the high

post-war prices for materials and goods and real increases in staff remuneration. Since much spending in this group of items took place in earlier post-war years the high prices then ruling assumed unusual importance for costliness. And the fact that nominal remuneration remained without equivalent correction to compensate for falling costs of living eventuating in later years possesses significance because the continuous augmentation of services and facilities necessitated additional staffs.

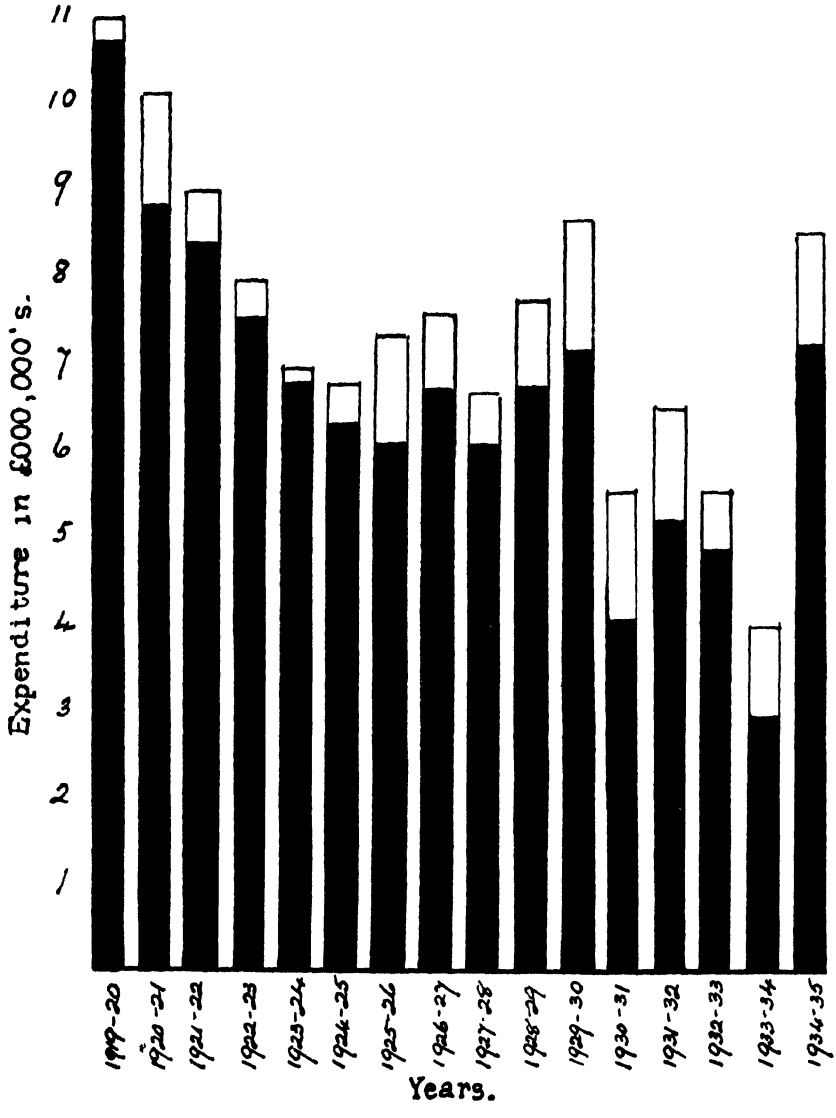
MISCELLANEOUS

This—the residual group—registered a decline in cost on revenue account and but a small increase in cost on capital account throughout the period.

Before attempting to account for these features, reference may summarily be made to the items included. First, there are the costs of specific services not continuously recorded during the period in separate form in the Local Taxation Accounts. Principally, this refers to items actually distinguished individually in earlier years, but later merged in other items, *e.g.*, in 1919–20 under Miscellaneous Expenditure there were included outlays on Destruction of Rats and Mice; Fertilisers and Feeding Stuffs; Sea Fisheries; Other Agricultural items; Weights and Measures; Explosives Regulations; Inspection of Shops; Prevention of Adulteration of Food and Drugs; Mortuaries. There were also, however, one or two items which lapsed afterwards—*e.g.*, National Registration. Second, items are contained under this heading which were not ordinarily ranked under other separate groups of expenditure. Such items include: Manchester Ship Canal; Trent Navigation; certain Light Railways; Private Ferries; Middlesbrough Transport Bridge; and temporary items such as moneys devoted to Floods Prevention; Sea Defence; Relief of Local Distress. Third, this category includes general items such as Superannuation and Pensions Funds; Trusts and Charities; Bank Interest and Bank Charges; Income Tax; various Reserve Funds. Fourth, it is thought

advisable to bring under this grouping the transfers made to Trading services to meet deficiencies.

MISCELLANEOUS.



From this enumeration, it will be evident that it is hardly feasible to analyse changes in the details of expenditure:

instead, it is only possible to make a few terse general observations. The most important cause of the reduction of outlays upon revenue account after 1919–20 was the transfer of the various specific items noted above to their appropriate groups. While most of these were only of very minor importance, such items as Weights and Measures, Diseases of Animals and other Agricultural services were not unsubstantial.

A further reason is that, before 1928–29, expenditure out of capital receipts other than receipts from loans, as well as expenditure out of reserve funds was included in aggregate expenditure upon revenue account. In and after that year, however, a fall in the outlays charged to revenue account was instigated by altered accounting procedure. For expenditure out of capital receipts of whatsoever kind (loans, exchequer grants for capital purposes, sales of land, etc.) was shown under the division of expenditure upon capital account.[1] The result was to deflate expenditure upon revenue account, and to inflate that upon capital account.

A third factor was that, as under this group is recorded the sums transferred to meet deficiencies in Trading services, the fact that these declined—in the latter half of the period especially—caused a fall in expenditure borne upon revenue account.[2]

On the other hand, fourth, the decline of outlays would have been greater still but for additional commitments for such items as Superannuation and Pensions Funds, Reserve Funds of various sorts and certain of the actual service items.

As for expenditure upon capital account, the small average rise in this during the period is principally to be ascribed to the change of accounting procedure of 1928–29 noted above. In addition, however, from time to time small extra spending of a capital character was undertaken for certain of the actual service items—*e.g.*, Manchester Ship Canal, Aerodromes.

[1] Letter from the Ministry of Health dated March 8th, 1934.

[2] Such transfers totalled £4·78m. in 1920–21, rose to £5·26m. in 1921–22, and thereafter declined—being only £2·60m. in 1934–35.

It is apparent, then, that the changes of figures recorded are matters mainly of accounting practice and alterations therein ; so that there is no need to enter upon a detailed consideration of the comparatively slight variations in expenses of services as such.

A SUMMARY REVIEW OF EXPENDITURE, 1919–35

It is desirable now to synthesise the analysis of the preceding pages in order to obtain a general perspective concerning the factors to which the increase of local authority expenditure during the period was due and also to distinguish their relative importance.

First place, it is evident, must be assigned to the consequences of new Parliamentary legislation. For this extensively expanded and intensively developed the powers and duties of local authorities. Its magnitude was extraordinary, and the pace at which new Acts appeared on the Statute Book was unprecedented. Indeed, it evoked a minor revolution of local authority social services. Housing expenditure was fundamentally instigated by the Acts of 1919, 1923, 1924, 1925, 1926, 1930, 1933 and 1935. In Trading services, too, legislation played a definite, if less pronounced part. The important item of Electricity was profoundly affected by the Acts of 1919, 1921, 1922 and 1926. The new component labelled General Corporation Estates found its sanctions to no small extent in legislation giving powers to acquire and develop lands, and in the various Town and Country Planning Acts. Various provisions in Public Health Acts fortified local authority action in developing the service of Markets. The Ministry of Transport Act, 1919, authorised advances for work on Docks, Harbours, Piers and Wharves. The legislation establishing and facilitating the work of the Unemployment Grants Committee assisted, through grant provisions, certain works involving Trading Services as a whole. Lastly, Parliamentary decisions to extend and finally to remove borrowing limits had clear significance for

new capital spending on this group. Turning to Highways and Bridges, the Ministry of Transport Act, 1919, the Roads Act, 1920 (providing an ever-expanding revenue), the Roads Improvement Act, 1925, the Public Health Act, 1925, the Local Government Act, 1929, the Bridges Act, 1929, the Road Traffic Act, 1930, and legislation relating to schemes of work for the unemployed generated voluminous commitments. For the large-scale and complex developments of Education, a basal and continuative cause is found in the Education Acts, 1918 and 1921. The Children and Young Persons Act, 1933, the Local Government Act, 1933 (relating to land acquisition) and the Unemployment Act, 1934 (relating to juvenile unemployment) also had some significance. Specific legislation occasioned the bulk of extra outlays on Health services, *e.g.*, Mental Hospitals and Mental Deficiency, Maternity and Child Welfare, Tuberculosis, Welfare of the Blind, Port Sanitation, General Hospitals, Medical Staffs, Slaughter Houses, Food and Drug Inspection and Prevention of Disease. And much of the remaining outlay was promulgated by legislation concerning employment works—especially that on Sewage Works and Parks and Pleasure Grounds. The Police Act, 1919, and the Police Pensions Acts, 1921 and 1926, crystallised the Government's decisions to award higher pay, more generous pensions and uniform remuneration throughout the country. The sanctions thus accorded had considerable influence on cost. That part of Administrative costs relating to Legal and Parliamentary expenditure was definitely enhanced—if indirectly—by new departures in general legislation. More important, the growth of administrative personnel was fostered by the proliferation of local authority duties and powers. The Local Government and Other Officers Superanuation Act, 1922, drove up pensions costs. In the group of Minor Specific Services, extra monetary responsibilities in the case of Agriculture, Public Lighting, Registration of Electors, Valuation and certain items dealing with inspection were involved by new Acts of Parliament. Clearly, then, the portentous output of Westminster concerned every group of services at one time or another. Not only so, but it

generated such a spate of new activity and applied such an impulse to old lines of work as to have profound significance for the aggregate growth of expenditure.

Necessarily in close alliance with this first factor, second, there was a somewhat remarkable development of Exchequer grants—new and old. The stimulus to spend given by the raising of old grants and the initiation of entirely fresh subventions was unmistakable: and its total quantitative effect was large. Among old grants which were increased were those for Education, Agriculture, Health and Police. Of the new subsidies the more prominent were those for Housing, Highways and Bridges, certain special assistance to Education, fresh help for various Health services, and the corpus of financial subventions awarded through the Unemployment Grants Committee. The importance to be assigned to this factor is perhaps best summarily indicated by the statement that Exchequer assistance advanced almost uninterruptedly from some £48m. in 1919–20 to £125m. in 1934–35 —from 18·2 per cent. of total expenditure on revenue account to 27·4 per cent. Plainly, local bodies had high incentive to extend their commitments. And this was facilitated because the conditions attached to State help substantially augmented the power of the central authorities to demand comprehensive and efficient provision of services on the part of all local authorities—rich or poor, small or large. Furthermore, most of the new grants were of the percentage type, and these were peculiarly effective in fostering voluntary local initiative. Lastly, the large-scale capital grants were frequently arranged so that the quasi-instalment terms of repayment were spread over long periods and therefore ostensibly imposed a less pressing annual burden. Coupled with the increase and final extinction of borrowing limits, local authorities readily accepted wider monetary responsibilities.

These two factors are primary, if not all-pervasive. For in their absence the local units would have been shorn of much incentive and capacity to spend. Third, was the general readiness of the local bodies not only to respond to the demands of local populations for improvements of, and

extensions to, communal services, but also deliberately to adopt progressive policies. Nor was the former of these necessarily the more important. It is true that local demands generally mirrored changes in public opinion. But public opinion, being often many-sided, not infrequently offers conflicting counsel, it is not well-informed about the broader issues of social and economic policy, and—despite the ballot box—it frequently registers slowly or inadequately. More to the point, instances illustrate the clear disposition of local bodies in general to give hostage to a more progressive policy. The Housing Acts, for example, met with a large response. The altered political complexion of post-war local government carried high responsibility for the upward surge of spending on Trading services. Again, local councils evinced keenness and determination concerning the improvements of Highways. Separate local areas were active in adapting their road systems to the needs of provincial traffic, in promoting safer thoroughfares and often in welcoming a means of providing work. In the field of Public Health, local administrations were not passive and featureless. Actual instances attest extremely great energy and, indeed, on occasion spending with minor regard for economy. In general, a deepened spirit of social sympathy, a keen recognition of the significance of improved communal health and alertness to follow the lead of enlightened medical advice combined to promote a forward-looking policy. Even if slow initially to give effect to the larger aspirations of the 1918 Education Act, and if in such matters as new school building they were for some years conservative, Local Education Authorities subsequently atoned. They, at any rate, were not to blame for the failure a second time (in 1933) to raise the elementary school-leaving age. And initiative in promoting new schemes was marked. Although Poor Relief Exchequer grants remained unaltered, Boards of Guardians did not shirk meeting the ominously large increase in demands upon local purses—so often, indeed, the tendency was rather to generosity. In the case of Police and Justice, the heavy financial obligations imposed by materially larger pay and pensions were

accepted by local bodies, and these were appreciable despite extra grant aid. In Minor Specific Services, reference may be made to the alacrity of the response to the appeal for land-holdings for ex-servicemen and others—although land prices were then inflated, interest charges were high and building costs far from normal. The relatively enthusiastic development of the Public Library Service when it was freed from expenditure restriction may be quoted, as may the spontaneous, if limited, modernisation of Fire Brigades services. Specific mention may also be made of the greater provision of local amenities—more public parks, pleasure grounds, sports grounds, children's playing fields, baths and bathing pools. Lastly, the response to opportunities of promoting schemes to absorb the workless—and especially in the poorer areas afflicted by persistent economic depression —may be remarked.

Fourth, was the growth of both real and nominal staffing remuneration. It has been shown that local authorities acquiesced in higher pay to meet the pre-1921 rise of living costs. But later there was no concerted or general policy of lowering remuneration in strict accord with the appreciable drop in the Ministry of Labour's index number. True, wages rates fell measurably over the period. But the fall was not only less than that exhibited by the index number but smaller than that for average wages paid by private industry.[1] As for salaries, there are not many indications of noteworthy reductions,[2] but numerous instances of scaling upwards. Large additions to costs were also entailed by a continual tendency for local authority personnel to increase—and roundly so.

Fifth, the peculiar pressure to spend in certain directions which was originated by new Acts of Parliament and was highly fortified by central policies resulted in a swiftly-expanded and highly-swollen demand encountering relatively inelastic short-period supply. The inevitable outcome was to force up prices. The outstanding instance is that of

[1] Pp. 151-4.
[2] General reductions were made in 1931 on account of the economy "crisis."

Housing. The launching of large-scale demands when materials and labour were in short supply induced a steep rise of prices. And even up to 1925—with some intermission—public demand continued to run high—indeed to expand—despite any pronounced extension of supply facilities. Again, the new educational régime ushered in so speedily by the 1918 Act entailed a substantial rise of demand for teachers, although for years past supply had been dwindling. The very material rise of salaries after 1918 was clearly associated with the new Act. A similar outcome followed the widespread repair and reconstruction schemes for Highways in the early twenties. Further, there was the hasty rise of demand for doctors, sanitary inspectors, midwives and health visitors to satisfy needs postulated by new legislative developments. The planning of extensive new schemes for sewage works and extensions of other Health services in early years may also be cited. The rush to settle persons on the land resulting from the Act of 1919 is another typical instance, for supply conditions were then conspicuously artificial.

Sixth, it would be unwarrantable to overlook the not infrequent cases of extravagance and dis-economy—whether or not due to circumstances beyond the control of the public bodies. The wide dispersion of poor-law institutional costs is an apposite example, as is the divergent award of outdoor relief; discrepancies in the costs of mental hospitals were notable; unit costs of cleansing services seemed to have no norm; the conduct of general local hospitals varied in efficiency; house prices exhibited distinct variation between extremes; educational services showed a lack of uniformity in *per capita* expense. To these specific references may be added a definite lack of local readiness voluntarily to co-operate in the joint provision of services, *e.g.*, Water, Transport, Hospitals, Police, Gas. Further, the system of collective purchasing was slow to come into use.

Concerning these matters, it is desirable to say explicitly that examples of dis-economy and waste were by no means unknown in pre-war times. But these defects assumed greater significance during a period when outlay was almost

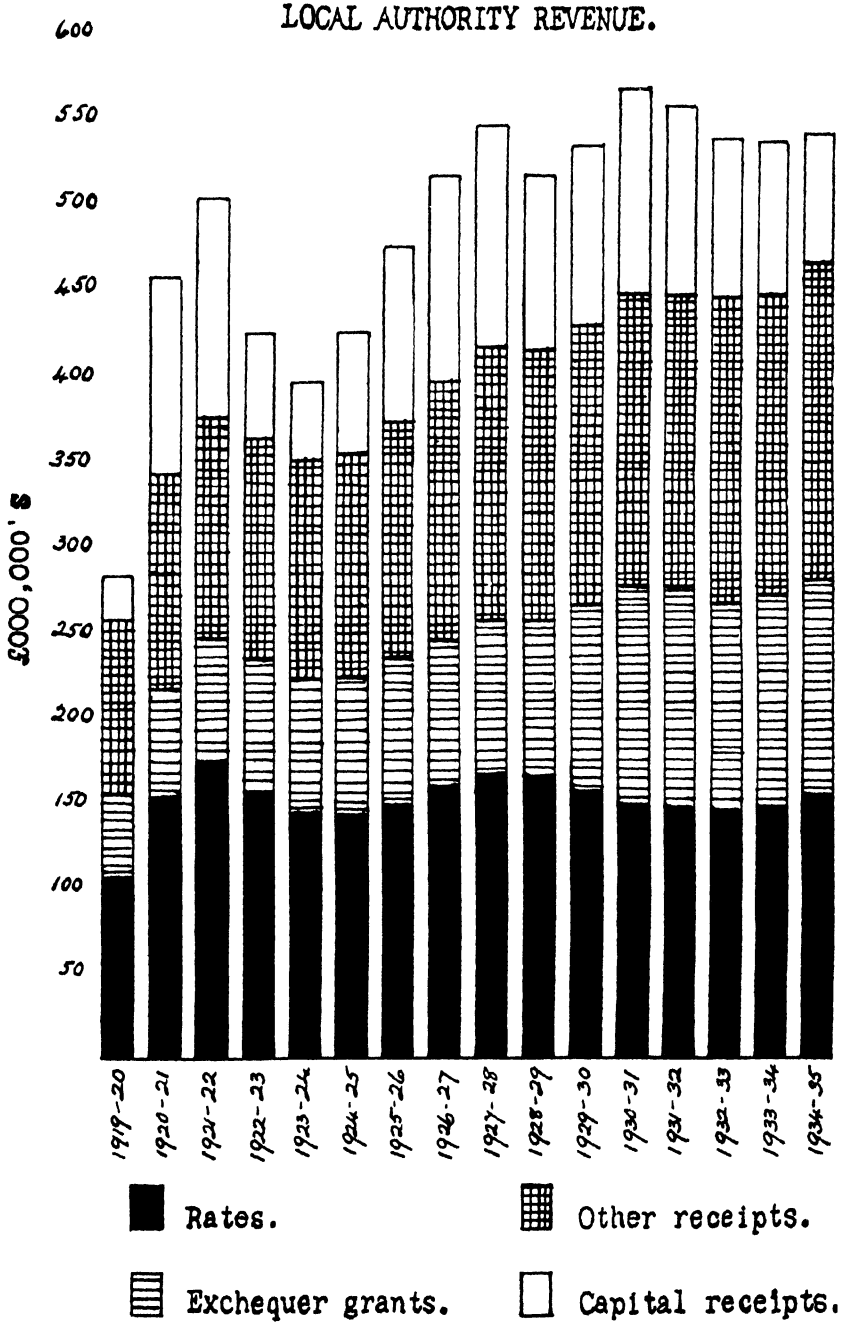
continually expanding. Further, it has been shown that new specific dis-economies were instigated by fresh evolutions of policy occurring in the post-1919 years. Lastly, the rise of Exchequer grants cannot be dissociated from more extravagant tendencies in spending.

Seventh and finally, reference is needed to various minor features which had some influence for aggregate expenditure. The relaxation of borrowing limits made in earlier years in the case of certain kinds of spending—*e.g.*, for unemployment works and Health services—naturally encouraged outlay. The complete removal of limits in 1929 maximised such encouragement, even though powers of sanction were not abolished. Joined to this was the greater ease with which local administrations obtained resources from the Public Works Loan Board and private investors. Rivalry between contiguous authorities, or authorities similar in type (*e.g.*, especially, seaside resorts and by towns suffering from growing pains) sometimes produced high spending. And there must be noted the expense caused by the necessity for local units to comply with archaic, and unnecessarily cumbersome procedure, when authorities sought powers not available to them under general legislation—especially in the case of boundary extensions and other innovations. Lastly, except after economic crisis, local authority expenditure was little influenced by the trade cycle.

HISTORICAL SURVEY : 1919-35

REVENUE

This subject does not call for the fuller treatment given to Expenditure, for the reason that the raising of revenue is a necessary correlative of the incurring of expenditure, because detailed changes due to variations of policy were fewer than in the case of separate items of expenditure and because that brief analysis of alterations in policy and method which it is necessary to undertake lends itself readily to summary treatment.


LOCAL AUTHORITY REVENUE.
£000,000's
600
550
500
450
400
350
300
250
200
150
100
50
1919-20
1920-21
1921-22
1922-23
1923-24
1924-25
1925-26
1926-27
1927-28
1928-29
1929-30
1930-31
1931-32
1932-33
1933-34
1934-35
Rates.
Other receipts.
Exchequer grants.
Capital receipts.

The following table indicates the total revenue derived from the various sources during the period :—

LOCAL AUTHORITY REVENUE, 1919–35 [1]
(£m.)

Year	Rates	Exchequer Grants	Other Receipts	Capital Receipts	Total
1919–20	105·63	48·26	104·03	24·31	282·23
1920–21	151·81	63·04	126·30	116·06	457·21
1921–22	170·87	76·66	126·93	127·38	501·84
1922–23	157·27	75·84	128·00	61·08	422·19
1923–24	143·28	78·32	127·84	46·53	395·97
1924–25	141·98	81·74	131·12	69·56	424·40
1925–26	148·60	84·63	138·92	99·21	471·36
1926–27	159·00	86·96	149·80	119·37	515·13
1927–28	166·68	90·08	159·27	128·00	544·03
1928–29	166·47	89·40	156·59	104·29	516·75
1929–30	156·31	107·83	164·50	101·59	530·23
1930–31	149·90	130·16	169·07	116·96	566·09
1931–32	148·28	126·55	171·93	109·75	556·51
1932–33	146·29	120·53	174·83	95·49	537·14
1933–34	148·55	121·62	176·47	86·66	533·30
1934–35	154·78	125·04	181·57	78·17	539·56

The general impression derived from this table is that, throughout the period, each of the four sources of revenue made substantial contribution: but both Exchequer Grants and Other Receipts increased steadily, whereas the revenue from Rates exhibited certain discontinuities and that from Capital Receipts showed definite fluctuation.

It is interesting to enquire to what comparative extent each source of income assisted in financing the growth of aggregate expenditure. The table on p. 67 shows the average rise in each item during 1920–35 (average) relative to 1919–20.

Both the actual monetary and percentage increase during 1920–35 relative to 1919–20 were distinctly the greatest in the case of Capital Receipts. As for the other three components, although the actual monetary increases were curiously alike, Exchequer Grants rose by the greatest

[1] *Local Taxation Accounts.*

AVERAGE AND PERCENTAGE RISE IN SEPARATE COMPONENT ITEMS DURING 1920–35 RELATIVE TO 1919–20

Rates		Exchequer Grants		Other Receipts		Capital Receipts	
Average Rise	Per cent. Rise	Average Rise	Per cent. Rise	Average Rise	Per cent. Rise	Average Rise	Per cent. Rise
£m 48·37	46	£m 48·93	101	£m 48·16	46	£m 73·03	200

percentage; while Rates and Other Receipts advanced equally in percentage terms. Evidently, then, the period after 1919–20 was distinguished by a much more considerable resort to loan finance (and other capital receipts) and more conspicuous assistance by the central authority.

It is desirable to review briefly the reasons for the alterations exhibited by each of the four constituents of revenue. Dealing first with non-capital items, primary attention may be devoted to Exchequer Grants. The growth of these, in the case of the separate grouped items used for the purpose of analysing expenditure, is shown in the following table :—

EXCHEQUER GRANTS FOR SEPARATE GROUPED ITEMS, 1919–20 AND 1920–35 [1]

£m.

Service	1919–20	1920–35 (Average)	Increase or Decrease during 1920–35 over 1919–20
Miscellaneous.	2·73	20·57	17·84
Education .	29·30	40·32	11·02
Housing .	—	9·29	9·29
Highways .	3·17	11·04	7·87
Police . .	8·42	9·91	1·49
Health . .	2·70	3·99	1·29
Minor specific.	0·39	1·33	0·94
Trading .	0·06	0·37	0·31
Administration	0·13	0·07	—0·06
Poor relief .	1·07	0·83	—0·24

[1] *Local Taxation Accounts* and figures supplied by the Ministry of Health. The total of the columns is not necessarily similar to that of the figures on p. 66 because the above aggregates represent the total of grants out of which expenditure was met, as opposed to the total of grants received.

After Miscellaneous, discussion of which may be deferred, the largest growth of grant aid occurred in Education. For this the principal responsibility falls upon the Education Act, 1918. That Act metamorphosed the previous system. Under it, the Elementary education grant became based upon a formula which provided for a substantive grant having maximum and minimum limits. The maximum was the greater of two-thirds of the net expenditure and the excess of this over a fixed local rate. As for the minimum, if the substantive grant did not provide an amount equal to one-half of the net expenditure, a deficiency grant was paid to enable it to do so: and where the grant was less than a prescribed rate yield, one-half of the sum in defect was made good by the State. This latter provision was intended to help areas suffering from high education rates. In the case of Higher education, the previous subvention was continued, but, where it was requisite to do so, a deficiency grant brought up the State's share to 50 per cent. of net expenditure.

The effect of the scheme was to raise the maximum amount which an educational authority could secure, and also to scale up minimum assistance. Therefore, local education authorities were encouraged to spend in the diverse new ways prescribed by the 1918 Act. Coupled, of course, with other influencing factors, these changes constitute the basal reason for the increase of Exchequer subventions to this item. Another substantial factor was the rise, in 1929, of the grant for reorganisation and development from 20 to 50 per cent. While it operated, this was a relatively important cause of extra outlays, and therefore subsidies. In 1931, owing to the economic crisis, the formula grant for Elementary education was adjusted so as to meet the changes involved by cuts in teachers' salaries and by the abolition of the deficiency grant. Besides, the enlarged grant for reorganisation and development of 1929 was withdrawn. In 1932 an additional formula grant was devised for Elementary education, to help areas where the product of a *7d.* local rate fell below a prescribed amount. The

restoration, in 1934, of one half of the 1931 cut in teaching salaries, was followed by appropriate modifications of the basal formula grant. Besides these principal subventions, minor additional State assistance was given for such purposes as juvenile employment centres, museums and art galleries.

About Housing subsidies, it is unnecessary to add to what has been said earlier (pp. 7–8). There it was shown that they arose in consequence of the spate of new legislation concerning working-class dwellings, slum clearance schemes and the grant of State help to private persons. It may be pointed out, however, that as the subventions were arranged on an annual basis, necessarily the aggregate amount expanded cumulatively as the volume of building and slum clearance work expanded throughout the period.

Highway grants were roundly increased in consequence of the establishment of the Ministry of Transport, in 1919, and the passage of the Roads Act, 1920. Out of the Road Fund established by the latter, initially subsidies of 50 and 25 per cent. were given for Class I. and Class II. roads; later, as explained earlier (pp. 19–20), these were raised to 60 and 50 per cent. respectively, while a further contribution of 25 per cent. was paid for "scheduled" roads. Besides these, there was a congeries of special grants for the various purposes already described,[1] representing not merely additional subventions, but more generous subsidisation. Furthermore, the Road Improvement Act, 1925, enlarged the scope of expenditure upon roads eligible for national assistance. Despite the discontinuance of maintenance grants for classified roads in London and county boroughs, and of maintenance grants for unclassified roads in counties, which was effected by the 1929 Act, national financial help did not thereafter decline greatly. The explanation resides in the subsidies still left available, the effects of the Road Traffic Act, 1930, and the outcome of the various special works undertaken then and up to the crisis of 1931. Moreover, despite the curtailment of road

[1] Pp. 19–20.

schemes in 1931, progress was later steadily resumed thereon ; and in 1934 the reversion to pre-1931 conditions was so complete and the effects of certain alterations of Ministerial policy [1] were so favourable, as to cause a recovery in grant totals.

Up to 1929, the Health services registered distinctive rises in grants. These were due to changes affecting many items. First, expenditure increased upon items which were eligible for percentage grants under pre-1919 legislation—*e.g.*, Mental Deficiency (50 per cent.), Venereal Diseases (75 per cent.), Maternity and Child Welfare (50 per cent.), Salaries of Medical Officers (50 per cent.), Tuberculosis (50 per cent., for certain items), and Vaccination (based on numbers). As such outlays grew, the total of grants rose automatically. Second, new legislation in the period increased the range of expenditure benefited by State subsidies. Thus, the Mental Deficiency and Lunacy (Amendment) Act, 1919, removed limitations previously existing upon the grant aid provided by the Mental Deficiency Act, 1913. The Public Health (Tuberculosis) Act, 1921, prescribed—in addition to 50 per cent. of approved expenditure —a block grant to cover the cessation of assistance from national health insurance funds. Under the Midwifery Training Regulations, 1919, a grant was provided to encourage the training of midwives ; and this was subsequently increased. Grants also came to be provided in 1925 for training Health Visitors. An extension of the grant-aided service for Maternity and Child Welfare was made in 1926. In 1920, the passing of the Blind Persons Act provided subventions of various sorts towards amelioration of the condition of blind persons : and, due to increasing expenditure, Exchequer assistance rose both continuously and considerably. The new regulations issued for the Port Sanitary Service in 1920 were instrumental in increasing the amount of subvention. Other minor services also became eligible for assistance. As and when

[1] *E.g.*, the 75 per cent. grant for reconstruction of weak bridges on classified roads, and the 60 per cent. grant for maintaining traffic light signals.

expenditures expanded, the volume of grant assistance also rose.

By the Local Government Act, 1929, most of the specific subventions to Health services were discontinued. Although the new formula grant made allowances by way of compensation, they no longer appeared under the item of Health services.

The steady augmentation in the State's contributions to the Police service was the outcome principally of the Police Act, 1919, raising the subvention to 50 per cent. of net approved expenditure. Inevitably, therefore, as outlays were enhanced, the demands upon the State's purse increased.

There yet remain for notice a number of minor items which enjoyed grant aid. Relatively large assistance was given under the early post-war Land Settlement and Small Holdings Acts—so much as 79 per cent. of total expenditure during 1920–26 was met from the State's resources. The Land Drainage Acts, 1918 and 1930, were partially carried into effect with the help of funds provided by the Unemployment Grants Committee. The Diseases of Animals Act, 1925, awarded recoupment for slaughtered animals of 75 per cent. of their value. A grant of as much as 100 per cent. was made available for administration in the case of County Agricultural Committees by an Act of 1919, and a sum of £4 per acre was provided for afforestation by the Forestry Act, 1919. National assistance towards the cost of Registration of Electors was provided so early as 1918 by the Act of that year, but expenditure did not attain its full stride until somewhat later. Brief reference may be made to new grants under the Children and Young Persons Act, 1933 (about 50 per cent.), the special assistance given to distressed areas (first made in 1932), and the specific national help given for rural water supplies, as from 1934. Lastly, although not continuously operative, very substantial grants were given by the Unemployment Grants Committee for certain projects designed to relieve unemployment.

The fact that the item of Miscellaneous services records

the largest grant expansion of all may now be noticed. This enables reference to be made to two general changes which took place in the grants system within the period. Of these, the first was the passing of the Agricultural Rates Act, 1923. As that Act derated agricultural land to the extent of another quarter (it was derated by one-half in 1896), it was necessary that the State should raise its total grant to make good the deficiency of rating revenue. There resulted a rise of some £2m. in the grant on this account in the following year, and roughly similar amounts thereafter up to 1929. In 1929, came the important measure under which hereditaments utilised for basal production were exempted from 75 per cent. of assessment and agricultural land was entirely exempted. As the scheme also provided for the substitution of block grants for services other than Police, Education, Housing, Roads (part only) and certain Health services, there resulted a remarkable extension of State assistance, amounting to nearly £45m. in 1930–31. This figure was constituted of losses of rating revenues sustained by the local authorities (over £22m.); losses entailed to them from discontinued grants (over £16m.); an "additional" block grant (some £5m.) designed to meet the expense which would result from the normal expansion of local services[1]; and finally a small "supplementary" grant paid to compensate for increases of rates in cases where these resulted from the scheme. Plainly, this departure was revolutionary. There is, however, no need to enter into long explanations, as these are generally familiar. Let it suffice to say that the reform was the outcome of prolonged post-war discontentment with the working of the rating system, and was intended to remove the more notorious abuses to which it had given rise in the shape of inequities and disparities, as between one type of production and another, and as between producers located in different places.

To consider next Other Receipts, the following table shows changes in these for separate grouped items :—

[1] Actually, this was increased by £350,000 under the Local Government (General Exchequer Contribution) Act, 1933.

OTHER RECEIPTS FOR SEPARATE GROUPED ITEMS, 1919–20 AND 1920–35 [1]

£m.

Service	1919–20	1920–35 (Average)	Average Increase or Decrease in 1920–35 relative to 1919–20
Trading	80·82	104·77	23·95
Housing	0·91	16·36	15·45
Highways	2·20	4·52	2·32
Miscellaneous [2]	7·63	9·49	1·86
Education	2·43	3·71	1·28
Health	5·52	6·68	1·16
Minor specific	1·35	2·36	1·01
Poor relief	1·01	1·97	0·96
Administration	0·59	0·79	0·20
Police	1·57	1·56	—0·01

The two groups of Trading and Housing are predominant. The basal reason for their growth was the pursuit of the policy whereby these services should burden the rates to no more than a small extent at most: and charges and rents were adjusted accordingly. Again, these items were evidently suitable subjects for charging on a *quid pro quo* basis. But, of course, the greater revenue yield was a function of the volume of expenditure which, in the case of both constituents, assumed voluminous dimensions in the period. And this, in turn, was the joint outcome of the enlargement of popular demands and the progressive policies followed by the central and local administrations. These matters of expenditure are analysed in more detail earlier (pp. 4–17). However, revenues from both items would have been greater but for the tendency of local bodies to accept deficits on Trading services, regarded as an aggregate, in most of the years of the period—to no small extent influenced by Ministerial regulations and central legislation—and to acquiesce with central policy by charging sub-economic rents for municipal dwellings.

[1] *Local Taxation Accounts* and figures supplied by the Ministry of Health.

[2] Including Other Receipts from services not separately distinguished, but also revenue which was not appropriated to particular services.

In explanation of the small rises of income exhibited by other services, the chief reason is found in the desire of both central and local administrations to expand consumption, on the ground that fuller utilisation would be of peculiar social and economic benefit. This is outstandingly applicable to Education and Health, but also to Agricultural Small Holdings and Allotments, Agricultural Education and Libraries. Actually, notwithstanding increased costliness, some services were provided free of charge to poor persons —*e.g.*, Elementary Education, Higher Education (in part), Maternity and Child Welfare, Tuberculosis, Mental treatment, Blind Welfare. In other items, price tariffs were held measurably below cost—*e.g.*, Higher Education, Baths and Wash-houses, Pleasure Grounds, Libraries, Hospitals, Allotments and Small Holdings. Further reasons for the low rate of recoupment are found in the difficulties of making discrimination based on ability to pay, and the impracticability of exacting contributions in the case of such services as Highways, Public Lighting and general Police protection.

It is not feasible to show the precise burdens on Rates involved by separate services, but in the table on p. 75 the residual expenditure left uncovered by revenue from specific Exchequer Grants and Other Receipts is indicated.

It is unnecessary to offer much by way of comment on and explanation of these figures: for they are residual, being determined by the difference between total expenditure on revenue account and receipts from the other two sources. Yet it is interesting to note the conspicuous position occupied by the first four groups, and the fact that, over the period, they carried roughly equal responsibility for rating burdens. It is a commentary on the post-war policy, besides, that the two services which, above all, possess " national " characteristics—Poor Relief and Highways—should assume the importance they do. Other points worthy of remark are the reduced rating cost imposed by Trading services—mainly due to the rise of revenues from Electricity and Transport—and the fact that municipal Housing enterprise resulted in a clear annual impost upon ratepayers.

RATES COST OF SEPARATE GROUPED ITEMS, 1919–20 AND 1920–35 [1]

£m.

Service	1919–20	1920–35 (Average)	Average Increase or Decrease during 1920–35, relative to 1919–20
Poor relief	17·13	30·81	13·68
Health	25·75	38·15	12·40
Highways	21·11	33·27	12·16
Education	24·62	35·42	10·80
Administration	7·02	10·32	3·30
Minor specific	7·36	10·31	2·95
Police	8·51	10·87	2·36
Housing	0·57	2·22	1·65
Trading	1·98	0·56	—1·42
Miscellaneous [2]	—0·56	—20·87	—20·31

Finally, figures for separate grouped items are given for Capital Receipts.

CAPITAL RECEIPTS FOR SEPARATE GROUPED ITEMS, 1919–20 AND 1920–35 [3]

£m.

Item	1919–20 Loans	1920–35 (Average figures)			Average Increase, 1920–35 over 1919–20
		Loans	Revenue and Special Transfers	Grants, Land Sales, etc.	
Housing	5·83	39·59	0·09	2·35	36·20
Trading	10·69	24·12	1·99	0·02	15·44
Highways	1·07	8·45	0·44	2·70	10·52
Health	1·28	8·88	0·35	0·18	8·13
Education	0·56	4·21	0·15	0·06	3·86
Poor Relief	0·10	0·75	0·08	0·03	0·76
Administration	0·52	0·87	0·11	0·05	0·51
Police	0·05	0·21	0·03	0·01	0·20
Minor specific and miscellaneous	4·20	2·86	0·11	0·14	—1·09

[1] *Local Taxation Accounts*, and figures supplied by the Ministry of Health.

[2] This item is credit because it includes expenditure met out of Exchequer Grants and other receipts which are not allocated to other grouped items.

[3] Figures supplied by the Ministry of Health for period 1919–29. Before 1928–29 receipts are not distinguished as to their three separate groups.

The high light of this table is the importance assumed by Housing. The increase exhibited by Trading services is, nevertheless, considerable. Furthermore, it is remarkable that the four services only of Housing, Trading, Highways and Health should account for the bulk of additional Capital Receipts. Receipts other than from loans were of minor importance.

Explanation of the position occupied by Housing is to be found in the legislation of the period. Owing to the long life of houses, joined to their capacity for producing an annual revenue, they are especially suitable subjects for capital operations. And legislation exploited these attributes to a high degree: for bulk borrowing in varied ways was encouraged by the central authorities, and terms for repayment were made very long—in some instances up to eighty years.[1] The fact that much Trading service equipment possesses similar qualities fostered a similar outcome. But the most profound motivating cause was not legislation —although the repeated raising of borrowing limits and the final removal of restrictions in 1929 helped materially. Actually, more is to be ascribed to the progressive policies followed by the local authorities themselves and the stimulation to do so has been explained earlier (pp. 12–14). In the other services, clear importance is to be attached to the more liberal borrowing regulations and to new legislative developments. For the various Acts and Regulations not only called for equipment and buildings, but incited the local bodies to respond by the offer of attractive grant aid—*e.g.*, especially in the case of Highways, Health and Education. In this connection special reference is warranted to the high influence for capital spending exerted by the Unemployment Grants Committee. The generous and elastic system of subventions stimulated local spending, while the ideal of creating work for unemployed local populations also worked powerfully. Another general reason was the desire of local administrations—especially in highly rated areas—to avoid unduly burdensome rating demands and disturbances

[1] For the acquisition of land under the Housing Acts and the Small Holdings and Allotment Acts.

generated by rapidly changing poundage rates. Figures will also be given later [1] which show the somewhat extraordinary response to new borrowing facilities made by the smaller local bodies. Mainly this can be explained by reference to legislation, but as well such authorities displayed distinct readiness to possess themselves of more capital assets. Minor reasons are the competitive spending undertaken by seaside resorts and inland spas; changes of accountancy procedure instituted by the Ministry in and after 1928; the growth of outlays upon civic buildings—especially fostered by the new idea of civic centres; the post-1931 fall of interest rates.

To summarise: the outstanding feature of the period is the fact that all four sources of revenue contributed freely to its growth. Relatively to the initial year, however, both the largest actual and percentage contribution was made by Capital Receipts—this being due principally to the removal of borrowing restrictions and to the large capital outlays entered upon for Housing and Trading. Exchequer grants rank next. They doubled on the average during 1920–35, mainly in consequence of the two de-rating measures, but also because of the influence of substantial percentage grants the level of which, in certain cases, was raised. The additional income derived from Other Receipts and Rates was roughly equal—both in percentage and absolute measure. The rise in the former was chiefly due to increased receipts from Housing and Trading; the expansion in the latter was occasioned by the need to fill the gap between all other sources of receipt and current expenditure.

[1] Pp. 158–9.

ECONOMIC AND SOCIAL EFFECTS

BECAUSE it will facilitate the analysis of economic effects, the Transfer or Social effects resulting from the alterations in levying and borrowing, on the one hand, and from changes in expenditure, upon the other hand, may be dealt with first.

In the case of Taxation, in 1919–20 the respective amounts contributed by the Richer and Poorer [1] categories—ignoring Excess Profits Duty as being arrears of war taxation—were about £504m. and £204m. During 1920–35 on the average the respective annual amounts were £512m. and £209m.[2] These figures suggest that there was little alteration during the remainder of the period in the burdens falling upon the two categories. But this conclusion is not warranted, as it is clearly also necessary to take into account the incidence of benefit of the correlevant expenditures. Examination shows that many items of outlay—*e.g.*, Defence, Tax Collection, Costs of Administration, Irish Services—conferred general benefit upon the community. If such outlays are ignored, the expenditure left over is predominantly accounted for by the two large components of National Debt Services and Social Services. Plainly the former represented expenditure principally in the interest of the Richer, but equally plainly the latter was outstandingly in the interest of the Poorer. Now the total cost of National Debt Services,

[1] From now onwards, the terms " Richer " and " Poorer " will be used to designate, respectively, persons in receipt of incomes high enough to be ordinarily subject during the period to direct taxation of income, and persons in receipt of incomes which were not high enough to be ordinarily subject during the period to direct taxation of income. As Clark shows (*National Income and Outlay*, p. 142) the Richer category includes persons having incomes exceeding £250 per annum : while the Poorer category includes persons having incomes below this figure. This line of demarcation is useful for purposes of later analysis because each of these categories accounted for roughly one-half of the national income in 1929 ; and the ratio was apparently not greatly dissimilar for other post-war years.

[2] Assuming that the Richer pay all direct taxes and one-third of indirect taxes (see Clark, *Ibid.*, Chapters V. and VI.).

some £332m. in 1919–20, averaged a figure about equal to this throughout 1920–35. But the cost of the Social Services,[1] about £113m. in 1919–20, later averaged some £145m. The net effect of the combined incidence of taxation and benefits was therefore to effect a distinctive transfer to the Poorer. How can this conclusion be applied to the special case of Exchequer Grants? Obviously, it is not justifiable to deduce that what was true of taxation and expenditure in general was also true of any single component of expenditure and the taxation necessary to finance it, since taxation and expenditure can only be regarded as wholes. It appears not to be unreasonable to suggest, however, that to no small extent taxation of the Poorer failed to decline because of the enlarged outlays undertaken upon Social Services—actually from £113m. in 1919–20 such expenditure was scaled up to £203m. in 1934–35; and that if this development had not taken place taxation upon the Poorer would have declined relatively. It is interesting that the Pearsonian co-efficient of correlation between changes of indirect taxation and changes of Social Service expenditure in the period is 0·71. If that suggestion is well founded, then it may be concluded that the relative weight of tax levies incident upon the Poorer for purposes other than outlays upon Social Services—including Exchequer Grants—would have been smaller than that incident upon the Richer.

As for Local Rates, the table on p. 80 [2] indicates the distribution of the levies made in 1927–28.

These proportions were approximately typical of those prevailing in post-war years up to the de-rating reform of 1929—mainly because total rateable values advanced but

[1] The main components were: Education; National Health Insurance; Unemployment Insurance; Old Age and Widows' and Orphans Pensions; Poor Relief; Health Services; Housing. In the case of services conducted by local authorities, the national expenditure took the form of Exchequer grants (see Sykes, *British Public Expenditure*, Chapter II.).

[2] Based on returns made by local authorities to the Ministry of Health for purposes of derating. The first two figures are approximate only, being based on special sample returns obtained from 73 local authorities (28 metropolitan and county boroughs, 27 boroughs, 18 urban districts); but various checks which it has been possible to apply, point to no serious error.

DISTRIBUTION OF LOCAL RATES IN 1927–28 AS BETWEEN DIFFERENT TYPES OF RATEABLE HEREDITAMENTS

	Per cent.
Dwelling houses and residential shops . .	53·7
Shops, offices, warehouses, licensed houses, theatres, hotels, clubs and all other properties not included below	21·4
Manufacturing industry	11·4
Public utilities	5·6
Railways and canals	4·3
Agricultural land	2·4
Other lands and tithe	1·2
	100·0

slowly then (by less than 18 per cent. between 1919 and 1928), and no important alterations occurred in the structure of valuation practice. Now, as in the earlier post-war years the number of houses suited for occupation by the Poorer was inadequate, demand for them was highly inelastic. And even though in later years supply was extended, owing to intervening population growth and an increase in the number of families, demand by this category may be expected to have remained comparatively inelastic. It would, therefore, appear that a substantial slice of the additional local rates would be incident upon the Poorer—the more so owing to the large ratio of rating revenue derived from dwelling-houses. Nevertheless, there are important qualifications. Thus, the Rent Restriction Acts tightly restricted the legal increase of working-class rents and, by holding down assessments, largely circumvented the raising of rating levies on the Poorer.[1] Even in 1931 some 6¼m. houses were still controlled in England and Wales out of a total of 9m.[2] Plainly this conferred a portentous bounty upon the Poorer. Furthermore, significance attaches to the comparatively large subsidisation by local authorities of

[1] In 1928 the Ministry of Labour showed that local rates on controlled houses were only 84 per cent. higher than in 1914, although the general average increase in rates was then 134 per cent. (*Ministry of Labour Gazette*, December, 1928, p. 435). The Marley Committee showed that decontrolled rents were 85–90 per cent. above pre-war (including rates), but that controlled rents were only 50 per cent. higher—in 1931 (Cmd. 3911, p. 17).

[2] Cmd. 3911, p. 18.

rents of new municipal dwellings. For the artificial reduction of rents automatically lowered the assessment levels of such houses, and therefore contributions to local rates. Lastly, of the total number of new houses which had been erected by 1931—some 1·66m.—no fewer than 1·31m. were in the "low" category of the Marley Committee, *i.e.*, working-class dwellings.[1] Evidently this increase in supply of houses occupied by the Poorer tended to reduce the combined rents and rates cost, and therefore the amount of rates incident upon the Poorer, by more than if a less proportion of the new accommodation had been composed of dwellings suited for this category.

On the other hand, houses occupied or owned by the Richer were not generally subject to rent control. The resultant rise of assessment naturally inflated the local rating imposts. Furthermore, in 1925 the Rating and Valuation Act formally introduced a system of graduation into assessment which apparently was but sporadically existent previously. The following table shows this :—

Gross Value	Deduction allowed for Net Value
Under £10 p.a.	40 per cent.
£10–£20	33⅓ or £4 (whichever is greater)
£20–£40	25 or £7
£40–£100	20 or £10
Over £100	£20 plus 16⅔ per cent. of the gross value in excess of £100.

The smaller deductions permitted on houses owned and occupied by the Richer caused a disproportionate raising of local rates on this category. In combination, all these factors probably elicited a higher relative contribution towards rating revenue from the Richer.

After 1929, the de-rating scheme shifted an important part of the aggregate of rating levies to the shoulders of taxpayers. But as rating totals subsequently resumed their previous upward trend, higher levies were imposed upon non-industrial properties ineligible for de-rating. Even so, working-class houses escaped comparatively lightly. In July, 1931, there were 6¼m. controlled dwellings out of a

[1] Cmd. 3911, p. 19.

total of 9m., and even in late 1937 over 4½m. were still controlled.[1] Besides, there was a larger number of municipal houses—710,000 in March, 1935, against 371,000 in March, 1929—which were largely still let at non-economic rentals. It may be concluded that, over the period as a whole, the Poorer contributed in less degree than the Richer to the higher rates imposed on house property—the outstanding single rating subject.

As for the raising of local rates on other types of rateable hereditaments, in general it could be assumed that these represented additions to costs of production and distribution which would be passed forward to consumers. And since the Poorer constitute the greater bulk of these, apparently they suffered a larger burden in the aggregate than the Richer. Here again, however, there are qualifications. Thus, the transmission of additional rates into final prices would take time, and for this reason the extra levies would, for a time, be carried by the owners of productive enterprises—the Richer. More important, there would be some degree of backward shifting—*e.g.*, by leaseholders who were protected from additional rentals instigated by rises in local rates and by occupiers on to owners of sites and premises used for productive purposes—so that again part of the higher local rates would not be passed on to consumers, but would fall on persons in the Richer category. Furthermore, local rates came to vary widely. A rough indication of this is provided by the table on p. 83 showing the distribution of rates in the £ for urban areas in different years of the period.

The increases of local rates came to be markedly disparate as between different areas, and therefore as between different industries and also between different firms in similar industries. Even apart from the reasons already cited, it is unlikely that consumers living in highly-rated districts and consumers of the products more acutely affected by higher rates would bear all of the differentially greater rating burdens in increased prices. There are various ways in which consumers could avoid abnormal rises of price in

[1] Cmd. 3911, p. 18; Cmd. 5621, p. 14.

PERCENTAGE DISTRIBUTION OF POUNDAGE RATES, 1919–20 TO 1934–35 [1]

Year	Under 6s.	6s.–8s.	8s.–10s.	10s.–12s.	12s.–14s.	14s.–16s.	16s.–18s.	18s.–20s.	Over 20s.
1919–20	0·8	10·7	36·1	30·5	16·9	3·4	1·4	0·2	—
1921–22	0·1	0·1	1·7	10·5	26·3	26·3	17·8	9·6	7·6
1923–24	—	1·1	9·6	31·6	26·9	17·6	7·5	3·0	2·7
1925–26	—	0·9	9·0	27·8	31·7	17·1	8·3	3·2	2·0
1927–28	—	—	5·1	19·2	27·6	24·1	10·3	5·4	8·3
1929–30	—	0·7	12·2	29·5	28·9	15·8	6·7	2·8	3·4
1931–32	—	1·3	14·0	33·5	26·1	15·0	6·1	2·2	1·8
1934–35	—	2·0	20·6	35·4	23·4	9·9	4·7	2·0	2·0

particular areas and for particular goods—through the growth of postal shopping; through resort to local retail markets, traders in which escape rating levies (and such markets were extensively developed in post-war years); through the growth of local transport which facilitated purchases in less highly-rated places; through taking advantage of the lower prices charged by multiple stores, rendered feasible by the ability of such concerns to offset higher rating costs in some areas by the lower rating levies which they enjoyed in other areas; through the substitution of demands for commodities carrying high rating costs by demands for goods less affected by such costs; and, lastly, through the squeezing of other cost factors or profits by suppliers whose competitive ability became impugned in consequence of large increases of local rates. In all these and in other ways the Poorer as numerically larger consumers may have secured greater advantages than Richer consumers; moreover, the Richer would suffer further in

[1] *Statement of the Amount of Local Rates per Pound.* Average poundage rates and the coefficients of variation were as follow :—

Year	Average Poundage Rate	Coefficient of Variation	Year	Average Poundage Rate	Coefficient of Variation
1919–20	9s. 6¾d.	20·0	1927–28	12s. 10½d.	21·6
1921–22	14s. 7¼d.	18·9	1929–30	11s. 6¾d.	22·0
1923–24	12s. 1¼d.	21·1	1931–32	11s. 2¼d.	21·0
1925–26	12s. 0½d.	20·1	1934–35	10s. 10¼d.	20·3

so far as this category could not fully pass on increased rates on premises used for production.

Therefore, even in the case of local rates other than on houses, the Poorer as a category probably suffered in somewhat less degree than did the Richer; and since they definitely contributed a smaller share of the expanded rating levies on houses, altogether they suffered relatively less from the rise of local rates taking place during the period.

Turning next to Other Receipts, on the average during 1919–35 as to about one-half these were derived from Trading services, and as to the other half from Rate Fund services. Even in the case of Trading receipts, probably the advantage was with the Poorer. For, owing to their much greater numbers,[1] they were larger aggregate consumers—especially of Water, Local Transport, Gas and Market services, which were the main items. And, therefore, they stood to benefit peculiarly by the abstention from profit-making, which characterised local policy. They were further advantaged by differentially low charges, *e.g.*, workmen's tickets; children's fares; and charges for Water and Electricity, which were considerably moderated by the disparately low assessments applicable to many working-class houses.

Other Receipts obtained from Rate Fund services related outstandingly to Housing; comparatively minor revenues were received from Education, Highways, Mental Hospitals, Parks and Pleasure Grounds and Poor Relief. The essential feature of post-1919 policy was that recoupments were more closely adjusted to the capacity of beneficiaries to pay: in particular, the advantages offered by certain facilities were not denied to persons too poor to contribute. In Housing, since rentals of municipal dwellings were maintained below the economic level, the occupiers—the Poorer outstandingly—were subsidised, and as Housing receipts bulked both absolutely large and great relative to revenue from other

[1] Clark estimates that in 1929 the Poorer accounted for over 80 per cent. of the total number of personal incomes, and represented about 90 per cent. of the working population (*National Income and Outlay*, pp. 109–110).

items, the subsidy was substantial. Again, through special places, free places, scholarships and maintenance allowances, charges for Educational facilities became increasingly adjusted to means. Payments for treatments in Mental Hospitals were foregone in the case of poverty and otherwise graded according to financial capacity. The receipts from other services were comparatively trivial. On the whole, then, post-1919 policy concerning Other Receipts effected a considerable transfer to the Poorer—especially the worse-off.

Lastly, in the case of Capital Receipts, these tended to be higher both absolutely and relatively to other sources of income than in pre-war times. Since greater recourse to borrowing relieved the weight of current taxes and rates, and these bore more heavily on the Richer, the discrimination resulting to this category was evidently marked.

Turning now to Expenditure, little of the additional spending was directly in the interest of the Richer. That on Highways possibly favoured this group, but even so the Poorer shared the advantages of lower transport costs as reflected in the prices of goods and services, and of personal transport. Some part of the outlays on Trading services may have been more to the advantage of the Richer, but this branch of spending was covered by roughly equivalent charges. On the other hand, such conspicuously large outlays in the aggregate as were required for Education, Housing, Isolation Hospitals, Maternity and Child Welfare, Tuberculosis, Infectious Diseases, Mental Deficiency and Mental Hospitals, Poor Relief and various Unemployment works, Agricultural Small Holdings and Allotments, were predominantly in the direct interest of the Poorer. The remaining services were undertaken to benefit the community as a whole. If a calculation is made of the incidence of benefit, roughly 40 per cent. of the total expenditure was in the direct interest of the Poorer, about 14 per cent. in that of the Richer and the remaining 46 per cent. was to benefit the community in general. To afford comparison, in 1913–14 the respective figures were about 31, 14 and 55 per cent. The conclusion is that the greater advantage accrued to the Poorer. Since, on balance, a similar verdict applies

to the process of revenue raising, the net outcome of the combined changes in spending and levying was to effect a clear and distinctive transfer from the Richer to the Poorer.

More detailed analysis designed to elucidate the nature of the changes as between different sections of the two broad groups is rendered difficult by lack of data. But there is some basis for the impression that, despite certain discontinuities, the general effect was for the new scheme of things to evoke transfer from the better-off to the worse-off. In Taxation, this was due not only to higher direct taxation, but also to the increased resort to progression and to repeatedly enlarged personal allowances for income taxation. In Rating, it was accomplished by the graduation introduced into valuation on the one hand, and rent control and municipal house rent subsidisation on the other hand. In the case of Other Receipts, it was brought about by charging more nearly according to ability to pay. Lastly, there was a constant tendency, affecting most of the important items of expenditure, to procure the costless provision of facilities for poorer persons, more accurately to adjust access to facilities according to the means of the better-off amongst the Poorer, and to undertake few outlays on services which were beneficial to the Richer exclusively.

To consider Economic effects, it is desirable to undertake a preliminary analysis designed to elucidate the successive repercussions of revenue raising and of spending. The primary outcome of the imposition of additional Taxes and Local Rates, the enlargement of Other Receipts, and the increase of Capital Receipts would be to deplete the volume of resources of all persons and concerns affected. This must directly have diminished their previous demands for goods and services. Only if the local authorities, after receiving the resources, spent them in precisely similar ways could there be no net alteration in the kinds and relative quantities of demands. And manifestly this did not occur. The question immediately poses itself, therefore, as to what mutations of demand were generated ?

To answer this accurately, first, complete information

would be required as to the nature of the demands surrendered by those who contributed resources; and, second, equally complete knowledge would be needed as to the nature and volume of the demands substituted by the local authorities. However comprehensive were the knowledge relating to the second point, no precise information is available about the first point. Yet, if the analysis is to proceed, it is essential to make the best possible approximation to exact knowledge concerning what demands were forfeited.

Dealing first with Taxation, the greater rise of burden was incident upon the Richer. Assuming this, and bearing in mind that progressive taxation was steeper, it may be presumed that the primary effect on the higher strata of the Richer was to reduce their private saving. The secondary effect, probably, was to curtail their demands for luxury consumption goods and various kinds of personal services, especially those of a feudal character. As for the larger number of persons in the lower strata of the Richer group, who escaped the higher rates of progression but who suffered from the general post-war increase of graduation, the high standard rate of income taxation, and probably contributed materially to indirect taxation, their saving also would be lowered. More important, however, would be the reduction of their demands for luxuries and personal services and, to a lesser extent, for conventional necessaries.

As for the growth of taxation bearing upon the Poorer, according to the definition adopted to denote that category, this consisted principally of indirect levies.[1] Now up till 1932 indirect taxation mainly comprised duties on tobacco, alcohol and spirits. On this account, it is unlikely that the demand for strict necessaries was severely diminished. Instead, curtailment would involve luxuries, personal services and conventional necessaries. For such revenues were obtained from all consumers, and since these are a numerous body the average individual contribution to taxation would be comparatively small. Again, owing to their capacity for exerting more inelastic demands for the taxed goods, the

[1] Their contribution to such direct taxation as Death Duties and Income Tax was relatively small.

Richer made substantial contribution to this revenue. Furthermore, the purchase of goods of this sort—as they were not essential to subsistence—was optional: hence persons of more restricted financial means could limit their commitments rather than sacrifice necessaries. Still further, the average duty on spirits in the period was so high as to prohibit widespread consumption by the Poorer. Lastly, although duties existed on tea, sugar and entertainment their cumulative toll was not such as greatly to restrict the demand for other necessaries.

After 1932, resort to the general tariff modifies these conclusions—but not appreciably. For, in the three following years, probably this did not always raise selling prices to the full extent of the duties; demands for some at least of the taxed goods could be substituted at little greater cost; and the ratio of such revenue to the total of indirect taxation was minor.

Passing now to the repercussions evoked by the growth of Local Rates, Poorer persons were called upon to make a distinctly smaller relative contribution than the Richer. Moreover, the lower strata of the Poorer suffered to a less degree than the higher strata. Therefore demands for necessaries were affected least of all, and those for conventional necessaries would be less seriously affected than the buying of luxuries and personal services and personal saving.

The effects of the expansion of Other Receipts may be considered next. As to roughly one-half, these were derived from Trading services. Since, in defect of public enterprise, the various facilities for which charges were made would have been provided alternatively by private enterprise, and purchased in roughly similar volumes, there is no reason of principle to expect differences in the type and quantities of demands surrendered when consumers bought such services from the local authorities. Recoupments relating to Rate Fund services were increasingly adjusted to capacity to pay. The resultant discrimination in favour of the Poorer would tend to conserve their spending power to use for buying necessaries. And, since against the charges incident

upon the upper strata of the Poorer and the Richer as a whole there was a *quid pro quo* in the shape of goods or services, demands for conventional necessaries and luxuries by them would not alter much.

Lastly, to deal with Capital Receipts, it will be shown later that the figures distinctly over-estimate the actual amount of new borrowing. And presumably the openings for safe investment provided thereby stimulated private saving in some measure. To that extent demand on the part of lenders for luxuries and personal services—mainly —would be reduced. But to some degree local bodies must have absorbed savings which otherwise would have been invested in private industry. This would entail a diversion of demand for capital goods and durable consumption goods: but inasmuch as the public bodies frequently spent along lines similar to private enterprise, *e.g.*, on Housing and equipment required by Trading services, which were easily the most prominent items of local authority capital expenditure, probably the diversion was not materially large.

What is the net outcome of this analysis? The joint results produced by the enhancement of Taxes, Rates, Other Receipts and Capital Receipts were, first, to restrict private saving—and more particularly that previously done by the higher strata of the Richer. But the allocations to reserves by public companies (an important part of aggregate saving) could only have been slightly affected; for they were merely subjected to the standard rate of income tax, and this actually fell repeatedly up to 1930 and thereafter never again attained the level of 1919. Further, the private accumulations of the lower strata of the Richer were not palpably reduced. Again, the "special funds" increasingly accumulated by local authorities, and partially applied to capital purposes,[1] were chiefly derived from rating and taxing levies—a form of "forced" saving. For these

[1] *E.g.*, Superannuation, Income Tax Reserve, Trading Services Reserve, Housing Repair Funds, Sinking and Redemption Funds. An inquiry published in 1936, relating to 1934, showed that more than 50 per cent. of the total was devoted to "internal user" (Long and Maxwell, *The Use of Sinking Funds, etc., for Capital Purposes*).

reasons aggregate saving would not be diminished considerably. Second, the demand for luxuries and personal services of the types customarily requisitioned by the Richer would be substantially curtailed. Third, on the whole, the volume of demand for conventional necessaries and personal services of the less essential kinds normally consumed by the lower strata of the Richer and the upper strata of the Poorer would be contracted. Fourth, orders for capital goods by private enterprise would be lowered, but not to a pronounced extent. Fifth, no strong reasons support the assumption that demands for necessary goods and services would be at all appreciably altered, although the Poorer as a body may have had to substitute cheaper for dearer necessaries in part.

To proceed, what net changes in demand were instigated as a result of the directions followed by local authority Expenditure of levies and borrowings? To deal with consumption goods and services, first and foremost probably aggregate demand for necessary goods and services was conspicuously augmented. For levying, charging and borrowing depleted this to a minimum extent. Local authority spending, however, added roundly to it in two ways—by the type of demand which came to be exercised, and by the transfer of resources to the Poorer. Thus the portentous growth in Poor Relief and the various payments made from time to time for Unemployment Works, aided the financial means of the lower section of the Poorer; and it is axiomatic that this group would devote the predominant part of its income to necessaries. Owing to the enhanced supply of working-class dwellings which it procured, the voluminous expenditure upon Housing economised the ratio of their incomes which the Poorer had to devote to housing accommodation. Furthermore, Housing outlays were associated with a system of subventions to rents—and rates—which induced a major discrimination in favour of this category-graded rather to favour the worse-off. An argument will be developed later [1] to suggest that consumers possibly secured Trading Services at supply prices lower than under the

[1] Pp. 204–9.

alternative of private enterprise. If this were the case, then the Poorer—as the main consumers—would benefit. In any event they gained from peculiarly low charges and special tariffs. Not only, then, did they secure more of such necessary services for a given money expenditure, but their financial resources were conserved—with benefit to necessary expenditure. High outlays on Education were accompanied by marked quasi-subsidisation of the Poorer in the shape of costless Elementary education, and the provision of Higher education on a basis of charge closely adapted to financial means. Plainly, therefore, this necessity was more bountifully provided, and the saving to the incomes of the Poorer facilitated spending on other essential things. Health expenditures ranked importantly in this period, and again demands for such a fundamental need were profoundly enhanced by the policy of free- or low-cost provision of basal services. The small drain on monetary resources enabled spending in other essential ways. That part of Agricultural outlay referring to Small Holdings and Allotments was in reality a subsidy to the Poorer, and had a similar outcome. And, since local authorities paid wages to their numerous unskilled labourers which ordinarily were somewhat higher than those granted by private industry,[1] the advantages for spending of a necessary character must have been marked—especially because probably this policy was not without effect upon the wages paid by private industry. Altogether, because a substantial ratio of the increased post-1919 outlays was either devoted to monetary subsidisation of the Poorer or was directed to the provision of necessary goods and services gratuitously or under cost to this category, the volume of demand in such lines was significantly expanded.

Second, the probabilities are that proportionate spending on conventional necessaries was raised rather than lowered. Owing to the more acute graduation of taxing and rating and its favourable consequences for the incomes of the Poorer and the lower section of the Richer, private demands for such goods would not be appreciably curtailed by levying. Now, besides, the post-1919 additional public expenditure

[1] See pp. 151–3.

called for the services [1] of officers on a conspicuously enlarged scale, *e.g.*, teachers, police, medical officers, sanitary inspectors, health visitors, library staffs, technical officials in a wide range of services and administrative officers. Since average salaries were not unsubstantial and rose—if not in nominal, at least in real terms—presumably such persons would be able to exercise substantial demands for conventional necessaries. Some importance, besides, attaches to the point made above that the incomes of the higher section of the Poorer and the lower section of the Richer were in part conserved by the directions and policies followed by local authority spending. In particular, such incomes benefited by the discriminatory charges for Education, Health, Housing and Trading Services. Altogether, then, it may be supposed that proportionate outlay upon conventional necessaries would expand rather than contract.

Third, the demand for luxury consumption goods and certain types of services normally brought by Richer persons must have been scaled down conspicuously relative to other types of their demands. For, to the adverse effects of levying and borrowing thereon, there was no offset in the kinds of outlay newly undertaken by the public bodies. And this verdict holds despite the undoubtedly large rise of demand for personal services manifested by the local bodies : for these were not usually of the type previously spent on by the Richer.

These results refer to consumption goods and services. But, fourth, there would be noticeable alterations in the demand for capital goods. Due to somewhat restricted saving, less capital would be available, other things equal, for investment in private capital goods ; and the types of demand emanating from the public bodies, while identical with those which ordinarily would have been made if Trading services had been entirely supplied by private enterprise,

[1] The ratio of aggregate expenditure involved by the cost of personal services was high. For 1930–31 it was calculated that salaries and wages accounted for some 40 per cent. of gross expenditure on revenue account for Rate Fund services. For Trading services the ratio was probably higher (Cmd. 4200, § 233). Sir Gwilym Gibbon states that salaries and wages are not far short of one-half of total expenditure (*Journal, Royal Statistical Society*, 1936, p. 461).

were different in so far as the local authorities spent on special types of instruments required for Rate Fund services. On the whole, these met elemental needs—such as those for road-making, health services, schools, public buildings and various sorts of equipment—and apparently replaced private demands for capital goods needed to produce the luxury articles whose consumption fell away.

The conclusions reached hitherto refer to the probable mutations of demand. But it is possible that the aggregate of monetary demand might also be altered. Aggregate monetary demand might be raised in consequence of the levying and spending process. Thus, money balances which might have been held idle could be set to work if they were appropriated either through taxing or borrowing. Again, greater public intervention might bring about a net creation of bank credit. Uncertainty must attend discussion of these matters. But, concerning idle money balances, these tend to accumulate during periods of economic depression as a result of demands by investors for greater liquidity—arising from nervousness or insufficient outlet for the spare funds of productive enterprises, or because prospects of profitable investment recede. Consumers, too, may reduce their buying at such times for varied reasons. Now probably such holding of money balances occurred mainly in the depression periods 1921–23 and 1930–33. There are, however, no indications that local authorities sought to attract these resources in greater borrowings or higher taxation and rating imposts : indeed, the reverse occurred. For the total of their capital receipts fell from £127m. in 1921 to £47m. in 1923, and from £117m. in 1930 to £87m. in 1933. And receipts from taxation and local rates together declined by about £25m. between 1921–23, and by about £10m. between 1930–33. Further, Sir Gwilym Gibbon suggests that balances were depleted during depression periods.[1] Even bearing in mind the effects of price falls in these periods, instead of aggregate demand being expanded then, apparently it was contracted.

As for changes mediated through new bank credit, nothing

[1] *Journal, Royal Statistical Society*, 1936, p. 479.

definite can be said. Sporadically, it may be the case that taxpayers and ratepayers borrowed from their bankers in order to meet the imposts laid upon them, but no information is available about this and the effects would necessarily be aleatory. It is known, too, that certain poor law and depressed area authorities from time to time accumulated bank overdrafts, but the total effects were not significant.[1] On the other hand, it was normal during the period for local authorities as a whole to balance their budgets, so that net credit creation did not occur on this account ; and it would be unwarrantable to assume that when the national budget was in deficit, this was specifically instigated by the payments for Exchequer Grants.

The possibility that some destruction of total money demand accompanied the growth of levying and spending may now be considered. This may have resulted in consequence of the marked increase of levies. For it is well attested that increased demands upon taxpayers and ratepayers, which are so large as to arouse the antipathy of the business world, or which are so timed as either to reinforce business pessimism or to curtail business optimism, may have such negative psychological repercussions as to provoke deflationary influences. This is because financiers, dealers and traders, besides producers may respond to what are regarded as badly-timed or inequitably onerous levies, or simply as unwarranted and ill-advised public spending by reducing either current investment or commitments for the future. If they do so, the reduction of demands for factors curtails incomes and may thereby bring about net deflation of demand. There is little that is rational in either the initial or sequential effects, but instances of their occurrence exist. The agitations which led to the setting up of the Geddes Committee in 1922, the economy discussions in Parliament in 1926, the establishment of the Colwyn Committee in 1924, the reform of the rating system in 1929, the May Committee of 1931 and the Committee on Local Expenditure of 1932 all illustrate such psychological phenomena.

[1] Local Authorities also borrowed intermittently from banks.

A second possible cause of the lowering of aggregate money demand arises out of the difficulties involved by the transition of relative demands necessitated by the taxing and spending process. Such transferences ordinarily cause either lower aggregate profit and income returns or losses in the case of producers from whom demand has turned away. If losses are financed by the sale of securities or capital assets which are paid for out of new saving, then potential demand for capital goods is *pro tanto* destroyed. If the producers adversely affected reduce their normal or planned output—in the endeavour to escape lowered returns—and this is not simultaneously accompanied by compensatory increases of output in the more favoured lines of production, again aggregate demand may slacken. Such an outcome is, indeed, neither impossible nor unknown. And in any case difficulties of re-adjustment arise from hindrances to the free and timeless movement of factors of production. A similar hiatus may follow from the increase of indirect taxation or local rates which, owing to friction of various sorts, cannot be passed on in price during the short period.

Besides, the transference of relative demand may have reactions upon the behaviour of consumers. The more likely instance of this is where, owing to the local authority large-scale demands for certain types of goods and services, prices are forced up acutely. This may instigate private consumers of such things to restrict their demands. And it is not certain that in the short period the private buying power so released will automatically be carried off in the satisfaction of other types of private demand—it may simply be hoarded for the time being. Something like this occurred on account of the vast housing demands launched in 1919, because supply conditions were then, and for some years afterwards, so rigid as to provoke artificially high supply prices for houses.

Third, transitional difficulties of these kinds must be augmented and complicated by the action taken by private persons in consequence of increased taxes and rates. It is not to be expected that no change of economic conduct will be manifested. In so far as taxpayers and ratepayers are

rational, they will seek to redistribute their demands for goods and services in order to re-equalise the marginal utilities of spending, and this entails disturbances to relative demands and demand schedules additional to those due to the transference of buying power to the public authorities. If anything, the more likely outcome will be to curtail aggregate money demand—at any rate for a time—owing to the physical and psychological pressure felt by the subjects of the extra levies.

These illustrations are perhaps sufficient to show the invalidity of the assumption that total money demand must of necessity remain unaltered whatever the circumstances associated with changes in levying and spending—such as appears to be made in the analysis of De Viti de Marco.[1] The possibility that total money demand will be diminished is greater when new impositions are made on taxpayers and ratepayers; when these are sudden and radical; and when they are made during periods of subnormal economic activity. These phenomena were all instanced during the period. Again, this outcome is more likely when disturbances are repeated at close intervals, for these repeated disturbances exacerbate the difficulties of readjustment to altered situations. The Historical Survey shows that such disturbances did occur in the period.

Proceeding now to consider the probable effects on the supply side of the alterations of relative and aggregate demands, and concentrating attention on short-period effects, reference may first be made to the very substantial comparative growth in the demand for necessaries. Initially, this would scale up returns to producers and factors of production affected. And since the magnification of such orders was considerable even in the early years, although the orders would not be distributed in equal measure over divergent sorts of production or over different producers, the short-period gains would be tangible. They would, of course, be greater the less elastic were supply facilities in the short period, and the more this type of economic activity was subject to economies of scale. Further, apparently there was

[1] *First Principles of Public Finance.*

a general growth of demand for personal services. This had a twofold aspect. On the one hand, there was a marked and progressive rise in the local authority demand for technicians, officers possessed of specialised knowledge and skilled workers—in short, persons peculiarly equipped for public service work. On the other hand, larger requisitions were made by local bodies for labour of a less-skilled and unskilled kind, *i.e.*, work of a type in common demand by private trades. The supply of ability of the former type was defective in the earlier years, and consequently the acceleration of demand for it would evoke rises in remuneration. This applies to medical officers, sanitary inspectors, health visitors and nurses, engineers, surveyors, technical officers for Trading services, teachers, police, administrative staffs of higher grades, and various kinds of skilled artisans. But the supply of the less-skilled and unskilled labour was not in defect. This applies especially to lower-grade administrative staffs, Trading services generally, Highways and certain Health services. It is not to be expected that such classes obtained wages appreciably different from what they would otherwise have obtained in private industry.

Third, there was a clear growth of orders by local bodies for capital equipment and durable consumers' goods. But no small part of this growth was the result of local authority initiative and a heightened faculty for developing Trading services—either to replace similar services provided by private enterprise, or which otherwise would have been forthcoming from private bodies and persons. To the extent that public orders merely substituted private (the services involved were mainly Electricity, Gas, Water, Local Transport, Hospital equipment, Houses and other buildings) there could be no net expansion in demand. But it is highly probable that the local authorities pushed ahead more rapidly than private entrepreneurs would have done alternatively. For there was no necessity to make profit the criterion of investment, and local bodies displayed little reluctance during earlier post-war years in responding to needs for services. Moreover, considerations of cost—especially in Housing, Agricultural Holdings, Gas, Water

and Electricity—were relegated. The resultant enhancement of demand in this short period, which—as the Historical Survey attests—was considerable, must have raised returns to suppliers.

The remaining part of the growth in demand for capital goods and durable consumption goods (such as were needed for Highways, Sewage Works, Cleansing, Baths, Parks and Pleasure Grounds and other Health services, Educational equipment, Police Stations, Public Lighting and Fire Brigades) was dissimilar from that normally required for private enterprise and private consumption. In this case there was plainly a clear rise in demand, and that would tend to cause profit and income returns of the suppliers to increase distinctly.

Fourth, on the other hand, the net reduction in requisitions for luxury goods, personal services of the type previously bought by the Richer, and private capital goods, demand for which had to be restricted, would entail a short-period decline in the profits and incomes of the industries and trades affected. It is, of course, impossible to specify these in detail. But the substantial rise of levies which happened in earlier years would exercise no inconsiderable effects in this way.

On the whole, then, in the short period covered by the first few post-war years, because the new demands launched by the public authorities were magnanimous and concentrated, and supply conditions were necessarily for some little time inelastic, it is reasonable to expect that the industries, trades and occupations implicated obtained substantial gains in profits and incomes. But equally, lowered returns, losses and reduced incomes, would be the lot of those suffering from the mutations in relative demand.

Even over the long period—to consider this—arguments could be advanced to show that there would be certain obstacles which would hinder the re-emergence and maintenance of full equilibrium. Thus, local expenditure on the one hand, and taxation, rating and borrowing on the other hand, exhibited certain discontinuities over the entire period. Local expenditure in total rose by £195m. between 1919–22 ;

it fell by £100m. between 1922–24; it expanded by £126m. during 1924–27; during 1932–33 it declined by £37m. And this asymmetry of expenditure entailed roughly correlative asymmetry in levying and borrowing. Even after allowing for the influence of altered prices, considerable fluctuations remain. Particularly obstructive of the re-attainment of equilibrium would be the alterations of levying. Where these concerned indirect taxation, resistance to the incorporation of higher taxation in price would provoke friction, and perhaps for some time producers of the goods affected would have to accept smaller returns. Extra direct taxation would lower profits and incomes, and by instigating changes of demand would add uncertainty to smaller rewards. The scaling up of local rates would affect costs, irrespective of capacity to bear extra costs; their shifting into price would sometimes arouse difficulty; the fact that local rates came to vary profoundly between different industries, areas and firms created special obstacles to re-adjustment; and the derating reform of 1929 involved somewhat sweeping changes in the scheme of levies. The capital borrowings of local authorities tended to be not very consistent over the period; they were piecemeal; and they were aleatory as to the types of outlay to which they were devoted. Other kinds of difficulties would follow from the fact that it would take time to elucidate a constantly-growing supply of specialist local authority staffs—technical officers, trained administrators and skilled workmen: and these categories would continue to earn differential rewards. The re-adaptation of private industry would meet obstacles arising out of such matters as the inertia of producers; spirited and even desperate attempts to combat decay and dissolution; imperfect competition, which would obstruct the re-alignment of economic activity; and time would be needed to develop supplies of new equipment and labour required for the more favoured types of productive enterprise.

Nevertheless, as against these arguments, there are others which indicate that equilibrium would be more nearly and readily re-attained. Thus, vagaries of spending and levying

were, after all, small relative to the aggregates of these. The change of relative demands would therefore become solidly established. And because this would give an assured character to the higher returns obtained by industries, trades and occupations more favoured by the new régime, new investment therein would be unequivocally encouraged; but dis-investment would definitely be brought about in those less favoured.[1] Moreover, such a re-orientation would not meet with difficulties of capital supply in the long period; for new capital could be diverted into the preferred uses, and some old capital assets could undergo conversion. Again, fresh labour would flow into such more attractive lines, while the diversion of old labour should be possible—especially, of course, in the case of unskilled and less-skilled work. Entrepreneurship would be attracted into the new openings, and especially because public demand was less subject to restriction by price considerations than normal private demand. The prospect of high profits would therefore be effective, and would sponsor competition to secure them. As well, producers in the less favoured sorts of activity could not continue indefinitely to suffer losses, and their bids for factors of production would therefore have to be reduced. Lastly, the longer the time during which such changes could be worked out, the more fully they would mature: hence the more adequately would a new equilibrium be attained. And the sixteen years 1919–35 may be deemed to be a somewhat long period.

Such, then, is a general, if somewhat rough, analysis of the principal changes brought into being by the altered scheme of levying and borrowing on the one hand, and local authority spending on the other hand. It now becomes desirable to apply this in order to try to elucidate the economic consequences. These concern the effects on production and the national income, and it will be necessary to consider both positive and negative repercussions.

[1] On this matter see Benham, *Economics*, Chapter XIV.

First, the national income suffered from the effect of increased and increasing public intervention in tending to diminish the volume of aggregate demand—as argued before.[1] But evidently this was truer of short periods, during which changes of levying and spending were actually taking place, than of longer periods in which there would be time for the initial shock of higher levies to be offset by the correlated local expenditure, and also time for taxpayers and ratepayers—in their capacity of consumers—to re-equalise the marginal utilities of their private spending. From the standpoint of the period 1919–35 as a whole, the adverse effects due to this cause may be regarded as less seriously conducive to a lowering of the national income than if attention were focussed on the specific occasions when disturbances were taking place. Nevertheless, the repeated short-time revisions of taxing and spending cannot be ignored, and some unfavourable effects on the community's income must therefore be allowed.

Other unfavourable influences bearing upon production may be looked for in the physical effects of the increased levies. To discuss the reduction in saving which the growth of taxation and rating, and the types and direction of correlative spending provoked, the detrimental effects may be held to consist of the restriction of resources which could be applied to maintain and to augment the quantity of private capital equipment. To curtail this must injure production—it would only be otherwise if proof were forthcoming that every line of productive effort were surfeited with capital equipment: and manifestly it is not. Further, to the extent to which lower saving restricted foreign investment based on accepted economic considerations, eventual damage might be done to the community's real income. Still further, the additional levies caused a re-distribution of saving. Since the very rich and rich persons suffered disproportionately heavy taxation and were more closely implicated by the rise of local rates, while relatively poor and poor persons were the greater beneficiaries of additional local expenditure, presumably the latter classes came to undertake a larger

[1] Pp 94–96.

ratio of private saving than before. If this resulted, probably the supply of capital available for investment in more risky, more speculative and new sorts of enterprise would be diminished in comparison with that devoted to gilt-edged, or safer and old-established types of productive activity. Now as a result of the contraction of various staple industries and trades, the altered relative importance of different kinds of production and notable advances in productive technique which have been prominent features of the post-war years, investment in new kinds of economic effort and new investment in old lines of output has been especially necessary. Inasmuch as such fresh developments augmented the risks of enterprise, it may be contended that the re-distribution of saving was inimical thereto. Again, production for export is essentially more risky than that for domestic markets. Therefore in another way the re-distribution of saving, involving a reduced propensity to venture, could be harmful. And especially could this be so because export production was loaded with peculiar difficulties and disabilities during the period—such as the decline and destruction of previous markets, tariffs and many other restrictions and the overvaluation of the pound between 1925–31. Another negative consequence can be found in the disproportionate growth of imposts upon private producers as contrasted with joint stock concerns. On the surface, this might appear to be of little moment. But, as a result of lower saving, might not such an event have diminished the propensity to enterprise? It may be assumed that mainly it is the private firms and persons who institute new developments, find new markets and originate much technical progress. Therefore some fluidity, true enterprise and economic versatility are lost when the numbers of private ventures fall away.

These several points in combination seem weighty. Yet, as to whether the damage inflicted was so material as they suggest is to be doubted. Mr. Clark's figures argue that since 1924 the volume of saving has grown on the whole rather than declined. More important, at no time were the private accumulations of the rich and very rich at all substantial. On the other hand, those of the working- and

middle-classes continually increased: and largely so. And this latter may be attributed at least in part to the re-distributive process mentioned above. He finds the most important single contributor to saving to be the undivided profits of public companies.[1] Concerning this, deep importance attaches to the points that reserve appropriations were only taxed at the standard rate of income tax instead of being subjected to the progression of income tax and death duties; that the standard rate declined up to 1930 and thereafter never touched the 1919 level; that, in common with private producers, joint stock units were directly burdened with but a small share of the additional local rates up to 1929; and that the de-rating scheme of that year advantaged the larger joint stock companies even more perhaps than private firms. Again, the regulations which required local authorities to provide for the amortisation of capital over relatively short periods and attached sinking funds to capital expenditure, joined to the fact that the local authorities used an increasing amount of the resources acquired by levying and charging for insurance funds, superannuation and various other reserve funds increasingly compensated for the diminution of other saving.[2] It is not insignificant, besides, that the enhancement of investment opportunities provided by the growth of local authority capital borrowings curtailed the wastage of savings which is involved by unwise and misdirected investment in other fields; for normally such borrowings were applied to the purchase of real assets, principally of a reproductive character. Lastly, the aggregate of effects on saving could not have been demonstrably large, since within the period the total of levies never reached even one-tenth part of the national income. The conclusion must be, then, that little importance is to be assigned to the adverse consequences which may have matured for the national income from restricted and re-distributed saving.

[1] Clark, *National Income and Outlay*, pp. 190–2.

[2] In 1928–29, net balances of such Special Funds stood at £135·68m.; in 1934–35 the total was £195·28m. The amount annually transferred from Rate Fund and Other (including Trading) Accounts between 1928–35 averaged yearly over £31m.

To proceed, damage might be inflicted upon the national dividend through other physical effects engendered by the alterations of taxing and local rating. Dealing first with the advancement of taxation imposts, in the case of indirect taxation, this would be additive to the prices of the goods and services implicated. The results of the higher prices would vary according to the sort of conditions prevailing on both the demand and the supply sides. For example, if demand for the taxed goods and services were very highly inelastic, initially there need be no observable variations in either the output or the profit returns of the industries and trades concerned. But the larger ratio of consumers' incomes which would now have to be devoted to the purchase of the taxed goods and services would, to the extent that taxpayers sought to re-equalise the marginal utilities of their spending, alter the amounts spent on non-taxed goods and services. And further mutations in demand would occur when the local authorities undertook the spending of the receipts derived from taxation, since it is axiomatic that the public bodies would exert demands at least partly contrasted both in scale and type to those previously exercised by taxpayers. Even though producers of the taxed goods were affected to the minimum extent, disturbances—probably somewhat large in kind and amount—would be experienced by other producers. Some would benefit from a rise in the demand for their products which, other things equal, would scale up returns. Others would be in reverse case and would, again if other things were equal, encounter lowered returns and losses. For the re-attainment of equilibrium, sooner or later it would be necessary to re-distribute productive resources as between different types of production. And the extent of this would be complicated inasmuch as the various branches of economic activity would not all be subject to similar supply conditions—some might be working under approximately constant returns, but others would work under increasing or decreasing returns. Again, there would be varying degrees of competition and monopoly, and conditions of factor supply and demand would be divergent.

However, the case where demand for the taxed products was very highly inelastic would rarely be found in practice. Instead, some degree of elasticity would be present. To that extent disturbances to the scheme of production would be different in character and volume. It is highly unlikely that output of the taxed goods and services would remain unchanged, since profit and income could hardly remain unaffected. Given a reasonable degree of elasticity in the demand and presuming that the industries and firms involved were not working under pronouncedly decreasing returns, profits and incomes would fall off, and some shifting of productive resources to other more remunerative fields of economic activity would be warranted. Moreover, it is important that not all suppliers of taxed goods and services would be affected similarly. Since indirect taxation was, in fact, not raised equally on the different goods and services to which it was applied in the period, and because the elasticities of demand for these would be divergent, some branches of production would be affected more than others. Again, different firms producing even similar goods or purveying similar services would be dissimilarly affected, since their cost situations would be variable. Still further, imperfect competition would often prevail—especially because the goods and services offered by suppliers would be, if only in minor respects, non-identical. Such divergences would complicate the process of re-adjustment.

The effects of additional direct taxation may be illustrated by reference to the rise of income taxation on producers. This, being general, would relate to profits and incomes of all producers. If the view is taken that income taxation does not enter into price, and other complicating factors are ignored, it would appear that no serious disturbances to production in general would occur. For, if equilibrium prevailed before the raising of the tax, no advantage would be secured by behaving differently from before. But such a view would be too naïve. In consequence of the depletion of taxpayers' resources as a result of higher income taxation, and the changed direction of local authority expenditure compared with that before undertaken by taxpayers, relative demands

for goods and services must undergo alteration. And, indeed, since income taxation applies to a large number of incomes, if taxpayers attempted to re-equalise the marginal utilities of their spending after making the tax payments, quite considerable changes of relative demand from this cause alone may be instigated. But these divagations of relative demands would inevitably produce reactions upon the profit and income returns previously obtained by—it may be surmised—a fairly considerable body of producers. Not only would this be the outcome of a different scheme of relative demands, but these, in turn, would provoke repercussions upon costs inasmuch as changes of output are ordinarily accompanied by variations in unit costs. Even, therefore, if the income taxation actually levied upon producers would not lead them to modify their previous conduct, repercussions upon relative demands would do so. And, in practice, the fact that progressive income taxation is applied to private, but not to public concerns, would not be without influence upon the conduct of these two types of producers. Perhaps more important, no taxation which affects the returns to enterprise can be without some, if secondary, influence, for the subsequent policy and actions of entrepreneurs.

An analysis along similar lines could be made to deal with the effects of increases of other direct taxes. Each tax would have results peculiar to itself, but each would involve more or less widespread reactions upon production owing to the advantages to be secured by revising the production of different goods and services. As for additional local rates, these would evoke repercussions similar in character to those instigated by upward changes of indirect taxation. For, like these, they are generally additive to price. At the least, fresh local rating impositions, coupled with the equivalent public spending, would entail the re-planning of relative demands and would bear divergently on costs ; so that the re-establishment of equilibrium must postulate transfer of resources and factors.

Granted this conclusion, how great would be the probable physical damage to the scheme of production, and therefore

to the national income, induced by the necessity for the various re-adaptations? Plainly, to the extent that these did not take place timelessly or frictionlessly, it could be argued that the aggregate volume of output would be reduced—since productive resources would be less fully employed than might otherwise have been the case. To undertake a somewhat fuller analysis than that made previously, re-adjustment would be hindered initially by the absence of full and free mobility of labour. The post-war development of such social services as unemployment insurance and poor relief has militated against untrammelled labour movement. The very general availability of unemployment benefit and public assistance checked the search for fresh work when changes of relative demands for goods and services engendered unemployment. This operated with especial force in the case of lower-wage occupations, owing to the smaller difference between wages and rates of unemployment benefit or public assistance—it was not unknown for the latter actually to exceed full rates of wages. Again, it is believed by some economists that the flexibility of wages has been reduced by the almost universal availability of such social service emoluments—opposing downward wage changes which may sometimes be required by the shifts of demand for labour. A similar lack of flexibility may have been induced because local authority wage levels are high relative to private—owing to the reflex action on the latter. The deficiency of working-class housing, which was marked in earlier years, opposed labour movement—especially since the deficiency was not uniform over the country generally and rentals of new houses tended to exceed those of old dwellings. Tardiness in formulating and adopting a State scheme for facilitating transfer of labour, and the comparative lack of success attendant upon this may be cited. Some years, too, elapsed before schemes of labour re-training were introduced, and even yet these have not been widely extended. Allowance must be made, in addition, for trade union restriction of entry to trades. The tendency for surplus workers to cling desperately to their previous occupations has been indisputable—witness the reports of the

various Industrial Surveys undertaken in the later years of the period. Nor, it would seem, was capital much more mobile. Post-war history suggests that, instead of seeking fresh openings, there was considerable inertia. Often, lowered profit returns would be hopefully regarded as likely to be impermanent, and production would tend to be continued for relatively long periods even though only prime costs—sometimes less—were being covered. Alternatively, output would be below capacity, and short-time working would not unusually be preferred to discharge of labour. Capital re-organisations occurred in many industries and firms. Rationalisation was tried; clamours were raised for state subsidies—in short, any palliative was attempted, rather than accept the necessity for change. And, moreover, losses had to be financed. In so far as this involved the absorption of new savings, the supply of capital available for fresh activity was restricted. Changes in entrepreneurship were not fostered by such attested post-war developments as the greater resort to large-scale methods of production; tighter industrial and commercial integration; the failure of the market for small-scale capital to become less inadequate; and more progressive taxation of large incomes and wealth—associated, as it was, with smaller private saving by the richer persons who are at once more capable of carrying, and more ready to undertake, the risks of new enterprise.

Altogether, then, it may be claimed that there were varied and important restrictions upon the movement of resources, limiting the propensity for re-adaptation. And this propensity would not be assisted by the fact that recurrent mutations of demand were provoked by repeated changes in the degree of public intervention. For the aggregate volume of local authority expenditure on capital and revenue account, combined, vacillated appreciably at times; and, besides, the distribution of local spending as between a number of items was not conspicuously regular. On the other hand, the scheme of levying, after the initial alterations of early years, was later subjected to not unsubstantial variations, *e.g.*, especially as the result of the

de-rating schemes of 1923 and 1929, and the observable fluctuations of capital borrowing.

Enough has perhaps been said to indicate the nature of the obstacles hindering re-adjustment, and therefore harmful to the national income. But reasons can be found for definitely opposing the assertion that such consequences were serious. Thus, high and unambiguous significance belongs to the fact that at no time during the period did local authority expenditure in its entirety exceed (roughly) one-seventh of the annual national income. Evidently, therefore, even the largest fluctuations of demand emanating from the expanded activities of local authorities must have been small in their aggregate effects on production. Furthermore, it is a weighty consideration that a definitely material proportion of the enlarged public spending was similar in type to that previously exercised by taxpayers, ratepayers and lenders, or likely to have been undertaken by them in part or whole in the absence of additional local spending and levying. This applies outstandingly to capital outlays on Housing and Trading services—responsible for a gargantuan slice of total capital expenditure. Nor, perhaps, is it going too far to suppose that private persons would spontaneously have increased their buying of such services as Health, Education, Roads and other minor items—if only because of the post-war growth of real income per head, or the development of new needs. The same point also embraces the resources devoted to remunerating unskilled—and less-skilled labour—a substantial part of revenue outlays on both Rate Fund and Trading services. Besides, the large disbursements for personal services involved by higher local outlays prevented material alteration in the volume and types of demand for conventional necessaries. Altogether, therefore, the net divergences of demand would be much less then the aggregate of the fluctuations of new spending and levying. Disturbances to the scheme of production, therefore, must have been distinctly smaller than if the repercussions of such levying and spending had been different. True, secondary disturbances to demand and therefore to production would tend to be set up because as and when

levying was altered taxpayers and ratepayers would seek to re-equate the marginal utilities obtained from each line of their private spending. Nevertheless, in practice, it is to be suspected that they did not actually accomplish this. Spending on necessaries would not be changed violently or materially as a result of greater imposts, since these concerned the Richer more than the Poorer. It is even doubtful if outlays on conventional necessaries would change significantly—at least, in direction. As for luxuries, cheaper luxury goods and services would be substituted for dearer, rather than that luxuries would be extensively surrendered. In short, for various reasons, the consumer is less rational in practice than in theory: and this degree of rationality is further reduced by circumstances such as those cited.

Another consideration is that not the whole of the burdens entailed would fall on domestic production. Nor does it seem to be warrantable to assume that long delays must have occurred before new or extended production in types of activity rendered more profitable by changes in taxing and spending could eventuate to compensate for reduced investment and output due to taxation. For new resources could readily be diverted into such types of output; the fact that full employment rarely, if ever, prevailed in the period obviated general shortage of factor supply; and the Ministry of Labour's annual statistics of industrial changes contain no suggestion that these were slow to materialise.[1] Besides, ordinary private demand is by no means a changeless quantity—and that even over short periods. Lastly, it will be argued later, productive enterprise was substantially encouraged and assisted by the objects and methods of local authority spending in its generality. In view of all these considerations, although the transitional effects at times of depression and when levies were radically increased would be marked, it is difficult to resist the conclusion that the curtailment of, and the damage to production resulting from the physical effects of additional levies in general were not of profound importance.

[1] *Ministry of Labour Gazette—e.g.*, November, 1928, p. 391, showing changes since 1923.

Brief reference may be made to special physical effects of taxation upon production.[1] On the favourable side is the fact that, as shown earlier, indirect taxation contributed prominently to post-1919 tax revenue. And until 1932 that this was restricted to a few principal levies avoided the dislocative effects which more diversified imposts would have provoked. Even after 1932 the physical damage of general import duties was inconsequential relatively, since total revenue from this source was small. Moreover, the main indirect levies applied to articles having comparatively inelastic demand, so that the imposts could somewhat freely and frictionlessly be transferred to consumers—with minimal physical upset of output. Again, although variations of indirect taxation were not infrequent, they were neither conspicuously arbitrary nor unduly vagarious. Lastly, disturbances to physical productivity through reactions of indirect taxation falling upon labour were not necessarily onerous, since consumption of the taxed goods was partly, at least, voluntary, and the higher duties applied to the less necessary goods. Even though the dictum does not apply to the increased taxation of oils, there are weighty reasons for believing that this was materially incident upon suppliers, so that the additional costs falling on industrial users were far from serious in their effect on costs in general.

As for direct taxation, favourable effects on physical productive capacity were induced by the somewhat far-reaching extension of the system of income-tax allowances between 1920–31. For these conferred advantage on a very large number of productive workers in the lower strata of the Richer and the higher strata of the Poorer. Gain accrued, too, from the larger discrimination effected in favour of earned income. The point that joint stock companies escaped progression was a powerful and considerable offset to the definitely severe rise of progression of income tax and death duties. They, too, were helped by the lowering of the standard rate of income tax after 1920. The favourable physical effects upon producers of this sort count appreciably

[1] More detailed consideration of post-war taxation is undertaken in my *British Public Expenditure*.

because joint stock firms undertake the greater bulk of output in general. In export production, this must have proved particularly helpful. Despite the pressure exercised by Excess Profits Duty and the Corporation Profits Tax, after all the former only applied to war-time gains, and the latter was partly rescinded so soon as 1923 and finally by 1924. The greater resort to Stamp Duties could hardly be attended with serious physical effects on economic output: for there is no evidence that they appreciably contracted actual investment—especially because their yield was more a function of high or low commercial and stock exchange activity than of tax rates. Nor did the Motor Vehicle Duties, as such, materially obstruct the use of mechanical transport vehicles: otherwise it is unlikely that new registrations could have recorded such substantial growth in the period. Finally, credit must be allowed for the fact that non-tax revenue was relatively more influential in the period than in pre-war times. For this, of course, lightened the burden of levies.

On the unfavourable side, it could be claimed that the prominently-extended progression of income tax and death duties inflicted heavier physical damage on private producers *vis-à-vis* joint stock firms than is commonly realised. That this was marked and important because graduation was abruptly heightened in crisis may be conceded: but in less abnormal times the effect was probably less severe. Nevertheless, it could be claimed that steeper progression came to deplete returns to large-income producers by so much as seriously to diminish their ability to maintain their equipment and technical organisation efficiently—through lack of ability to provide adequate depreciation and to buy new machinery and plant. This, of course, is possible. Yet the tax scheme did provide depreciation allowances, and in 1931 these were raised not inconsiderably—at the same time graduation was roundly scaled up. Moreover, if private monetary resources were extraordinarily depleted, normally it would be possible to secure money capital from the market. Material physical restriction of output need not therefore be enjoined for this particular reason. As for the

depredation of high death duties, it has often been claimed that the necessity for discharging payment in cash and securities tended to break up pre-existing private productive units through forced sales, and therefore imposed irreparable damage upon private output. This result is possible, but in practice it is not likely to assume prominence as dislocative of production. For the death duties can be, and often are, provided against through insurance and security purchase. And even where actual real capital has to be sold, it is not destroyed by that act. The buyer will ordinarily purchase it with the object of continuing the production for which the plant and equipment concerned are suitable.

The rise of imposts upon motor vehicles and oils certainly re-acted upon the motor vehicle industry by inducing alterations of demand for its products—both in quantity and type. But technical and other cost-reducing innovations have been numerous, and demand has proved to be highly resilient, so that the damage to that particular industry has not been considerable. Besides, the measure of protection given to this line should not be overlooked. The heavy contributions to indirect revenues exacted from tobacco and alcohol did have clear physical effects. The former industry, however, has encountered growing and highly inelastic demand—favouring transfer of the imposts to consumers ; so that the effects have probably been diffused over many other lines of production, with comparatively innocuous effects. In the latter industry, output has demonstrably had to be contracted ; but it may be surmised that the reverberations upon physical production in general have not been measurably great. The higher levies upon sugar, tea and entertainment have usually been transferable to consumers, but the wide range of incidence has prevented any material drawbacks to productive activity.

Special mention may be made of the results of steeper progression upon export. It could be argued that, since a number of private firms are engaged therein, higher graduation curtailed output because of restricted returns. The decline of foreign investment inspired by less saving by the Richer—the riskier investors—and the re-distribution of

personal saving, may be held to have penalised export. And, to the extent that increased taxation consisted of imposts upon the raw materials of export trades, the higher costs thereof possibly restricted ability to compete abroad. Against these, however, is the high advantage claimed above —that joint stock exporters were peculiarly privileged by the decline of income tax standard rates after 1920. And, apparently, such concerns rank importantly in this sphere of production. Doubtless, restriction of foreign investment had adverse consequences, but factors other than altered saving were more prominently associated with that. As for indirect taxation of exporters, during the long period 1919–32, raw materials and semi-manufactured goods essential to export remained generally free from cost additions due to taxation, and thereafter but a small revenue was raised from the general import duties brought in during 1932.

Special physical effects on production which derive from certain features of local rates require consideration in some detail. To elucidate these requires a somewhat lengthy analysis. An initial difficulty is that there are various possible measures of changes in such imposts. The test of rates levied per person is unsound inasmuch as rates are not, in fact, levied per person, but—in the case of dwelling-houses —on the responsible occupiers ; and in the case of business premises, on producing and trading units. If this measure were to be used, comparisons between areas having different sizes of occupational units, or a different ratio of housing accommodation to occupational units, would yield inaccurate results. Again, discrepancies would occur where the proportion of dwelling-houses to other sorts of rateable properties varied as between separate districts—some districts are almost exclusively residential, while others are preponderantly industrial or commercial. And, more to the point, such a measure cannot indicate the amount of local rates levied on production as such. Another test is that of poundage rates. This, clearly, is more realistic, because it has the great advantage of applying equally to all classes of rateable properties. But there is the apparently basal objection that the actual rate charge is a function not only

of this, but also of rateable value. Thus, in any period, in one area no perceptible alteration may take place in rateable value, but rate poundage may change considerably; while in another area, rateable value might increase or decrease largely, with little or no fluctuation in rate poundage. This suggests that both factors should be taken into account. Yet even that would not provide an indicator of changes in rating imposts levied on premises used for production. In two areas, say, in one of which rateable value had doubled, and in the other of which it had remained unchanged, it would be invalid to assume that the respective poundage rates ought to be corrected accordingly. For the change of rateable value may have affected premises used for production by more or less than that of hereditaments in general. Again, it might have been brought about by a general re-valuation, but equally by an increase in the number of rateable properties—or, of course, by both factors combined. Further, the apparent general lack of change in rateable value in the one area may have concealed specific re-adjustments as between premises used for production and those not so used. And, in fact, alterations in valuations (both substantial and somewhat numerous in later years) did cause variations of the sort mentioned. Besides, the de-rating reforms of 1923 and 1929 provoked major revisions of the proportion of rates collected from rateable properties of different sorts. What is needed for the purpose in mind is some device whereby the rates annually imposed upon a standard *unit* of productive premises (including equipment) could be compared. But, owing to lack of data, this is not feasible to procure.

In default of other measurements, actually it is proposed to prefer the single test of alterations in rate poundage. For the period prior to 1928–29 (the year when the derating inquiry was initiated) this is justified by the fact that higher rating demands mainly took the shape of increased rate poundage [1]; because changes in rate poundage affected

[1] In April, 1919, total assessable value for England and Wales was £219·6m.; in April, 1928, it was £258·9m. This less than 18 per cent. increase in valuation contrasts with an increase during the same period of over 97 per cent. in local rating receipts—from £84·7m. to £166·1m.

all hereditaments equally; because in the areas suffering more acutely from post-war economic inactivity assessable values did not rise much, and often either remained stationary or were reduced because of the adverse effects of depression on property values; because the places in which rate poundage rose largely were those in which industrial properties constituted an important share of the aggregate of rateable subjects; and because it is possible to show that conclusions drawn from the use of this single index are not invalidated by neglecting pre-1928 changes in rateable value.

The following tables give information concerning areas having poundage rates of 16s. or more in the years stated :—

URBAN AREAS HAVING POUNDAGE RATES OF 16s. OR MORE [1]

	1921–22	1923–24	1925–26	1927–28
Total of such areas .	404	151	155	275
Per cent. of All-Urban areas. . . .	35	13	14	24

That these particular grouped areas suffered higher post-war poundage rates is shown by the fact that, while the average poundage rates in them was some 31 per cent. above the average for the whole country in 1919–20, in 1928–29 it was some 56 per cent. higher than this; and whereas the poundage rates for England and Wales rose by nearly 35 per cent. during this period, the poundage rates in the specific areas cited grew by over 61 per cent. Nor must this be modified at all importantly by allowance for change in assessable values. For, while assessable value in England and Wales rose by under 18 per cent. between 1919–28, that for these specific areas rose by 16½ per cent.

With the exception of the Lincolnshire, Norfolk and Suffolk

[1] *Statement showing the Amount of Local Rates and the Assessable Values in England and Wales.*

SELECTED URBAN AREAS HAVING POUNDAGE RATES OF 16*s.* OR MORE

	1921–22	1923–24	1925–26	1927–28	Total of Urban Units in Selected Area
South Wales . .	52	30	34	50	58
Durham, Northumberland and Yorkshire N.R. . . .	42	21	23	40	77
Yorkshire W.R. .	54	22	14	35	131
Derby, Notts. & Staffs.	43	15	18	24	78
Essex, Middlesex & Metropolitan Boro's.	50	16	13	22	107
Lincolnshire, Norfolk and Suffolk . .	27	6	14	20	61
North Wales . .	14	10	12	12	35
Lancashire . .	21	6	2	11	117
Cumberland . .	2	4	3	9	15
	305	130	133	223	679
Percentage of Total Urban Areas having Poundage Rates of 16*s.* or more . .	75·5	86·1	86·0	81·1	

and North Wales groups, all the above were important industrial areas. For, whereas the average ratio of the rates levied on private industrial hereditaments in England and Wales was 11·4 per cent. of the total of rates in 1927–28, in these areas the figure was 17·6 per cent. Actually, the latter areas accounted for some three-quarters of the total net output of the country in the 1924 and 1930 Census of Production.[1] Therefore, the pre-1928 growth of local rates particularly affected these—the most important—industrial areas.

It is interesting to carry analysis further. The following table relates to areas having poundage rates of 19*s.* or more up to 1927–28 :—

[1] *Final Report*, 1932, pp. 462–3 ; 1935, pp. 72–3.

URBAN AREAS HAVING POUNDAGE RATES OF 19*s.* OR MORE, 1921–28

	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	Total
South Wales	37	22	17	12	19	25	31	163
Northumberland, Durham and Yorkshire N.R.	18	24	8	3	5	31	32	121
Yorkshire W.R.	21	17	6	3	2	8	17	74
Essex, Middlesex, and Metropolitan Boro's	24	12	5	5	5	8	10	69
Derby, Notts and Staffordshire	15	9	3	—	—	8	6	41
Lincoln, Norfolk and Suffolk	5	2	—	1	1	2	4	15
North Wales	3	2	1	1	1	1	3	12
Cumberland	—	1	1	—	—	2	6	10
Lancashire	—	2	—	—	—	—	—	2

Clearly, the first five groups outstand. And, compared with the figure of 11·4 per cent. for England and Wales in 1927–28, the percentage of total rates levied on industrial properties in these groups was 18·8. Since the figure quoted earlier for all nine groups was 17·6 per cent., evidently these five areas were places where industrial activity was conspicuously great. The main types of production carried on there are coal, iron ore, lead and copper mining; iron and steel including pig iron (blast furnaces), steel melting, iron puddling, steel rolling and forging, coke ovens and their by-products, iron and steel tubes; ship building and ship repairing; shipping; general engineering; tinplates; cutlery; pottery; woollen and worsted; clothing, lace and hosiery; and some textile dyeing and bleaching. This list includes most of the large industries in which post-war unemployment was both acute and persistent. Furthermore, the principal industries of these areas are those mainly engaged in the production of instrumental goods and of export articles—types of activity of a fundamentally important character. Again, the industries heavily represented in these specific, highly-rated areas figure prominently in the Ministry of Labour's list of contracting industries.

ESTIMATED NUMBERS INSURED IN CONTRACTING INDUSTRIES, 1923–28 [1]

Industry	July, 1923 (000,000's omitted)	July, 1928	Decrease
All Industries	5·27	4·64	0·63
Mining (coal, iron-ore and iron-stone)	1·44	1·26	0·18
General engineering, iron and steel founding	0·67	0·58	0·09
Ship building and ship repairing .	0·27	0·20	0·07
Railways	0·19	0·14	0·05
National Government . . .	0·18	0·13	0·05
Woollen and worsted . . .	0·27	0·24	0·03
Steel melting, iron puddling, rolling and forging	0·21	0·18	0·03
Cotton	0·57	0·55	0·02
Dressmaking and millinery . .	0·12	0·10	0·02
Marine engineering . . .	0·07	0·05	0·02
Docks, harbours, etc. . . .	0·19	0·17	0·02

This enquiry shows, then, first, that the post-war growth of local rates up to 1928 was peculiarly marked in industrial areas generally. Second, that conspicuous divergences between rating burdens in different industrial districts were instigated. The consequent rise in fixed costs—it may be claimed—must have hindered and disrupted production. Actually, calculations show that whereas the total local rates levied on private industry relative to total net output were about 0·82 per cent. in 1913, in 1924 they were about 0·94 per cent., and in 1927–28 about 1·39 per cent. Such moderate rises, it would seem, could not have hurt production. But owing to the high disparities revealed above, this general average rise of rates relative to net output obviously concealed greater specific rises in the districts before delineated. And actually the height of local rates and the volume of unemployment were somewhat intimately correlated. Mainly, this resulted because high unemploy-

[1] *Ministry of Labour Gazette*, November, 1928, p. 391.

ment provoked large outlays upon Poor Relief, Unemployment Works, Health services and other relief items. If increased unemployment is taken as a rough measure of lower industrial output, and this could be assumed to be pivotally due to the asymmetry of prices and costs, then clearly the more output fell for that reason, the further such costs were driven up by the quasi-automatic growth of rating burdens—a vicious circle. This point may be illustrated. It was shown to the Balfour Committee that for twenty-three industrial firms the ratio of rates to net product was about 0·87 per cent. in 1913, and in 1924 it was 1·37 per cent. For coal-mining, the respective figures were 1·64 per cent. and 2·14 per cent.[1] For five steel firms the percentage rise of costs attributable to higher local rates in 1923 over 1913 were 53, 172, 256, 305 and 309.[2] The Crucible Steel Makers' Association showed that the cost per ton due to local rates was 3*s.* in June, 1914, and ten years later—largely due to reduced output—it was 21*s.*[3] Dr. Mess demonstrated that local rates as a percentage of turnover for two large Tyneside firms were 0·46 and 1·12 in 1913–14, but were 3·02 and 4·29 in 1925–26.[4] In *Britain's Industrial Future* local rates per vessel in a certain shipbuilding yard were shown to have been £268 in 1913, but in 1926 £3,182; in another yard there were respectively £89 5*s.* and £2,161; and in a third they had grown from £246 to £1,850. In a north-east coast iron and steel firm, local rates per ton of coal rose, between June, 1914, and June, 1927, from 2*d.* to 9·8*d.*; on a ton of coke, from 3·6*d.* to 17·6*d.*; on a ton of pig iron from 6·5*d.* to 25·7*d.*; on a ton of steel plates from 1·82*d.* to 48·6*d.*; on a ton of steel angles from 1·79*d.* to 50·5*d.*[5] The disabilities inflicted upon industries located in the highly-rated areas were not relieved by the influx of new industries: for these avoided such places. Moreover, those residents and industries and trades able to do so, tended to shift elsewhere —a further exacerbation. And still other burdens were

[1] *Factors in Industrial and Commercial Efficiency*, p. 482.
[2] *Ibid.*, p. 484.
[3] *Ibid.*, p. 485.
[4] *Industrial Tyneside*, p. 162 n.
[5] Pp. 434–6.

provoked by the increase of defaults by impecunious ratepayers—in the special areas these became somewhat numerous.

To proceed, it would appear that some significance attaches to the fact that the dispersion of rating levies became both pronounced and persistent. The following table illustrates this :—

PERCENTAGE DISTRIBUTION OF POUNDAGE RATES : 1913–14 AND 1919–29 [1]

Year	Under 6s.	6s.–8s.	8s.–10s	10s.–12s.	12s.–14s.	14s.–16s.	16s.–18s.	18s.–20s.	Over 20s.	Co-efficient of Variation
1913–14	13·9	55·2	27·4	3·3	0·2	—	—	—	—	5·9
1919–20	0·8	10·7	36·1	30·5	16·9	3·4	1·4	0·2	—	20·0
1920–21	—	0·6	4·4	14·0	30·7	25·0	15·0	5·8	4·5	19·5
1921–22	0·1	0·1	1·7	10·5	26·3	26·3	17·8	9·6	7·6	18·9
1922–23	—	—	5·0	19·5	30·7	21·7	11·6	5·1	6·4	20·8
1923–24	—	1·1	9·6	31·6	26·9	17·6	7·5	3·0	2·7	21·1
1924–25	—	0·8	12·1	29·9	31·2	14·7	7·5	2·2	1·6	19·2
1925–26	—	0·9	9·0	27·8	31·7	17·1	8·3	3·2	2·0	20·1
1926–27	—	0·5	7·6	23·9	28·2	20·3	9·3	4·5	5·7	22·0
1927–28	—	—	5·1	19·2	27·6	24·1	10·3	5·4	8·3	21·6
1928–29	—	—	5·2	20·8	30·3	21·8	10·6	4·5	6·8	21·5

Even, therefore, in industrial areas where the augmentation of rates was less severe, cost disparities must have been promoted between different firms sufficient to engender considerable aggregate disturbance. Owing to altered overhead costs, firms would be driven to reorganise their output in order to move from a less, to a more preferred position. And further complications would be induced by the changes promoted in demand schedules as a result of numerous alterations of demands by ratepayers. More to the point, where marginal costs rose relatively to marginal demand prices for a long period, under competition output would be often curtailed. And firms working under imperfect competition would often be provoked to alter their output and price policies. Some firms, indeed, might be so largely

[1] *Statement of Local Rates per Pound of Assessable Value.*

and persistently affected as to be driven out. Disturbances of these sorts would be inimical to maximum production; the more so because they were repeated owing to the continual vagaries exhibited by rating levies; and readjustments would neither be frictionless nor timeless.

After 1929, allowance must be made for the effects of the derating scheme. This was intended principally to remove the rating anomalies such as have been instanced above, and to relieve, in particular, industries of a fundamental and primary character.[1] Credit should be given for that degree of success which the scheme attained. Yet it was, in fact, only partially successful. It was not limited to fundamental and primary types of production. It did not effectively differentiate between more—and less—prosperous industries and trades. As the definition of eligible hereditaments was drawn broadly, " . . . a hereditament occupied or used as a mine or mineral railway or as a factory or workshop . . ." there ensued a variety of curious decisions. Such types of activity as that carried on in slaughter-houses; in premises used for grinding, blending and roasting coffee; in a store where beer was matured, carbonated, filtered and bottled; in a warehouse in which rags were graded, blended and sorted; in a creamery; in an oil-blending factory; in a scrap-dealer's store where the scrap was used for second-hand cars; in a warehouse where seeds were prepared for sale; all these were held to be derateable. But refusal was given to applications relating to cable-testing works; cold storage premises; packing premises which also were used as a shipping warehouse.[2] The result was to produce anomalies, and to extend benefit to industries which can hardly be classed as primary or basal. The scheme also left largely unaltered the high rating discrimination existing between the various kinds of areas as such. Furthermore, since assessments had been prevented from rising in districts suffering outstand-

[1] See the speech of the Chancellor of the Exchequer, April 24th, 1928 (House of Commons Debates, Cols. 846–8); also " The first element in the Government's plan is the relief to productive industry " (Cmd. 3134, p. 3); and " . . . no scheme of this magnitude would be complete unless consideration were given to the case of those districts which have been commonly called necessitous areas " (Cmd. 3134, pp. 4–5).

[2] Finer, *English Local Government*, p. 404.

ingly from economic depression, the relief of three-quarters of assessment operated rather to benefit industries which were located in the more prosperous places.[1] The plan did not distinguish between monopolistic or quasi-monopolistic enterprise and competition. There seems to have been no impulsive economic reason to extend a further measure of rating relief to agriculture additional to that accorded in 1923. As to the formula itself, and the methods adopted, since the new Exchequer grants were to be distributed during the first grant period as to only 25 per cent. on the weighted formula, the greater part of the benefit to be conferred by this was withheld throughout a somewhat considerable period. That obviously penalised the distressed regions. Again, the grant was distributed by counties to boroughs and urban districts on an artificial basis—that of population. Such uniformity did not accord with the diversity of burden to be met by different producers arising from divergences in current industrial prosperity. Moreover, no provision was made for changes of population within the grant period. The weighting adopted for children (those under five) was defective inasmuch as the high cost of education is a function of numbers of children of school age. Calculation according to *per capita* numbers disregards factors such as the variation in the size of families in different areas, the dispersion of family income and that assessable value is not merely a function of numbers of persons inhabiting given areas. Further, it is well known that valuation was by no means uniform as between different areas. The allowance for unemployment failed to distinguish between long-lasting and sporadic unemployment—the former necessarily entails disproportionately great expenditure upon Poor Relief; and the volume of unemployment inevitably fluctuated during the four-year period. Finally, the formula did not take proper account of the variations of local expenditure as between backward and progressive authorities.

The following examples illustrate the inadequacy of the scheme to meet acute need in the districts where abnormal

[1] Because assessment of coal-mines was made on output, in many coal-producing areas, assessment fell during depression periods.

unemployment existed and persisted. In these places, ineligibility for unemployment insurance, reductions in national health insurance benefits, and the strain on personal financial resources and health caused outlay upon Poor Relief to be above the average. Because such expenditure was prominent then, the figures relate to the year 1931–32.

Place.	Population (000).	Rateable Value (000).	Poor Relief Cost.	Total Rate before Exchequer Grant.	Exchequer Grant.	Total Rate after Exchequer Grant.	Exchequer Grant as per cent. of col. 5.	Poor Relief as per cent. of col. 5.
1	2	3	4	5	6	7	8	9
			s. d.	s. d.	s. d.	s. d.		
Merthyr Tydfil	71	232	12 7⅝	35 9½	10 5½	25 4	29	35
Aberdare	49	156	8 6⅜	31 10⅜	11 10⅜	20 0	38	27
West Ham	294	1,404	8 4¾	23 11⅝	6 5⅝	17 6	27	34
Caerphilly	36	122	8 3	35 3½	11 9½	23 6	32	23
Rhondda	141	410	8 2	34 11½	11 11½	23 0	34	23
Barry	39	221	7 10½	30 3½	12 3½	18 0	40	26
Stockton-on-Tees	68	295	7 1½	27 1	11 3	15 10	42	26
Felling	27	78	7 1½	26 9¼	9 9¼	17 0	35	26
Stanley	24	81	7 1¼	30 2¼	13 10¼	16 4	46	24
Hebburn	24	73	7 1	32 0½	14 6½	17 6	46	22
Hartlepool	20	61	7 0½	29 4½	13 2½	16 2	44	24
Ebbw Vale	32	97	6 4¾	29 0⅜	11 0⅜	18 0	38	22
Abercarn	21	72	6 3¾	31 9¾	13 9¾	18 0	43	20
Salford	223	1,123	5 7½	22 0⅜	5 6⅜	16 6	25	25
Llanelly	38	157	5 5⅛	31 2⅜	14 10⅜	16 4	48	17
St. Helens	107	403	5 3½	24 5⅛	8 2⅛	16 3	33	22
Nottingham	268	1,757	4 4½	17 2	3 0	14 2	17	26
South Shields	113	479	4 0¼	16 9	5 5½	11 3½	32	24

It may be seen that there is a distant rather than a close connection between the ratio of rate costs required for Poor Relief, and the ratio of rate costs assisted by the 1929 Exchequer Grants. Thus, at the one extreme, Nottingham's poor relief ratio is 26 per cent, but its Exchequer grant ratio is only 17 per cent.; while at the other extreme, Llanelly's ratio for poor relief is 17 per cent., but its Exchequer grant ratio is as high as 48 per cent. True, the Exchequer grant was based on four factors. Nevertheless, since Poor Relief costs were so important a factor in determining the total

rates burden in these areas—the average cost was over 25 per cent. thereof—it suggests that the correspondence between such expenditure and Exchequer assistance ought to have been less arbitrary if the derating scheme had taken adequate account of the effects of unemployment.

To test the working of the formula in respect of all four elements, the following are extracts from a table that has been drawn up for the year 1931–32 :—

Place	Rateable Value (000's omitted) 1928–29	Rateable Value (000's omitted) 1931–32	Rateable Value Per Head 1931–32 £ s. d.	Poor Relief s. d.	Education s. d.	Highways s. d.	Cols. 4, 5 & 6 s. d.	Col. 7 as per cent. of Pre-grant Rates	Ex. Grant s. d.	Ex. Grant as per cent. of Col. 7	Rateable Value as per cent. of £10
	1	2	3	4	5	6	7	8	9	10	11
Tunbridge Wells	375	415	11 14 5	1 11½	1 9⅝	2 10	6 7⅛	57	2 4	40	117
Whickham	111	97	4 12 0	7 1¼	6 9½	6 0	19 10½	84	8 9¼	40	46
Aylesbury	66	93	6 19 6	1 9⅜	2 10½	5 11	10 6¼	57	5 6⅜	52	70
West Hartlepool	300	317	4 13 1	4 2	3 11¼	1 5¼	9 6½	56	4 11½	52	47
Lytham St. Annes	285	295	11 11 5	2 3⅜	1 5⅜	3 6⅜	7 3⅜	47	4 0⅛	56	106
Ebbw Vale	154	97	3 1 5	6 4¾	8 0	5 0½	19 5	67	11 0½	57	30
Bexhill	254	290	13 13 1	1 5⅜	0 11½	4 0¾	6 4½	57	3 1¾	50	137
Rhondda	546	410	2 18 0	8 2	8 6⅜	6 10	23 6⅜	67	11 11½	50	29
Buxton	121	145	9 8 7	2 10½	2 1⅜	4 11½	9 11⅜	67	5 1¾	52	94
Castleford	98	93	4 5 0	3 5½	4 11¾	4 7½	13 0⅜	53	6 7⅛	51	42
Goole	80	86	4 5 4	3 4⅜	4 11	4 9⅞	13 0¾	60	7 2¾	56	43
Caerphilly	150	122	3 2 7	8 3	7 6½	4 10½	20 8	59	11 9½	57	31
Wood Green	333	447	8 5 0	1 7⅜	2 8⅛	1 8⅛	5 11⅞	51	1 3⅞	22	83
Croydon	1,620	1,894	8 8 3	1 8½	2 0⅛	2 1⅛	5 10⅛	53	1 3¼	22	84
Ealing	793	1,115	9 9 5	1 7⅜	2 3⅜	2 1⅞	6 0	50	1 4¼	22	95
Richmond	380	527	13 8 4	1 3¾	1 4¾	2 6¼	5 2¾	52	1 1⅜	22	134
Finchley	460	664	11 6 7	1 7⅜	1 7⅜	1 8⅛	4 11⅜	54	1 0⅜	22	113
Hebburn	114	73	3 0 6	7 1	5 11⅛	8 3	21 3⅛	67	14 6⅛	68	30
Llanelly	164	157	4 1 11	5 5⅛	5 6⅜	10 5⅜	21 5⅛	69	14 10⅜	69	41
Walsall	396	416	4 0 9	6 10½	4 6	2 4⅜	13 8⅞	68	4 6⅞	33	40
Abercarn	118	72	3 9 10	6 3¼	7 2	4 3⅜	17 9¼	56	13 9⅜	78	35
W. Bromwich	312	302	3 14 3	4 1¼	4 10⅜	2 11⅜	11 11⅜	55	6 0⅜	50	37
Scunthorpe & Frodingham	214	169	5 0 1	2 11¼	4 6¼	6 8¼	14 1⅜	57	14 4⅜	102	50
Barrow	429	338	5 1 11	3 7¼	5 0⅜	2 1⅜	10 9⅜	59	4 3⅜	40	51
Barnsley	286	313	4 7 6	5 1⅜	4 5¼	1 10⅜	11 4⅜	55	4 6⅛	40	44
South Shields	619	479	4 4 5	4 0¼	3 7	1 7⅜	9 3	55	5 5⅛	57	42
Leyton	567	675	5 5 2	2 9⅜	3 11⅜	3 7⅛	10 4⅞	62	2 7⅞	26	52
Lancaster	228	228	5 5 0	2 3⅜	3 4¼	4 2⅜	9 9⅜	61	4 7⅜	47	52
Lowestoft	203	215	5 2 11	2 3¼	3 9⅞	7 2	13 3⅜	58	7 10½	59	51
Hull	1,815	1,571	5 0 3	5 7⅜	4 2⅜	3 0½	12 10	59	4 5⅞	35	50
Stanley	93	81	3 6 6	7 1¼	6 9⅛	6 2⅛	20 1¼	66	13 10¼	69	33
Merthyr Tydfil	251	232	3 5 1	12 7⅛	7 8⅜	2 5⅛	22 9⅛	64	10 5½	46	32
Scarborough	359	360	8 12 6	2 7¼	2 3⅜	7 9⅛	12 8⅜	62	6 11⅞	55	86
St. Albans	216	247	8 12 4	2 5⅜	2 4¼	3 3⅜	8 1¼	60	2 3⅜	29	86
Batley	182	144	4 3 1	3 4¼	4 9¼	4 8	12 9⅛	47	9 4¼	73	42
Dudley	220	217	3 12 10	3 0¼	4 7⅜	3 0⅞	10 8¼	49	5 7	52	36
Keighley	225	243	6 0 4	3 4½	3 3⅜	5 4⅜	12 1¼	52	7 7¼	63	60
Harrogate	437	500	12 11 6	3 4⅜	2 5⅜	4 9⅜	10 7⅜	52	5 10⅜	55	126

Evidently the derating grants did partly equalise the highly divergent burdens due to costs of Education, Highways and Poor Relief, and variable Rateable Value. Yet anomalies remained. If Tunbridge Wells is compared with Whickham, for example, while Exchequer grants equal 40 per cent. of rate costs in each case (Col. 10), the former has a valuation figure of 117 against only 46 for the latter. Therefore Whickham merited a higher grant than it got. Where, in other cases, the percentage grant relief is nearly equal (Col. 10), rateable values are similarly divergent—*e.g.*, Aylesbury and West Hartlepool; Lytham St. Annes and Ebbw Vale; Bexhill and Rhondda; Buxton and Castleford; Goole and Caerphilly. Clearer contrast occurs in places where not only Exchequer grant percentages are similar, but also the percentage of grant to pre-grant rates cost (ratio of Col. 9 to Col. 7) is roughly similar. Thus, in Wood Green, Croydon, Ealing, Richmond and Finchley the grant percentage is 22, and the ratio of grant to pre-grant rates cost lies between 50–54. Yet their rateable value percentages differ so widely as 83–134. Still clearer contrasts are found by comparing places having similar percentage rate costs for the three services conjointly (col. 8). Hebburn and Ebbw Vale have grant relief percentages so diverse as 68 and 57; Llanelly and Walsall, 69 and 33; Abercarn and West Bromwich, 78 and 50; Scunthorpe and Frodingham and Barrow, 102 and 40; Rhondda and Hebburn, 50 and 68; Barnsley and South Shields, 40 and 57; Leyton and Lancaster, 26 and 47; Lowestoft and Hull, 59 and 35; Stanley and Merthyr Tydfil, 69 and 46; Scarborough and St. Albans, 55 and 29; Batley and Dudley, 73 and 52; Keighley and Harrogate, 63 and 55.

These illustrations are perhaps sufficient to attest the differences between the assistance warranted by actual spending and that which in fact was granted. Especially, the scheme failed to give the maximum of help to the distressed areas—those singled out on p. 117 accounted for 106 out of 114 areas having poundage rates of 16*s.* or more in 1931–32. The effects on production, it may therefore be claimed, were less favourable than if the derating project

had, in these early years, worked out more nearly according to its aims.

Taking all the various points made above together, it would seem that a strong case has been made out to attest the markedly adverse consequences for production in the aggregate, but in particular for the fundamental lines of economic activity carried on in the highly-rated districts. What may be said in appraisal ?

At once it may be conceded that the export trades were peculiarly implicated, and their singular position will be reviewed later. Again, it cannot be repudiated that a very arbitrary dispersion of poundage rates was instigated,[1] which—owing to its persistence—provoked transfers of productive effort and resources to the more favoured localities and also to more profitable types of economic activity. And such transfers must have entailed disturbance to production as a whole. That basal kinds of industry were disparately affected—and firms also—is, besides, not to be gainsaid ; here the characteristic of local rates that they represent a fixed cost was significant. Greatest of all, perhaps, were the pervasive effects promoted by negative psychological repercussions.[2]

Nevertheless, it is to be doubted if output as a whole was materially diminished or notably disorganised. It cannot be valid to contend that the whole of the higher imposts had to be carried by entrepreneurship. In course of time, if not before, some part of the extra burden could be shifted—*e.g.*, on to owners of sites and buildings, on to foreign suppliers of raw materials and partly finished goods, and on to other factors of production. In the special case of the disproportionately high levies made on primary and fundamental producers, in so far as the demands for their products exerted by other types of producers were not markedly elastic, some degree of shifting on to the latter would be feasible. And, in general, extra rates would stand an equal chance with other costs of being passed forwards to con-

[1] Yet the coefficient of variation in 1913–14 was as high as 5·9 per cent.
[2] Cmd. 4728, p. 83, g. 32 ; and *An Industrial Survey of the Lancashire Area*, p. 36.

sumers. Further, the rise of local rates represented but a comparatively minor disturbing factor relative to others which figured conspicuously in the period—*e.g.*, the trade cycle, economic nationalism, currency disturbances, excess productive capacity. Actually it is known that higher costs due to rises in rates were but a fraction of total costs. This point is plainly illustrated by the *Industrial Survey of Lancashire* (p. 280), which showed that total local rates expressed as a percentage of the selling price of the product for eleven important industries ranged between 0·17 and 1·36 —the latter figure being exceptional.[1] This year, incidentally, was one when local rates were near their post-war peak. It is a matter of high factual importance, in addition, that in this same year purely private industrial hereditaments were only required to bear 11·4 per cent. of the aggregate of rating imposts. Even if all rates bearing directly on production as such are taken into account, in 1927–28 the levies made on private manufacturing industry, public utilities, railways and canals and agricultural land together contributed only 23·7 per cent. of the total. Both these ratios must have been definitely reduced by the derating reform of 1929. Again, in 1933 some of the more obvious inequities of the derating scheme were removed.[2] Lastly, but of signal significance, it is impossible to omit from reckoning the additional benefits conferred upon producers by the correlative higher expenditure; these will be reviewed later.

To proceed, the further contention may be discussed that production for export was distinctively harmed by the expansion of rating, especially since export industries and trades do not benefit to more than a minor and incidental degree from the associated rise of spending.

While national taxes were graduated according to the size of profits, and were escaped when these fell to zero, local rates acted as a tenacious, deadweight augmentation of

[1] The Balfour Committee showed that in 1925 local rates and social services charges together amounted to 2–3 per cent. of total costs; and local rates alone accounted for roughly one-half of this figure (*Final Report*, p. 254).

[2] See especially the Report on the Result of Investigation under Section 110 of the Local Government Act, 1929 (1937).

production costs payable whatever the state of trade. And, actually, the conditions governing export over the period taken as a whole were difficult. The early post-war depression greatly curtailed foreign demand; the over-valuation of the pound and other factors operative during 1925–31 also reduced demand and underlined the necessity for cost reductions if output were not to be affected; and the world depression of 1931 was fraught with a disastrous constriction of international trade which was by no means remedied by the events of 1932–35. In South Wales, the North-East coast, the West Riding, Derby, Nottinghamshire and Staffordshire, Cumberland and Lancashire, not only did instrumental production bulk large, but export trading was a special feature. Outstanding foreign-trades which were principally domiciled there included coal and coke, iron and steel, engineering, woollen and worsted, cotton and ship-building; machinery of various kinds, tinplates, hosiery and apparel, pottery, chemicals, wire goods and artificial silk. Special reference should be made to the disproportionality which caused the first two of these areas—South Wales and the North-East coast—to account for 56 per cent. of the total instances where rate poundage rose to 19*s.* or more during 1921–28. Not only this, but the actual rate poundages were definitely the most pronounced in these two regions, *e.g.*, in 1927–28 the average poundages, relative to 12*s.* 10¾*d.* for the whole country, were:

	s.	*d.*
South Wales	26	1
Yorkshire—North Riding	22	8
Essex, Middlesex and London Boroughs	21	7
Yorkshire—West Riding	21	2
Derby, Notts and Staffordshire	20	7

And similar discrepancies are to be found throughout the pre-1928 years. Furthermore, the first two districts were those most pronouncedly afflicted by unemployment; and an unusually high ratio of their production (coal, iron ore and ironstone mining, lead, tin and copper mining, shipbuilding and ship-repairing, docks, harbours, blast furnaces, steel melting and iron puddling, steel rolling and forging) was

for the export markets. This latter feature meant that escape from higher imposts could not be obtained to an extent which would have been feasible if these districts had been less definitely specialised to export; therefore rating burdens, being more concentrated, were more onerous. Incidentally, owing presumably to the large-scale nature of the establishments and plants required for the specific types of export production practised in South Wales and along the North-East coast, the ratio of the total levies falling upon productive hereditaments there was larger than for the country generally. Lastly, the advent of new industry was more prominent in the non-export districts. This possible source of relief from omnivorous local taxation was thus conspicuously denied.

Together, these constitute a ponderous argument to support the contention that the enlarged local levying was diametrically opposed to the interests of that part of aggregate production—roughly one-fifth to one-fourth—which was undertaken to pay for imports. And since this type of economic activity has high claims to significance for the nation's real income, adequate importance is due to be attached to the argument. Actually, however, certain qualifications call for attention. Even in the case of disparate local rates, factual illustration has been given to show that—at the worst—the cost additions entailed were minor relative to total costs. And other external factors—*e.g.*, cyclical fluctuation, currency disorganisations, changes in the terms of trade, foreign competition and economic nationalism—were more pregnant with significance for the cost burdens of export. In addition, it was only in a modicum of cases that export hereditaments were called upon for outstandingly great contributions to local revenues because of their large technical size. Most important of all, few industries and trades were entirely specialised to production for foreign markets—in the 1924 Census of Production coal exported one-fifth, engineering one-quarter, iron and steel one-third, and woollen and worsted one-half of their total output; so that they stood to benefit from the spending undertaken by public authorities on the one hand, while, on

the other, presumably there were considerable possibilities of passing on to domestic buyers the extra costs of higher levies. It may therefore be concluded that, although export producers were more closely implicated by the increase of imposts, the damage inflicted upon them thereby could not have been of outstandingly great consequence.

Separate assessment is warranted of the psychological repercussions caused by the necessity for enlarged taxation and rating. It is warranted because psychological effects are not strictly commensurate with physical consequences: nor do they automatically vary in intensity and magnitude in strict relation to the size of additional imposts. On the one hand, for example, it is possible for even weighty additions to levies to provoke but comparatively slight morose effects on the conduct of producers—during periods of high economic activity and when the outlook for the immediate future is roseate. On the other hand, however, sometimes palpably minor extensions of taxing and rating may entail quite dismal negative repercussions—when business is in the doldrums, or the objects of expenditure do not receive market favour.

Now the steepening of tax progression which was manifested more than once during 1919–35, although it did not eventually subject higher incomes of private producers to sheer amputation, nevertheless did inflict painful laceration; and their physical sores may be expected to have instigated a soreness in producers' mental outlook, besides inducing a less sanguine attitude towards economic activity. Again, the serenity of producers in general was disturbed by what were considered as gross inequities in the rating system. Above all, dislike was expressed of the cumulative rising tendency of expenditure—and the more so when the causes and objects of this seemed to have but a nebulous and misty relation to private economic activity. As mentioned earlier, there was purpose and intent behind the clamours leading to the Geddes Committee of 1922, the Colwyn Committee of 1924, the economy discussions in Parliament in 1926, the agitation culminating in the de-rating scheme of 1929, the May Committee of 1931, and the Committee on Local Authority Expenditure of 1932.

Granting the occurrence of such negative psychological manifestations, the important question to which an answer is wanted is as to what extent, actually, productive activity was affected by them. In the case of individual producers, the basal factor affecting their conduct is the elasticity of their demand for income in terms of effort. No concrete evidence exists which warrants definite or unambiguous assertion about this matter. Nevertheless, there are obvious limits to their willingness and also to their capacity to exert additional effort to cope with the ravaging of their incomes. Were these limits reached during the period—or, perhaps, exceeded ?

To divide individuals into two broad groups—such as those with incomes below the surtax level, and those having incomes above this level—in the case of individuals having smaller incomes, these were immune from higher progression of direct taxation ; also such persons were benefited by the post-1919-pre-1930 reductions in the standard rate of income taxation, and other minor re-adjustments of direct taxation were in their favour, while the post-1930 scales of standard rate income taxation were still below the level of 1919–20 ; the bulk of indirect taxation was quasi-voluntary in the sense that buying of the taxed goods was neither compulsory nor indissolubly bound up with personal efficiency in productive work ; as the marginal utility of money was high to them, they were unlikely generally to seek to modify their economic conduct so as to reduce their incomes ; and, finally, although detailed examination of this point must await later pages, still it can be advanced now that such persons were particularly advantaged by the new local authority expenditure correlative to the additional imposts. For all these reasons it is improbable that the incentive and willingness to produce of persons in this group would be sensibly diminished.

But what of the persons having higher incomes ? Unlike the first group, in this category are included not employees mainly, whose incomes are chiefly conditional upon the faithful and efficient discharge of allotted tasks rather than

upon any other single factor,[1] but independent workers, private employers and the more important directors and organisers of economic activity. And decisions by them to curtail their economic activity have effect not merely upon their own effort but also on the work of the factors of production which they control. Such richer individuals, indeed, were very peculiarly implicated by the increased resort to progression—amounting in a fairly typical year (1930–31) to 5*s.* 0½*d.* on £5,000 income and rising to 11*s.* 1½*d.* on £100,000 income for income taxation and sur-taxation alone.[2] This was for earned income: investment income was taxed at a still higher rate. Private undertakings were thereby more acutely discriminated against in comparison with public companies—bearing only income tax at the standard rate on reserve appropriations. Further, the steepening of progression automatically involves a higher levy the greater is the income. To the extent, therefore, that high income is due to superior efficiency, the higher is the penalty—and, it might be claimed, the less incentive there is to pursue efficiency. Similarly, in so far as abnormal gains are achieved through the undertaking of high risk, the less is the encouragement to venture. Lastly, the absolute increase of taxes and rates in depression periods, imposing a still greater relative rise of levies owing to the restriction of profits and incomes then, may be expected materially to delimit and restrict enterprise.

These actual features of a progressive tax system, developed to such a degree as it was in the period, are indisputable. And that they must have had some adverse psychological repercussions it would seem unwarrantable to oppose. Nevertheless, on the other side, great reliance may be placed upon the general, if not universal, desire of persons to maximise their incomes. Whatever be the actual motive, this can be postulated as a normal fact. And since direct taxation is non-discriminatory, in the sense that similar levels of income—however derived—bear identical

[1] *Cf.* for example, the Minority Report of the *Colwyn Committee on National Debt and Taxation*, p. 380.

[2] Earned income, married person with three children.

rates of levy, no incitement is given by higher graduation to transfer productive resources from one use to another ; consequently, dislocations of economic output due to this cause are not generated. The alternative of relying less on personal activity for income, leading to the tendency to become a passive recipient of investment income is, besides, partly checked by the somewhat higher rates of taxation on investment income and more strongly curbed by the reduction of income which would usually follow from the curtailment of personal effort. And, as against the rise of taxing burdens in depression, the decline of interest rates then would still further reduce investment income. Again, the loophole of escape provided by the transfer of resources into foreign countries is somewhat effectively stopped up by adroit and complex taxation regulations. In addition, it would be unwarrantable to ignore the effects promulgated by the expenditure of the tax funds. These, indeed, are of high moment. Thus a large slice of the additional graduation of taxation was the outcome of the preference for loan finance during 1914–18 ; and, through loan interest and repayment, very considerable sums are in effect returned to individuals in the surtax group. Again, in so far as other extra expenditures by Government reduce costs of production (*e.g.*, Board of Trade services concerning markets, increased labour efficiency, roads) ; or result in the collective supply under public auspices—perhaps at cheaper cost—of facilities and services which otherwise would have called for private expenditure by producers (*e.g.*, public utilities, research) ; or provide services which in various ways advantage productive effort (preservation of law and order, fire protection, treatment of industrial diseases, subsidies) ; there is brought about a *quid pro quo* which to no small extent offsets the taxing demands.[1] Even, therefore, if adverse psychological influences are set up on the specific occasion of tax increases, later they are likely to be in distinctive measure compensated by the physical consequences promoted by the accompanying expenditures. This, at least, must tend to lessen the duration and intensity of negative psychological disturbances.

[1] See pp. 100–202.

So far as local rates are concerned, as these occupy a larger area of canvas than taxation because the total of rates was ordinarily in excess of taxation levies for Exchequer Grants, it is momentously significant that the extra demands made upon private producers represented but a comparatively small ratio of the aggregate of rating increases even before 1929 [1]—and less thereafter. Again, as will be discussed later, the effect of the expenditure of rating funds is more beneficial from the standpoint of private producers than that of tax funds in general. Another high feature of post-war local finance—the substantially enhanced preference for finance by loan—obviously favoured the Richer as producers inasmuch as this practice checked the otherwise inevitable greater rise in current local rating imposts. Taken in association, these counter-arguments are roundly combative of the thesis that irreparable psychological damage was done to entrepreneurship.

Finally, it is an agreed fact that, of production as a whole, joint stock enterprise possesses an outstanding share. And joint stock companies can afford to remain comparatively unmoved and unperturbed by progressive taxation. This does not mean that they are exempt from the effect of those mysterious wireless waves which travel through the market ether when taxation rises, but it does fortify the thesis that the damage of adverse psychological influences is less under such a situation than it might be under other arrangements governing productive activity. And not only is this significant in a general way, but, since actually it appears to be the case that joint stock firms are responsible for a quantitatively great amount of new enterprise and that they often assume the bearing of high risk and uncertainty, it is of some consequence in opposing the view that the extra graduation of imposts stultified and blocked enterprise and risk taking. Incidentally, joint stock companies share with private firms and producers the advantages of public expenditure.

The conclusion suggested is, then, that the features of development concerning local revenue during the period

[1] In 1927–28 the percentage of local rates levied upon private manufacturing industry was 11·4.

were less conducive to psychological deterrence than a preliminary view would indicate.

To pass on, criticism might be advanced that requisitions for taxation and rating were not consciously adjusted so as to inflict the minimum damage upon, and disturbance to, industry during periods of economic fluctuation. Besides, it might be contended that expenditure policies were not directed with either the aim or effect of mitigating the difficulties provoked by the trade cycle. The price boom of 1919–20 was followed by a severe drop in general prices during 1920–21, and by a continuance of the fall up to 1924. Furthermore, there was a general contraction of output—less marked in the later than the earlier part of these years. Between 1924–29, there was a recovery of production in the aggregate, although in particular lines output was subnormal, and 1925 and 1926 were relatively unfavourable years. During 1930–32, world depression entailed a very severe local depression in this country, and during 1931–33 production was disquietingly low. Thereafter, recovery was manifest, and proceeded without serious interruption: nevertheless it was pre-eminently marked in a few major lines.

Revenue demands, however, did not flex so as to take account of these vacillations in economic activity. The main changes are summarised in the following table:—

Changes in Capital Receipts	£m.	Changes in Rates and Grants	£m.
1919–22	+ 103	1919–22	+ 93
1922–24	− 81	1922–24	− 25
1924–28	+ 82	1924–29	+ 34
1928–30	− 26	1929–31	+ 23
1930–31	+ 15	1931–33	− 12
1931–35	− 39	1933–35	+ 13

On the theory that capital receipts should be expanded in years of depression in order to mobilise idle money balances, and to facilitate expanded public capital investment, while the opposite policy should be pursued in boom periods, the above changes were anomalous. For, although capital receipts expanded during the depression of 1920–22, acute contraction was made before recovery was fairly established.

Again, wrongly, borrowings rose during the upward phase 1924–28, to be suddenly reversed in the latter year, and then equally erratically increased in 1930–31—a good year. And the contraction of capital receipts between 1931–33 was also opposed to the theory, as depression was then rampant. The theory also requires that levies should be adjusted so as to rise during the upward phase of the cycle, and so as to decline during the downward phase. But there was a very substantial increase during the depression period 1920–22, followed by a decrease in the two ensuing years of recovery. There was a legitimate rise of imposts between 1924–29, but the decline during 1931–33 was altogether too minor, as was the equally minor rise taking place in 1933–35. Evidently, then, revenue policy did not flex so as to square with theoretical policy, and, moreover, the changes occurring were either unduly large or small.

What of expenditure policy? The following table refers to aggregate expenditure :—

	Changes in Total Expenditure £m.
1919–22	+ 204
1922–24	— 100
1924–28	+ 97
1928–29	— 14
1929–32	+ 43
1932–33	— 37
1933–35	+ 20

In theory, public investment should rise to offset the decline of private investment, and fall so as to countervail the increase of this. Actually, the rise of 1919–22 was in accordance with doctrine—although much of this took place early, and was due more to price rises than to actual expansion in real terms. The large fall of 1922–24 was contrary to need. The substantial growth during 1924–28 was also incompatible with theory. Public investment did desirably grow in the early part of the crisis period starting in 1931, but both the fall of 1932 and the subsequent rise during the last two years were moves in the wrong direction. Moreover, these last changes were slight relative to the changes in the economic situation.

It is obvious from this summary analysis that, on the basis of the theory cited, neither expenditure nor revenue policy was so directed as to accord with it in general—that, indeed, the negative correlation between theory and practice was marked. The most prominent fact is that both levying and spending were more wooden than adaptable, and this impression is that given by a study not only of changes of totals, but of the totals themselves. Plainly, while both were definitely affected by the two major " crisis " periods, in the remaining years influences other than those borne of a trade cycle policy were at work. In fact, there was a conglomeration of influences: yet the greatest was the general tendency of greater State interference to promote continually expanding outlays, and partially to compensate for this by the scaling up of Exchequer Grants.

In view of these findings,[1] it must be accepted that policy —or, rather, the absence of systemic policy—was not so directed as markedly to alleviate the incidence and effect of economic fluctuation. And the weight to be attached to this verdict is heightened by the fact that local authority investment constitutes definitely the largest slice of total public investment.

Another possible manner in which the national income might be affected disadvantageously may be found in the comparative returns in goods and services obtained from a unit of public spending and from a unit of private spending. Public spending may be more or less efficient than private, so that more or fewer goods and services are procured from a given money outlay. Concerning this, several arguments support the thesis that transfer of resources to the local authorities was attended by a less economic application of them. The necessity for increasing the cost of staffs to collect rates and taxes involves the uneconomic use of resources. In 1934–35, for example, costs of rate collection and valuation alone amounted to £2·82m., and some part

[1] Some modification of these is called for to take account of the manœuvring of Special Funds. In general, these were handled by drawing on balances during depression years, and by accumulating balances in more prosperous times. But the actual changes were not of far-reaching effect.

of the total costs of tax collection—amounting to £12·6m. in the same year—must also be reckoned. Further, somewhat heavy expenses were required for the administration of local services—some £11·84m. in 1934–35, not including that part of administrative expenditure which was charged to some specific services; all these, together with Legal and Parliamentary costs of £·26m., must be offset against the goods and services obtained from other public spending.

Broader and weightier considerations are invoked by the contention that dis-economy was entailed because local areas were not ordinarily the optimum economic spending units. In 1927, when a major reform of areas was carried out, there were no fewer than 25,340 separate bodies having powers to enter into financial transactions; and even after the reform, as many as 11,619 separate authorities armed with this power remained.[1] It is not probable that such a portentous number of authorities could obtain the maximum return from expenditure. Due allowance ought to be made for the point that a multitude had only a very restricted ability to undertake financial liabilities. But even the comparatively few large bodies are found to exhibit appreciable variations in areas, population, rateable value, and the extensity and intensity of spending. To illustrate the variability in population and rateable value, examination may be made (overleaf) of the 1,117 major authorities existing in 1921.

Variations similarly pronounced are to be found in all succeeding years.

As for the variability of spending, this can be illustrated from the case of metropolitan and county boroughs only. In the following table, a few places of roughly similar population and rateable value are grouped together. Comparison is made, first, of the total expenditure on Rate Fund and Trading services, and second, of expenditure upon Rate Fund services only. In each case, to exhibit the comparability of outlays, the expenditure is expressed as a percentage of the rateable value and *per capita*. Despite the fact that the figures have been taken for the last year of

[1] Reports, *Ministry of Health*, 1928–29, p. 124; 1929–30, p. 153.

County Boroughs, Boroughs, and Other Urban Districts [1]

Population in 1921

ooo's omitted	No. of Authorities	ooo's omitted	No. of Authorities
Under 1	17	80– 90	4
1– 2	79	90–100	9
2– 3	90	100–110	4
3– 4	92	110–120	3
4– 5	90	120–130	6
5– 6	80	130–140	1
6– 7	54	140–150	4
7– 8	48	150–160	2
8– 9	39	160–170	1
9–10	38	170–180	1
10–15	139	180–190	—
15–20	91	190–200	1
20–30	77	200–250	5
30–40	52	250–300	5
40–50	31	300–350	1
50–60	16	350–400	1
60–70	17	over 400	5
70–80	14		1,117

Rateable Value in 1921

ooo's omitted	No. of Authorities	ooo's omitted	No. of Authorities
Under £10	102	£400– £500	24
£10– £20	184	£500– £600	13
£20– £30	151	£600– £700	7
£30– £40	107	£700– £800	3
£40– £50	83	£800– £900	3
£50– £60	64	£900–£1,000	3
£60– £70	64	£1,000–£1,100	—
£70– £80	29	£1,100–£1,200	3
£80– £90	27	£1,200–£1,300	3
£90–£100	34	£1,300–£1,400	2
£100–£200	127	£1,400–£1,500	1
£200–£300	54	£1,500–£2,000	2
£300–£400	21	over £2,000	6
			1,117

[1] Royal Commission on Local Government, *Minutes of Evidence*, Part I., pp. 137–8.

the period—after the various reforms designed to equalise spending positions of similar authorities—discrepancies are apparent.

TOTAL EXPENDITURE IN CERTAIN METROPOLITAN AND COUNTY BOROUGHS, 1934–35 [1]

Place	Population (000's omitted)	Rateable Value	Total Expenditure	Total Expenditure as percentage of Rateable Value and *per capita*	
		£m.	£m.	Per cent.	£ *per capita*
Leeds	486	3·39	9·52	281	19
Bristol	411	3·04	6·40	215	16
Portsmouth	249	1·80	3·30	184	13
Leicester	241	1·70	5·00	294	21
Croydon	241	2·19	3·24	148	13
Bolton	176	1·03	3·38	328	19
Swansea	166	1·04	3·77	363	23
Battersea	150	1·12	1·08	96	7
Fulham	145	1·16	1·84	159	13
Woolwich	145	1·09	2·42	222	17
Wolverhampton	140	0·81	2·47	305	18
Preston	117	0·66	2·52	382	21
Northampton	97	0·69	1·29	187	13
Grimsby	94	0·49	1·71	349	18
Rochdale	94	0·54	2·14	399	23
West Hartlepool	72	0·34	0·72	212	10
Barnsley	71	0·34	1·09	350	15
Rotherham	69	0·36	1·88	522	27
Barrow	65	0·34	1·06	312	16
Wakefield	60	0·35	1·08	309	18
Bury	60	0·35	0·96	275	16
Finsbury	65	1·23	0·72	60	11
Chelsea	58	1·25	0·61	49	10

[1] *Local Taxation Accounts*, 1934–35.

EXPENDITURE ON RATE FUND SERVICES ONLY IN CERTAIN METROPOLITAN AND COUNTY BOROUGHS, 1934–35 [1]

Place	Population (000's omitted)	Rateable Value	Expenditure	Expenditure as per cent. of Rateable Value and *per capita*	
		£m.	£m.	Per cent.	£ *per capita*
Leeds	486	3·39	5·64	166	11
Bristol	411	3·04	3·91	129	9
Portsmouth	249	1·80	1·68	93	7
Leicester	241	1·70	2·34	138	10
Croydon	241	2·19	1·69	93	7
Bolton	176	1·03	1·80	175	10
Swansea	166	1·04	2·34	225	14
Battersea	150	1·12	0·71	63	5
Fulham	145	1·16	0·64	77	4
Woolwich	145	1·09	1·10	101	8
Wolverhampton	140	0·81	1·30	160	9
Preston	117	0·66	1·01	153	9
Northampton	97	0·69	1·00	145	10
Grimsby	94	0·49	0·58	119	6
Rochdale	94	0·54	0·81	150	9
West Hartlepool	72	0·34	0·43	126	6
Barnsley	71	0·34	0·63	182	9
Rotherham	69	0·36	0·74	206	11
Barrow	65	0·34	0·48	141	7
Wakefield	60	0·35	0·62	177	10
Bury	60	0·35	0·43	123	7
Finsbury	65	1·23	0·29	24	4
Chelsea	58	1·25	0·17	14	3

Lastly, a summary table is given to show—again in 1921—the high divergences in physical size :—

[1] *Local Taxation Accounts*, 1934–35.

SIZE OF COUNTY BOROUGHS, BOROUGHS AND URBAN DISTRICTS [1]

Number of Acres (000's omitted)	Number of Authorities
Under 0·5	47
0·5– 1	140
1 – 2	145
2 – 3	185
3 – 5	260
5 –10	169
10 –15	31
15 –20	18
20 –30	14

The actual dis-economies which might be charged are varied. It may be suggested, however, that an outstanding one was the undue proliferation of staff personnel. The inordinate number of small authorities clearly caused excessive duplication of staffing, as Sir I. G. Gibbon pointed out to the Royal Commission on Local Government :—

"Sub-division of administrative districts leads, in the aggregate, to large disbursements in the way of salaries, due to the multiplication of officers, and in the way of office accommodation for these and for the Local Authority." [2]

Again, since it was not feasible to secure the optimum geographical and technical areas for the different services, the optimum of staffing economy could not be secured. This point applies particularly to Water, Land Drainage, Health, Education and—before 1926—to Electricity.[3] Nor was this major disability overcome during the period by resort to joint or co-operative working, for that was, in general, scrappy and aleatory. In consequence, there was much overlapping of services, especially in Health, Education, Police, Fire Brigades and Library services.[4] Besides,

[1] Based on Robson, *The Development of Local Government*, p. 24.

[2] *Minutes of Evidence*, Part I., p. 30, g. 54.

[3] Reports, *Ministry of Health*, 1922–23, p. 33 ; 1925–26, p. 46 ; 1929–30, p. 12 ; Ministry of Health, *Advisory Committee on Water Supply* ; *Report of Consultative Committee on the Education of the Adolescent*, 1926, pp. 162–5 ; Cmd. 4200, gg. 155, 158 ; Cmd. 2993, pp. 7, 20, 21, 24 ; Robson, *The Development of Local Government*, *passim*.

[4] Cmd. 4200, gg. 155, 158, 22, 23, 24, 30 ; *Select Committee on Police Forces* (*Amalgamation*), pp. v–viii ; *Report of Public Libraries Committee*, 1927, pp. 150–4 ; Report, *Ministry of Health*, 1933–34, p. 97.

it was usually impracticable for the small authorities to secure the economy of specialist and expert staffs owing to lack of financial capacity.[1]

Besides staffing dis-economy, the purchase of goods and materials was uneconomic because aggregate spending on these was inflated by the chaotic arrangement of areas. In particular, the existence of so many small spending bodies denied the advantages of large-scale purchase and production. But additionally, duplicated spending on buildings, plants and equipment and on the other paraphernalia requisite for service facilities took place. The items more profoundly implicated were Water plants, Educational buildings and equipment, and Health institutions and apparatus: but other services were not immune. Again, the markedly wide variation in areas, populations, assessable values and in other economic aspects was almost inevitably associated with divergent degrees of efficiency in expenditure.

Nevertheless, non-economic expenditure due to structural conditions was not the only source of waste, and there are other grounds for the view that methods and policies of financial outlay were below the optimum. These grounds are diverse; and they are, perhaps, best illustrated by various specific references. In different years, the Ministry of Health referred to disparities in the relative costs of the Cleansing services from one area to another.[2] Description of the maladministration of the Poor Law service in general, and the growth of divergent practice, has been given on pp. 36–40. Animadversions were passed upon the action of larger local units respecting the supply of Water, inasmuch as their self-regarding policies involved a wasteful system of national supply—failing to secure adequate provision in smaller districts and in places whose supply was drained

[1] *Cf. Royal Commission on Local Government, Minutes of Evidence*, Part I., gg. 52–4.

[2] Reports, *Ministry of Health*, 1921–22, p. 36; 1922–23, p. 38; 1923–24, p. 44; 1925–26, p. 52; 1926–27, p. 15; 1928–29, p. 22; 1929–30, p. 26; 1930–31, p. 23; 1931–32, p. 24; 1933–34, pp. 22–8. A special report of a Conference appointed to deal with the costs of Cleansing and to guide local authorities was issued in 1925, and re-issued in 1929. In 1933–34 inclusive costs per ton of refuse varied from 20*s.* 5*d.* for Metropolitan Boroughs to 10*s.* 3*d.* for Urban Districts (Report, 1934–35, p. 35).

away.[1] Lack of efficiency in dealing with Rivers Pollution was not infrequently mentioned and was specifically charged by a special committee in 1928.[2] The surveys of Health services instituted in consequence of the Local Government Act, 1929, elicited unfavourable comments about imperfect co-ordination; a lack of unity in administration; and failure to segregate certain facilities from the Poor Law.[3] Criticisms were advanced, from time to time, of individual Health services, *e.g.*, according to the Ministry of Health the Maternity and Child Welfare scheme was not conducted with sufficient regard for economy,[4] and exorbitant spending on Sewage works was charged in 1923–24.[5] The Committee on Local Authority Expenditure of 1932 claimed that Mental Hospitals were ". . . too elaborate and expensive . . ." and that ". . . Local Authorities themselves have put forward proposals for expenditure far beyond what is necessary." [6] As for General Hospitals, ". . . certain hospitals have cost per bed an amount nearly equivalent to that of three working-class houses . . ." [7] Medical materials could have been purchased more cheaply ". . . by simplifying and standardising the articles required and by systematic purchasing." [8] By avoiding ". . . costly schemes of lay-out and floral decoration" spending on Parks and Pleasure Grounds could have been lower.[9] As for Baths and Washhouses, " In some areas the standard of accommodation is unnecessarily costly and the provision made goes beyond what is reasonably necessary." [10] Nor were other services immune from stricture. The Ministry criticised local authority demand for Houses at times when supply conditions were unfavourable—in 1925–26; in 1929–30

[1] Reports, *Ministry of Health*, 1922–23, p. 33; 1925–26, p. 46; 1929–30, p. 12; Ministry of Health, Advisory Committee on Water, *Report on Rural Water Supplies*, 1929.
[2] Reports, *Ministry of Health*, 1928–29, pp. 14 *et seq.*; 1929–30, p. 16 Report of *Joint Advisory Committee on River Pollution*, 1928.
[3] Reports, *Ministry of Health*, 1931–32, p. 45; 1933–34, pp. 45–54.
[4] *Ibid.*, 1922–23, p. 12; 1933–34, pp. 77–85.
[5] *Ibid.*, 1923–24, pp. 41–2.
[6] Cmd. 4200, g. 163.
[7] *Ibid.*, g. 183.
[8] *Ibid.*, g. 186.
[9] *Ibid.*, g. 152.
[10] *Ibid.*, g. 153.

adverse comment was forthcoming about failure to adjust design so as to minimise expense; and in 1930–31 further reference was made to unwarrantably expensive planning.[1] The Committee on Local Authority Expenditure stated that, in the erection of Houses, ". . . where occasion has arisen to examine closely the details of the proposals submitted by some Authorities, it has commonly been found that substantial economies can be suggested . . ." without detriment to efficiency.[2] The adverse effects of Housing subsidies have already been mentioned. As for Highways, this body thought that certain improvements capable of economy could be made.[3] If all local bodies administering Elementary Education could be transferred to the control of Higher Education committees, in the view of the Hadow Consultative Committee this would ". . . probably effect a great saving in expense."[4] The Committee on Local Authority Expenditure contended that numbers of school teachers were excessive because there were supernumerary small departments; and because technical institutions were insufficiently co-ordinated.[5] Again, complaint was made of disparities in unit costs of educational Special Services and Administration.[6] With regard to Police and Justice, the excessive proliferation of Petty Sessional Divisions and separate police courts caused staffing waste.[7] And both the Desborough Committee of 1919 and the Select Committee on this service of 1932 admitted that judicious amalgamation of police forces would lower costs—in fact, this had previously been pointed out in 1914.[8]

Besides these references to specific services, it is possible to bring forward somewhat deeper considerations affecting efficiency of spending. This was militated against by the haste with which large-scale and multitudinous reforms were

[1] Reports, *Ministry of Health*, 1925–26, p. 59; 1929–30, p. 86; 1930–31, pp. 94–5.
[2] Cmd. 4200, g. 87.
[3] *Ibid.*, g. 121; see also Cmd. 3920, g. 298.
[4] P. 165.
[5] Cmd. 4200, gg. 23, 24, 25, 30, 34, 42.
[6] *Ibid.*, gg. 46, 47, 48, 49, 51, 52, 57.
[7] *Ibid.*, gg. 276, 277.
[8] *Select Committee of* 1932, p. 64, g. 21, p. viii; Cd. 7315, p. 43.

introduced as a result of early post-war central legislation. From that standpoint, the period was a landmark in the history of local government. The scheme of Education was virtually remodelled by the Acts of 1918 and 1921; the Acts of 1919, 1923 and 1924 constituted a revolutionary departure from previous policy and outlook in Housing; the Highways legislation of 1920 and 1921 postulated a wholesale upwards revision of roads standards and maintenance; all the important Health services were sweepingly affected and some were entirely reformed by legislation; Parliamentary measures of 1919, 1922, 1925 and 1926 were responsible for high expenditure upon certain Agricultural services; first local and then country-wide reorganisation of Electricity services was induced by the Acts of 1921, 1922 and 1926; and a variety of Minor services were intimately touched by Parliamentary decisions taken in the earlier part of the period. Such notable fresh developments, eventuating in a comparatively brief time, necessarily produced a great strain upon local capacity to cope with them, and it is not surprising that the local administrations could not undertake a mass of new obligations with sole, or even principal regard for economy. Even had they been inclined to adjust their response over a period of time, or in other ways to carry out their duties to serve the end of economy in large part, they were rendered less competent to do so by the energy and zeal displayed by the central departments. During 1920–32, 116 Acts of Parliament were passed, and these were accompanied by 579 Statutory Orders, Rules and Regulations, 762 Circulars, 180 Memoranda and 65 Orders in Council.[1] As a result of such pressure, dis-economy in spending was fostered and became not infrequent. Demands were launched virtually irrespective of the adequacy of supply facilities or other peculiarities affecting the supply side, and attention to such deficiencies was not always early or highly effective. In consequence, much expenditure was entered upon in early post-war years at abnormal cost, *e.g.*, especially Housing, Highways, Education, Agriculture and certain

[1] Evidence of the National Association of Local Government Officers to the Committee on Local Authority Expenditure, 1932.

Health services. Of necessity, besides, administrative expenses were inflated.

It is also possible to criticise central planning policy as being defective, and therefore dis-economic. A prominent illustration may be found in Highways planning. There was a distinct tendency to spend highly on rural roads, despite their subordinate traffic importance. For long (the Bridges Act, 1929, represented the first substantial forward move) the improvement of bridges was relatively neglected, especially railway bridges. Footpaths and curbs were not afforded the degree of attention given to road surfaces. The delay in dealing with " ribbon development " (until 1935) is to be deplored as being definitely uneconomic. It is to be suspected that land purchases were not infrequently effected on unfavourable terms. Urban congestion is still a distinctive phenomenon. The grant powers of the Ministry of Transport were so large as to imbue local bodies less with regard for economy than with competitive spending. Lastly, the toll of life and injuries reflects not only on other contributory factors, but also on the inefficiency of central preventive measures. Housing might provide another example. The manifold drawbacks of the subsidy system and the defective manner in which this was operated have received mention earlier. Reference is also made later to the excessively even provisioning of new municipal houses as between different types of area, which assuredly need not have taken place under a more rational scheme (p. 181). By the end of the first twelve years even, the Marley Committee showed, the adequate supply of strictly working-class houses had not been given (pp. 20–25). The Health services could be used to exemplify the defects of haphazardry as opposed to co-ordination of planning. Varied references have been made already. But stress may be laid upon the comparative weakness of the central authorities in dealing with the problem of co-ordinating the Poor Law medical services with the normal local medical services. This was not, in fact, seriously attempted until the later years of the period. And the modicum of success only which was secured in the schematic provision of Water supply, Land

Drainage and Sewage Disposal may be cited. Poor Relief is an instance of lack of success in rationalising. To rationalise this is, of course, a herculanean task; nevertheless, the persistence of anomalies, excesses and defects, and maladministration is a commentary not merely on local authority practice, but on central planning control. The slow progress made in Town and Country Planning is in part to be ascribed to legislative and departmental deficiencies. Not until 1932 was a really effective scheme put into operation.

Other criticisms of dis-economic central planning are possible. Departmental control over borrowing was not conspicuous for its positive quality. True, there has been supervision, and this has undoubtedly been both detailed and laudable. But large new borrowing was sanctioned at times of high interest rates—especially in the early 'twenties—and much of such borrowing is not amenable to conversion; the practice of pooling loans was not generally authorised until 1930; no very definite steps seem to have been taken to implement Ministerial recommendations to finance capital expenditure out of revenue and Special Funds. The administration of exchequer grants could be criticised for the delay in dealing with certain manifest disadvantages of the percentage system—that it does not incite minimum local spending; it does not prescribe the aggregate of spending; that where the central share of cost is high, local authorities spend expansively; and that its uniformity has encouraged relatively equal spending by both backward and progressive authorities.[1] Although, moreover, block grants are superior to both percentage and unit grants from the standpoint of effective control of expenditure, and credit must be given for the widespread intercalation of these in the system effected in 1929, it does not follow that they induce the most economic spending—in the proper sense of the term—since they tend to disregard the desirability of expenditure changes which may manifest themselves subsequently to the determination of such grants.

[1] On the defects of percentage grants see, *e.g.*, Cmd. 1581, pp. 105–6, and Cmd. 4200, gg. 11–14.

Indeed, in the reform of central grants, there is yet scope for improvement. A last critical point relates to the somewhat ineffective control by the Ministry of Health of other central departments, possessing the capacity to interfere with large effect and in disturbing manner with local finance. There is, in fact, some degree of co-ordinated policy. But this has been more prominent at times of economic crisis than during more normal periods. The fundamental drawback attendant upon the discrepancy is that there exists serious danger that the marginal utilities of expenditure as between different lines may not be effectively equalised.

While central Government and State departmental policies and methods rank outstandingly as factors predisposing to extravagance, the local bodies themselves are not immune from citation. The Historical Survey showed that the post-war conduct of the Poor Law service was to be regarded as being financially lax and productive of waste of resources. Local authorities were slow and sometimes unwilling to resort to co-operative working with neighbouring bodies to provide facilities at cheaper cost, or more efficiently. In some services and in certain areas, the local units pursued expensive individualistic policies, *e.g.*, in Water supply, Gas, Transport, Health, and occasionally they became needlessly competitive with each other. They exhibited all degrees of efficiency in administering services. They indulged in long and costly disputes concerning boundaries and area extensions. The greater post-war influence exerted by politics in local government often had important bearings upon the propensity to spend lavishly.

Besides these, another factor making for dis-economy was the archaic, over-complicated procedure with which it was necessary to comply in matters relating to powers and duties. The method of Local Inquiries was somewhat costly; the frequent necessity for Private Bill legislation involved expense; the three stages normally involved by borrowing were both expensive and cumbersome, and after 1931 Treasury control was required; other legal minutiæ

opposed the pursuit of economy; and, finally, the insatiable appetite of central departments for returns, correspondence and inspection severely augmented costs of local administration.

To discuss extravagance from another angle, how far did local authority policy concerning staff remuneration differ from that of the private economic world, so that the public bodies obtained greater or less returns from each unit of outlay on personal services? To illustrate the point—outlay on personnel represents the greater proportion of total expenditure—reference can be made to the policy of remunerating three types of employees: unskilled, skilled and officers. The following table, based on information collected by the Ministry of Labour, shows changes in rates of wages in certain private occupations and in local authority service:—

UNSKILLED GRADES

Occupation	Percentage Increase in December, 1934, over July, 1914 [1]
Agricultural Labourers	73
Shipbuilding Labourers	78
Boot and Shoe ("Other" Departments)	80
Building Labourers	83
Railways—Permanent Way Gangers	87
Permanent Way Labourers	95
Goods Porters	95
Dock Labourers [2]	96
Boot and Shoe (Lowest Grades)	100
Road Transport (One-Horse Carters)	102
Baking-Table Hands	105
Railways—Passenger Porters	107
Local Authorities—Labourers (Non-Trading) [3]	93
Tram Conductors [4]	105

[1] *Ministry of Labour Gazette*, especially March, 1935, pp. 86–8.
[2] Daily rates.
[3] Ministry of Labour figures—28 large towns.
[4] *Ibid.*—39 large towns (includes also non-local authority undertakings).

SKILLED GRADES

Occupation	Percentage Increase in December, 1934, over July, 1914 [1]
Shipwrights	44
Engineering—Moulders and Pattern Makers	50
Fitters and Turners	52
Shipjoiners	53
Building—Bricklayers	60
Carpenters and Joiners	64
Plumbers	65
Cabinet Makers	73
Electric Wiremen	80
Railways—Locomotive Drivers	93
Printing—Hand Compositors	107
Local Authorities—Indoor Electrical [2]	104
Tram Drivers [3]	94

Mr. E. C. Ramsbottom has calculated changes in wages since 1920, and comparisons may also be made of the alterations he records: [4]

WEEKLY WAGES RATES IN 1934 AS PERCENTAGE OF 1920

Occupation	Percentages
Iron-Mining	39
Iron and Steel	42
Coal-Mining	42
Tinplate	45
Woollen	51
Cotton	53
Shipping	57
Shipbuilding and Ship-Repairing	62
Building	64
Agriculture (England and Wales)	66
Heavy Chemicals	66
Engineering	66
Furniture	68
Docks and Harbours	72
Railways	72
Baking	75
Tailoring	80
Boot and Shoe	82
Local Authority—Non-Trading	69
Tramways [5]	82

[1] *Ministry of Labour Gazette*, especially March, 1935, pp. 86–8.
[2] Ministry of Labour figures—51 large towns.
[3] *Ibid.*—39 large towns.
[4] Journal, *Royal Statistical Society*, 1935, Part IV., pp. 665–6.
[5] Includes also non-local authority undertakings.

Both sets of figures are open to the objection attaching to any statistics which merely illustrate by sample; but the details afforded have interest. And the estimated average percentage increase in weekly full-time wages rates for the Ministry of Labour's figures was 65 per cent. With this the figures for local authorities (93, 94, 104, 105) evidently make favourable comparison. Again, the general average percentage for Mr. Ramsbottom's figures was 61 per cent; and here, too, the local authority figures (69, 82) stand in a favourable light.[1] Both tables indicate that local authority employees fared better than the general average private worker; scarcely less favourable than the more fortunate sheltered worker; and much better than the worker in unsheltered and depressed trades. Again the tenure of employment is less uncertain than in private industry as a whole; and superannuation or pension schemes for local authority workers became adopted in increasing measure. These points fortify the conclusion that public authority servants were favoured rather than otherwise in comparison with the generality of similar-grade workers in private employment.

As for salaries of officers, of course no effective comparison can be made with private enterprise. Nor is there enough information to support generalisations about changes of local salaries. Yet salaries which were raised in early post-war years mainly on account of higher living costs then, were not generally scaled down afterwards strictly to match the decline in the index of the cost of living. This unequivocally applies to teachers and police, whose remuneration absorbed some 40 per cent. of revenue expenditure on Rate Fund services in 1930.[2] And, judging from the results of a questionnaire answered by thirty-seven mixed local authorities in 1934–35, the general tendency seems to have been not to resort to basic moderations of salary scales to meet the decline in the cost-of-living index number. On the other hand, due to the activities of professional

[1] For pre-war years, see Knoop, *Principles and Methods of Municipal Trading*, pp. 283–5.

[2] Cmd. 4200, g. 233.

associations and to pressure by the central authorities, from time to time upwards revisions took place in the salary scales of officers of various categories. In addition, although these involve contributions by the beneficiaries, superannuation schemes came to be increasingly accepted. How far the real increase in the remuneration of officers was offset by higher efficiency cannot be known. But the higher pay has, in fact, attracted and stimulated higher technical qualifications. Further, it has allayed the mortifying effect on personal efficiency of discontentment with material reward. Even, however, if a favourable verdict on this matter were possible, in view of the various arguments developed earlier to show the dis-economies in staffing entailed by one factor or another, the conclusion is that the real remuneration of local authority personnel as a whole advanced relative to that obtaining in the world of private industry and that probably unit labour costs moved unfavourably during the period.

A last point is one commonly adduced by opponents and critics of public expenditure—the fact that the personal incentive to maintain unremitting regard for economy, which is one of the profoundest motives actuating economic conduct in the world of private affairs, has no counterpart in the *régime* of public expenditure. It may be allowed by such opponents that there are some—perhaps many—public service officers who are highly sensitive to the need for economic spending and who endeavour to secure the maximum returns from a unit of outlay ; and further that, from time to time, many attempts have been made to fashion instruments designed to eliminate the virtually infinite possibilities of waste. But, it is retorted, there is no effective substitute for the personal motive to economise, with the result that public spending is inevitably less efficient. To press the argument further, no effective device has yet been discovered which is capable of securing the equalisation of the marginal utilities of spending in a fashion so efficacious as it is accomplished by private persons. Here again the emphasis is on the distinction between personal and impersonal administration. And it would be

possible to develop this animadversion by citing the fact that local authority expenditure is compartmental—being undertaken by distinctive and separate sections of officials and committees, without being subject to the control of a single master mind equipped with complete directorial and managing autonomy. Nor, it may be argued besides, are the drawbacks inherent in this state of affairs countervailed by the arrangements existing for central supervision; for various Ministries and State departments participate in this, and even at Whitehall no single authority is armed with that financial despotism which is requisite for the unobstructed allocation of outlays on the marginal principle.

Such contentions, however, must not be allowed to pass as accepted dogma without the entering of a caveat. In practice, spending with strict adherence to the principle of equalising marginal utilities is so rare as to be exceptional even when private persons undertake spending. In this respect, therefore, the inferiority of public spending is less than at first appears. As for the other principle, since joint stock enterprise figures so prominently in private production, and it can hardly be claimed that the personal motive to economy can operate unrestrainedly and unequivocally under such a form of organisation, a drawback similar in type to that upon which reliance has been placed in the negative argument above is present; and this drawback cannot be dissipated. All that can be maintained, indeed, is that the peculiar position and status of joint stock companies as trustee for the privately-owned resources which they administer and for which they can be held responsible at law is such as generally to enforce a more vigilant regard for economy than prevails in the case of public authorities.

The principal arguments supporting the contention that dis-economy occurred in the purchase of goods and services by local bodies have now been broached, and certain points opposed to this view may be briefly cited. The most important one is that the local administrations spend a substantial proportion of their resources in the private

markets—both on goods and on labour. Actually, since resort to direct labour and self-production of goods by the public organisations is infrequent and then only partial, necessarily most capital and consumption commodities and also materials of diverse sorts are purchased in private markets. The implication is, that in this way, as high a return per unit of outlay is secured as would have been obtained by private spenders in the absence of enhanced public spending. Another favourable feature is that the local authorities apparently obtain certain economies through bulk buying such as is not normally feasible to private individuals as spenders. And this was developed in consequence of the more widespread resort to the system of collective purchasing and the standardisation of goods and materials.[1] Probably, besides, further economies result from the fact that various staple goods and materals are demanded regularly and in not highly varying quantities —for this must reduce the uncertainty costs to suppliers and facilitate economies of standardisation and scale. Lastly, buying can be done by specialists, knowledgeable as to qualities, grades and types of goods.

It can be allowed, then, that there are economies to be set off against the dis-economies. But it is patent that the weight of evidence and analysis is such as to lead to the conclusion that the conditions prevailing during the period provoked more dis-economy in public spending than in the private spending which might have been undertaken if the expansion of the former, which is the subject of consideration in this volume, had failed to materialise.

Next, it might be submitted that the national income was banefully affected as a result of the increased resort to loan finance *vis-à-vis* finance out of current revenue which was a distinctive feature of the period. Compared with the years 1906–14, for example, when expenditure defrayed out of loans averaged 16·8 per cent. of the expenditure met from current revenue, during 1919–35 the comparable figure was 23·7 per cent.[2]

[1] An informal committee on this matter reported in 1934.

[2] This latter figure also includes expenditure out of other capital receipts : but their ratio to the total was minor.

By those opposed to the larger capital borrowings, it is contended that the increased absolute and relative amount of capital spending has had deleterious effects on the following grounds: (i.) the enhanced ability to borrow incited extravagant spending. The most prominent instances are Housing and Trading; but it is claimed that Health and Highways were also implicated. Such extravagance resulted because the demand curve for goods and services was moved to the right; because the inelasticity imparted to demand by greater freedom to spend on capital account, and the fact that local authority requisitions were advanced in time fostered the abnormal raising of supply prices; and sometimes this was further provoked by the growth of monopolistic supply conditions. Because fewer goods and services were obtained by a unit of public spending than would have been obtained from a unit of private spending, the national income must have been reduced. (ii.) The disproportionately large demands for capital exerted by the local authorities in the period curtailed the capital resources available to private producers, and thereby further restricted the national income. (iii.) In contrast with the policy of financing expenditure out of current revenue, as the opposed policy entailed the payment of interest, this *pro tanto* increased the levies which had to be made on ratepayers and taxpayers. But higher levies, in turn, must have impugned the willingness and capacity to produce of private entrepreneurs to such an extent as materially to constrict not only the current national income, but also that of all the years during which such interest charges had to be met. (iv.) The borrowing capacity of future generations would be diminished inasmuch as a considerable amount of local authority debt would not be repaid until long periods of time have elapsed. Since future generations will be unable to acquire as many capital instruments as they wish, and also will be denied the opportunity afforded by technical improvements to secure instruments superior in efficiency to those acquired previously, the national dividend of the future will be lower than it might otherwise have been. Besides, owing to obsolescence and failure of local authori-

ties to provide adequate depreciation allowances,[1] later generations will be encumbered with the necessity for meeting capital charges on assets which have lost their utility or their capacity to produce equivalent income. On this point in general Bastable has written :

" Heavy borrowing, on the other hand, if persisted in for several years, so cripples the ordinary revenue as to compel retrenchment, or further borrowing on disadvantageous terms, until the limit of solvency is touched. This appropriation of resources that will surely be needed in the future is a grave weakness in the borrowing policy." [2]

And Sir Ernest Benn roundly declares that :

" The present debt means that a large proportion of all future production is mortgaged to pay for delights already enjoyed and largely exhausted." [3]

The drawbacks cited under this heading are particularly illustrated by the borrowing policies followed by the smaller authorities. Thus, the following table exhibits the changed distribution of loan debt as between the different types of authority which took place during the period :

GROSS OUTSTANDING LOAN DEBT, 1919–20 AND 1934–35 [4]

Type of Authority	1919–20	1934–35	Actual Increase, 1919–35	Percentage Increase, 1919–35
	£m.	£m.	£m.	
London County Council .	86·96	128·18	41·22	47
Metropolitan boroughs .	17·51	35·85	18·34	105
County boroughs . .	219·76	588·26	368·50	167
County councils . .	29·04	80·21	51·17	176
Urban districts . .	31·99	167·05	135·06	422
Boroughs . . .	29·04	176·33	147·29	508
Rural districts . .	6·84	81·78	74·94	1,095

[1] *Cf.* Knoop, *Principles and Methods of Municipal Trading*, Chapter V. ; Johnson, *The Finance of Public Utilities*, *Jrnl. of Pub. Admin.*, 1926, p. 383.
[2] *Public Finance* (3rd Ed.), p. 671.
[3] *Modern Government*, pp. 164–5.
[4] *Local Taxation Accounts.*

Besides a substantial growth in absolute money terms, the smaller local authorities incurred increased indebtedness in relative percentage terms much more than the larger authorities. Further light upon this point is shed by figures showing the growth of debt per head relative to that in rateable value per head between these two years, for the different kinds of authority. In the following table, the gross debt per head is divided by the rateable value per head—the higher the ratio of change resulting, the more unfavourable is the position.

GROSS DEBT PER HEAD DIVIDED BY RATEABLE VALUE PER HEAD, AND RATIO OF CHANGE, IN 1919–20 AND 1934–35

1 Types of Authority	2 1919–20	3 1934–35	4 Ratio of Change
London County Council . .	2·2	2·4	100 : 109
Metropolitan boroughs . .	0·4	0·7	100 : 175
County boroughs . . .	3·4	6·4	100 : 188
County councils . . .	0·3	0·6	100 : 200
Boroughs	1·6	3·5	100 : 219
Urban districts . . .	0·8	2·8	100 : 350
Rural districts . . .	0·1	2·3	100 : 2300

Plainly, the smaller authorities were more unfavourably circumstanced by the changes occurring between 1919–20 and 1934–35. And although the quotient in column 3 is more favourable to the small bodies than to county boroughs and boroughs, the inhabitants of the smaller areas have distinctly less financial means as a rule than those of the larger areas. Moreover, as the smaller bodies acquired such a large proportion of their capital assets during a period of high costs, the quantity of such equipment was small relative to its cost. Therefore, if the equipment of the smaller units is to be approximated to the level of that available to the larger units, further expansive spending in future will be necessary. But their capacity to undertake this must be severely limited by the unwise high expenditure incurred during 1919–35.

Proceeding to consider these arguments in order, that the greater feasibility of effecting capital borrowings did augment local authority expenditure there can be no doubt. And that this was accompanied by dis-economic spending is not to be questioned: but this matter of dis-economy in general has already been discussed earlier. Besides, it must not be overlooked, as will be shown later, that the bulk of the capital outlays had high utility. As for (ii), local authorities absorbed a smaller amount of available saving and so restricted the supply of capital instruments to private industry by less than at first appears. There is, of course, the ordinary argument that the rise of interest occasioned by greater local borrowing would tend to induce greater saving. Further, the larger local bodies applied no small part of their Special Funds—which grew continuously—to capital purposes.[1] Again, the operation of central regulations concerning amortisation acted to reduce local authority demand for new saving to a substantial extent. Although the aggregate of new capital borrowings and other capital receipts during 1919–35 was over £1,484m., the outstanding loan debt only increased by some £866m. then. Evidently amortisation and repayment were powerful in their effect. In this connection it is interesting to note that the annual ratio of repayments to the Public Works Loan Board relative to new loans granted by that body was nearly three-quarters.[2] Another valid deduction is for local authority borrowing which replaced, or substituted, demands which alternatively would have been exerted by private enterprise. A definite part of the expenditure on Housing, and such Trading services as Electricity, Gas, Local Transport and Water Supply is accounted for in this way. And, since these items were responsible for more than two-thirds of the total debt incurred between 1919–20 and 1934–35, that part must have been somewhat large. Lastly, the assertion that the national income was reduced in consequence of the enhanced capital demands of the public bodies,

[1] *Cf.* Long and Maxwell, *The Use of Sinking Funds, etc., for Capital Purposes.*

[2] Reports of the Public Works Loan Board.

presumes that the directions followed by public spending were less productive than those which would have been followed by private spending. On this point, something is said in later pages.

As for (iii), it is true that greater levies, in the aggregate, are entailed upon ratepayers and taxpayers by expenditure which is financed by borrowing. But is it correct to deduce that the additional imposts will reduce *pro tanto* work and enterprise? Plainly, work and enterprise may not be curtailed by higher levies—*e.g.*, where taxpayers and ratepayers receive a strict *quid pro quo*, as where they receive goods or services desired by them, to obtain which otherwise they would have had to spend privately. Now, of the £1,471m. of new capital expenditure effected in the period, as much as some 70 per cent. was devoted to Housing and Trading services. Although each year for a long period such outlays entailed the possibility of additional demands in rates and taxes, each year the income derived from charges for those services was available by way of offset: for such loan costs were almost entirely—if not wholly—included in the prices of the products. To that extent, then, no net burden was imposed upon productive work and enterprise by extra levies.[1] Nor is this all: for capital spending on other items resulted in an increase of annual revenue derived from charges. It is impracticable to ascertain to what extent this remaining 30 per cent. of capital outlays was covered as to its annual costs by equivalent income from services. It may, however, be noted that in 1934–35, out of a total income from other receipts of over £180m., about one fifth was provided by items other than Housing and Trading. And it is significant that a large part of this latter fraction was derived from services such as Highways, Bridges and Private Streets; Education; Baths and Washhouses; Parks and Pleasure Grounds; and Small Holdings and Allotments. For these items were responsible for the bulk of the remain-

[1] Nor were consumers, as such, especially burdened; for capital costs of goods supplied by private producers must be included in long-period supply price.

ing capital outlays. Evidently, then, the annual additions which otherwise would have had to be made to levies were largely prevented from maturing by the growth of income receipts occasioned by the new capital expenditure, *i.e.*, most of this was of a "reproductive" character. Even Bastable, who did not ordinarily favour recourse to borrowing where it was possible to raise the necessary revenue by taxing and rating, recognised that "reproductive" expenditure constituted an exception.[1] The adverse effects on the national income due to curtailed work and enterprise were therefore, at most, minor: and even this verdict disregards the possibility that local authority capital outlays stimulated production.

As for (iv), however long may be the periods before the expiry of which the loans incurred during 1919–35 are repaid, if the monetary value of the services flowing from the correlevant capital assets fully offsets the loan charges, there can be no financial burden inimical to future borrowing. It is possible, of course, that owing to obsolescence or inadequate depreciation, or because of a fall in demand for the services of capital goods,[2] the monetary receipts will fall short of the outgoings. But, despite the fact that there was a tendency to increase borrowing periods during 1919–35, and therefore the risk that income would fall short of outgoings was enhanced, actually Ministerial regulations appear to be conservative rather than not.[3] It is true that obsolescence

[1] *Public Finance* (3rd Ed.), Bk. 5, especially gg. 3, 4, 10.

[2] Such as may occur on account of a decline of the consuming population, or because the financial resources of consumers are depleted.

[3] Clarke gives the following typical borrowing terms :—

Education	Land	60 years
	Schools	50 ,,
	Furniture	10–15 ,,
Electricity	Land	60 ,,
	Buildings	40 ,,
	Mains	25 ,,
	Plant	20 ,,
	Equipment	10 ,,
Housing	Land	80 ,,
	Houses	60 ,,
	Sewers	30 ,,
	Roads	20 ,,

(The *Local Government of the United Kingdom*, p. 570, 10th Ed.)
Others given by Burton are :—

may appear earlier than it could reasonably be expected to do so, but this is unlikely to affect more than a modicum of the total of capital equipment. And this is also true of possible declines of demand for the services of capital goods. The sort of catastrophe cited by Bastable and Benn is therefore improbable in the case of local authority borrowing of the sort occurring in the period ; and local authorities as a whole will not be debarred on these grounds from borrowing in the future.

Even, however, if the monetary accounts of the 1919–35 loans actually failed to balance in future, would that destroy or seriously restrict capacity to raise loans then ? In such a case it would be necessary for the local authorities to derive revenue from rates and taxes sufficient to cover the deficiency of their monetary income relative to loan charges. To this extent, future taxes and rates would have to be higher than in the absence of the previous borrowing ; so it would seem that the extra levying, by reducing productive effort, would curtail the national income of the time. And the smaller national income would narrow the resources which could be saved and, therefore, which could be borrowed by posterity. Nevertheless, to argue that increased levying must curtail work and the national income is not necessarily true. If, for example, the defect of monetary income needed to meet loan costs were made good by imposts laid solely upon loan holders in strict ratio to their holdings, the net effect would be to instigate transfers from one to the same person, and the rest of the community would be exempt from levies. In practice this sort of balancing of burdens and benefits would not take place. Instead, extra taxes and rates would be imposed upon the community in general, and this would set up transfers from non-holders to holders of loan stock.

Sewers, Water Mains, Reservoirs, Bridges, Underground Conveniences .	30 years
Walls, Sea-Defence Works, Granite Paving, New Road Construction .	20 ,,
Refuse Destructors, Machinery . .	15 ,,
Fire Engines, Road Rollers, Iron Urinals, Lamp Columns, Carts, Hard Wood Paving	10 ,,

(*The Finance of Local Government Authorities*, p. 22.)

Nevertheless, as Professor Pigou has shown, since only transfers of money resources would be entailed, on posterity as a whole no direct objective burden could result.[1] And as the amount of the extra levy need only be sufficient to cover the gap between the income actually received and the cost of interest and capital repayment, the impost would possess little power to damage the work and enterprise of taxpayers and ratepayers. This is the more likely because, presumably, as the levies would be distributed over the whole community, each individual contribution would be meagre. That a portentous national war debt, arousing vast and voluminous transfers of a similar sort, but with the added disability that there are no physical assets capable of producing an annual income, has been sustained since 1918 with no apparent serious repercussions upon production may be cited by way of inductive support for this conclusion. But the strongest argument of all is that the local authority borrowings of 1919–35 bequeath additional capital assets to posterity which will enhance the national income throughout their life, over and above what it might have been if the borrowings had not been undertaken. There is, actually, an incidental qualification to this conclusion. Equivalent capital borrowings and expenditure upon instruments by private enterprise might have resulted in a greater addition to the future national income than that which followed from borrowing and spending by the public bodies. If that had been the case, then it reduces the effectiveness of the above arguments and constitutes a criticism to be directed against the larger local borrowing. No unequivocal assertion on this matter can, however, be made. For it is just as possible that private enterprise might have spent equivalently upon instruments and equipment capable of yielding a less, instead of a greater, addition to the future national income. And what has been said above indicates that local authority capital outlays were directed so as, in fact, to produce an income of services possessing distinctly high economic and social utility.[2] Again, experience suggests that competitive

[1] *A Study in Public Finance*, pp. 236–7.

[2] Further analysis of the utilities derived from expenditure, including capital expenditure, is given in following pages.

private capital investment is more prone to be misdirected and to involve waste than local authority capital investment-demands for the services of the latter are less uncertain, and such outlays are essentially less speculative as a whole Highly important is the fact that, in default of local authority spending, large private capital outlays of a similar character (especially Trading and Housing) would have been undertaken. Finally, savings were stimulated in supply to a greater extent than otherwise they would have been in consequence of the larger capital demands exerted by the public bodies, and a distinctive amount of " forced " saving resulted from the application of rating and taxing revenue to capital purposes. To this qualification, then, no high significance should be attached.

It is interesting to raise a query as to whether, actually, it would have proved to be sounder policy to have financed the capital instruments and equipment acquired during the period by means of rates and taxes. Assuming that the local authorities would have undertaken such investments on a scale identical to that which actually occurred, it would have been necessary to increase levies by roughly one quarter. Owing to the restricted taxable capacity of the Poorer, the Richer would have had to bear the greater part of this increase. The psychological disturbances instigated thereby —to say nothing of the physical upsets evoked by the varying burdens of the heightened imposts—must, however, have seriously and unwarrantably checked savings, work and enterprise: and this would have profoundly injured the national dividend. But the more likely effect would have been to diminish the outlays of local authorities on instruments and equipment—and materially so. In this event, posterity would have been deprived of the difference in annual real income of local authority service between what it actually secured, and what it would have obtained under the alternative system.

Concerning the special case of the smaller areas, the above principles apply. The conclusion is, therefore, that the greater absolute and relative resort to capital borrowing in the period is generally defensible. It is only in the particular

cases of depressed area towns and villages that serious qualification is called for. Owing to an all-round fall of consumer demand or people's incomes there, consequent inability to utilise fully the services of capital equipment, and the resultant unduly high debt costs peculiar difficulties arise. But such cases, being specific and special, do not upset the general dictum.

The analysis of the varied unfavourable effects on production and the national income following from the changes of taxing and rating and borrowing on the one hand, and of spending on the other hand, having been made, consideration may now be undertaken of the favourable effects.

A first point is so obvious that it is easy to forget that it is fundamental—the preservation and improvement of the health of the community as a whole. In fact, local authorities profoundly enhanced their financial commitments for Health services during the period, with the absolute desire and will not only to combat the ravages of disease, but also to secure materially higher standards of general health. Much was done on the curative side. Perhaps the most generally significant measure related to the improvement of the Hospital group of services—both in efficiency and adequacy. The basal aim, of course, was to reduce the virulence of infectious diseases ; but an important secondary motive was to provide fuller and better treatment for general sickness. Before 1929, repeated efforts were made to effect progress by partial attention to hospital deficiencies, *e.g.*, through the increased provision of beds, surgical and medical equipment, buildings and medical staffs. But especial significance attaches to the reforms instituted by the Local Government Act, 1929,[1] since these involved wholesale re-organisation in consequence of the assimilation of Poor Law hospitals to Local Authority institutions and the provision for co-operation with Voluntary hospitals. Combined, by 1935 the results were to produce a much more effective, because comprehensive, fighting force against

[1] Sir George Newman, Chief Medical Officer of the Ministry of Health declared, indeed : " From a medical point of view it ushers in a new epoch " (*On the State of the Public Health*, 1930, p. 212).

communal disease and disability. Moreover, since poor persons are especially susceptible to infectious ailments, profound importance attaches to the deliberate policy of raising erstwhile Poor Law hospitals to the standard of efficiency obtaining in the Local Authority institutions. In addition, the Act gave county councils a direct interest in the supply of, and control over, hospital services in their districts. The practical outcome can hardly be illustrated by statistics[1]; but it may be noted that while annual average expenditure during 1919–29 was £43·02m., between 1929–35 it rose to £53·05m., and this despite a downward trend in costs of materials and equipment. In a closely related line of activity, from comparatively early years, the local authorities began to respond more readily than before to the central policy of increasing both the numbers and qualifications of medical staffs. As time went on, and especially after 1929, the numbers of Medical Officers rose (and more became full-time), while those of Sanitary Inspectors, Health Visitors and Midwives advanced substantially; and the qualifications demanded were graded upwards. These developments were rendered feasible not only because of the readiness to spend more in general, but also through willingness to concede higher salaries.

Another outstanding development was that recorded by the Maternity and Child Welfare service. Principally, this was designed to curtail the ravages of maternal and infantile mortality. Actually, for various reasons, little improvement was effected in the maternal mortality rate,[2] but the infantile

[1] The following summary figures are illustrative of the advance recorded :

DEATH RATES PER 1,000 POPULATION

	1911–20.	1921–30.
Small-pox . . .	0·000	0·001
Diphtheria . . .	0·141	0·084
Typhoid . . .	0·035	0·011
Measles . . .	0·275	0·109
Scarlet Fever . . .	0·047	0·023

(Report, *Ministry of Health*, 1933–34, p. 43).

[2] Yet the rate for 1936 of 3·81 per 1,000 births was the lowest since 1922, and the second lowest on record.

death rate dropped from 89 to 57 per 1,000 live births between 1919–35. It must be allowed that other factors—*e.g.*, higher standards of living of the Poorer, smaller families, better housing, improved medical teaching—played a part, but the notable progress recorded by the service had high influence. Further, however, the intention was to ameliorate the severity of diseases incidental to child-bearing and to the earlier years of childhood. In these, marked success was obtained, such afflictions as pre-natal accidents, sepsis, puerperal fever, puerperal pyrexia, ophthalmia neonatorum and rickets being reduced.

The great scourge of Tuberculosis was attacked with high vigour in this period, mainly as the result of new policies introduced in 1921. These required heavy expenditure upon sanatoria, dispensaries, village settlements, special foods, surgical equipment and medical and nursing treatment. The scheme was so developed as to reduce the charges made for treatment—to such an extent, indeed, as to bestow free medical care where this was deemed to be needed. Since Tuberculosis is so largely associated with poverty, this policy—although costly—was fruitful of effectiveness for the attack on the disease. Gradually, too, the scheme was extended so as to permit more widespread examination and care of suspected incipent cases, and this departure was aided by closer co-ordination of the work with private practitioners' cases. Although hitherto tuberculosis has proved to be unusually intractable to known remedial measures, helped by other external favourable factors, the death rate was brought down from 1·29 per 1,000 in 1919 to 0·72 in 1935. Further, the number of fresh cases notified fell from 79,388 in 1923 to 59,623 in 1935, despite intervening population growth.[1] Information exists, besides, to indicate greater success in "arresting" the malevolence of the illness.[2] In a related group, the period also saw the develop-

[1] Reports, *Ministry of Health*, 1933–34, p. 109; 1935–36, p. 40. The former year is that in which figures are first available on a basis comparable to those of 1935.

[2] Since 1930 the number of cases certified as recovered has been stated. For the years 1935 and 1936 relative to 1931 and 1932 the percentage of cures in relation to the number of deaths was 101 for pulmonary, and 126 for non-pulmonary tuberculosis.

ment of the scheme set up in 1916 to fight the menace of Venereal Diseases. That this met with more success in winning the confidence of the public, and thereby securing early treatment, is illustrated by figures showing that, compared with some 19 per cent. of new cases found free of infection in 1919–20, in 1931–32 the proportion was about 38 per cent., and in 1934–35 about 43 per cent.[1]

There is, of course, no great scope for curative measures in the case of Mental diseases. But some progress can be recorded. Although the recovery ratio did not alter materially, the virulence of mental sickness was reduced by the more extended adoption of such treatments as detoxication, the use of glandular extracts, the relief of paralysis by malarial inoculation, and by a variety of surgical treatments. Mention should also be made of advances in psychiatrical methods in the treatment of mental deficiency.

Perhaps the period was more noteworthy for the progress registered in the prevention of disease and sickness. More stringent measures were taken under legislative powers to secure the notification of infectious maladies and to ensure general disinfection of reported cases and contacts. Under Prevention of Adulteration of Food and Drugs, a wider range of commodities was made subject to inspection and scrutiny, and evasion of regulations was reduced. In consequence, illness due to food-poisoning became rarer, while the enforcement of higher standards of quality must have proved advantageous. Slaughter Houses, as a result of post-war legislation and orders, were more insistently and radically controlled and various abuses were stopped, especially those which formerly were so widely prevalent in rural areas. Although, as the Reports of the Joint Advisory Committee on River Pollution bear witness, some advance was recorded in connection with the prevention of Rivers Pollution, progress was not appreciable. Port Sanitation was subjected to new regulations in 1920 (consolidated in 1933) which imposed a fuller measure of inspection and precautions against infection and also provided fuller treatment of cases of sickness. Although the number of

[1] Reports, *Ministry of Health*, 1926–27, p. xxviii; 1935–36, p. 43.

Public Vaccinations fell, the service was maintained. Very material progress was obtained on the preventive side by the Maternity and Child Welfare scheme through the extension of ante-natal[1] and post-natal services—especially reflected in larger numbers of clinics, dispensaries, hospitals, infant welfare centres, convalescent homes, the supply of suitable foods for mothers and children and by the energy devoted to research. The potentialities of this scheme for the healthiness of future generations are palpable, and it can at least be said that they were intensively wooed during the period. As for the Tuberculosis scheme, this was increasingly organised to give attention to precautionary methods. The number of X-ray examinations was proliferated; collapse therapy was more widely employed; testing of sputum became frequent; a larger number of observation beds was rendered available; an elaborate system of tracing and studying contacts was devised. As tuberculosis accounts for more deaths between the ages of ten and forty than any other single disease, the importance of such preventive measures is apparent.[2] Reference may be made, besides, to the substantial development of the School Medical Services. Under these, periodic examinations of school children became an integral part of the accepted code, and heavy outlays were undertaken to provide precautionary treatments. Separate mention may be made of a large growth in the number of Special Schools; more open-air schools; a vast increase in school meals, including milk meals; more regular and extended physical training; artificial light treatment; orthopædic care; anti-rheumatic precautions; the increase of nurseries and play-centres. Although the greatest progress was obtained in the Elementary branch, by the end of the period most of the Secondary schools were included within the ambit of the work.[3]

[1] The number of expectant mothers who attended antenatal clinics during 1935 represented 48·48 per cent. of the total of notified births (Report, *Ministry of Health*, 1935–36, p. 27).

[2] The expenditure upon slum clearance also had high significance for Tuberculosis.

[3] Sir George Newman summarised the situation: "The average leaver of to-day is taller, heavier, and in better nutritive condition than was his predecessor. . . . Any handicap due to defective vision or hearing has

To take account of other services, the extension of piped Water Supply to new housing districts and rural areas together with the substantial expenditures almost continually undertaken on renewal of mains, and on filtration and purification plants, must have contributed appreciably to precautionary health measures—epidemics have but lately instanced the significance which purity of supply has for communal health. And the comments made in a recent survey of health services, which does not shirk criticism, that " In urban areas in England and Wales the existing supplies are, on the whole, adequate," may be noted.[1] The large commitments from time to time undertaken for Sewers and Sewerage Disposal enabled strong measures to be taken about privies, septic tanks and cesspools, noxious trade effluents and conversions to the water-carriage system. Moreover, experimentation and research were conducted into the best methods of dealing with sewage material and a number of plants were set up for utilising the activated sludge process, more effective screening methods, improvements in the design of settling tanks and generally for securing final purification. The same report has it that " There is now very little risk of serious danger to public health from the lack of these services. . . . "[2] Expenditure upon Cleansing services rose acutely and almost continuously in the period. Partly, this was due to the increase in quantities of refuse to be handled[3]; but health was better safeguarded by the supersession of insanitary, open collecting vehicles, by more frequent and regular collections, by the substitution of uncontrolled tipping by sanitary dumping

generally been reduced or abolished so far as medical skill can accomplish this. He is very seldom the victim of severe crippling deformity. He has learnt habits of cleanliness, and has been saved from the prolonged discomfort and loss of school attendance due to neglected inflammatory conditions of eyes, ear and skin. He has had some dental treatment, and thereby has saved some permanent teeth. . . . In all these ways he leaves school substantially better equipped to fulfil the work and pleasures of life " (*Education in* 1935, pp. 33–34).

[1] PEP *Report on The British Health Services*, p. 45.

[2] *Ibid.*, p. 42.

[3] About 11m. tons annually, or about 6 lb. per house *per diem*, together with about 1m. tons of trade refuse annually. In 1934–35 alone the increase was about 90,000 tons (Report, *Ministry of Health*, 1935–36, p. 16).

processes, by incineration and mechanical screening, and resort to the vacuum cleansing of drains and sewers. The safety of swimming pools was enhanced by steps taken to aerate, disinfect and purify bathing waters, through the provision of new and improved baths, more foot-baths, showers and sprays, and the hygienic cleansing of apparatus and gear. Lastly, outlays on Parks, Pleasure Grounds and Open Spaces, by permitting fuller resort to the open air and natural amenities on the part of persons living in crowded urban areas, contributed effectively to affirmative ways of safeguarding health.

Altogether, these developments stand for a notable record of progress. In the language of the Chief Medical Officer of Health :

" The public medical services . . . have been a means of education as well as a provision of facilities, of which increasing advantage has been taken, and this, in accordance with its design, has been directly contributory to health." [1]

It may be claimed that such advances had basal significance for production and the national income ; for, plainly, the volume of work and also its quality must be augmented and enhanced. The measure of gain secured cannot, of course, be translated into concrete terms.

Against this claim it is possible to bring various arguments. It could be denied that the benefits actually maturing from the heightened expenditure were as large as those which might have been the product of different conditions. Thus, had there occurred more willing co-operation between individual services and between neighbouring authorities, given expenditures would have permitted a larger volume of service. Concerning the co-operative working of local authority and voluntary hospitals which was not one of the least of the aims of the Local Government Act, 1929, the Ministry of Health has said in a special report that although

" It is one of the most definite impressions derived from the surveys that co-operation is essential and that its absence leads to inefficiency and wastage of resources." [2]

[1] *On the State of the Public Health*, 1930, p. 207.
[2] Report, *Ministry of Health*, 1933–34, p. 57.

yet

" There are indications that in some areas the consultation was regarded as a somewhat unpleasant statutory duty which could be performed once and for all by a formal meeting without any practical measures for co-ordination."[1]

Again, consultation and joint working between county councils and county borough councils in the provision of isolation hospitals for the treatment of infectious diseases was not developed to its maximum extent.[2] In the case of Water Supply, disjointed working was, and remained characteristic. In 1925 only four Regional Advisory Committees existed,[3] and even in 1937 there were only nine despite the pointed recommendations of the Water Power Resources Committee made [4] in 1921, the setting up of the Ministry's Advisory Committee on Water in 1923,[5] and the enlargement of public health areas by the Act of 1929. In a related type of work, the Royal Commission on Land Drainage of 1927 reported that " Nothing has been more striking in the course of our Enquiry than the revelation of the complete mutual independence of the various Drainage Authorities over the country." [6] Concerning Sewage and Sewerage Disposal, the Royal Commission on Local Government reported that there were only twenty-seven Joint Water Boards and twenty-nine Joint Sewerage Boards in existence, and that the resultant deficiency of associated administration impaired efficiency.[7] This was also referred to by the Committee on Local Authority Expenditure of 1932, who said :

" . . . there are indications that unnecessary expenditure on sewerage schemes is incurred by Local Authorities, who provide their own sewerage system and disposal works when by combination with neighbouring Authorities they would avoid expensive

[1] Report, *Ministry of Health*, 1933–34, p. 56.
[2] *Ibid.*, pp. 66–68.
[3] Royal Commission on Local Government, *Minutes of Evidence*, Part IX., p. 1822.
[4] Final Report, sections 29, 33.
[5] Report, *Ministry of Health*, 1923–24, p. 38.
[6] P. 19.
[7] Royal Commission on Local Government, *Minutes of Evidence*, Part X., p. 1895.

multiplication of small schemes and secure that disposal works are centralised so far as is economically and technically sound." [1]

As for other branches of work, in a special report made in 1934 the Ministry discussed the reorganisations effected by the Local Government Act, 1929. Referring to the supervision by the county medical officer of the work of District medical officers it said:

"The surveys show that the need for this liaison has been insufficiently appreciated by a considerable number of Councils. . . ." [2]

It also argued that the counties had been backward in appropriating Poor Law Infirmaries and Hospitals, although this was essential to the optimum provision of medical treatment in county districts [3]; and in local areas generally the co-ordination of the Poor Law and Public Health services and also of health services as a whole had been less than it might have been.[4] The Tuberculosis scheme was hampered by the unduly late notification of cases [5]; and

"One of the most noticeable defects which was observed during the surveys is the insufficient attention given in a number of areas to the examination of 'contacts.'" [6] ". . . in a number of districts insufficient use is made of X-rays. . . ." [7] and ". . . although most Local Authorities provide in-patient treatment for tuberculous cripples, there is no doubt that owing to inadequacies both in ascertainment and in facilities for treatment many cripples have in the past gone without the treatment which they required." [8]

In the case of Venereal Diseases, the Ministry's review said:

"The power which has been given to Local Authorities to incur expenditure on health propaganda and education is of special importance in connection with venereal diseases. While much

[1] g. 142.
[2] Report, *Ministry of Health*, 1933–34, p. 48.
[3] *Ibid.*, p. 49.
[4] *Ibid.*, p. 54.
[5] *Ibid.*, p. 69.
[6] *Ibid.*, p. 70.
[7] *Ibid.*, p. 72.
[8] *Ibid.*, p. 74.

useful work has been done, the value of this feature has been insufficiently appreciated by a number of Local Authorities . . ." [1]

Criticisms of the Maternity and Child Welfare service were minor, but attention was drawn to the desirability of increasing the number of Health Visitors ; of improving the premises used for Infant Welfare centres [2] ; of giving more adequate attention to children between the ages of twelve months and school age [3] ; and of providing more ante-natal clinics, which would be especially valuable for fighting maternal mortality.[4] An independent report has dealt at length with this service and has advanced stronger criticisms than these. They are too numerous to lend themselves to effective summarisation, but they appear to be well supported by facts. It should be said, however, that the criticisms are based on an ideal standard, and the report says :

" Until continuous supervision by a doctor, or a doctor and midwife, is available for every maternity case, and adequate institutional provision is available for special cases, this ideal will not be attained." [5]

Concerning the subject of Food Inspection, the Ministry complained that

" . . . there is not always sufficient consultation between the Medical Officer of Health, the Public Analyst and the sampling officers with regard to the sorts of foodstuffs to be sampled and the numbers of the different kinds to be taken." [6]

On this subject the recent PEP Report was especially critical. Although the service had been in existence over sixty years :

" Even in this respect, however, the present position is unsatisfactory. Although detected cases of food poisoning are infrequent this danger has by no means been eliminated, and milk-borne epidemics are still quite common. . . . Owing to the mainly urban and local basis of food inspection large sums

[1] Report, *Ministry of Health*, 1933–34, p. 76.
[2] *Ibid.*, p. 79.
[3] *Ibid.*, p. 80.
[4] *Ibid.*, pp. 81–82.
[5] PEP *Report on the British Health Services*, p. 108.
[6] Report, *Ministry of Health*, 1933–34, p. 85.

have to be spent by consuming centres in detecting dangers in food brought from the country, which could more readily and economically have been detected at or near the source of supply. . . . Apart from impurities and infection involving immediate danger to health there is a need, which is often ignored, for supervising the quality of food and drink, and for ensuring that the consumer gets what he is paying for." [1]

Criticisms can be extended to other Health services. It can be argued that the advantages of expenditure upon Water Supply were not maximised since, although local authorities were responsible for some four-fifths of the total supply, charges varied over the country. Thus, in 1932, on residential property having a net annual value of £51, annual charges varied from £10 9*s*. at Rotherham to 16*s*. 6*d*. at Riccall; and on property having a net annual value of £11, annual charges varied from 64*s*. at Valley, to 3*s*. 8*d*. at Leek.[2] In the case of the School Medical Services the Board of Education was not unaware of their incompleteness. In 1935 the Board said:

". . . in view of the variations which still exist in the provision made for the School Medical Service, authorities would do well to consider what further steps should be taken to remedy any deficiencies which may be discovered in their present arrangements." And "More dentists, more aural specialists, more provision for the crippled and the rheumatic child and for the mentally defective, more day and residential open-air schools for delicate children: the need for all these is indicated in the Board's circular, and in all these directions there are gaps which have yet to be filled." Lastly, "On the preventive or positive side of health education, there is equally room and to spare for expansion and improvement." [3]

In the case of the Cleansing services, it was still possible for the Committee on Local Authority Expenditure to say in 1932 that:

"We are the more surprised to learn that certain of the large urban areas in the Country have as yet taken no steps to organise this service on a proper and businesslike basis." [4]

[1] PEP *Report on the British Health Services*, pp. 4–5.
[2] *British Waterworks Year Book*, 1932, pp. 398–439.
[3] *Education in* 1935, p. 33.
[4] *g*. 145.

But, as for other services not yet dealt with here, the Committee only commented that these were provided in excessive, rather than in defective quantities, and that therefore their adequacy was not to be doubted.[1]

Finally, even after all the developments of the period, there was still no public medical supervision of children between the age of leaving school and entry into the National Health Insurance scheme; the provision of hospital accommodation is only generally available for destitute persons, and in but an inchoate form for all other persons; and while at certain stages of his life and for certain specific purposes the individual is cared for by his Local Authority, at other times and for other services he would be obtaining benefits from sources other than these, *e.g.*, National Health Insurance and voluntary sources.

Added together, these criticisms are weighty, and therefore they may not be disregarded. But they can all be reduced to either demonstrations that a greater harvest of returns in service could have been reaped under conditions different from those which actually prevailed in the period, or to arguments exhibiting how far the Health service fell short of the ideal. They have been cited in some detail because they serve to provide a perspective to aid judgment about the progress actually accomplished. In the light of them it becomes clear that the advance achieved during the period fell short of the final goal. Nevertheless such criticisms cannot, nor do they deny that, in fact, the general health of the community was profoundly improved between 1919–35 in consequence of the augmented expenditures upon Health services. And to the—material—extent that this took place the national income must have benefited, because production was less adversely affected by sickness and disease.

To proceed, second, having close affinity to this first point local authorities undertook policies designed to improve the physical efficiency of local populations. The Health services themselves made a valuable contribution to this, for the preventive aspects of that work automatically enhanced the

[1] gg. 152, 153, 163, 167, 168, 181.

standards of communal physical health and well-being—especially the School Medical Services, the Maternity and Child Welfare scheme with its care of children up to the age of five, the more thorough inspection and control of food supplies, and the provision of opportunities for games, sports and recreation specifically afforded by outlays on such items as Baths and Bathing Pools, Parks and Pleasure Grounds and Open Spaces. Expenditures upon General Corporation Estates and Town Planning [1] were also entered into partly with the object of securing more general access to the open air and enjoyment of games and sports. Concerning such facilities, especial mention may be made of the policy of adjusting charges to capacity to pay which was carried so far as to provide gratuitous provision to poor persons. Such a system ensured that benefits were larger than if those persons had been unable or unwilling to participate in them. Valuable repercussions upon physical efficiency were evoked by the portentous expenditures upon Housing. The comprehensiveness of local authority effort in this direction has been described earlier.[2] What bearings has it had upon physical efficiency? First, that municipal housing rentals were throughout the period held at levels below those representing an economic return, liberated monetary resources which could be expended upon other goods and services requisite for physical well-being. And especial importance must be ascribed to the point that often housing rentals were graded according to the financial capacity of the tenants; for, by tending to set free resources for other goods and services, this enhanced the possible total of favourable effects on physical well-being. Second, as various medical studies have displayed, there is a definite correlation between bad housing and disease. No less important, other studies have showed that improved housing is associated with better health.[3] Third, good housing

[1] By 1934, over 12,150,000 acres of land, or nearly one-third of England and Wales, were covered by planning schemes or resolutions, and the total number of local authorities involved was 821 (Report, *Ministry of Health*, 1933–34, p. 168).

[2] Pp. 4–12.

[3] Particularly interesting was the experiment made at Glasgow, described in the PEP Report on *The British Health Services*, p. 36. This

promotes not only favourable physical conditions, but also favourable environment: and these together have profound and pervasive effects on the physical welfare of the community. With these summary points in mind, the large-scale destruction of insanitary dwellings, the voluminously enlarged supply of new housing accommodation,[1] the improvements effected in the dwelling standards of the Poorer, the tendency to locate new estates in less congested districts, and the greater regard which was paid to gardens, light and air made for distinctively favourable repercussions upon physical well-being. Even the municipal Allotment schemes and Small-Holdings must have had incidentally advantageous consequences for strength and physique. Although expenditures upon the former were not large, at the height of their use municipal Allotments were worked by many thousands of the working classes. Despite the fact that criticisms can be directed against the administration of Poor Relief, the generous awards—applied to considerably larger numbers than in pre-war years—enabled poor persons to secure a more ample supply of necessaries of life. And although Unemployment Works form an easy target for criticism, on the ground alone that wages were higher than the value of work done, they and Training Centres did provide opportunities for conserving physical strength and fitness, while the wages could be devoted to maintaining the standard of living of a certain number of poor families. And there is ample medical evidence to show how serious a drawback for economic reasons alone is the outcome of physical deterioration. Valuable effects followed the expenditures upon the School Medical Services which were devoted—in increasing measure—to physical training; to sports and games—especially because these became more generally available to elementary and technical school pupils; to the provision of more open-air schools; and to the supply of

showed that the height and weight of children bear a direct relationship to the size of house occupied; that between 1907 and 1936 increases in average measurements for children at different ages took place; and that the improvement was greater at the later ages.

[1] Over 710,000 houses were built by municipal effort alone up to 1935, and over 389,000 by private persons receiving State assistance.

school meals and milk—this scheme especially combated the widely prevalent malnutrition of poor children, which, it is now recognised, constitutes an important social problem.[1] Lastly, but by no means least, the fact that the net outcome of the levying-spending process was to effect a clear transfer to the Poorer, and that the amount of the transfer tended to be larger as financial means were lower must have enhanced the ratio of spending which could be devoted to securing the essentials of physical well-being.

On the other side, it is possible to criticise that the different services which have been instanced were neither carried to their final stage of development nor were they so conducted as to yield the largest return per unit of outlay. Town Planning was slow to be adopted and made effective even by the central authorities. For the original legislation of 1909 and successive Acts were not co-ordinated until 1925; boroughs and urban districts having a population in excess of 20,000 were not obliged to prepare schemes until the passing of the Local Government Act, 1929; and regional planning was not actively dealt with until the Town and Country Planning Act, 1932. The actual development of policy was retarded by the early lukewarmness of the local administrations; by devolution of duties and powers to an unduly large number of petty authorities having little financial capacity, and often little readiness to work the scheme; by the existence of numerous independent authorities; by the lack of restraint upon "ribbon" development —this was not effectively prevented until the Act of 1935; and by the undue lapse of time between the initiation of projects and their subsequent execution.[2] Against expenditure upon Housing, major criticisms can be made that, through the launching and subsequent maintenance of demand at times of high prices, and the absence of a systematic attack on all contributory cost factors—including land ownership, costs of materials, construction and maintenance—fewer buildings were erected than otherwise

[1] *Cf.* Final Report of League of Nations on *The Relation of Nutrition to Health, Agriculture, and Economic Policy* (1937).

[2] Report, *Ministry of Health*, 1934–35, p. 174.

would have been feasible for the outlays incurred.[1] The subsidy system was apparently closely associated with, and responsible for, high prices.[2] Building costs varied from district to district—*e.g.*, in August, 1934, a year which was favourable compared with earlier post-war years, the average construction costs of almost similar standard A_3 houses varied between £268 and £312—or by some 17 per cent. of the lower figure.[3] It is doubtful if the supply of houses of different categories provided by local authorities was so closely adjusted to needs in different districts as might have been feasible. A survey of the building accomplished up to September, 1930, shows that the number of new dwellings provided per 1,000 population is less uneven than might have been expected.

NUMBER OF NEW HOUSES ERECTED PER 1,000 POPULATION

Average—39

	Between 25–55	Between 10–25
Counties		
Of 62 . . .	44	—
County Boroughs		
Of 83 . . .	55	—
Boroughs		
Of 223 . . .	115	73
Urban Districts		
Of 697 . . .	271	180
Rural Districts		
Of 514 . . .	153	—

In view of such factors as the variation in different districts in the non-working-class to working-class families; differences in the size of families; local emigration and

[1] See the *Report on the May Committee on National Expenditure*, Cmd. 3920, 1931, pp. 174–84; *Report of the Committee on Local Authority Expenditure*, Cmd. 4200, 1932, p. 62, g. 87.

[2] Pp. 8–10.

[3] Ministry of Health figures.

immigration; variations in the ratio of public to private building; and the divergent adequacy of accommodation existing in 1919; it would seem that demand must have been better satisfied in some areas than in others. If this were so, it constitutes a ground for criticism—the explanation probably resides mainly in the inelasticity of Housing Acts and Regulations. In addition, after twelve years of nearly uninterrupted effort, the Departmental Committee on the Rent Restriction Acts—of 1931—found it necessary to declare:

"It is clear, however, from the evidence, that this large number of new houses has not had the effect of improving the conditions of the poorest workers to the extent which might have been contemplated." [1]

A similar verdict had been reached two years earlier by Sir E. D. Simon,[2] and the views of the Committee were shared by the Ministry of Health.[3] Still further, even in 1934 the average rental, excluding rates, for both parlour houses and non-parlour dwellings was 9*s.* 3½*d.*[4] This was almost identical with the average rental for houses erected under the 1924 Act of 9*s.* 4*d.* (in 1931) concerning which the Ministry declared that:

". . . there is little doubt that the rents actually charged in the majority of cases are higher than the appropriate normal rent." [5]

Worse still, rentals diverged greatly over the country as a whole—those on houses erected under the 1919 Act ranged between 3*s.* 3*d.* and 22*s.*[6] Obviously, while some groups benefited from lower than average rentals, other groups were penaltied.

As for expenditure upon Small Holdings, this was predominantly crowded into the years 1919–26—when land prices were artificially high, interest charges were abnormal,

[1] g. 31.
[2] *How to Abolish the Slums.*
[3] Report, 1931–32, pp. 96 *et seq.*
[4] *Ibid.*, 1933–34, p. 164.
[5] *Ibid.*, 1930–31, p. 117.
[6] *Ibid.*, p. 116.

and building costs were inflated relative to subsequent years.[1] It was, in fact, the adverse experience of these previous years which severely limited later effort. Similarly, there is no need to repeat the unfavourable comments passed concerning the mal-administration of Poor Law relief. In so far as awards exceeded needs, waste of resources was engendered. Lastly, the facts that the School Medical Services were not brought to any final pitch of adequacy, and that there were serious gaps in the provisioning made for secondary and technical school pupils, have already been set out.

These animadversions serve to support the view that less than the possible amount of service was obtained per unit of outlay, and that the services were not of maximum efficiency. Nevertheless, physical well-being and efficiency were highly fortified by the greater expenditure on the items designated—and especially because of the benevolent incidence of their benefits. It is not unimportant, therefore, that a fair ratio of the additional post-1919 outlays followed these directions. The benefits to the national income do not need laborious explanation and amplification. To the extent that the standard of physical well-being and efficiency of the working population as a whole was raised, favourable consequences for the capacity to undertake productive work must have ensued; and this was a cost-reducing factor, enabling the accomplishment not only of a larger, but also of a better-quality output.

Another factor, having still more profound significance from the standpoint of the efficiency of labour, was the outcome of the steps taken to promote a general and thoroughgoing improvement of the mental efficiency of the rising generation. The very substantial growth in expenditure upon Education did, even in the comparatively short period of sixteen years, bear rich fruit. Initially, this derived from the raising of the elementary school-leaving age by the Education Act, 1918. For longer stay at school permitted primary education more adequately to achieve its aim of preparing the very considerable number of elementary

[1] P. 53.

school children who receive no, or but little, further systematic education, for working life. More important, this Act postulated the reorganisation of senior elementary school teaching, and reform of the instruction given to different age-groups. These forward moves actually were instigated by the Hadow Report in 1926. In 1927, only 8·5 per cent. of children aged eleven and over were being instructed in separate Senior Departments; but by 1935 the figure was 41·3 per cent. If to these are added children in Senior Divisions and in Junior Departments awaiting transfer to Senior Schools, altogether 55·8 per cent. of the older children were, by 1935, in reorganised schools.[1] Of the value of this fundamental departure there is no doubt. A less important advance, but yet one advantageous from the vocational standpoint, was the extended teaching of handicraft, domestic and gardening subjects. The value of such practical and realistic teaching is not only appreciated by industry and commerce, but has its sanction in the Board of Education's Code. Neither the Hadow reforms, nor the practical instruction could have been effectively developed, however, without adequate and efficient teaching staffs. The fact that a high ratio of the expanded financial commitments of 1919–35 was applied to teaching salaries enabled the recruitment of instructors of higher professional capacity —compared with 65·4 per cent. of the total of elementary school staffs who were certificated in 1920, by 1935 the figure had risen to 76·9 per cent.;[2] and of these latter, more were college-trained or graduates. Again, the greater spending, by augmenting staff numbers, led to a favourable alteration in the teacher-pupil ratio, from 31·4 teachers per 1,000 pupils in 1920 to 34·8 in 1935.[3] This same factor also paved the way for a comprehensive attack upon classes of large size; in March, 1920, there were 38,147 classes containing 50 pupils or more; but by March, 1935, only 4,262 remained.[4] The displacement of 1,725 out of an original total of 2,827 " black-listed " school premises was

[1] *Education in* 1935, p. 8.
[2] *Statistics of Public Education*, 1919–20, p. 18; 1934–35, p. 123.
[3] *Ibid.*, 1919–20, p. 18; 1934–35, p. 123. Based on average attendance.
[4] *Ibid.*, 1919–20, p. 24; 1934–35, p. 132.

the beneficent outcome of enlarged capital expenditure upon new premises and reconditioning.[1]

Nor was the pursuit of higher mental efficiency rendered liable to frustration by neglect of physical efficiency. Summary reference has previously been made to the developments transmuting the School Medical Services. In greater detail, there was a persistent, if restricted, growth of open-air schools, play centres and nursery schools. Physical training was developed both intensively and extensively. In later years especially, the supply of school meals and milk registered high progress; so that by 1935 nearly 26m. meals and over 42m. milk meals were provided, mostly free of charge.[2] The actual medical services ranked prominently. Although in 1913–14 no more than a skeleton service existed, and this was disintegrated by the war, in 1935 the number of "routine," "special" inspections and "re-inspections" ran into millions annually; and treatments covered minor ailments, dental defects, ophthalmic, nose and throat troubles, while a fairly considerable amount of work was done on orthopædics, and artificial light treatment. As for physical and mental defectives, in view of the potentialities of rescue work and ameliorative treatment, by comparison with 469 Special Schools having accommodation for 35,589 pupils in 1920, the fact that in 1935 there were 610 such schools having accommodation for 57,852 pupils,[3] must receive approbation. Such manifest improvements in physical education were not only consilient with, but indeed fostered advances in mental efficiency.

Not less, but more significant was the advance recorded in Secondary education. Perhaps the most satisfactory general barometer of progress is that of numbers. From 308,266 pupils in 1920, numbers rose to 456,783 by 1935—*i.e.*, from 8·1 per 1,000 population to 11·3[4]. Principally, this was ascribable to the more generous awards of free places—later special places—scholarships and maintenance allowances, and the stimulus of fees which on the average

[1] *Education in* 1935, p. 40.
[2] *Statistics of Public Education*, 1934–35, p. 137.
[3] *Ibid*, 1919–20, p. 63; 1934–35, pp. 142–3.
[4] *Statistics of Public Education*, 1919–20, p. 67; 1934–35, p. 153.

were only about one-third of cost. Again, the usual period of stay at school lengthened steadily—an obvious advantage, since the fruits of higher education can only be properly harvested at the final stages. Still further, teachers' qualifications improved. While in 1920 only 62·4 per cent. were graduates, by 1935 the figure was 77·6 per cent.,[1] this is basically to be assigned to the higher remuneration granted by the Burnham awards, and the prolongation of teacher training courses. And although classes tended to become somewhat larger in size, the local authorities did not starve the system by any avowed attempt to ration teaching numbers. Actually, total numbers of full-time teaching personnel rose from 16,037 in 1920 to 23,425 in 1935.[2] Lastly, school premises and equipment were regularly enhanced in quality and quantity; and a similar remark applies to the physical education and medical services.

The story to be told about Technical education is not essentially different in essence. Mainly through low fees, grants in aid, the incorporation in the scheme of additional courses and a greater supply of teachers, student numbers trended to higher levels as the years passed. Equipment—unusually important in this category of work—was more bountifully provided, while varied extensions and adaptations of premises were undertaken. Besides, there were several extended developments or innovations—*e.g.*, Junior Technical and Art Schools, Continuation Schools, Schools of Commerce. Serious attempts were made to promote wider and more intimate contact between the schools and industry and trade—especially after 1924. These, and other innovations, such as the institution of courses of training for various "National" certificates, the expansion of work of degree standard and the establishment of regional education bodies—designed as a partial measure to discover optimum technical areas—brought about the more widespread utilisation of technical education as a vehicle of vocational training, and made for the raising of standards of attainment.

[1] *Statistics of Public Education*, 1919–20, p. 79; 1934–35, p. 164.
[2] *Ibid.*, 1919–20, p. 79; 1934–35, p. 164.

Not unimportant, besides, was the progress secured in training of University standard. The Training of Teachers was better adapted to the more advanced level of school teaching as a result of the increased substitution of four- and three-year courses for two-year courses. Local authorities exhibited acquiescence with central regulation by scaling up their outlays on colleges. The conspicuous growth of expenditure on Aid to Students—*i.e.*, Maintenance Allowances and Scholarships of diverse kinds—facilitated the increase in numbers of that minority who proceed to University institutions. The extension of Adult Education as such had beneficial—if incidental—repercussions upon the personal efficiency of those who attended such classes. Lastly, a word falls to be said about the advantageous effects of local authority activity in enhancing the services of Public Libraries.

This summary catalogue of achievements illustrates the outcome of the diverse steps taken to promote the greater efficiency and general effectiveness of educational training.

Although some of the benefits derived could not mature within the period, the more abundant, more systemic, and more thoroughgoing training must have promoted economic efficiency. Especially worthy of note was the greater fluidity and ease of passage from the lower to the higher branches of education.[1] For this mobilised that high capacity amongst the children of poor and very poor parents which otherwise must have remained largely undetected or unutilised.[2] Incidentally, owing to the raising of general

[1] By 1935, over 80 per cent. of the pupils admitted to secondary schools for the first time came direct from elementary schools; and of secondary school pupils proceeding to university institutions, over 68 per cent. were ex-public elementary school scholars (*Education in* 1935, p. 48).

[2] "But since the manual labour classes are four or five times as numerous as all other classes put together, it is not unlikely that more than half the best natural genius that is born into the country belongs to them; and of this a great part is fruitless for want of opportunity. . . . No change would conduce so much to a rapid increase of material wealth as an improvement in our schools, and especially those of the middle grades, provided it be combined with an extensive system of scholarships, which will enable the clever son of a working man to rise gradually from school to school till he has the best theoretical and practical education which the age can give" (Marshall, *Principles of Economics*, 8th Ed., p. 212). *Cf.* also p. 216.

intelligence and skill, labour mobility as between different occupations would be fostered. The peculiar advantage of this is that technical changes in industry tend to call for the possession of such general skill and intelligence rather than special craft skill. Lastly, invention and research were stimulated by the wider avenues opened up to the higher branches of training. All these developments had distinctly advantageous consequences for the effectiveness of the human factor in production.

Despite this manifestly strong, if summary case in favour of the argument that educational expenditure during the period represented a good social investment, there are qualifications. It is urged, for example, that waste of economic resources was involved on account of the incomplete co-operation between the different types of educational authority and the fact that educational administrative areas were smaller than the optimum. In 1935 there were only fourteen out of sixty-two county education authorities which had entire control of both Elementary and Higher education within their administrative areas; and eleven counties contained more than three autonomous areas for education. Because many of the elementary authorities are small and poor, they impair the efficiency of the correlevant higher authorities. On the other hand, the elementary bodies are sometimes large and efficient, so that in their post-primary work they intrude upon and overlap with the work of the higher bodies in the same district. Evidently, maximum efficiency prescribes full and untramelled co-operation between the two kinds of authority; but this could hardly be realised. As the Hadow Committee remarked—it is not possible

" . . . to confine the different stages of education within closed compartments, especially when the compartments correspond rather to the conditions imposed by history or by administrative convenience than to the facts of human life and growth." [1]

Dr. Finer has cited specific examples of sub-optimum areas. He says:

[1] P. 36.

"... there is the anomaly of small County Boroughs with complete autonomy in education, compared with Urban Districts of extremely large population. For example, a County Borough like Canterbury with a population of 25,000 is autonomous for all forms of education, but Urban Districts like Willesden, Rhondda, and Tottenham with populations over 100,000 have powers for elementary education only." [1]

Moreover, with over 300 different elementary education administrations, despite the perceptible improvements effected as a result of more equal grant facilities, the discrepancies in efficiency were too marked to favour the optimum progress of the system as a whole. On this point it is of interest that none of the federations of authorities envisaged by the Education Act, 1918, have been realised in practice.

Other criticisms, made by a lay body, may be cited. The Committee on Education and Industry commented unfavourably in 1928 on the many large elementary classes existing then; more "practical" work and more teaching of handicrafts was demanded; the Secondary school examination system was pilloried on the ground that it ought to be related more closely to environment; in the Technical sphere, the Committee contended that the fullest possible measure of co-operative action between schools in adjoining areas, but especially between the schools and industry had not been realised. [2]

Another familiar grumble is that the widespread availability of the higher forms of education to all who could profit thereby was not realised—even by the end of the period. To support this, figures showing, *e.g.*, that in 1934–35 only 5·2 per cent. of pupils over fourteen who left the secondary schools proceeded to university institutions in that year could be cited. Moreover, the percentage of such favoured pupils to the total of pupils leaving both elementary and secondary schools was but 0·5. Lastly, the criticism has been made that salary costs, which account for an outstandingly large ratio of the total cost, were unduly

[1] *English Local Government*, p. 134.

[2] *Committee on Education and Industry* (England and Wales), Part 2, gg. 41, 43, 46, 73, 76, 96, 99.

inflated relative to pre-war years and to salaries in other comparable professions. Such a complaint was made by the Committee on National Expenditure of 1931—that body, indeed, suggested that " . . . 20 per cent. is the minimum reduction which should be made." [1]

Criticisms such as these must be granted their due force, and it may be conceded that they exhibit the possibility of improved efficiency in the service, and improved efficiency relative to cost. But they do not contradict the many-sided, definitive advances which the additional expenditure permitted and fostered.[2] And so important were these, in fact, as irrefutably to enhance mental efficiency—outstandingly, of course, that of the younger generations, but not restricted thereto. And there is no doubt that the repercussions upon capacity to produce were so marked as to constitute a development of signal significance for production and the national income.

The preceding argumentations have been concerned to demonstrate that, by improving the physical and mental standards of productive workers, local expenditure enhanced the capacity of such workers to produce. But, however valuable this may be in itself, it would be without avail for the national income unless the will to produce remained unimpaired. The question arises, therefore, as to what were the repercussions of the additional levying and spending upon this ?

Consideration of the services more intimately affected by the heightened expenditure, and of the new policies governing the various outlays, indicates that thereby the real income of the Poorer was scaled up : and it is interesting to refer to some details concerning this. In Education, although the cost per pupil advanced roundly in all branches, recoupments rose much less. Elementary education remained gratuitous, but annual costs per child grew from about 170*s.* in 1920 to about 269*s.* in 1935.[3] A similar comparison cannot be given for Higher education, but in

[1] Cmd. 3920, p. 51, g. 155.

[2] On the progress achieved in the educational system in general during these and earlier years, see Lowndes, *The Silent Social Revolution*.

[3] *Statistics of Public Education*, 1919–20, p. 203 ; Cmd. 5290, p. 224.

1913 gross outlay per pupil in L.E.A. secondary schools was £17 8*s*., recoveries from fees, etc., were £4 18*s*., and the net cost was £12 10*s*. The estimated figures for 1934 were, respectively, £29 18*s*., £6 16*s*. and £23 2*s*.[1] The comparatively slight increase in recoveries relative to costs may be remarked. And, apparently, a similar story applies to other branches of Higher education. Despite increased outlay thereon, Public Library and Museum and Art Gallery fees were maintained at merely nominal levels. To take the Health services next, costs rose from over £35m. in 1919–20 to over £71m. in 1934–35. But recoupments rose only from £5·52m. to £7·67m. Outlays on Poor Relief grew from over £19m. in the first year to nearly £37m. in the last year, and recoveries advanced only from £1·10m. to £2·48m. The annual commitments for Housing always exceeded rental receipts, and the excess was much larger in the last year of the period than in the first year. The actual figures of expenditure were over £6m. in 1919–20 and over £73m. in 1934–35, and recoveries aggregated £0·91m. and £27·46m. respectively.[2] Since, in general, the charges imposed for the various Trading services were little in excess of costs of service—profits being incidental or aleatory—consumers benefited in greater measure than if charges had been fixed so as deliberately to subsidise rates. Lastly, a variety of Minor services were available either gratuitously or under cost.

These details, touching nearly all of the items which were more conspicuously responsible for the post-1919 rise of spending, indicate how substantial were the accretions to real income enjoyed by consumers of the goods and services. Nor were these vitally negatived in the case of the Poorer consumers by a *pro rata* growth in the taxing and rating demands. Before, it has been shown that a net transfer to the Poorer was the final outcome of the conjoint processes of spending and levying; and also that this transfer tended to be larger, the smaller were the financial resources of the beneficiaries.

To proceed, inevitably the predominant proportion of

[1] *Memo on Board of Education Estimates*, 1935, p. 18.
[2] *Local Taxation Accounts.*

consumers were productive workers and others in the Poorer income group: for the persons included thereunder greatly outnumber those in the Richer groups. Further, the former category gained more because larger families and more dependants are typically found therein. Having a larger number of children, for example, parents in the Poorer category were peculiarly advantaged by the extension of Educational facilities—since these were either free or charged at rates much lower than cost; by the Health services—such as Hospitals, Maternity and Child Welfare, School Medical Services and Tuberculosis. Having more dependants, they stood to gain largely from higher Poor Relief grants and the wider availability of these, as well as Unemployment Works. Since municipal Housing was especially directed to meet the needs of working-class families, they secured very considerable pecuniary benefit from sub-economic rentals. Families and dependants of the Poorer group also accounted for the bulk of domestic consumers of such Trading services as Water, Gas, Electricity and Transport, and therefore were favoured to the extent that prices of these were lower and output was higher than might have been the case under a different policy. Lastly, discrimination in favour of the Poorer was effected through the Rent Restriction Acts and the changes in Valuation procedure after 1925—in actuality these latter applied progression to the scheme of assessment for rating, and both operated to reduce the *pro rata* contributions to local rates made by the Poorer.

The fact that the real income of this group was raised, it can now be submitted, caused production to be favourably affected in as much as the will to work on the part of productive workers was enhanced. On what grounds can this submission be based? Principally on the ground that the varied developments outlined above promoted a more profound and more widely pervasive measure of social contentment than would have prevailed in their absence.[1] The

[1] It is not an accident that the number of working days lost by industrial disputes was—the special case of 1926 apart—relatively low in post-war years.

most important element in securing this was, probably, the reduction of inequality of opportunity which was the outcome of the minor revolution in the educational scheme—occasioning freer passage from bottom to top of the educational ladder, improving and extending the training accorded in the different branches and fostering the capacity of Poorer children to benefit from the reforms as a result of the supply of facilities below cost, or entirely costless. The absence of such comparatively far-reaching innovations, it is likely, would have aroused social discontent and inflamed resentment. Importance must also be assigned to the improvement of the housing conditions of the Poorer. This bettered dwelling standards, provided more amenities such as hot water supply, gas and electrical appliances, baths, wider spacing of houses, gardens, and caused discrimination of house rentals to favour the poor and very poor. Unique importance attaches to slum clearance work, especially in view of the findings of the Ministry's Survey of Overcrowding[1] and post-war Social Surveys. Without the widely-ramified and intensive spending upon Health services, ill-health, physical and mental suffering would have been more prevalent, and the general will to work of the Poorer—arising from unhappiness and discontent with their condition—must have been discouraged. Even the increased outlays on Poor Relief, Unemployment Works and Industrial Training may have fostered the will to work of persons debarred from unemployment insurance benefit and that provided by other statutory social services—by dissipating the notion that the public bodies regarded such unfortunate persons as ineffective and useless members of society. The psychological repercussions of this may have been to foster the spirit of hope and enterprise in the search for work.[2] There are, of course, exceptions to this generalisation in cases where relief approximated closely to wages, but these apparently were not numerous.[3] Lastly, social contentment was favourably affected by the policy of adjusting the

[1] *Report on the Overcrowding Survey in England and Wales*, 1936.
[2] Report, *Unemployment Assistance Board*, 1936, pp. 17, 99, 100, 122, 151, 195, 203, 223, 253.
[3] *Ibid.*, pp. 12, 128.

benefits of expenditure to needs. The argument of this section is illustrated by the following extract from the Final Report of the Balfour Committee :—

" The primary effect is to improve materially the well-being of the industrial population in ways in which such improvement could not have been achieved by individual effort except at enormously greater cost. The sense of security and the relief from suffering thus obtained is a national and personal asset of the highest value. . . . 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]

In addition, the raising of the real income of the Poorer in the ways outlined may be expected to have inspired ambition to effect, by their own personal efforts, further improvements in their economic fortune. Thus, as Marshall said :—

" It is true that every broad improvement in the standard of comfort is likely to bring with it a better manner of living, and to open the way to new and higher activities ; while people who have hitherto had neither the necessaries nor the decencies of life, can hardly fail to get some increase of vitality and energy from an increase of comfort, however gross and material the view which they may take of it. Thus a rise in the standard of comfort will probably involve some rise in the standard of life ; and, in so far as this is the case, it tends to increase the national dividend and to improve the condition of the people." [2]

Again, as Pigou says :—

" There are some commodities and services, the demand for which is so correlated with that for certain other commodities and services that the gift of them increases the recipient's desire for these others, thus increasing his desire for any rth unit of purchasing power that he may be able to earn, and thus, finally, increasing the work and waiting that he is willing to provide in exchange for purchasing power." [3]

The higher real income also increased the possibility of

[1] P. 258
[2] *Principles of Economics*, 8th Ed., p. 690.
[3] *Economics of Welfare*, 1924 Ed., pp. 683–4.

saving and the benefits which this is capable of conferring on the savers: and this possibility is, of course, enhanced by greater willingness to work and enterprise. Lastly, higher real income for the Poorer probably engenders a desire to make larger investment in their children—which previously inadequate means debarred.[1] And so strong may this desire be as to promote greater willingness to exert effort.

It is not insignificant that the rise in the real income of the Poorer was not to any material extent a matter simply of augmenting their monetary resources. If, indeed, the grants had exclusively taken the shape of money, owing to the backward art of spending by this category and the risk that the money would have been dissipated in less useful —or even useless and harmful—directions, serious qualification might have to be made of favourable reactions upon the will to work. Actually, the greater part of the accretion to resources took the shape of gifts or discriminations in kind, which were accompanied by conditions ensuring that high advantage accrued from them. Thus, the benefits of free Elementary education were assured by compulsory attendance at school and the raising of the school-leaving age; the heightened availability of Higher education was achieved by measures designed to increase actual attendance; the sub-normal rents of houses ensured the improvement of artisan housing conditions; Health services were subject to regulations which stimulated demand from the desired sources. Poor Relief constitutes the only important exception, but even in this case direct money grants were partly substituted by assistance in goods and services on terms dictated by the authorities.

There is a possible qualification of the above arguments and citations, contending that the combined incidence of taxation, rating and charging, on the one hand, and of levying on the other hand, was to cause redistributions of real income which were sometimes different to that premised —from the better-off to the worse-off. Thus, it has been claimed that expenditure upon Housing served to benefit that group in the working-class category which could

[1] *Cf. Economics of Welfare*, 1924 Ed., pp. 702–3.

actually afford the somewhat high rents of municipal dwellings more than the worse-off. There is some truth in that contention, as the Marley Committee showed.[1] Yet, out of 1·66m. houses erected in England and Wales between 1919–31, almost 80 per cent. were in the lowest grade of the three set up by that body.[2] Such a preponderant addition to the supply of what were, clearly, working-class dwellings, must have lowered rents of the remaining artisan houses and afforded corresponding relief to poor persons generally. Moreover, such a sweeping assertion ignores the continual endeavour of municipal bodies to charge rents on the basis of ability. Lastly, the concomitant advantages of rent restriction should not be overlooked: if the greatest deficiency of housing was of dwellings suited for occupation by the poorest, then—however undesirable from the standpoint of economics the scheme was—it must have provided the largest degree of advantage to that group. Another criticism involves Education. It is sometimes urged that this effects redistribution because benefits depend on numbers of children per family. That is obvious and may be granted. Yet, since poorer families are normally the largest, the redistribution is in line with that postulated by the arguments previously cited. Moreover, the highly-increased outlays upon maintenance allowances, free places and other aid to students, were habitually graded accorded to parental financial means. Simular arguments apply to other expenditure items, and need not be duplicated. But some reference may be made to complaints that inequitable redistribution within the Poorer category was instigated by levying. The contentions refer mainly to the regressive character of rating, and assert the onerousness of indirect taxation upon the worse-off; but they also sometimes refer to the undesirable uniformity of charges for services—under Other Receipts. In reply, there is no need to expand previous argumentation about these matters. Rating regression prevails; yet this has been somewhat countervailed by rent

[1] Cmd. 3911, p. 21.

[2] *Ibid.*, p. 19. A return published in 1937 showed that, of 866,277 local authority houses and flats, 750,893 had rents not exceeding 10*s.* weekly (Cmd. 5527, p. 3).

control, the new scale of deductions from gross value established by the Rating and Valuation Act, 1925, and the graduated subsidisation of municipal house rents. Indirect taxation is intrinsically more voluntary than otherwise—being lighter on necessaries, and heavier on conventional necessaries and luxuries. Therefore its burden is not beyond control or adjustment by poor consumers. Certain services against which recoupments have been sought have hitherto not been deemed susceptible of other than flat-rate charges, *e.g.*, omnibus fares, fees for parks, pleasure grounds and sports fields, and swimming baths. Nevertheless, in other important services—*e.g.*, Electricity, Gas, Water, Health, Housing and Education—which are more important components of expenditure, discrimination to favour the worse-off has been substantially developed. Altogether, therefore, there is little substance in the criticisms that economically and socially undesirable redistributions capable of reducing palpably the benefits of transfer expenditure, have been effected, to the disadvantage of labour productivity. Moreover, it is more often than not correct to presume that the conflict between the principles of ability and benefit has been decided in favour of the former—obviously the more desirable general principle.

If, then, the increase of the real income of the Poorer, and the forms this took, had such advantageous consequences upon the desire and willingness to work, it may yet be suggested *per contra* that the accompanying spoliation of the resources of the Richer must have diminished their willingness and desire to work. This question has been discussed before [1]; and it was contended that (i) the greater amount of taxation and rating falling to be borne by the Richer did not reach such absolute heights in the period as to have markedly adverse repercussions, although undoubtedly temporary disturbances unfavourable to both private and joint stock productive activity were engendered when levies were emphatically and suddenly enhanced. (ii) The higher local rates, which apparently excite more antipathy than do taxes in general, were incident as to but a relatively small propor-

[1] Especially pp. 131–6.

tion upon entrepreneurship. (iii) The burden of the levies made upon the Richer was not likely to be seriously inimical to their readiness to engage in economic activity, since their elasticity of demand for income in terms of effort was not high. And (iv), as the greater bulk of production was controlled by joint stock companies, which were not affected by progression in taxation, curtailment of effort and enterprise was less likely. (v) And last, in assessing upon the complete effects of additional public intervention, it is necessary to take into account the fact that the objects and methods of expenditure correlative to levying were not without benefit to the Richer as well as to the Poorer. For these reasons there is a strong presumption that the desire and willingness to work was weakened by less in the case of the Richer than it was fortified in the case of the Poorer.

To consider another point, notwithstanding the animadversions made earlier as to the actual maladministration and dis-economies which characterised the additional post-1919 expenditure of local authorities thereon, it is not open to doubt in principle that they were able to undertake the collective provision of certain indispensable services more efficiently, and therefore more cheaply, than could be provided under practicable alternative methods available to private enterprise. The outstanding examples are Health, Police and Justice, Education, Highways, Fire Brigade protection and Public Lighting. Concerning these, if it could be shown that private operation would either have resulted in lower costs for equivalent services, or more efficient services for equal expenditures, then still stronger and more weighty criticism of the additional local authority expenditure would be warranted; but if costs for commensurate services would have been higher, or the services would have been less efficiently performed for equal amounts of cost, then in principle the additional local expenditure is justified and the national income would tend to be benefited.

Taking the case of Health services, if these had been supplied by private enterprise, owing to greater efficiency or some other cause, unit costs of both prevention and cure

of diseases might have been lower. But private provision of Health services would actually have been less efficient, for the simple reason that communal health can only be maximised if facilities essential for both prevention and cure are unreservedly extended to all members of the community. This, of course, is most obvious in the instance of measures taken to prevent disease. If some sections of the community are not protected against infections as adequately as the remainder, then at once the health of the whole communal body is jeopardised, and, in fact, the remainder would suffer. Even on the curative side, if some sections of the populace are unable to secure treatment, or can only obtain inadequate treatment, it is impossible to escape repercussions upon the general body of people in the shape, at least, of the lowered economic efficiency of the sufferers, and probably in the spread of disease and disability outside these categories. Now even on the assumption most favourable to private enterprise—that it could take advantage of discriminating monopoly practices—so long as the volume of service was governed by considerations of profit, poor persons would be denied facilities. To that extent the Health services would be shorn of their effectiveness. And the particularly important point is that it is poor persons who are habitually most liable to take infections and who normally are in need of the greatest measure of medical care. Therefore the number of persons debarred from securing facilities would be high—so high, indeed, as to constitute a permanent threat to the health of the rest of the community. On the other hand, the local authorities provided free services to the poor by taxing those who were better off; and in other ways denied to private enterprise they were able to elucidate demand for that minimum of health precaution and medical attention to sickness which are essential if the general community is to be protected against disease. Moreover, consumers would hardly be able to check the quality of service which they were buying from private health enterprisers. The public operation of Health affairs largely obviates this evident and socially dangerous disability. It may be concluded, then, that for

a given expenditure the efficiency of public operation is greater than private.

Similar lines of argument can be applied to the other items instanced above. For the securing of efficiency in the maintenance of law and order through outlays on Police and Justice, and in protection against the risks of fire through spending on Fire Brigades, is conditional upon the adequacy and non-discriminating availability of the services.[1] If, as would be the case under private operation, they were not available to poor persons because such persons lacked the means to buy them, or the facilities were too sparsely supplied, then maximum protection to the general community would be lacking. As in the Health services, the criterion is that of need, not that of ability to pay. Plainly, then, even if costs were lower under private enterprise, unit efficiency would be more than correspondingly reduced as compared with public provisioning. The argument applies also to Public Lighting. If this were unequally supplied, crimes and accidents would be more numerous and the community as a whole would suffer. In the case of Education, this might be supplied at lower unit cost by private enterprise. But, if the existing standards were maintained, the bulk of the Poorer would find the expense of higher education prohibitive, and even a large section would be unable to afford to buy elementary training. And the community would lose more in the shape of the curtailment of the productive efficiency of many of its numbers, not merely because individual personal efficiency would be reduced, but also because of the adverse psychological consequences of working-class discontentment and resentment, than the extra amount it might have to pay as the price of public control and operation. Marshall's wisdom is apposite on this matter :

" We may then conclude that the wisdom of expending public and private funds on education is not to be measured by its direct fruits alone. It will be profitable as a mere investment, to

[1] Adams says that, concerning " protection to person, property, and reputation," " There is no other phase of social activity where the economy of ' manufacture in the gross ' can be so effectively realised " (*The Science of Finance*, p. 58).

give the masses of the people much greater opportunities than they can generally avail themselves of. For by this means many, who would have died unknown, are enabled to get the start needed for bringing out their latent abilities. And the economic value of one great industrial genius is sufficient to cover the expenses of the education of a whole town ; for one new idea, such as Bessemer's chief invention, adds as much to England's productive power as the labour of a hundred thousand men. Less direct, but not less in importance, is the aid given to production by medical discoveries such as those of Jenner or Pasteur, which increase our health and working power ; and again by scientific work such as that of mathematics or biology, even though many generations may pass away before it bears visible fruit in greater material wellbeing." [1]

In the case of Highways, the history of the nineteenth century attests the inefficiency and chaos which existed under the private *régime* then. To-day, under a system of private competition, it is to be expected that the road system as a whole would be less efficient than public operation because of the lack of uniformity in road standards, the probability that economic resources would be wasted in the unnecessary provision of alternative routes, the likelihood of less regard to safety, and the fact that the prevalence of imperfect competition would produce disparate charges involving intolerable disturbance to the free flow of traffic. Even under private discriminating monopoly, it is very doubtful if the same volume of facilities would be forthcoming at as low aggregate costs as under public operation. It may be concluded that, owing to the greater efficiency resulting therefrom, the extended collective public provision of these services rendered feasible by the additional expenditure taking place in the period, was advantageous to the national income.

Next, attention may be drawn to the fact that certain kinds of the augmented outlays of the public authorities were instrumental in procuring the reduction of private costs of production. Since restricted labour mobility is injurious to output and production costs, anything which is an antidote thereto must be beneficial. The building

[1] *Principles of Economics*, 8th Ed., p. 216.

of new dwellings affords one instance of such an antidote. For the public administrations were potently influenced by demand emanating in their particular areas. As and when the demand for labour by local industries and trades expanded, and where it was necessary to attract labour from outside, the readiness of the public authorities to undertake essential housing must have facilitated the adjustment of labour supply to demand. Even when the new dwellings were supplied from private sources, that local authorities were in general more willing and able than in pre-war times to incur additional commitments for essential services and facilities requisite to new housing, such as sewers, drains, schools, hospitals, roads and streets and transport, indirectly fostered the mobility of labour. Moreover, much new working-class housing accommodation has been instigated by subsidies to private builders. These, coupled with the deliberate policy under which the local bodies subventioned the rentals of municipal houses, lowered housing costs to tenants and thereby again indirectly assisted labour migration. Although it was mainly restricted to the promotion of intra- and inter-district labour mobility, the expanded provision of local transport undertaken by the public bodies, associated, as it frequently was, with discrimination of charges to favour working-class travel to and from work, advantaged local industries by assisting them to meet their needs for labour. The new service establishing Juvenile Employment Bureaux was of incidental usefulness in causing this kind of labour to be more fluid, and better adapted to demand.

In another way, costs may have been affected to the benefit of productive enterprise—by expenditures upon the new services of Town Planning and General Corporation Estates, together with essential ancillary outlays upon various extant services. This occurred in consequence of the creation of more industrial and commercial sites. Town Planning regulations were so framed as to provide for the allocation of parts of the newly-planned areas for use by producers and distributors of goods and services. As and when new developments were undertaken, therefore, the

diverse communal services requisite for the undertaking of economic activity—such services as Water, Gas, Electricity, Roads and Streets and Transport facilities—were provided for. Bearing in mind that, by the end of the period, not far from two-thirds of the entire country was covered by schemes for Town and Country Planning and the development of Corporation Estates, the addition to industrial and commercial sites must have been appreciable. This, in turn, must have tended to reduce that part of production costs assignable to such an item. Actually, besides, the development of the new areas may have carried with it incidental advantages in the matter of siting—*e.g.*, more adequate and efficient modern Trading services, the avoidance of transport delays occasioned by traffic congestion and poor accessibility of factories and warehouses, greater adaptability to the needs of new industries, better access to light and air and more effective housing of labour forces.[1] These may be expected to bear favourably on costs.

Turning to another matter, during 1919–35 there was a clear propensity for local authorities increasingly to undertake the supply of certain kinds of service needed by, or of advantage to, specific groups of producers or individual producers which, in default of action by the local bodies, would have had to be provided privately. The more notable instances are: special vocational training and education of industrial and commercial personnel, undertaken principally by university institutions and technical schools; the conduct of certain kinds of research, *e.g.*, in agriculture; the supply of treatments for occupational diseases; the provision of treatment for diseases of animals; the disposal of trade refuse; the neutralisation and disposal of noxious trade effluent; the provision of special supplies of water, gas and electricity to individual producing units; the *ad hoc* creation of housing accommodation for labour forces required by local business concerns; special police and fire protection; library services specifically maintained in the interest of industries within the area; and the Bradford conditioning house for the woollen industry. Since many of

[1] See Gibbon, *Problems of Town and Country Planning*, p. 42.

these services lent themselves to more economical supply by the collective method, and were often, in fact, already being undertaken ; or because local authorities had special facilities for giving supply, such as the possession of necessary technical staffs and equipment ; generally private productive enterprise was advantaged by being able to obtain supply at costs lower than otherwise it would have had to incur. And, as the range of such services was wide—the above is not an exhaustive list—the total advantage was not immaterial.

To proceed, although there are no precise means of judging on the issue, a case can be made out that, taking into account institutional factors then prevalent, the services contained in the Trading group were supplied to producers during the period, not only more cheaply, but also in ways better designed to assist production than would have been the case if the services had been provided by private enterprise. If the case can be made out, then industrial and commercial costs of production and also output would be affected favourably by the notable extensions of local authority spending on Trading services occuring during 1919–35. The following arguments are particularly concerned with the items of Water, Gas, Electricity and Local Transport, these being outstanding in importance and significance for private production.

Thus (i.), local authorities secure capital on cheaper terms than do private concerns. For the public bodies can borrow at virtually gilt-edged interest rates. On the other hand, private undertakers must offer somewhat higher interest even on their debentures, and usually it is necessary for them to resort in addition to issues of both preference shares, carrying higher interest than debentures, and ordinary shares, investment in which has to be attracted by at least moderately substantial dividends. It is true that, under legislative provision and Ministerial regulation, local authorities must provide for the amortisation of capital borrowings within specified periods and that the cost of that process must be included in their supply prices for services. But it is doubtful if this disability at all materially exceeds

the advantage of smaller borrowing costs and the reduced necessity for depreciation allowances relative to those which have to be undertaken by private concerns. Moreover, the long-term advantage is with the local bodies, for it is normal for full amortisation to be completed before the expiry of the life of the assets. And the public undertakers benefited during the period from the possession of capital the debt upon which had been discharged previously: so that, to this extent, supply prices could be relieved. (ii.) Not rarely, as a result of their peculiar capacity for elucidating increased demand, to some extent by means of discriminating monopoly practices available to both sorts of enterprise, but also by devices and means practicable only to municipal operation, local authorities were sometimes able to achieve scale economies in production to a larger extent than private undertakings.[1] (iii) It is not unusual for local authority Trading services to have to meet competition from private services of a similar or alternative kind, *e.g.*, public and private Transport, Electricity and Gas. Where such conditions prevail, prolonged or material price disparities between the two competing sorts of enterprise are unlikely. Under such a state of affairs, it is therefore possible to advance the negative argument that at least private production is not likely to be handicapped by municipal operation. On the other hand, (iv.) where conditions of monopoly or quasi-monopoly obtain, the temptation for private concerns to restrict supply and to seek to charge prices higher than the competitive level is strong, but apparently it is not customary for municipal enterprises to endeavour to follow either of these policies.[2] (v.) There are grounds for believing that the alleged inferior efficiency of publicly operated enterprises, relative to that of private, is hard to discover in the case of the services now under discussion and in the light of the conditions prevailing during 1919–35. Perhaps the most important point to be mooted

[1] Especially by stimulating demand by consumers of limited means.

[2] Generally, local bodies aim to cover long-period average costs, and to maximise output. It is doubtful if private enterprise would provide so large an output and at such low prices under conditions of somewhat highly-restricted competition.

is that the usual discussion of this matter contrasts private enterprise, working under normal competitive conditions, with public enterprise *per se*. But it is important to recognise that institutional factors destroy the validity of the assumption of free competition ; and, after all, the effects of additional local authority expenditure during 1919–35 upon Trading services, if they are to be discussed realistically, must be assessed in the light of the influences exerted by the institutional factors then rampant—whether these have inherent economic justification or not. Thus, actually, private undertakers were themselves subject to quite a substantial degree of control by the legislature, working through one or other of its various instruments, *e.g.*, in prices charged, the amounts of capital they could raise, rates of dividends, reserve appropriations, depreciation allowances, the area of their operations, the length and terms of franchises and, in general, right of entry into production. And it is material to remember that the period witnessed the obtrusion of more intense control of these kinds. The general effect is to destroy in substantial measure the degree of differentiation between the two simple types of enterprise usually postulated. More specifically, what is ordinarily stated as being a conspicuous advantage of private enterprise —its greater initiative and enterprise—is restricted. The free flow of resources into these lines of production is definitely restrained. The reaching-out by private enterprise to the optimum size of business unit is hedged about with legal obstacles. The capacity for risk-taking and uncertainty-bearing is rendered singularly opportuneless. Freedom from bureaucratic methods and the limitations which these impose upon efficiency is attenuated. The lowering of supply prices for services is not only hindered by the strangulation of free competition, but instead, as said above, is replaced by at least a manifest tendency towards monopoly, with adverse consequences for consumers and therefore harmful effects on general production.

On the other hand, these same institutional factors and changes therein worked to improve, rather than not, the efficiency of local authority undertakings. Thus, the

legislation concerning Electricity supply, especially that of 1926, instigated, and in effect enforced, large technical advances in local authority plants and areas of supply.[1] Legislation concerning the examination of Gas supply, the purity and adequacy of Water supply, and the sufficiency and quality of service of local authority Transport worked with similar effect. Parliamentary control also gave the right to purchase private undertakings, authority to readjust areas of supply more nearly to the optimum, and central administration supplied the impulse to accomplish these. Statutory control of prices also ministered to a careful regard for costs. Lastly, the increase of local authority borrowing powers facilitated the improvement of services by rendering possible the acquisition of new plant and equipment.

But besides institutional factors, there are other reasons why the alleged high inferiority of local authority operation may be doubted. Thus, the public bodies can purchase equipment and materials on terms no less favourable than those obtained by private undertakings, since the same markets are available to both. There is no necessity for local authorities to have higher labour costs than commercial concerns. And it may be expected that salary costs in relation to efficiency are actually lower for public enterprises because the motive of public service is mobilised. The power of committees to hinder and impede efficient working can to no small extent be overcome or evaded by competent officials. And something must be allowed for the heightened zeal for more efficient and effective Trading services definitely manifested by both central and local administrations and administrators in the post-1919 period. Apparently, the public bodies increasingly adopted the methods of private commercial enterprise, with distinctive gains. Deficiencies arising from non-optimum areas of supply were, as has been explained, common to both sorts of enterprise in the period; but the movement towards boundary extension of the earlier 'twenties, the discernibly greater recourse to

[1] But retail distribution is still uneconomic—especially in the matter of local authority areas.

co-operative working, and a deeper appreciation of the merits of regionalisation and other means of achieving scale economies have gone some distance towards removing local authority disabilities in this respect.

(vi.) In general, local authorities were more ready than private concerns to provide facilities where prospects of favourable returns were uncertain—or, indeed, unfavourable —always assuming, of course, that demand was not lower than a *minimum sensibile*. The necessity for private undertakings either to reduce prices as dividends were raised, or not to exceed maximum dividends, and the purchase rights held by local authorities, restricted the equal willingness of private concerns to supply. Nor, when demand was of small dimensions, or where high costs had to be incurred to give service, was it customary for local authorities to impose discriminately high prices.[1] Probably this improved the effectiveness of the public services from the standpoint of production as a whole. (vii.) Favourable weight has to be attached to the circumstance that public control over Trading services enables that peculiarly vicious kind of waste to be avoided when different undertakings possessed of statutory rights repeatedly and inharmoniously excavate roads and footpaths in order to lay, or repair mains and service lines. This, in fact, constitutes a conspicuous argument in favour of public control. (viii.) during 1919–35, the local authorities in general extended their pre-war practice in the matter of Water supply of having first regard for increased adequacy and purity, and supply prices were appreciably below costs of service. That producers of goods and services were thereby enabled to obtain largely increased supplies on more favourable terms must have benefited production. (ix.) And last, local administrations as a whole either elected as a matter of policy, or were constrained by central regulation, to abstain from the intentional incorporation of profits in supply prices for other Trading services of basal importance for general economic activity—especially

[1] *Cf.* Knoop, *Principles and Methods of Municipal Trading*, pp. 38–39, 52. Higher charges were usual outside municipal boundaries, but were not unexceptional.

in the case of Gas, Local Transport and Electricity. Post-1919 statistics indicate that, allowing for the altered value of money, the practice was more closely adhered to than in pre-war days. On this point the Balfour Committee declared :

" The opposing policy is that which regards such undertakings as services to be administered in the best interests of the community as a whole, profit making being a subsidiary consideration to that of giving the best possible service at the lowest cost compatible with the avoidance of financial loss and thereby securing the largest possible utilisation of the service by the public. The trend of recent legislation has been towards the assertion of the latter principle." [1]

In the light of this, and the other considerations set out above, there is a strong presumption that production as a whole was advantaged by the increased local authority expenditure upon Trading services.

Consideration may now be given to a particularly evident instance of the utility of new local expenditure in diminishing costs of private production, in connection with the prolific rise of outlay upon Highways. The " classification " grants made by the Ministry of Transport induced the undertaking of very substantial financial commitments for new road foundations, resurfacing, on widening and recambering. The aims were to raise the standard of Class I. roads, to improve Class II. roads so as to secure their transfer to the higher category, and to enhance the traffic-bearing capacity of non-classified, especially " scheduled " roads. Large sums were spent on widening, strengthening, and sometimes reconstructing entirely, narrow or weak bridges ; on removing sharp curves ; on eliminating excessively steep gradients ; and on improvements of drainage. Minor improvements included the re-signing of highways in accordance with a national scheme, better lighting of roads and streets through built-up areas, the erection of warning signals and traffic control lights and attention to footpaths and cycle tracks. Besides raising the traffic efficiency of old highways, new roads linking the more important towns were made ; fresh

[1] *Further Factors in Industrial and Commercial Efficiency*, p. 308.

lengths of highway were substituted for sub-standard roads ; and by-pass routes were provided to destroy " bottle-necks " or to remedy traffic congestion.

Some statistical illustration of the results is available. In 1921–22 there were in England and Wales 17,488 miles of Class I. roads, and 11,064 miles of Class II. roads, a total of 28,552 miles. By 1934–35, the respective figures were 20,214 and 12,854 and 33,068. In addition, many miles of highways were " scheduled " in this period, these being principally local or rural highways having substantial traffic importance ; and the award of exchequer grants procured their appreciable improvement. Lastly, as compared with an aggregate road mileage of 150,249 in the earlier year, in 1934–35 the total was 152,096.[1]

These new developments reduced the costs of transport to industry and trade in general Primarily this was brought about because certain advantages over other forms of transport are inherent in road carriage. Not infrequently, the actual distances to be traversed are shorter ; reloading of freights can be avoided more often than on railways and coastal shipping ; owing to the smaller vehicular units, it is more feasible to adjust loads to the capacity of the vehicles used for transport, and especially to meet multitudinous small-scale demands ; some kinds of commodities lend themselves more readily to carriage by road ; and it is possible to operate a more flexible schedule. Secondarily, costs were diminished through the substitution of acute competition for the previous quasi-monopoly possessed by the railways and coastal shipping. It is true that the beneficial effects were restricted in the case of heavy goods, commodities occupying great bulk, and articles calling for fast transport over long distances : for these did not lend themselves to road porterage. But these exceptions were not of damaging importance. The unique advantage of the new competition was, summarily, that it supplanted the principle of value of service by that of cost of service. And not only did competition between the alternative facilities force down costs of rail carriage, but violent competition

[1] *Report on the Administration of the Road Fund*, p. 48.

amongst road hauliers led to the cutting of road transport rates. A third way in which costs were reduced was that the improvement and extension of traffic highways, evoking heightened traffic capacity, led to increased demands for, and the greater supply of mechanical vehicles. Thus, whereas on February 28th, 1922, there were no more than 669,530 road vehicle licences current in Great Britain, on February 28th, 1935, the total had grown to 2,043,797. Since large-scale output was thereby facilitated, and for other reasons, the supply prices of road vehicles fell markedly. Furthermore, besides substantial savings in capital costs, the better roads reduced operating costs; while the economies of massive output, which have proved to be very appreciable, lowered the costs of materials and services.

What gains to the community followed from the reduction of the expenses of transportation? Although the geographical area of the country is small, the density of its population, the high volume of economic activity, the fact that the types of economic activity practised and the peculiar location of industry are such as to call for intensive recourse to transport—all these postulate that the advantages were high. As the expenses of moving persons and goods and materials about the country undoubtedly bulk large in the total of costs of production, the saving must have ranked significantly. Besides, indirect advantages were secured inasmuch as, *e.g.*, entrepreneurs were enabled to give greater consideration to other factors when selecting new or altered sites for their operations, while in addition the possible number of sites was enhanced by road building. Allowance, too, must be made for readier and cheaper access to internal markets; incidentally, this must have tended to break down local monopolies and imperfect competition. Actually, besides, the remarkable extension of road transport was intimately associated with new housing and rehousing of working-class populations.[1]

These advantages were not absolute nor unqualified. Thus, the somewhat violent and conspicuous contraction in

[1] Other advantages which, if not so direct, are nevertheless material, are cited by Bonavia, *The Economics of Transport*, pp. 25–27, 39–40.

the demand for railway service impaired the financial stability of the railway system. At one time, this foreboded economic dislocation through the possibility that liquidation might occur. But that drawback was averted, and, in fact, such has been the stimulus of competition that higher efficiency has been provoked as well as various readaptations which have forced down railway charges. There is, however, the previously cited point that the transport of goods not amenable to road haulage became more costly due to the tendency for the railways to discriminate against such goods. But it may be presumed that the discrimination has been small; this presumption rests on the safeguards provided by the Railway Rates Tribunal and the dependence of the railways on such basic sources of revenue. Lastly, it might be claimed that the re-location of industry which was fostered by the new developments concerning highways has not, in fact, been advantageous to the community in general, because many such re-locations have caused the unnecessary duplication of social capital and local authority services. The reply, however, is that factors other than new expenditure upon roads have been more weighty as causes of such altered siting. On the whole, then, it may be concluded that direct and indirect gains to production through lowered costs, as the outcome of the considerable additional expenditure upon Highways, were pronounced.

CRITICAL ESTIMATE

After this elucidation of the negative and positive arguments bearing upon the economic and social aspects of the growth of levying and spending during the period, the problem presents itself of striking a balance between the opposing considerations in order to arrive at a judgment upon the advantages or otherwise of the developments recorded.

As in many realistic economic problems, no definitive, certain and unambiguous solution offers itself of this particular one. No more can be attempted than an assay of the opposed or dissimilar arguments, and this, of course, is a matter largely of personal estimate. It is, therefore, highly tempting to refrain from undertaking the task of appraisal, by being content merely with the assembly of the diverse analyses. Especially is this so because thereby the risk of criticism may be circumscribed. But still more is it so for the reason that serious arguments can be advanced to support the dictum that the economist should refrain from judgment, and should abstain from undertaking anything beyond analysis and necessary interpretation of objective data. There is not space to enter upon a discussion of this matter now. But, so far as the question of proceeding to appraisal on the present problem is concerned, there are specific grounds in support of this. For, first, in the post-war period the problem of enlarged financial intervention by public authorities has come to assume such prominence as loudly to clamour for the most strenuous endeavours to answer the questions posed by it. Second, the issues involved are highly practical in character; daily, decisions are being taken by the ruling bodies about matters of public finance, many of which have large-scale and pervasive significance; and all the light which it is possible to shed upon causes and effects, and upon accredited principles and methods of policy it is urgent for economists to try to provide. Third, at the least, the results of enquiries and analysis should be as fully interpreted as is possible: for

otherwise misconception may be fostered and the debate upon policy may be clouded, to say nothing of the danger that persons less qualified to do so may undertake judgment.

To proceed, then, with the work of estimate, a series of negative considerations, judged from the standpoint of the national income, may be broached.

The inhibitive effects upon saving have been examined, and, after balancing one effect against another, it was concluded that the probable net curtailment of capital accumulation was of so small an order of magnitude as to assume but minor importance. There is, therefore, no need to allow this to constitute an appreciable criticism.

The likelihood that the combined consequences of higher levying and altered directions of new public, relative to old private, spending produced a contraction of aggregate monetary demand for goods and services, it has been analysed before, was more likely to eventuate than not—but only intermittently. If it did, then it may be counted as an adverse factor for the real national dividend owing to its recurrent deflationary influence. By way of comment, it is warrantable thus to draw attention to such short-period phenomena, for they have relevance as a guide to policy. But it is concentration upon the longish period 1919–35 which is the aim of this book. Viewed from that standpoint, transitional events have to be relegated in importance, for they cannot withstand more permanent influences—in the present case the fact that local authority expenditure of receipts was full, and by its persistence, restored temporary breakdowns of demand. This matter, then, sinks to subsidiary importance.

The point that the degree of public authority intervention remained more insensitive than not to industrial and commercial fluctuation, can be held to rank as a drawback. For such inelasticity as virtually to represent woodenness in policy is not likely to assist egress from depression. This is particularly because taxing and rating demands come to assume momentously greater psychological meaning in periods of restricted economic activity, while also, of course, the physical effects are more notorious owing to the com-

paratively larger slices of real income which payers of imposts have to surrender. There may be found a modicum of qualification. Few would deny, for example, that it was the enlargement of spending upon Housing and the widely dispersed ramifications of this throughout the private economic world which partly elucidated general economic recovery after 1931. And the rough maintenance of capital investment by local authorities throughout the depression periods of 1919–35 may be applauded by those economists who see fluctuations therein as the acme of causation. But policy was not positive enough in these directions to warrant approval; instead, then, disapproval must be registered.

Definitely fraught with probabilities of diminishing production and so the national dividend, was the inescapable necessity for producers to readjust the kinds and volumes of their economic activity as a result of the oscillation of relative demands engendered by changes in public revenue-raising and expenditure. For the maintenance of economic equilibrium, not only were these bound to take place, but responsive action by producers was continually necessitated owing to the dynamic characteristics of financial methods and policies. Since economic friction must have hindered the making of transfers, possible disruptions of production were engendered. Nevertheless, analysis is so clear-cut as to merit the assertion that such disruptive possibilities did not ordinarily mature, even if they did when the national economy was disturbed by the winds of economic depression and the squalls of crisis. In short, net fluctuations from year to year, both in revenue-raising and in spending, were visibly small relative to aggregate public revenue and expenditure, and, above all, relative to the aggregate of national production. For this reason, they tended to necessitate a minimum of that absolute degree of change in which producers at one time and another had to acquiesce. The finding is, then, that comparative, but no superlative amount of harm to the national income supervened.

To proceed, that the relative share of total revenue provided from Taxation, as opposed to local rates, continually rose and ultimately was roundly—indeed very

notably—greater than in the initial year, counts as a still further advantageous development. For the thesis that taxation, imposed in accordance with the scheme operative during 1919–35, resulted in no flagrant or deep-seated physical disturbance to private productive activity, and less than that imposed by the system of local rates prevalent, can definitely be defended. Perhaps of outstanding import is the relatively innocuous proportion of total direct taxation which joint stock companies were summoned to pay, and the discrimination which was effected in their favour by the steepening of graduation on high personal incomes; also important, however, were the decline in the standard rate of income tax between 1919 and 1930, and the scaling up of indirect taxation. This scheme of things had the beneficent outcome that joint stock companies' costs of production were less adversely affected than they might otherwise have been, and that only incidentally. In addition, it resulted in gross profit returns suffering a minimum of disturbance. Although joint stock concerns were not immune from the mutations of relative demand and supply—which interference by taxation brings about—such fortunate arrangements must have precluded serious repercussions upon both their willingness and their capacity to produce.

Even the rise of indirect taxation can be looked upon with comparative favour concerning its influence upon output. For this saved the necessity for corresponding direct imposts upon producers such as might have exercised deterrent effects on private enterprise. It burdened general industrial and commercial costs to a small extent only, since for the greater part of the period the principal sources of revenue were drawn from a very small section of the whole field of production, and even the latish resort to a general tariff implied no penal consequences for general costs since the aggregate revenue was comparatively small and the taxes could frequently be passed on. Still further, the system of indirect imposts did not necessarily deplete stringently the efficiency and will to work of individual workers—because consumption of the taxed goods was optional, and these goods were mainly not essential to working efficiency.

Another not unfavourable aspect of the plan of taxation is that so considerable a proportion of its aggregate was continuously attracted through income and sur-taxation. Thus, notwithstanding that this reached markedly high levels in the period, such levies on personal profits and incomes probably had minor deleterious effects upon the capacity and willingness to enterprise and work. Private entrepreneurs and employees were given no incentive to change from one line of production to another [1]; if they withdrew from or relaxed their accustomed energies they suffered declines in personal material gains; if their profits or incomes fell off they enjoyed corresponding relief from the taxgatherer's demands; and retreat out of the country does not seem to have assumed prominence. The only serious drawback was the effect of high progression during slump. Altogether, then, it is possible to be comparatively optimistic about the physical repercussions, at least, of the additional taxation called for by Exchequer grants, and more so than about those of local rating increases. For the physical detonations upon production entailed by these latter were different, and in some respects patently bad. Because alterations of local rates were accompanied by a lack of uniformity over the country in general, they essentially altered the relative positions of producers located in different areas and places, and also those of producers engaged in similar and contrasted lines of activity. Minor divagations of local rates presumably had but microscopic effects. But the major dispersions, persisting for some years, must have tended to instigate readjustments and so disturbed production. This, indeed, coupled to the fact that local rates were more unstable than rates of taxation, constitutes the gravamen of the charge against the post-war system. Then local rates are additions to cost which, except in the rare instances where rates are based on output or otherwise differently determined, ignore the current degree of profitability of production. As such, they again bear onerously as between different types of activity and divergent producers, and so

[1] Except that occasioned by the alteration of returns due to mutations of demand.

promulgate, at least, the shifting of productive resources. And when they rise so as to become a comparatively high cost burden, they are liable to restrict output. Besides, as opposed to the varied basis of taxation, local rates have (with the minor exceptions recognised above) but one basis; and it is upon this that the whole of the revenue from them depends. Such a limitation imposes a doubtfully desirable degree of inelasticity. Furthermore, local rates failed to make that discrimination in favour of joint stock concerns which represented a high advantage of the scheme of taxation. If the addition to costs could not be recovered, a corresponding handicap was imposed. Even if the advantages conferred by derating are admitted, this did not wholly destroy old inequities as between producers in different places and in different lines, and it did impose certain new inequities. Moreover, the agitation which finally was successful in procuring derating apparently attests the relatively more undesirable economic repercussions of local rates. Finally, rates are regressive upon the Poorer to a greater extent than is taxation, and they are compulsory on this category no less than upon the Richer group, whereas indirect taxes can be avoided in definite measure. This must have tended to reduce the productive capacity of the working classes through lowering their mental and physical efficiency.

What now of the psychological repercussions of the two sorts of impost? It would be both idle and fatuous to belittle the grave disturbances which these may bring about, and not to realise that they have the faculty of occasioning more adverse consequences for the working of the productive machine than have physical repercussions. In the case of taxation, however, those psychological reactions which were at the bottom of the various hostile clamours leading to the repeated official enquiries mentioned earlier, were actually inspired by the increased pressure of taxation in the aggregate—not merely by that for which Exchequer grants alone were responsible. So minor was this in relation to taxation in its entirety that animadversion of the sort which is born of objection to a greater total of

taxation can hardly have been outstandingly great. The disproportionately small requisitions for taxation purposes made upon joint stock producers must have been instrumental in restricting unfavourable psychological reactions. But no such delimitation of the field of effect was possible in the case of higher local rates since, of course, these bore on all forms of enterprise non-discriminatingly. Further, local rates, inspiring a rise of production costs, are more likely to arouse animosity than do taxation demands which are more prominently incident upon realised surpluses, and then are gauged according to capacity to bear them. This consideration is evidently reinforced by the undesirably wide variations exhibited by local rates, and because in short periods of time they jumped from one scale of charge to another; for without the slightest doubt it was that quality of capriciousness and arbitrariness which produced discontent. Besides, it was the various tribulations of that important section of producers who are involved in foreign competition, which activated the acrimony directed against rising demands for rating; and this disturbed production in general seriously. Yet again, in local taxation there is a more clearly discernible tendency than in national taxation for people to associate levies with benefits derived from expenditure. This is suggested by the repeated complaints made about the scaling up of rates, which often turned upon the disparity of the imposts on individuals and firms relative to their share of the gains from expenditure; this contrasts with the tacit, because rarely expressed, assumption that the benefits of national expenditure are general over the community. If this is a correct view, then plainly psychological repellence is more likely where rating charges are concerned. Lastly, that numerically very large body of productive workers who constitute the Poorer, are abnormally conscious of demands for rating contributions. For these twice (or more) annually appear as formal legal demands upon the majority of occupiers of dwellings; while taxation, being principally disguised in additions to prices of goods and services, is cloaked from direct or accurate observation by the Poorer consumers of these. In such

circumstances, it is not unwarrantable to suppose that outcry and grumbling are more prominent about rating levies.

Finally, the above comparatively reprehensible features of the local rating system and alterations therein notwithstanding, there exist reasons for presuming that production regarded as a whole was not circumscribed to a considerable extent thereby. After all, the proportion of the aggregate of rates which was incident upon entrepreneurship was small even during the least favourable years of the period; the figures given earlier speak decisively on this. The dispersion of poundage rates became appreciable, but then some variability was for long before 1919 a distinctive characteristic. Moreover, the most severe instances of variability were clearly demarcated from the rest, and were transcendently more important in two principal areas. Factual evidence, too, suggests that as a burden on costs the actual increase of rates was not to be ranked with other influences. Particularly conspicuous were such extraneous influences in export production, even though this suffered more acutely from local imposts; nor were foreign competitors exempt from the requisitions of the public authorities. A final argument is the bold one that a greater ratio of local authority expenditure than national operates in the interest of production.

It may be concluded, then, that the basis of the scheme of revenue-raising and the changes which took place therein were such as to evoke less adverse consequences for production than negative arguments assert; and also that, probably, especially if it is remembered that the conjoint total of rates and taxes never represented more than one-tenth of the national income, private production in its entirety was not vitally depleted or so harried as to exhibit pronounced dislocation.

General approval may also be given to the policy of augmenting the contributions towards costs provided by the diverse "Other Receipts." The possible ways in which the necessity for providing such contributions could react so as to reduce productive effort are clearly limited—indeed

they are principally reducible to that of the degree of burden thrown upon productive workers relative to the degree of benefit to them which the consumption of the relevant services conferred. It can be cited as an advantageous feature of the policy that it aimed less at profit-making than at securing the enlarged consumption of services all of which, more or less intimately, tended to increase the productive capacity of such consumers regarded as productive workers. It also aimed, in particular, at fostering the greater availability of goods and services to poor persons, especially of necessary services. The policy may be regarded as having, in these ways, good effects upon production.

The actual increase of revenue obtained from Other Receipts was a substantial one. Indeed, the average amount received therefrom over the period represented 30 per cent. of aggregate revenue from all sources, and nearly 61 per cent. of the total of rates and taxes combined. Credit must be allowed for the very material relief to taxpayers and ratepayers which was thereby provided in the shape of reduced levies. This did not, of course, represent an absolute monetary gain to them, inasmuch as, although persons were not mulcted for rates and taxes, they were called upon for contributions to the extent of their consumption, and in perceptibly higher ratio according as their individual means were larger. Nevertheless, there is a clear distinction between the reactions set up by levies and those brought about by what are, in effect, merely payments for goods received and services rendered. The latter payments, representing a *quid pro quo*, certainly have their due physical effects upon demand and production; but, being in substantial degree voluntary and controllable by the payers, and especially because the services are supplied at or below the cost sustained by local authorities, do not produce psychological deterrences—conspicuously more negative in their consequences for productive activity. Nor are the physical effects upon personal productive capacity likely to count strongly, because they can—at least in part—be evaded.

To proceed, the fact that greater relative resort was made throughout the period to finance by Capital Borrowing may be regarded with approval. For this method of acquiring resources curtailed the rise of contemporary taxing and rating, and so restrained the deleterious repercussions upon production due to sudden and drastic rises thereof. Further, because it can be hypothesised that future annual income from the capital assets will be sufficient approximately to take care of the necessity to provide for debt charges, the policy also exonerates future taxpayers and ratepayers from oppresive demands arising from such past outlays. Nor can the criticism be sustained that the preference for borrowing was extended unwarrantably. For, in fact, generally loans were not taken up except for purposes and in ways which satisfy the principal accepted canon of borrowing—that equivalent capital assets and durable goods were acquired, the life of which was likely to extend beyond the period allowed for amortisation. Still further, due to the measure of control over local authority capital operations exercised by the central financial bodies—more particularly, however, in the later years—the drawback that the market for private capital might be disturbed or partly denuded of its effective functioning does not seem to have materialised to any notable extent. Indeed, probably, the net additional requisitions for savings annually made by the public bodies represented but a moderate ratio of the annual total of accumulation available for investment. This being so, there was less likelihood that local authority capital investment was pushed so far as to injure the national dividend by compelling the substitution of public capital investment, possibly providing a lower accretion to the income of future services, for that of private capital investment. Besides, this probability was diminished by the findings indicating that the capital outlays actually entered upon by the local bodies were intrinsically capable of adding roundly to the nation's future real income. Lastly, public capital expenditure increasingly tended merely to substitute, in certain important fields of activity, that which would otherwise have been undertaken by private enterprise.

Before passing to discuss other matters, there is one point —and that rather an exhaustive and pervasive one—which falls to be mentioned about levying *in toto*. It is absolutely an important matter that a fair proportion of the aggregate of extra imposts stood not for bare, uncompensated extortion but instead for the equivalent of the purchase of goods and services which it was either essential or desirable for entrepreneurs and productive workers to possess—things which otherwise they would have bought privately. It has been argued previously that most of the important Trading services—which were necessary for, or incidental to, productive work—were supplied at a cost to the community lower than that which might have materialised under a different dispensation. To this extent, however small, thereby a net offset to additional levying upon producers was evoked. As for Rate Fund services, such matters as additional expenditure upon the preservation of law and order; protection against disease, the treatment of illness and the promotion of health; cleansing services and disposal of sewage; protection against fire and floods; the full additional expense of roads, streets and footpaths (as opposed to the part separately met from taxation); some expenses for education; housing; and for research and experimentation—all these, in default of that local authority initiative which marked the period, would have had to be purchased privately or self-provided. Therefore, subtraction should be made from levies to a total equivalent to the costs of obtaining these services under private auspices—in other words, that no burdens upon production as a whole were entailed by that part of the total of extra levies which actually fell to be met by those engaged in productive effort. Hence, thus far, private output was not incommoded or restrained. Strictly, the actual amount of the costs saved to private producers would not be identical with the amount of imposts upon them for which the provision of such facilities was responsible; since undoubtedly, if self-supply by private enterprise had occurred, costs would have been dissimilar. And here another significant point advances itself for notice. For the public supply of the services enumerated above advantaged

consumers. Principally this contention is based on the economies rendered feasible by the provision of the facilities under collective auspices. For in each case the potential economies of scale output were considerable, and apparently they were largely realised. Even if this were not the case, *e.g.*, on account of the varied dis-economies incidental to the public conduct of affairs described before, it is highly improbable that either unit costs would have been lower or a comparable degree of efficiency for given expenditures would have been extracted if the additional provision of the services had been left to private enterprise. Not only, therefore, must the clear and ostensibly substantial deduction claimed above be made from the extent of adverse effects upon production of the post-1919 expansion of levies, but a further deduction should be allowed for the advantages promoted by the lower costs at which the diverse services mentioned were in fact rendered accessible—to both entrepreneurs and productive workers.

If, then, such a not-highly unfavourable verdict can be reached about the side of levying, what can be said about the side of spending? It is desirable to recognise and to attach proper importance to the generalisation that the increase of local expenditure did not have, as its first and most patently-avowed aim, the promotion of ways and means of securing additions to the real national income. Rather was the primary motive to procure social improvements—such as the alleviation of poverty and distress, better conditions of housing, the amelioration as well as the greater and freer availability of divers essential communal services and the uplifting of general cultural standards. Let this be granted. Nevertheless, it is unfeasible to pursue such endeavours without inescapably affecting the national income by provoking repercussions upon general capacity and willingness to produce. And, in fact, such repercussions were widespread and heavily loaded with significance for both of these.

To begin with, there were certain ways in which the growth of expenditure injured the national income. Highest in influence, probably, was the outcome of the multi-sided

dis-economies illustrated and assembled in preceding pages (pp. 139–55). If even a rough calculation of the actual extent of these cannot be made, taken together they were of much consequence. Fundamentally, they curtailed the real national income by evoking a demonstrably lower total of goods and services than could have been secured from a better-ordered scheme of expenditure conducted by spending units more nearly of optimum size, and timed to avoid such ill-effects as those produced by very radically enlarged demands for particular goods and services and the execution of demands at times when prices and costs were unfavourable.

The national dividend was also negatively affected to apparently some significant extent by certain faults of technique in spending. Thus if, at different times in the period, less had been spent in areas deeply embroiled in economic depression—on such things as Unemployment schemes, Poor Relief, Highways and Housing especially, but also on ordinary services—the consequent lowering of rating levies on producers would have militated less against the industrial output of such areas. This particularly applies to export areas. Again, the use of the grants system by the central authorities to attempt to procure quasi-uniform improvements in the efficiency and adequacy of services over all local government districts, was economically unwise in view of the wide discrepancies in services existing before the period opened; and especially because this was largely attempted prior to the undertaking of reforms designed to restrict undue variations in the levels of local rates between areas. For such disproportions in local levies impeded private production. Again, the lax administration of Poor Relief was detrimental to willingness to work on the part of some definite fraction of the recipients, and especially younger unemployed persons. In so far as this took place it hurt the national dividend. Lastly, adverse comment may be made upon certain discontinuities of spending. As instances may be cited the sudden restriction of outlays upon Agricultural small holdings by the Act of 1926, the failure to carry out the raising of the elementary school-

leaving age in 1929 and 1933 despite the preparation previously made, the jumpy character of expenditure upon Highways due to a defective policy relating to the administration thereof and capital expenditure in general. Such discontinuities caused the diversion of economic resources into given directions, and then failed to utilise them in the manner expected—thereby disturbing output.

Drawbacks of this sort to spending policy and methods there were. They cannot, however, be regarded as absolute because there are certain excuses, palliatives and extenuations. Thus, it was popular demand—indeed, sometimes popular outcry—which was largely culpable concerning high-pressure spending at times when prices and costs were unfavourable, which mainly induced discontinuities and represented frequently the efficient cause of dis-economies. Actually, central and local bodies were often but mediators of public opinion and desire. Furthermore, it was not specifically the fault of the public bodies that private monopolies in the supply of goods and services reared their heads, that private industry failed to re-adapt itself to altered situations and that other developments took place in the world of private industry which were antithetical to the national income. Alternatively, it is not justifiable to attribute to local authorities foresight and prescience about economic changes which private enterprise failed to exhibit. In the specific matter of unwise administration of Poor Relief, this was principally provoked by defects in the system of unemployment insurance, the inelasticity of the wage system and sudden economic emergency not attributable to local authorities as such.

Apart from such explanatory factors, it is to be doubted if serious permanent harm was actually imposed upon the national income from the comprehensive causes cited above. Dis-economies due to price abnormalities were not usually long lasting, being reduced by the influence of competition or by other re-adjusting factors. Actual tendencies to waste purely were partly checked by central control. Some improvements in local authority structure were effected which curtailed dis-economies due to this, and that ideal

structure of local government which is conducive to minimum dis-economy must remain such, for reasons discussed later. Even the attempt to bring about uniformity of local services had its favourable points for production, since greater uniformity checked disturbances thereto caused by the existence and extension of disparateness in public service facilities needed by private enterprise. Much of the higher spending in the special areas had the effect of assisting producers located therein, *e.g.*, through conserving the health and working capacity of present and future labour forces, by extending the range of adequacy of services requisite to producers and by sponsoring new industrial development. It is to be doubted whether such outlay is, in fact, less desirable than that which was swallowed up in duplicating public service facilities in new and hitherto undeveloped areas. Discontinuities in expenditure were, after all, much less apparent than the permanency of the higher level of spending initiated by the new post-war *régime*. Even about Poor Relief, it can be said that such grants in aid constitute one of the cheapest methods by means of which society meets the incidence of economic depression.

But it is perhaps better to deal with these varied disadvantages of local expenditure by opposing against them the diverse and manifold advantages.

Most important, a number of developments actually evoked concrete reductions in private costs of production. Besides, these were not essentially limited to small and particular fields of productive enterprise: instead they rather conferred decisive benefits upon country-wide economic effort, *e.g.*, the reduction of costs of industrial and commercial sites; the lowering of costs of transport and marketing; the supply of certain Trading services on a virtually no-profit basis; the provision of Water on terms which ordinarily represented discriminations to consumers, and on even more favourable terms to industrialists and traders as bulk consumers. That there exist apparently insurmountable obstacles to the accurate evaluation of the aggregate cost economies resulting from these many-sided developments is highly to be regretted. It is, in truth, the

lack of knowledge of this sort which renders complex and often, indeed, impracticable the proper assessment of the relative gains and losses to general production caused by mutations in levying and spending, and so allows scope for controversy. How, for example, is it possible to estimate the degree of advantage conferred upon private costs of production by the voluminous growth of road transport, basically facilitated, and indeed actually conditioned, by the conspicuous additional outlays upon Highways? Precisely what advantages inured to production as a whole from the increased supply of industrial and commercial sites, and the qualitative gains that were probably an attribute of many of the fresh venues for the conduct of production? Some guidance may be extracted from the obviously important point that the ratio of the total of the extra public spending which had favourable influence for private expenses of production was considerable. Besides, rates for transport and communication descended substantially in post-war years. Labour mobility is pregnant with influence for labour costs. At least in some instances, siting may be a distinctly large element of total outlays. The general impression which seems to be warranted is that the aggregate advantages accruing to private enterprise from the developments recounted were high—and probably great.

It would also appear justifiable to allow weighty importance to the fact that a very large part of the increased total expenditure was devoted to services which improved the physical and mental efficiency of both adults and children, *e.g.*, outlays upon Education (in all its branches), Libraries and Museums, preventive and curative Health services, Housing and, to some extent, Poor Relief. Manifestly it is of deep significance that policy was formulated on the Benthamite principle, so as to attempt to ensure that the mass of the people were benefited: for the efficiency in production of the bulk of the factor labour was enhanced, so that the gain to productive activity was less piecemeal than general. Furthermore, special meaning was given to these beneficent effects because of the increasing concern shown

in promoting the physical and mental welfare of the poor. This favoured the national dividend by reducing handicaps upon the development of their faculties, by endowing them with better health and strength, and by improving and toning up their environment. Besides, this particular outcome was ostentatiously of high import for what were mainly marginal and sub-marginal employees. As a recent report of the Unemployment Assistance Board demonstrated,[1] the low productivity of the less-skilled and unskilled, in an economy which increasingly pursues the ideal of higher wages and fuller employment and provides a system of high unemployment relief, constitutes an obdurate and quantitatively large problem. The fact that population is exhibiting all the signs of a downward tendency, too, emphasises the desirability of paying especial attention to the quality of individual productive workers, for in this way some at least of the drawbacks of sub-optimum numbers and an unfavourable age distribution may be set off. What appears to be a long enduring and numerically considerable problem and one intractable to treatment—the transfer of labour away from declining industries—certainly is not made less amenable to solution by measures which enhance the general intelligence and ability of labour, as do the expenditures now under discussion. Incidentally, other local authority outlays besides these were incurred in order to provide public services for populations transferred in accordance with industrial changes taking effect within the period. Further, transfer effects set up by the altered scheme of levying and spending fortified the beneficial repercussions of these sorts of outlay; for they heightened the capacity of the Poorer to engage in economic activity. Lastly, the improvement of the efficiency of labour in the mass was likely to inure wholeheartedly to the rise of the national income through more and better work, probably accompanied by a lowering of unit labour costs. This follows not only from the improvement of labour efficiency, but also

[1] *Report of the Unemployment Assistance Board*, 1937, pp. 5–6. "Roughly half the male applicants declare normal wages of less than 50*s*. a week."

because probably there would mature an important by-product in the shape of more numerous inventions and technical improvements: for these frequently derive from workers themselves. There is no basis for calculation of the diverse gains inspired by the additional expenditures referred to here. But it may be presumed that total advantages were definitely high.

It has been suggested that greater ability to work and higher efficiency in work, to be effective, require as their complement at least no shrinkage in the willingness to provide economic service. And, of course, they can be more fruitful for the national income if this latter attribute becomes more marked. The argument conducted in earlier pages led to the negative conclusion that there were no clear grounds for expecting that the new orientation of local authority spending induced less reluctance to engage in work and enterprise. In discussing this, abstraction was made, of course, of the effects of levying. Actually, the principal argument suggesting that willingness to work on the part of labour was impugned, was provided by the more generous character and freer availability of Poor Relief. No watertight conclusions about this seem to be warrantable. While these measures seem to have been of some consequence for, and to have had more vicious effects on the younger generation—particularly in the special areas—the range of adverse effect was distinctly limited to that of low-paid labour, it was not universal even in that group—there were occupational exceptions—and it was an aleatory, rather than a permanent phenomenon. Such tendencious conclusions are far from satisfactory. Perhaps it is preferable and leads to a more concrete judgment to argue that willingness to work, on the part of labour in general, is definitely more likely to be promoted when workers possess a higher real income—a view that has the support of Marshall and Pigou.[1] Then workers are physically and mentally more capable of effort, and in the case of that large body which exists on minimum or deplorably low standards,

[1] Marshall, *Principles of Economics* (8th Ed.), p. 690; Pigou, *Economics of Welfare* (1924 Ed.), pp. 683–4, 702–3.

when these are raised and opportunities of material improvement are widened, despair and reluctance to undertake economic exertion tend to be replaced by hopefulness and a livelier readiness to work. Towards the promotion of such reactions, the transfer effects deduced earlier and the peculiar discrimination in favour of the poor and poorest contributed roundly. As for the effects on entrepreneurship and professional and independent workers, while they secured few direct advantages from the greater public authority outlays, indirectly they must have been better circumstanced thereby. Upon reflection, it would seem that these indirect gains may have been such, in fact, as to bear somewhat intimately upon their willingness to pursue their economic activities. If they desired to do so, they could share in the many-sided improvements effected by the local authorities in communal services. There were, besides, indirect financial gains. There was the sectional gain to landowners that they reaped substantial monetary advantages by the large-scale purchases of ground for the building of municipal houses, the improvement of roads and the acquisition and development of municipal estates. It was no detriment to employers of labour that labour's efficiency and readiness to submit to economic exertion were enhanced; for some part of the gains from these would doubtless accrue to them in the shape of lower labour cost. Certain professional services at least met with an increased and more inelastic demand as a result of the greater local spending. *Dénouements* such as these premise favourable reactions upon the willingness and zeal of the Richer to carry the risks of enterprise and to provide economic service.

The above catalogue of advantages must have counted materially to foster, develop and enhance production on the whole. It may be concluded that the drawbacks to economic effort embodied in the criticisms adduced about levying are at least considerably offset, if they are not exceeded, by the gains thereto elucidated from consideration of spending. No more precise conclusion than this appears to be warranted. While it suggests that the utilities obtained from

local authority expenditure might have been palpably larger than those which actually were realised, it also suggests that the disutilities provoked by levying were less portentous and conspicuous than has sometimes been contended.

PROBLEMS

THAT there are many and important problems of local authority finance which call for solution, or are in need of more thoroughgoing methodological treatment than they have received hitherto is plain. The varied criticisms formulated in preceding pages speak decisively to this dictum. It is proposed, therefore, to offer certain suggestions about future policy; but as adequate discussion of these would absorb much space and add disproportionately to the present volume, no more is attempted than brief reference to a few prominent matters.

The fundamental problem, of course, is concerned with the absolute and relative amount of the nation's income which policy dictates should be absorbed by local authority services. It is immediately apparent, however, that this matter cannot be settled without consideration of the principles and methods of revenue-raising; for one of the outstanding matters elicited by the foregoing analysis is that a bad, or anything inferior to the best, practical scheme may so damage private productive enterprise as early to cause the marginal disutilities of levying to exceed the marginal utilities of spending. *Granted the realisation of improvements in the scheme of levying*, however, it is possible to indicate several directions in which local expenditure could, with probable advantage to the national income, absorb both an absolutely and a relatively larger ratio of this. No one, perhaps, would seek to deny that the devotion of larger resources to the scheme of Education could be attended with rich gain. It is neither the social nor the economic ideal that about one-third of the nation's children should not receive systematic education and training beyond the primary stage, and that only some 0·5 per cent. of all elementary and secondary pupils should benefit from the culture and self-evocation which university institutions can

give. Technical education in all its ramified forms would be more fruitful if it were wider in its availability. And not only quantitatively, but qualitatively, there are evident many possibilities of improvement—in buildings, in equipment, in standards of teaching and training, in the range of knowledge imparted and acquired, and generally in the influence of education upon economic and social well-being.

Again the health of the community could still be roundly—perhaps flagrantly—improved by more expenditure upon existing and new Health services. The lesson taught by the brief review of achievements under the augmented spending of 1919–35 is, that in association with other external factors conducive to progress, the nation's sickness and disablement were concretely curtailed. Yet, equally, facts testify to, and knowledge supports the thesis that not only much more curtailment is possible, but also that positive communal health can be more generally achieved.

There is no need to suppose that finality has been reached about Housing. Factual evidence is readily forthcoming to demonstrate that the Poorer as a whole could be more effectively housed than they are now if expenditure upon dwellings were to be increased. The destruction of insanitary and sub-standard dwellings, technical improvements and access to modern facilities could be effected in more than a modicum of instances. And these would be capable of conferring not markedly less favourable economic and social advantages than those bestowed by the post-1919 accretion to the numbers of houses.[1] Granted favourable economic conditions, undoubtedly private enterprise could assist materially, but there must remain considerable scope for public activity. And if Town and Country Planning on the lines already envisaged is to eventuate, the range of fertile local spending will be expanded.

Trading services present yet another instance where increased outlay has the potentiality of comparatively high economic return—assuming they are to continue to be conducted under a dispensation similar to that which causes institutional factors to be so important as now. The possible

[1] See PEP Report—*Housing England.*

gains resulting from more economic supply of Electricity, in the country generally, have not yet been fully secured. Technical improvements and cost-reducing arrangements are possible in Gas supply. The problems of rural Water supplies and of greater equation of facilities between different regions and places can only be dealt with by greater expenditure. Local Transport services are not yet adequate comprehensively and unrespitedly to meet demands ; technical improvements will occur, probably on a large scale ; additions to facilities will be required to meet industrial and commercial changes ; and a better roads system would facilitate numerous improvements in services not now available. Outlays upon General Corporation Estates are so far only in the early stages of their growth if the promised and prospective fruits of Town and Country Planning are to be garnered.[1] These are the principal types of trading outlay, but further commitments for such items as Docks and Harbours, Markets and Ferries carry possibilities of improvements in service which might provide economic recoupment in high degree.

Expenditure upon Highways can undoubtedly be extended with economic gain. The prevalent toleration of the daily loss of life and human physical capacity cannot, nor should not, be expected indefinitely ; and the economic aspects of this matter are clear—if necessary, to spend so as to reduce this toll would have large justification. Technically, there is room for many-sided developments which would reduce distances, shorten the time absorbed in transit and journeying, curtail wear and tear of vehicles and in other ways lower transport costs.

The problem of ameliorating poverty still presents thorny difficulties. Until the fluctuations due to the trade cycle are reduced much more perceptibly it will probably be regarded as a low price to pay for the maintenance of social order and relative contentment, to say nothing of the desirability of preventing the wastage of human resources, actually to devote more moneys towards relieving poverty and averting the undue decline of the standards of living of the poor and

[1] Gibbon, *Some Problems of Town and Country Planning.*

workless. Indeed, the future trend of economics may be to favour expenditure of altogether greater dimension in the shape of public works.

Other minor services offer the chance of a generous return to further outlay. Better Public Lighting is ancillary to the improvement of roads and bridges and streets. Protection against fire, flood and tempest is by no means maximised, nor is it uniform the country over. The preservation of law and order by expenditure upon Police and Justice is a *sine qua non*, concerning which the size of outlays is a relative matter only. The present agricultural muddle can only be cleared up, probably, by the undertaking of further expenditure upon Agricultural services, and there is the dark possibility that international specialisation in this line may be less manifest in future than in the Edwardian epoch. The scheme of Valuation is not yet equitable, nor is it so uniform as the permanence of the present basis of local taxation requires; even at greater cost, this must be rectified.

Lastly, there is no reason to suppose that new local services may not have economic justification. To enquire in detail about the possibilities of these is hardly essential now. But there is the likelihood of further devolution of works by the central, on to the local administrations, either individually as such, or as federated units based on the regional concept. Again, there are possibilities of more resort to public collective provision of goods and services in order to circumvent the fear of private monopoly, or with the aim of securing possible economies and meeting demands for a higher minimum standard of living.

It is scarcely necessary to make a longer excursion in this direction—all that it is desired to do is to illustrate the argument that finality has not necessarily been reached in the possibilities of securing greater utilities from additional doses of expenditure than disutilities from corresponding doses of levying.

More practical as a contemporary consideration is the problem of reorganising those outlays which are now being undertaken, with the purpose of benefiting the national

dividend by obtaining a higher amount of service or product from each unit of expenditure, and the desirability of attempting to bring about a smaller inequality in the marginal utilities derived from the different lines of spending. The previous citation of dis-economies points to the large degree of improvement which could be effected. How can this be brought about, and to what extent? Since waste was ostentatiously high on account of the duplication of premises, equipment and staffing evoked by an excessive number of spending authorities, and also because there was a wide dispersion from the optimum size of spending unit, can these allied defects be removed? In principle and in theory that is feasible. In practice there are difficulties, and these are great. Historical tradition in local government is a mighty and persistent enemy of reform.[1] Local self-consciousness, local spirit—indeed local animosities—starkly oppose radical new departures. These need no testimony: but the recent specific illustrations of the local repugnance exhibited to the proposals to dethrone Merthyr Tydfil and the Tyneside boroughs from their status and the less recent general illustration afforded by the difficulties encountered in effecting the post-1929 regrouping of districts are instructive. Then recognition of the deep-seated conflict between county and non-county areas has to be made. Perhaps the effect of reform most fraught with consequence would be that upon local civic spirit. If the pursuit of the aim is deemed worth while, however, and, of course, the rationale of such action is fortified by each fresh augmentation of spending, all the difficulties will have to be met. Debate may more profitably turn to proposed remedies and methods of applying these.

One suggestion is to recognise that certain services now conducted by local authorities are so largely a matter of national concern, or would not lend themselves effectively to reorganisation under the control of local bodies, that the most direct and forthright way of reform would be for the State to take them over. A case can certainly be made out to favour such a suggestion concerning such services as

[1] See Simey, *Social Administration.*

Highways, Education and, perhaps, Water Supply. The main supporting argument would be financial—the relief to local ratepayers. Since Highways and Education accounted for about one-half of the total of rating levies in 1934–35, and Water Supply normally entails a deficit (in 1934–35 about £1m.), it could be contended that the proposal would provide a voluminous lightening of rating burdens. The gain might be so great, in fact, as to render largely unnecessary that reform of the rating system which recently has come to be clamorously demanded, and thereby avoid the upheavals which would inevitably result therefrom. Further, all these services are possibly of greater national concern than local. Still further, a new national scheme would permit reorganisation on a regional basis or the best technical basis, whichever was likely to offer the larger advantage. In any case, all three services could be both more economically and more efficiently administered by a scheme different from that which prevails now. Lastly, Electricity and Public Assistance afford precedents for what might otherwise seem to be a radical and nebulous departure.

By way of assessment of the suggestion, a principal opposed consideration is that while these services have definite and pronounced national aspects, they each also have specifically local benefits, and costs are somewhat importantly affected by local circumstances and local conditions generally. Is it wise, therefore, to adopt a plan which truncates local responsibility, attenuates local financial interest and tears away the administration of these services from local government by local populations? Are there sufficient grounds for departing from and severing arrangements which were originally entered into on the basis of considered choice, have so long endured, and have played an important part in fostering and nurturing that invaluable something which, for want of a better description, is honoured as local *esprit de corps*? Is it the case, so far as but limited experience of the proposed new basis afforded by Public Assistance permits judgment, that national control and direction will actually prove to be both more economical and technically more efficient? If State operation is so

evidently superior, then why should it also not be superior in, and applied to, other services, *e.g.*, Health, Housing, Police, Gas? For these services all have important "national" aspects or might be more effectively administered in large units, and undoubtedly protagonists could be found who would argue that they are equally suited with Highways, Education and Water Supply for absorption into the central *régime*. But the outstanding practical, and possibly the basal objection is that it is inconceivable that the central body would operate the services without making substantial demands upon local ratepayers for contributions to cost. And the financial arrangements governing Public Assistance warrant that unbelief. Possibly such levies would be lower than they are now, and to that extent relief would be provided to local exchequers. But it is highly unlikely that the State would agree to bear markedly heavier burdens: hence the amelioration of local burdens, almost of necessity, would be minor.[1] So the situation would emerge that local ratepayers would be compelled to bear charges for services fundamentally removed from their control and operation, and to acquiesce in a scheme of administration which almost certainly would be practised with something considerably less than a maximum regard for local knowledge, local peculiarities and local needs—in short, a scheme which ran counter to the verdict of history and experience. Before such a historical reversal were decided upon, with consequences of a sort and significance which no one could accurately foresee, but consequences fraught with pervasive significance for the whole edifice and feeling of local government, there is clear warrant, indeed, unequivocal necessity, for exploration of alternative methods and policies. And the most obvious and widely broached solution is that of regionalisation.

Would it be better to plunge into undiluted regionalisation, or to begin with further steady amalgamation of adjacent and not dissimilar bodies or to prefer the middle course of partial regionalisation? Proper consideration of all pros and cons is a subject for a volume in itself, even for

[1] Moreover, the drawbacks of the present rating system would remain.

a long-lived Royal Commission; but the fringes of the subject may be touched upon. There are not wanting drawbacks to regionalisation. Assuming the main supporting arguments to be economic, after all, the country as a whole is the best regional unit. To carve up into areas smaller than this must involve some arbitrariness. Thus, what is to be the basis or bases of the new regions? What criteria, precisely, are to be adopted to determine lines of demarcation? How can the profound difficulties be met that most of the important services which might be considered eligible have their own particular optimum technical area, and that, indeed, the sizes of different optimum areas are markedly different? How can the suggested new system be grafted on to the old so as to avoid undue disturbance? In particular, if regionalisation is to apply to certain selected services only, under what sort of organisation are the remaining services to be administered in future? One simple question, but one to which varying answers have been given, is as to exactly which services or parts of services are to be deemed suitable for regional control and development? Such Trading services as Electricity, Water, Transport and Gas have generally been accepted as suitable candidates, but the report of the recent Royal Commission on Tyneside went much further and argued that Education, Public Health Medical services (including Mental Hospitals and Mental Deficiency, but not what they termed "environmental" services), Public Assistance, Police, Highways and Fire Brigades were all proper subjects for control through regional areas. Were these all to be included besides the Trading services mentioned, the sphere of operation of existing local units would be extraordinarily attenuated. Hence, the proposed reforms would involve convulsive disturbances which would permeate the whole existing fabric of local government. Moreover, any thoroughgoing measures of regionalisation of this sort would inevitably provoke very complex political problems. Discussion manifestly needs to be carried further. But, to be brief, there are two main proposals concerning the principles of policy—one to discover the optimum technical area for each

separate service and to establish the appropriate separate authority, the other to set up one authority for each region which should devise and administer schemes for all suitable services. As Dr. Finer and Dr. Robson have so excellently showed, there are strong arguments on both sides.[1] There would, nevertheless, seem to be a balance of argument in favour of the latter alternative. Historical experience unequivocally attests the drawbacks attendant upon the multiplication of *ad hoc* authorities. From the gamut of arguments there may be selected the major consideration that, if separate authorities were established for each service, it would be extraordinarily difficult to devise a scheme whereby the constitution of the governing bodies of such divergent authorities was based on direct electoral representation. And to discard this would mean departure from the fundamental principle of local administration. The central authorities would almost certainly refuse to acquiesce in such a transmogrification, while the present local authorities would probably fight it tooth and nail. For the reason alone that control over expenditure would largely pass out of the hands of local electors the pursuit of a solution upon these lines may be regarded with marked disfavour. Even, therefore, if it meant some economic loss in the shape of the creation of an area which was other than the technical optimum for each component service, it is preferable to adopt the alternative of a single regional body which would control each and all services deemed suitable for regionalisation. Election to that body could then be carried out directly by the constituent local populations by means of an appropriate scheme. Granted this, the local electorates would have a clear interest in policy and methods, and would be able to express their preferences concerning these, including, of course, policy and methods concerning expenditure. And the smaller the new regional areas were, the more likelihood there would be that the voice of the electoral bodies would be heard and be effective. Nevertheless, fewer difficulties may eventuate than would at first sight

[1] Finer, *English Local Government*, pp. 116–169; Robson, *The Development of Local Government, passim.*

appear in cultivating the habit on the part of voters of thinking regionally. During the post-war years there has been a definite tendency to adopt the principle of regionalism in many spheres—in broadcasting, professional associations and trade unions, wages regulation, university education, transport, electricity, unemployment and unemployment relief administration and in economic and social organisation generally; and the community is by now comparatively well accustomed to the notion. Undoubtedly, moreover, larger regions would be more economic than smaller. Probably, therefore, no more than, say, ten to twelve regions should be arranged for the whole country.

To proceed from the problem of areas, what services might be regionalised? Here, again, insistence upon formal logic and the academic vision should be restrained, and instead heavy weight should be given to considerations of practical administration.[1] A case could undoubtedly be made out that most of the important local authority services would be eligible. But if the powers of existing administrations were to be seriously denuded, there is the profound danger that local civic spirit and voluntariness would atrophy. Perhaps still more important, the vast reorganisations which would be called for would provoke such convulsions and instigate such tenacious oppositions by extant local bodies as to rule out their practicability. For these two reasons alone, and there are others, the services which might finally be selected for full control by the regional authorities should be those only which have the most overwhelming claims thereto. Assuming that the final list were definitely limited, then a further step could be taken. The regional authority could be equipped with appropriate power to promote the regional outlook upon other services which would be provided more efficiently and cheaply by larger scale provisioning and arrangements different in type from those which exist. This could be done by retaining full powers of supply to the local authorities (enlarged, as will be suggested later), but by the authoritative taking

[1] *Cf.* the thoughtful and shrewd comments upon regionalisation made by Sir Gwilym Gibbon in *Public Administration*, October, 1938, pp. 415–20.

of measures designed to expurgate and extinguish overlapping, and various other extravagances, and to reduce local scarcities. The basal idea would be to procure the conduct and arrangement of the services in ways which would have primary regard for the interest and welfare of the region as such, thereby displacing the narrower and idiosyncratic outlook of many separate local administrations.

If it were objected that failure to regionalise completely would represent a compromise which would be unduly neglectful and repressive of the economies of scale, the answer is that, in the case of the services of which regional oversight only is proposed, the major savings obtainable are less those of scale than those of the closer adaptation of means to ends. To give one illustration only, unit costs of Housing would not be demonstrably affected by regional supply as such, but aggregate expenditure in the region could be reduced if the needs of such an area were more closely adjusted to local supply facilities, and *vice versâ*, than they have been in the past. And similar considerations apply to other services. Even if all other reasons were adverse to the development adumbrated, there is the overwhelming practical reason in its favour that existing local bodies would be more ready and able to acquiesce in such a scheme than one which prescribed and postulated far-reaching transfer of their services to the new regional bodies.

These two proposals carry with them the possibility—indeed, the likelihood—that major economies in expenditure would be obtainable. To the extent to which it were found practicable and advisable to resort to regionalisation proper, economies of scale inherent in more nearly optimum areas could be secured. Potential cost reductions would include avoidance of the wastes of duplication of premises, equipment and staffing; the displacement, on the one hand, of the haphazardry engendered through the assertion of disproportionate power by dominating local bodies (particularly evidenced in Water supply), and, on the other hand, of the wanton prodigality arising from the undertaking of separative and unco-ordinated works by a multitude of minor authorities; the economies of large-scale plants,

management and marketing; the adoption of systemic methods of large-scale administration which would better adjust supply of services to local and district needs; and the replacement of present methods of central financial control by a system which could be at once firmer and more resilient. Co-ordination by the regional bodies of services still to be supplied by the local bodies would also secure these gains in large part, but in particular it would reduce wastes and extravagances due to the restricted outlook and powers of contemporary authorities, their highly variable efficiencies and their inadequate co-ordination.

To proceed, even in the case of the remaining essentially local items, there is warrant for dispersing the anomalies and imperfections caused by the proliferation of small authorities which are sub-optimum from the economic point of view. It is very desirable to destroy the restrictions under which they labour of either providing an incomplete number of services, or of supplying facilities less adequately and often less efficiently relative to needs for them than in the case of the larger local governmental units. The logical means would seem to be to absorb such small units and to incorporate them in more comprehensive areas; this is, after all, only the pursuit to its completion of a process which has characterised more recent local authority history. On the other hand, there is clearly a limit to the desired size: the technically best area is often comparatively small. Moreover, political considerations loom particularly large. The crowning *motif* should be the preservation of local spirit and effective interest in affairs. Even so, cost reductions ought to be practicable. As before, these should result, in general, because of the better adjustment of means to ends. More specifically, the disappearance of many minor authorities should curtail expenses of administration, both central and local. The undue excrescences of premises, equipment and personnel could be effectively opposed. The inability of midget units to utilise the services of highly efficient and expert officers—a real source of economy—would be removed. More systematic use could be made of such

devices as bulk buying and comparative costings—the latter because the conditions compared would be more uniform. The defect of inconsiderable and partial working only between adjacent authorities, so marked hitherto, would be automatically disposed of in substantial measure in so far as fusion occurred into new, single units.

Yet even to accomplish such reforms of structure and format would still leave undealt with, or inadequately treated, several damaging sources of dis-economy, *e.g.*, failure to equate the marginal utilities of each type of outlay; extravagance on spending in general; the effects of unwise and uneconomic policy and practice on the part of Parliament and the central departments—such as hasty and faultily conceived legislation, the lack of appropriate co-ordination between central departments in their separate demands for local outlays and the award of exchequer grants on a system which encourages expenditure and fosters dis-economy in particular services; the tendency for local administrations to accord higher wages than private industry; the varying degree of efficiency in spending exhibited by different individual authorities; and the desirability of adjusting expenditure so as to cope with and help to dissipate the effects of the trade cycle. What measures could be taken to deal with matters such as these, obviously of no mean importance?

Something could be done by the central body itself. Parliament could arm the central department—the Ministry of Health—with both stronger powers and duties to investigate ways and means of inducing economy concerning individual services. In doing this, the Ministry would be powerfully helped by the high possibilities of comparative costing for the new larger and less disparate areas. And effective reason to cause the materialisation of these would be forthcoming by the extension of grant aid, the desirability of which will be argued later. Not only, however, should the new powers relate to the local bodies: the Ministry should be given warrant to have a more effective say than it has now about the distinctive and disconnected incitement to enter into commitments exerted by other State departments

over the local administrations.[1] Possessed of an unequivocal mandate, the Ministry should be in a position not merely to combat extravagance arising from ill-timed, prodigal and independent departmental demands for expenditure, but more nearly to secure that great desideratum of equality in the marginal utilities of spending between competing subjects of outlay. Furthermore, Parliament and the Ministry combined, could, it may be opined, forge a more powerful weapon of control over spending out of the device of grants in aid. These have constituted a conspicuous cause of additional financial commitments. Not only could grants be more stringently awarded than at times and for certain services they have been, but the system as a whole could be remodelled so as purposively to incite more economic spending policy; and in this connection the formula method could be exploited more fully. A point which is intrinsically possessed of deep significance is that a greater measure of power could be accorded the Ministry in the shape of demands by it for the formulation of long-period financial policies, by both central and local bodies. Undoubtedly, the present annual budgeting is not conducive to the maximum of economy, for it militates against the taking of a long view based on far-sightedness. Furthermore, it restricts massive projects which, although they inflict large disturbance on annual budgets, have the potentiality for ultimately reducing unit costs. The necessity for achieving an annual balance also opposes the practicability of arranging expenditure so as to have regard to the trade cycle. Lastly, such a system would import greater stability into rates of levying, and this would serve to remove a patent defect of the current system. Another reform which Parliament and the Ministry could introduce would be to simplify, and lower the cost of complicated legal procedures requisite to various innovations. A minor matter, apparently, the central department could cause the earlier preparation of local financial statistics.

[1] *Cf.* the remarkable influence wielded by the Ministry of Transport. The very high grants which have been awarded by this body have conspicuously influenced local expenditure. And this has been true, in lesser degree, of the Unemployment Grants Committee, the Central Electricity Board, the Ministry of Agriculture and the Board of Education.

By enabling less-belated scrutiny and discussion, this would make for their greater utility and effectiveness. Lastly, the Ministry could give a lead in the direction of reviewing policy concerning the pay of local authority personnel with a view to obviating undesirable disparities between remuneration in the world of private industry and that of local government—not always one-sided disparities.

Useful work could be sponsored and directed by the local bodies themselves. As a single entity (to act thus would be facilitated if there were larger areas and fewer units) they could agree to carry out revision of conditions of pay and service, as stated above. In doing this they might, with conspicuous advantage to the economic system, investigate the most appropriate policy for varying pay and remuneration so as better to adjust these to counter the effects of economic boom and depression. Preparedness in this matter, joined to a less nebulous policy, would be of distinct value as a contribution to remedies; for aggregate expenditure upon services alone is very considerable. Such a measure would, of course, form part only of an anti-trade cycle policy, since other expenditure should also be similarly flexible and adjustable. Again, acting as a single entity, they could discuss ways and means of spending with maximum regard for efficiency and economy. Since, after all, it is the local administrations which encounter problems of spending at first hand, and they possess practical knowledge of the obstacles to economic functioning, if they acted on such a unitary basis they could give valuable and unique assistance to the Ministry of Health. It is true that the system has been partially adopted, but more at times of stress and duress. The suggestion now advanced is that this co-ordination of local authorities should function on the lines of a permanent consultative committee.

Actual knowledge about, and the potentiality for reform in concrete spending belong, in a measure greater than is commonly realised, to local officials. There is no reason to doubt their sincerity of regard for the economic utilisation of resources. But there is a presumption that the present system does not maximise the possible effectiveness of action

on their part. Only too generally they are merely the executives to whom is entrusted the duty of carrying out decisions. It is very desirable, therefore, to endeavour to secure reforms which would enable their highly specialised knowledge and ability to be put to fuller use in guiding policy—especially where this concerns technical matters. A still more important new institution, however, would be one which strengthened the local machinery now existing to secure single and unified control over spending. For this would vastly aid more economic and egalitarian spending over the gamut of items. Owing to the lesser knowledge possessed by elected representatives, and to the weaknesses entailed by the separate committee system and the intrusion of political views, there would seem to be warrant for seriously considering the benefits which could derive from the conferment of greater powers upon chief executive and financial officers.

Lastly, the public ordinarily play an altogether too insignificant part concerning expenditure policies. The fatalistic assertion that if electors neglect their powers of vigilance and suggestion it is their fault, is a negative statement which serves no useful purpose. It is much more useful and desirable to try to remedy lacunæ of knowledge concerning their powers and obligations and to secure more effective utilisation of these. One supremely good resort is to educate in the so-called " Civics." This could demonstrably be extended, and designed to arouse interest. And the ways of doing so are legion. Other methods of mobilising that public spiritedness which is so vital to successful local government should be explored.

This brief summary and general discussion of problems of expenditure may now be closed, and attention given to the problem of methods of levying. What emendations of this are to be advocated ?

So far as Capital Borrowing is concerned, no basal revisions of policy are needed. Continual adherence to the canons of orthodoxy must, of course, be postulated, viz., borrowing is normally warrantable only when equivalent real capital assets are acquired ; annual debt costs should be covered

by annual receipts ; the amortisation of the debt should be arranged so that it is completed not later than the last expected year of life of the capital asset. If policy is based on these accepted principles it will not be susceptible of criticisms of substance. There are, however, certain points which arise even about these principles. Thus, in calculating the future sums required for interest and amortisation, allowance should be made as far as possible for expected or potential future changes in the monetary value of the services rendered by the capital asset. If this were to rise, then either amortisation could be completed earlier than was originally planned—by the increase of annual revenue so accruing—or, alternatively, the consumers of the services could be subsidised by the maintenance unchanged of purchase prices for these ; in which case amortisation need not be hastened. On the other hand, the future monetary value of the services flowing from the capital asset might decline. Then, to achieve amortisation in the period first budgeted for, would call for higher charges for services than the market value, otherwise debt repayment may not be complete before the asset had ceased to be capable of purveying an income of facilities. Recent history suggests that the latter alternative is more likely to eventuate, mainly because of the effects of rapid technical progress and other industrial and commercial changes. To allow for price changes wrought by the currency factor is unfeasible, and abstraction must be made of this. But assuming the probability of the latter alternative, which of the two possible policies is preferable ? To charge prices higher than the current monetary value of the services would be to depart from the conditions prevalent under a competitive *régime*, although the quasi-monopolistic powers possessed by local authorities would in fact permit this. But consumers of the facilities would be penalised, to the advantage of ratepayers and taxpayers. Alternatively, if the local authorities acquiesced in the fallen monetary value, and charged accordingly, the situation would be reversed. Since the two opposed groups—even if measurably so—are not identical, preference would be entailed. And there is a

stronger case for preferring the interests of consumers. For this would permit the price mechanism to function more freely and properly. Moreover, industrial and commercial costs of production would not be penalised, as they would be alternatively; and in this way demand for the goods and services the production of which is partly dependent upon the services in question, would not be denied the stimulus afforded by lowered costs and supply prices. The election of this policy implies that local authorities would need to be circumspect concerning expected future monetary values of the services of capital assets. This, in turn, would not only curb initial extravagance in acquiring capital assets, but also would induce greater regard for annual costs of operating the services implicated, in order to avoid burdens upon ratepayers and taxpayers—the residual paymasters.

Other orthodox canons would permit of resort to borrowing for temporary purposes, *e.g.*, to balance local budgets and to meet emergencies. There is no objection of principle to these. Concerning the latter, however, it is possible to widen the connotation in practice usually attached to this. Economic principle may come unequivocally to sanction the expansion of public capital investment as one of the means of meeting economic depression caused by the trade cycle. If it does so, then borrowing for emergencies may rightfully be accepted as including this. And even if, apparently, the pursuit of such a policy can hardly be squared with the first canon discussed above, unless an unduly expansive volume of capital works should fall to be undertaken in a narrow space of time, actually there need be no fundamental neglect of that canon. For the choice of outlays could be made with at least some regard for those investments which promise a higher and longer, rather than a lower and shorter, future income of service. Nevertheless, were the issue to present itself, the lesser should be subordinated to the greater economic advantage, *i.e.*, the opportunity of escape from depression should be seized in preference to adherence to financial rectitude.

There are one or two points of detail about which some-

thing may be said. It is usually presumed, for example, that freer borrowing facilities tend to encourage extravagance in spending. And that presumption is borne out by the Historical Survey. This notwithstanding, dis-economic capital spending was less instigated during the period by the ease of borrowing than because frequently high exchequer grants accompanied that sort of outlay and central legislation provoked unwise policy. Moreover, if regard is had to the canons already referred to, no basal criticism of borrowing as such can be sustained. On the other hand, failure to utilise this method of finance by preferring to acquire capital assets through the medium of additional levies is open to objection in principle. For the resultant increase in imposts may inflict damage upon current production. Again, it eschews the "self-selectiveness" which is a peculiar advantage of loan finance, *i.e.*, under borrowing, persons can elect voluntarily to save in other ways or to employ their spare resources in subscribing to local loans; and those will normally do this latter who are best able to contribute to local revenues. But levying imposes demands upon ratepayers and taxpayers which do not take account of their preferences in the matter. Again, to levy for capital purposes would involve high instability in rates of impost. And the outcome may be that more psychological disturbance is created.

A further point in favour of future borrowing is that, as and if larger local authorities supplant smaller ones, there will be less danger attendant upon borrowing. It has not been unknown in previous years, for example, for small local bodies to undertake capital expenditures which have been less wise than generously conceived, or, alternatively, which have resulted from arrangements outside the spenders' control. The subsequent income of service has been lower than the current costs, or the life of the asset has expired before completion of repayment was effected, and authorities situated in areas heavily afflicted by economic depression have found that such capital outlays proved to be an incubus. Incidentally, borrowing of this sort is not consistent with the maxims cited earlier. Risks and dangers

of these kinds will be reduced under the proposed new dispensation of larger authorities. For, if and when similar mistakes are made, or misfortune should accrue, the larger area will probably be less acutely affected than the smaller—because of its greater rateable and taxable capacity, and because the more extensive the region occupied, the less likely is economic depression to be capable of provoking separative financial dislocation.

To proceed, what may be said of future policy concerning Other Receipts? There are grounds for seeking to expand these relatively to other forms of revenue. Some stress has been laid upon the advantages derived from the pursuit of the contrary policy during 1919–35. Mainly, this assessment was influenced by the fact that the extended supply of certain services—particularly Health, Education and Housing—below cost, or on a basis of charges which fostered demand by the poor and very poor, produced beneficial economic and social repercussions which were judged to be of high utility relative to the dis-utility resulting from taxes and rates. Undoubtedly there is still room for the securing of further advantages along these lines. Yet the scope for this is narrowed to the extent of the large developments which have already occurred. Furthermore, future additions to local authority services will serve less fundamental and less urgent needs. Therefore the deterrence of a somewhat higher relative volume of recoveries is less likely to diminish the productive efficiency of individual workers. Still further, over the country in general, and concerning all the varied local authority services implicated by charges, apparently the ideal scale of graduation according to personal means has not yet been arrived at. Probably, for example, discriminations prevail to-day which favour the higher section of the Poorer and the whole of the Richer more than is warrantable by a balancing of the advantages conferred upon these groups from consumption of the services against the disadvantages due to charges—in other words, that their demand for services is less elastic than is presumed by current administration. Probably, therefore, steeper progression could be introduced without provoking

harmful effects from a lowered utilisation of services by them. Even if the opportunity were taken of actually extending the erstwhile policy of augmenting the economic efficiency of poor persons by further reduction of charges, on balance a greater aggregate of revenue could be schemed out. And there are other reasons supporting the general scaling up of charges and heightened graduation. A substantial slice of the increased levies of the period was due to the provision of additional goods and services representing either necessaries or things which, alternatively, people would have bought from private suppliers. And the local authorities elected to obtain recoupment of their costs both from Other Receipts and from levies. Neglecting Trading services, which were virtually self-liquidating as to costs, Other Receipts rose from some £24m. in 1919–20 to some £64m. in 1934–35. Yet this growth of about £40m. has to be set against an increased expenditure on revenue account alone of some £153m. Obviously, then, the extra expense was loaded much more heavily on rating and taxing revenues. Now, whether, since so large a ratio of the added expenditure was for necessaries or desirable things which otherwise would have had to be bought from private sources, this was a sound policy, is questionable. No unqualified and absolute conclusion can be reached upon the matter because no means exist of knowing the amount of the extra outlays which would have had to be incurred privately by consumers if local authorities had not provided the goods and services. Still, it is unlikely that the recovery by Other Receipts of only about 26 per cent. of the additional local outlays between 1919 and 1935 was sufficient to cover the extra costs which, in default of local authority provisioning, would have had to be undertaken by taxpayers and ratepayers privately. To illustrate, in view of the post-war rise in the general standard of living, and especially that of poor people, the more widespread importance which came to be attached to the economic advantages conferred by education, and the seeking by employers of workers of higher personal efficiency, presumably people would have spent more than in pre-war times upon Education. Necessarily, there would

also have had to be more private outlays on the treatment of disease and on the preservation of health. Inevitably, in view of its greater prevalence, heavier costs would have had to be incurred privately for the treatment of mental disease and mental deficiency. The greater popularity of swimming, games and sports would have led to more private spending on swimming baths, recreation grounds and playing fields. The post-war dearth of housing accommodation would have diverted a substantial amount of private persons' resources towards the remedying of this defect. The unwillingness of local authorities to meet much larger costs for disposal of house refuse would have inflicted toll upon private purses. In the absence of the swollen disbursements on Poor Relief, either larger contributions would have been exacted from workers and employers towards unemployment insurance, or more widespread calls upon private charity would have been made—or both. Industrial and commercial firms would have had to meet heavy bills for such things as disposal of trade refuse, treatment of trade effluent, decontamination of water supply, treatment of industrial diseases and ill-health, costs of foodstuffs' inspection, de-ratisation of premises and ships, housing of local labour forces, extended fire and police protection ; and they would have had to contribute more decisively towards costs of highways—partly through higher taxation. These instances, although somewhat numerous, are not fully representative of all the ways in which expense was saved to private persons and to producers. Furthermore, it would have been impossible in the case of some services, and highly unlikely in the case of others, to procure the facilities and goods at so low a cost. The amount of gain due to the collective economies obtained through the instrumentality of public provisioning must have been considerable. This, then, constitutes a further argument favouring the increase of revenue to be derived from Other Receipts, rather than from levying: for manifestly it is but equitable that consumers should contribute in greater ratio than they appear to have done hitherto to the cost of services which represent a *quid pro quo*, rather than that the burden should be

so disproportionately thrown upon ratepayers and taxpayers.

A further argument is supplied by figures reflecting the methods pursued concerning recoveries of cost made through the medium of Other Receipts as instanced by figures pertaining to separate services. The following table indicates changes as between the opening and closing years of the period:

OTHER RECEIPTS AS PERCENTAGE OF INCREASED EXPENDITURE

Item 1	Increased Expenditure on Revenue Account, 1919–20 and 1934–35. £m. 2	Increase or Decrease in Other Receipts, 1919–20 and 1934–35, as per cent. of Col. 2 3
Tuberculosis	1·7	− 30
Sewers and Sewage disposal	4·3	− 7
Police and justice	5·4	− 5
Salaries of Medical staffs	1·4	—
Vaccination	—	—
Venereal diseases	0·1	—
Public lighting	2·5	—
Education and libraries	32·1	+ 5
Other infectious diseases	0·7	+ 9
Mental deficiency	2·3	+ 9
Poor relief	17·0	+ 9
Maternity and child welfare	2·0	+ 10
Fire brigades	1·1	+ 13
Highways and private streets	23·4	+ 13
Parks, pleasure grounds, etc.	3·2	+ 20
Mental hospitals	2·3	+ 23
Agricultural services	2·7	+ 24
House and trade refuse	0·7	+ 24
Baths, wash-houses, etc.	1·1	+ 39
Housing	43·0	+ 62

It will be observed how wide is the variation in the individual figures from the general average figure of 26 per cent. Partly, of course, the explanation resides in practical difficulties attendant upon the adjustment of charging.

Nevertheless, it is hard to find any semblance of a clear-cut policy. It is possible to discern a tendency to minimise charges for items more obviously affecting the welfare of poor persons, and also to abstain from seeking high recoveries where the services are in the general interest. But these are tendencies only, they are not uniformly followed, and the one outstanding feature is that of the low general average rate of recovery relative to extra cost. It would seem apparent, therefore, that not only is there room for a more systematic policy concerning charges for each service relative to the others, but also for considering the wisdom of relying to such a small extent upon this form of revenue.[1]

On the other hand, serious disadvantages followed from the preference for recovering a large share of additional costs from rating levies. If it were assumed that people should bear costs according to the degree of benefit they secured, then to collect revenue through the rating system meant that poor people were subjected more acutely to the regression which is a flagrant characteristic of that system.[2] Industries, trades and professions requiring land areas, buildings and plants of large size were loaded with greater payments than those needing smaller land areas and smaller buildings and equipment. But there is no reason to believe that their need of local authority services was in proportion to factors of this sort, conditioning, as they did, the amount of rates exacted. Again, it was the quasi-national items which inspired the more conspicuous augmentation of rates; but the benefits conferred by these were implicitly and necessarily less localised than those of the other items, and less than rating precepts. Here, too, therefore, there was a very nebulous connection between levies and benefits. The fact that rates are shifted to a considerable extent, and in diverse ways, provoking distinct uncertainty about their final incidence, also intervenes to restrict the possibility of adjustment of burdens to benefits. If, however, the view is taken that levying should be adminis-

[1] Some local authorities already extract much more revenue from this source than others.

[2] See the reports of the various Social Surveys issued in recent years, and also Simon, *How to Abolish the Slums*, p. 82 *et seq.*

tered on the principle of ability to pay, the position was hardly more favourable. The above reasons again apply in essence. Besides, despite the introduction of a measure of discrimination into valuation practice after 1925, and certain exceptional arrangements whereby assessment—though not poundage rates—took account of variable economic fortune, the adjustment of rating demands was rarely, and then somewhat fortuitously, based on ability to pay them. And this is, after all, the essential principle which forms the basis of modern taxation policy. Ability is pivotally measured by the size of profits and other forms of income, but local rating blandly ignores that measure to a deplorable extent. From either of these standpoints, then, the practice of relying for much of the necessary enlargement of revenue upon local rates is to be deprecated.

What advantages would be secured if, in future, greater resort were made to Other Receipts, and lesser resort to rating imposts ? It would be possible substantially to avoid such disparities and inequities, and to follow out a planned policy methodologically more sound. The fundamental principle governing the raising of revenue should be that of ability to pay. This could be given effect by a system of discriminatory charges for services by utilising the device of progression. It is desirable, for the varied reasons given in earlier pages—which are all associated with the idea of advantaging the national income—to provide certain services free of cost to poor people ; and other services should be supplied to them on a basis of charging which maximises demand by the poor. This could be permitted, as it was during 1919–35. But as new services are added, or as old services are developed, it will evidently be feasible and justifiable from the standpoint of the national income to make such discriminations less pronounced. In the case of other consumers, as capacity to pay was greater, the scale of charges should rise. There are practical difficulties in the way of securing the application of progressive pricing which would impede the actual unexceptional application of the idea to each and every service, and these would fix an upper limit to the possible total of revenue. Neverthe-

less, there is little doubt that its ratio to cost would be higher than that which prevailed even in the latest year of the period, and after allowing for the discrimination to the poor. For, apparently, local authorities did not consciously utilise the machinery of progression to any material extent during the period. Not only is this presumption supported by the recovery of so small a ratio as 26 per cent. of the extra outlays as a whole during the period, but also because in the case of such services as Highways, Mental Hospitals and Mental Deficiency, and Fire Brigades, which extensively benefited rich and richer persons, the ratio of recovery was lower even than this general average figure. Even though, moreover, the scale of progression were steep and maximum charges rose distinctly above the current levels, it is improbable that demand would be materially constricted because the bulk of local services either represent necessaries or they have concretely great utility.[1]

It may be presumed, then, that effect could be given to the principle of ability to pay, and also that the burden of rating demands would be substantially diminished. Valuable gains would result. Because everyone would contribute according to ability, the great drawback to rating demands that they instigate adverse psychological repercussions would be clearly mitigated; inequities as between the various classes of society and as between producers engaged in different lines of economic activity would be restricted; instead of being called upon to pay rates whether equivalent services were being approximately obtained or not, contributions would not be payable unless, in fact, contributors voluntarily elected to utilise the facilities open to them and in some measure to their consumption—to this extent a large degree of voluntariness would be substituted for compulsion; tendencies to extravagance in expenditure by local authorities in general, but by independent local bodies in particular, would be restrained, since there would be a clearer comprehension on the part of contributors of the costs entailed than

[1] It is desirable to note that it is not proposed to do more, by the adoption of the principle of progression, than to secure contributions which shall more nearly approach the value of goods and services to consumers.

now obtains under the system of rating [1]; lastly, and perhaps most important of all, the additional revenue procurable would prevent the necessity of making disproportionate further additions to local rates in future—to meet the secular growth of expenditure which will probably take place—and the magnification of the deleterious effects on production and on social classes which would otherwise be inevitable.

As for Taxation, the general scheme of this is not within the province of discussion undertaken by the present volume—since Exchequer grants involve a minor fraction only of total national taxation. It may be advanced, however, that—following from the arguments offered in previous pages—a comparative rise in this component is justifiable. True, the chief reason for that view is found in considerations of expediency. And this, in turn, implies a measure of scepticism concerning the feasibility of effecting early and thoroughgoing reform of the local rating system. But perhaps such scepticism is not ill-founded. Possibilities—indeed, probabilities—that taxation demands for other reasons will rise in the foreseeable future cannot be neglected. Yet, as said, the share of total taxation at present taken for grant purposes is not large, about one-sixth. Besides, it was argued before that the flexibility, and therefore the capacity, to bear increases possessed by the taxation instrument is distinctly higher than that possessed by the plan of rating; it is more equitable than this latter; and it is less likely to bring about deterrent physical and psychological effects upon production. Nevertheless, reliance need not be placed upon expediency and technical considerations alone. Intrinsically, in the post-war period, local authorities have to a greater extent than before acted as agents to whom the undertaking of central functions has been delegated. Properly and conspicuously, this applies to that part of additional expenditure upon Poor Relief which was occasioned by unemployment: but "national" aspects have increas-

[1] *Cf.* Shield Nicholson: "When a man really levies rates on himself, and only on himself, then you secure the greatest efficiency and economy" (*Rates and Taxes as affecting Agriculture*, p. 99).

ingly intruded upon local authority work relating to Highways, Health, Education, Police, and recently to Air Raid Precautions and Fire Brigades.[1] The assumption of Governmental responsibility for trunk roads illustrates the altered central attitude to this service. Many considerations support that change—principally, of course, the ascendancy of transport for national production and, it may be interpolated, for defence. The growth of unemployment and its chronic persistence in certain industries were instrumental in imposing onerous burdens on local finance. Because through its prominence, persistence and incidence, unemployment has become a matter of national concern, the financial relief of it should be predominantly national in source. Behind many of the new duties directed on to local authorities concerning Health, there were national motives, *i.e.*, the health and actual and incipient sickness of the nation have come to assume supremacy relative to the condition in these matters of local populations merely. The stress laid upon the raising of educational standards over the country has been the main purpose directing post-war policy in Education : the expensiveness attendant upon the pursuit of this is eminently a function of that broad, nation-wide outlook. The—quite early—post-war official reports on the Police services accept and testify to the national importance of these as an over-riding consideration affecting financial policy ; and developments since then—*e.g.*, the added mobility of law-breakers and the rise to numerical magnitude of traffic offences—have fortified this finding. Latest of all, owing to the dire threat of war, both Fire Brigade and Air Defence Precautions services have burst into prominence as indispensable national services. Even this longish list is not, in fact, complete—thus the settlement of ex-servicemen and unemployed persons on the land belongs to it, as do expenses for unemployment works, for agricultural research and for certain minor services. But the list as given includes items which constitute the greater bulk of additional post-

[1] So long ago as 1901 the Royal Commission on Local Taxation recognised the "national" aspects of Poor Relief, Main Roads, Education, Police and Pauper Lunatic Asylums.

war expenditure. In view of this, even though varying importance may be attached by different students to the degree of "national" significance borne by the services named, evidently there is support for a very considerable relative contribution to local revenue from taxation,[1] and greater than has actually taken place. Since, moreover, it is to be expected that further developments (*e.g.*, planning) will involve more national than local aspects, in the future the claim for greater support from the taxation source will probably grow in strength.

A third argument, even though less universal in its bearing, is provided by the condition of the "special" areas. Their plight cannot be their own concern solely, for both social and economic reasons. Socially, it is indefensible to permit of the inequities and iniquitous conditions which prevail in those areas, relative to other areas. The economic reasons have their basis in the fact that these areas have been subjected to both acute and long-lasting depression not only on account of uncontrollable world changes, but partly also because of changes in national conditions (*e.g.*, subsidies, tariffs, and import controls) which were more the outcome of deliberate policy than not. Unwisdom or mistaken policy on the part of the local authorities implicated has actually been a minor cause of the deplorable situation. In these circumstances there is an evident case for such areas to be succoured from national sources.

Fourth, a regular, if steady, increase in the national subvention is warranted by the derating scheme. The very high exemption which this accorded to industrial properties by way of reduced assessment means that such rateable hereditaments have been *pro tanto* smaller contributors to rises of poundage rating levies since 1929. In not a few areas the necessity for extra revenue has apparently involved disproportionate demands upon non-derated subjects, with both considerable social and economic disadvantages. Some areas, indeed, have suffered outstandingly in this way. And the degree of disparity which has been due to defects in the

[1] So long ago as 1914, the Kempe Committee expressed unreserved agreement with this argument: see especially, Cd. 7315, gg. 49–52.

formula basis has not been inconsequential. Since a secular increase in local authority spending is to be expected, unless additional relief is forthcoming from the central body, the decapitation of assessable value is likely to enhance hardships and disabilities.

Finally, the Local Rating system may be considered. What changes in this are desirable? An ideal system would possess attributes which do not inhere in the present scheme, and would not exhibit defects which protrude themselves upon the most cursory inspection of it. Thus it would be founded on a principle which, as far as possible, commands universal acceptance; it would be as certain as is feasible in its incidence; it would be flexible; and it would mobilise in its support the fruits of social and economic advancement. It would not operate as a deadweight burden upon costs of production; it would not be highly variable—to a degree of arbitrariness—over space and time, and as between one type of economic activity and another; it would not have the important psychological characteristic that its burden was such as openly to flout itself in all its nakedness in front of the eyes of those upon whom levies are made; it would not be regressive upon the poor; it would not give rise to dispute and altercation about its social equity; and it would not be oblivious to economic fluctuation.

The mere citation of these requirements indicates the immense difficulties which would have to be overcome before the ideal system was attained, but it also summarily portrays the concrete evils and malpropensities of the prevailing scheme. Even though profound economic and social consequences were provoked by reform, it is perhaps better to face these rather than to argue for longer toleration of an institution which is—archaic.

The initial proposal is that already made—to enhance the relative share of aggregate revenue contributed out of Other Receipts and Exchequer Grants. These two changes have, indeed, inherent justification, but by considerably restricting the ratio of income to be derived from the third source they would facilitate the introduction of a new system. In searching for a basal principle upon which to

found this, preference may be accorded to that of ability. This is a *sine qua non* of any system of revenue raising which commands the approval of both practical men of affairs and theorists.[1] It is generally accepted that the best actual indication of ability, and that which most effectively lends itself to administrative measurement, is provided by income. This, then, would be the basis. How could effect be given to it ? In so far as the area of levying is concerned, from the standpoint of administration the area should be as large as possible. If, for example, it were broken up amongst the present 11,000 odd spending authorities, inequities and disparities would be no less prone to occur than they are at present. Suppose, for example, that the tax were laid on personal incomes, and by each spending district separately according to the place of residence of income receivers, then small area authorities would only be able to collect revenue from those persons who were compelled or elected to reside there. Districts immediately adjoining, and often more distant than this, would collect revenue from incomes which in reality were earned in the first small area. This would mean not only that taxation would be distributed unequally as between the multitude of separate districts, but the obvious inequity would arise that revenues obtained by different districts would not be in ratio to the expenditure upon the local services which they would have to provide to permit of the incomes being earned. In especial, there would be glaring contrasts between the now numerous " dormitory " towns and districts and the places where the dormitory residents obtained their incomes. This simple illustration effectively exposes the drawbacks, from the standpoint of revenue collection, of small areas. But it is only additive to the numerous other illustrations given in previous pages testifying to the rank undesirability of undue decentralisation of imposts. Why not fly to the other extreme, making

[1] The Royal Commission reporting in 1901 agreed that this was the essential basis of levy for all " national " services—both Majority and Minority reports; and the Kempe Committee, which reported in 1914, said, " . . . we cannot persuade ourselves that a system which professedly disregards this principle can fairly claim to be inherently equitable " (Cd. 7315, g. 259).

the collecting unit the national area in its entirety? If the national authority were to undertake the duty, there would arise the necessity of redistributing the income over the multitude of spending bodies. This could be done, presumably on the basis of an appropriate formula. But could such an incontestable and fully virtuous formula be devised? If each district claimed revenue simply on the basis of its actual expenditure, then of course the result would be to inaugurate a *régime* of competitive spending between over 11,000 authorities. Obviously this would mean spending with the minimum regard for its warrantability. But whatever basis were adopted for the formula, in reality factors are at work which render it impossible that a unit of service for any given items should cost identically a similar sum in every one of the various spending areas. To allow properly and adequately for all the factors making for differentiation is beyond the bounds of a practical working formula. Doubtless an approximation—and maybe a good one—could be made: nevertheless sufficient imperfections would still remain to provide grounds for perennial disputations. So much is to be said about this matter. But the main objection to the scheme is found elsewhere. The Chancellor of the Exchequer—unless he were thoroughly untrue to his office and the views usually held by occupants of that position—would use every power he possessed to combat the utilisation of national taxation for the purpose of meeting essentially local expenditure, some of which, at least, confers highly localised benefits. Indubitably, he would roundly oppose a system of money raising which gave him no control over the spending of the moneys. And the central authorities would join him in unreservedly refusing assent to a departure which, it would be asserted, would destroy every shred of local responsibility for financial commitments. Nor would the incubus riveted on the revenue-raising capacity of taxation for national purposes be acceptable.

The ideal, then, of utilising the national machinery has to be discarded. Even so, would it not be feasible for the local authorities to band together, themselves to collect from and over the national area? For this purpose they could devise

a Revenue Board, having powers to tax income for local authority purposes and then to distribute the proceeds amongst all the component authorities. The idea is certainly entertainable. But there are serious practical arguments against its adoption. The distribution of the income would almost certainly have to be done upon a formula basis, and the adverse arguments already considered apply again except that they would be reinforced by another—the fact that impartiality would be more suspect than if the national authority were to undertake the duty. If a large committee were set up to represent, at least, all the various types of authority in due proportion, it would be little short of a miracle if it succeeded in agreeing. If a very small committee were established this could hardly succeed in representing and in doing proper justice to all the extraordinarily divergent local interests. But there is no need to devote further consideration to formula difficulties. A more deep-seated issue is that collection of revenue on a national scale would be the most effective way of divorcing local interest in spending from local responsibility for revenue raising, of dissipating and destroying that local civic spirit which is so frequently acclaimed as the *summum bonum* of existing local government structure and methods. These two reasons alone—and there are others—are sufficient to antagonise the espousal of this plan. But what alternative suggestion is there ?

Granted the strength of the case for the creation of regional authorities for the purpose of expenditure upon the particular services delineated earlier, in default of other vehicles, would these serve ? One impressive—indeed a fundamental—argument in favour of their utilisation is that the finance of the services which it has been proposed to carry out on a regional basis would have to be obtained by means of a regional revenue-raising scheme of some sort or other. Further, as against the idea that the regions would be smaller than the optimum area from the point of view of taxing, they would be large enough to remove many of the more blatant disabilities and discrepancies attaching to rating areas of the contemporary sizes and descriptions. In

particular, their use would dispose of the objectionable phenomenon that levies now vary absurdly and inequitably as between different places within the proposed regions; for the basis of assessment—income—would be uniform, and the rate of levy would be identical at least within each area, say, 6*d.* in the pound of income. Furthermore, in settling the precise constitution and demarcation of the proposed new regions, this factor of revenue collection may serve as a criterion. Nor need it be the least important of the various criteria: it is, in fact, a profound mistake to plan the regions simply and solely having considerations relating to expenditure in mind. The more this point is reflected upon, indeed, the more important it becomes; for the possibility and ease of acquiring indispensable revenues is a factor intimately influencing the determination of expenditure. If the fresh administrative districts showed a sufficient regard for this factor, so as to avoid any pronounced divagations in such matters as population volume, numbers and kinds of constituent local authorities, types and share of total economic activity and therefore the share of the aggregate national income, there need be no undesirably great variations in the volume of revenue obtainable relative to the volume of expenditure needed. Certainly any area which is smaller than that of the whole country will tend to be more susceptible to economic fluctuation and to regional influences affecting its industries and trades, because it must be more narrowly specialised in its types of activity. Yet, on the other hand, it is not improbable that at any given time taxable capacity would tend to vary simultaneously in all areas together—through an alteration of income due to general economic fluctuation and economic change—rather than that one particular region would tend to move with entire dissimilarity in this respect relative to other regions. For each region could be so arranged as to be large enough to cover a substantially great number of different forms of production, even though certain particular forms were to bulk large. It is a point of considerable importance, too, that even if the industries and trades of one area were to suffer markedly disparate economic fortune, a reserve against

undue fluctuation of local taxation revenues would be provided by the fact that its residents would derive a quantitatively substantial slice of their income from investments in trades and industries located in other areas. And the more these latter prospered in contrast with the industries and trades of the peculiar area being considered (perhaps at the expense of the latter, as is instanced by sectional discriminations inflicted by subsidies and tariffs) the more important would this reserve and resource become. Conversely, the more any individual region benefited from special economic conditions relative to other districts, the more important this influence would be in its compensatory effect upon the local taxation revenues of it and of the other regions. There is another mitigating factor, in that residents of each area would receive some part of their incomes from extra-national sources. Another consideration making for uniformity of levying over the different regions is the fact that regional control of certain local expenditures such as has been proposed would permit of a greater approach to standardisation of spending than has been achievable hitherto. Not only would local effort in this direction be more effective, but, in addition, central stimulus and guidance could be more forthright and pregnant with influence—for the maintenance of close and effective contact with ten or twelve regional authorities would be more feasible than with some thousands of smaller units. Even if, despite these facts, the average rates of levy were to be variable from one region to another, there is no comparison between the unfavourable consequences which this might evoke and those provoked by the chaos now reigning. And, indeed, if the previous suggestion for increase in Exchequer Grants for quasi-national services were to be sanctioned, there is solid reason for postulating that differentiation of rates of levy would not be arrant.

From a different standpoint, of vital meaning is the fact that different places in the proposed regions, the latter being so very much larger than the present single rating authorities, would not be simultaneously and equally implicated by sub-normal or supra-normal economic activity, except in the case of general depression or boom. Therefore, total incomes

and profits enjoyed by the aggregation of persons domiciled in any given single area would not vary so extremely and acutely as to create such highly variable totals of revenue from local taxation as profoundly to upset the practicability of maintaining local services in comparatively stable volume. Another influential argument is that the lesser regions now advocated in substitution of the entire national area would involve smaller damage to local patriotism and civic spirit. Undoubtedly some loss would have to be accepted in this respect in comparison with the prevailing *régime*. But it is easy for dissentients to overrate this. For it must be remembered that it has been proposed before roundly to increase the relative share in total revenue accounted for by Other Receipts: and if this matured it would be to the personal interest of each consumer of services to maintain a vigilant watch over prices of, and also the amounts and methods of, spending upon the services for which he had to pay. Since most of the significant services would be implicated, plainly the consumer's interest would be both extensive and intensive. Again visual comparisons by consumers and electors, both of the relative effectiveness of expenditure upon different items and of the spending policies and methods pursued by neighbouring authorities would be as feasible as they are now. Still further, since it has been laid down as axiomatic that the election of representatives to serve upon the regional authorities would be direct, divorce between expenditure and taxing on the one hand and representation on the other hand would be unlikely. And even further still, it could be made a cardinal feature of the policy to be pursued by the regional bodies that they would provide machinery capable of securing careful and incessant scrutiny of the efficiency in spending displayed by constituent local authorities concerning non-regionalised services, and of rewarding such efficiency in a practical and influential manner. Besides, reliance may be placed upon the success which would attend efforts to induce electors to think in terms of the region just as now they think in terms parochial and urban. Favourable influence is likely to emanate from the tendency of post-war years to adopt the regional idea in many other spheres of

social and economic organisation. A last advantage which may be counted on—one which will probably gain greater force as the clamour for spontaneous action to remedy the havoc wrought by the trade cycle becomes louder and more insistent—is that it will be administratively more facile to alter local taxation policy to meet the effects of economic fluctuation. For one single decision by each regional authority would suffice to bring about changes of levying policy, and since there would be but a few regions in all, co-ordination of policy between them would be more easily gained than under the present dispensation.

Now to consider the principles and methods of the revenue policy itself.[1] This would consist of an income rate levied on income and profit. To deal first with taxation of persons, these could be taxed by the regional authorities in whose area they resided. This basis should be preferred to taxation by reference to their place of work. For, shortly, administrative complexities attaching to such an alternative would be larger. Actually, although it may appear that it would be for many reasons more justifiable to levy on incomes at the places whence they were derived, as the levying regions would be large, only in very exceptional cases would the preference for the former suggestion lead to inequality as between different regions. In order to conform with the principle of ability to pay, the income rate should be levied on a progressive basis. But, as in the national scheme, there should be a standard or basal rate applicable to income of a given amount. Since there would be no alternative means of securing contributions from the poor similar to that provided in the national system by a variety of indirect taxes, and it is eminently desirable that all persons who can do so should contribute to the new income rate as they now do to local rates, the income level at which the standard charge should become operative should be fixed very low. In practice,

[1] Capital borrowing need not be altered as this contains no intrinsic drawbacks similar to local rating. Each local authority (enlarged as suggested) could borrow on its own account. But local economies might be procured if the regional authorities acted as intermediaries; and in return for this facility the latter could exert some influence over actual local borrowing.

this would mean that the predominant number of payers would contribute at the standard rate, say, 6*d.* in the pound. From the basal income level there should be a gradual increase in the rate of taxation as the amount of income rose. In the early stages, desirably this would be somewhat discontinuous, to make justifiable allowances for various charges upon income such as those due to dependants. Besides the actual height of the standard rate, the amount of revenue would be a function of the steepness of the curve of graduation. If the previous suggestions were accepted—that more revenue should be collected from Other Receipts and Exchequer Grants—then it would not be necessary to raise so large a revenue from the new income rate as from the present local rates. This means that the aggregate revenue to be secured might be considerably smaller than that now forthcoming from the national income and surtax—possibly not more, indeed, than one-quarter to one-third. Evidently, then, the curve of progression (despite the low standard rate) may be less steep than that of its national prototype.

Fundamental difficulties arise concerning the taxation of industrial and commercial profits. Should these be subject to progression or not? Plainly, personal owners of, and shareholders in, private businesses would be subject to graduation. But, equally plainly, shareholders in public companies would be similarly treated. It would therefore seem that a case could be made out for exempting industrial and commercial concerns as such, for if they were taxed separately in addition, proprietors and shareholders thereof would be subject to double taxation. Since, however, such concerns benefit measurably and concretely from local authority services, because to abstain from imposing levies on them would be to depart radically from the present system, and above all to promote a direct interest by business in local expenditure and taxation, business enterprises as such might be called upon to contribute to the local income rate at the low standard rate, based upon their profits. Then each business concern would be taxed directly by the regional authority on behalf of itself and its constituent local authorities whose services the business concern

utilised. In the case of national enterprises, or firms whose establishments extended over the boundaries of more than one region, the levy would have to be made by each regional body on the profits arising from that part of the whole enterprise located within its boundaries. Undoubtedly this arrangement would incite practical difficulties of measurement. Even though, however, there were difficulties about the precise profit to be allocated to the branches of activity conducted within each region, the figures should be known to the parent concern, since otherwise there would be no means of checking the profitability or not of the various branches of a firm's activities. And as business concerns would not be taxed on a greater total of profit than actually they earned, but would be liable to this extent, there would be little incitement to evasion by returning false district profit statements. Moreover, the evasion which might result from the existence of different standard rates of local taxation from one region to another, could be checked by making that standard rate equal for every region. To such a procedure there need be no serious obstacles.

The main source of income statements would, of course, be the State income tax authorities. If this procedure were followed, the expense and vexatiousness of independent local returns would be largely avoided. In addition, however, as levels of income would be taxed by the regional bodies which escape State income taxation, these bodies would have to obtain details of income further to those which the national authority could supply. That, however, would be feasible, and would not necessarily entail excessive cost if use were made of various kinds of existing machinery and facilities for information.

Once the revenue were secured, there would arise the problem of allocating it amongst the various constituent local units, and between them and the regional administrations. This is a clear weakness of the scheme: yet the raising of regional revenues by means of the present system of local rates would entail some method of allocating precepts upon the component authorities. And it is easy to overrate the weakness. It should be remembered that, if the

project of enlarging the strictly local authority areas were steadily carried out, the number of separate spending bodies would be conspicuously reduced. Besides, the items of expenditure much more prominent as causes of variations in local authority outlay—quasi-national services, and the important services selected for regional supervision—would either be entirely severed from expenditure undertaken by the constituent local units or would be planned on lines designed to reduce disparity in local burdens. The remaining expenditure items would tend to be conspicuously more uniform than the total of spending is at present. Further, the aggregate expenditure undertaken in future by the local authorities themselves would not be great relative to the combined outlays of the regional and local bodies together; so the probability that disparities between districts might cause serious financial dislocation is low. In these circumstances, the scale and variety of possible frictions engendered by the use of a formula upon which to allocate revenues as between the regional and the local authorities on the one hand, and as amongst the various component local units on the other hand, would be somewhat closely limited. And it may be stressed that it is one of the main objects of the regional plan to destroy the inequities and hardships instigated by the current system, under which separate districts are left to suffer from discrepancies which it would be the deliberate and avowed aim of the new administrations to frustrate; the parochial and lamentably local, would be sublimated to the regional conception—a conception which is both economically and socially preferable.

Such, then, is the proposal in brief, and a similarly brief evaluation of it may be made. Criticisms are not lacking. The last occasion when an official body reported about a local income tax the contentions were advanced that the risk of evasion and the difficulty of allocating the income of each taxpayer between the several areas from which it was derived, or in which he resided, would be too great to justify the setting up of a separate local system of income taxation.[1]

[1] Cd. 7315, g. 282.

This was in 1914. Since then the national machinery of returns and assessment has been so profoundly improved and extended as to discount heavily the danger of serious evasion. The second criticism is more weighty: it applies to the plan suggested above. It is true that residents in the different regional units would derive some part of their income from sources outside these, and that the ratios and amounts of such income accruing to the residents of different areas would be variable.[1] But is this imperfection actually of high importance in the scheme propounded? The adoption of comparatively large regions as a basis of levying ensures that the bulk of the residents' incomes would, in fact, be derived *within* the area they inhabited. And, in order to avoid large discrepancies in the matter, it has been suggested that the actual demarcation of the regions should be fixed with this point specially in mind. Plainly, that factor would normally postulate and favour large areas; and this, incidentally, would square with the case for large regional areas from the standpoint of expenditure; for the contemplated regional services, in general, would be more economically provided the greater were the area of supply. As for that part of income which was derived from other regions, evidently the gains and losses accruing to the various regions therefrom would to no small extent cancel out. A further equalising factor resides in the deliberate suggestion that all business undertakings should, by contrast with private incomes, be taxed with reference to their location—*i.e.*, on the basis of origin. This means that the deficiencies cited in the proposal to tax residents according to their dwelling places would be compensated to a substantial extent; for there would be instigated a definite measure of consilience between costs incurred by local authorities in providing services within the region to business undertakings, and the recoupment of a *quid pro quo* in the shape of regionally-derived revenues. A still further compensation is provided by the scheme to increase the

[1] The problem as to whether to deduct tax from dividend warrants need present no serious difficulties, for the national authority (whose returns would be used) already sees that the income is recorded on taxpayers' returns and assessments.

revenue accounted for by Other Receipts, for this means that payment would essentially be made to those authorities which supplied the services thus paid for. Lastly, the income derived from sources external to the country is a small proportion only of the whole of income and, of course, it would be spaced over persons dwelling in different regions. The combined operation of these factors should go a very considerable distance towards meeting the criticism under consideration. The net disparities of revenue between regions would be small relatively; they would, it might reasonably be presumed, be fewer than those resulting from any other single basis of taxation levied or leviable by local bodies; and they would be transcendently fewer than the iniquitous disparities which are instigated by the current system of local rates.

The remaining important argument cited by the Kempe Committee of 1914 was that a separate local income tax "... would materially interfere with the usefulness of national income tax as a source of revenue." [1] This argument would apply, of course, to any trespass upon the kinds of taxation previously appropriated, or which might be appropriated, by the national authority. (And it is not uninteresting to note that the State trespassed upon the local authority domain when it resorted to the Inhabited House Duty.) Were it to be accepted, the argument would severely delimit the scope and freedom to raise revenue of the local authorities. And the question may rightly be asked, is such restriction justifiable, since to purvey local services on their present scale and in their present variety total local expenditure amounting to about two-thirds of national expenditure has to be incurred—especially since many local services are really national in character? Actually, of course, the real damage to taxable capacity for national purposes would be small at most; for if the amount raised under the new plan were even so high as that previously accruing from local rates, any damage done would be due to the altered distribution of revenue-raising. But since to tax by income, is to tax with a much

[1] g. 282.

closer regard for personal capacity to pay than to tax by reference to immovable property, the damage imposed upon the national income—both psychological and physical—would be smaller than that inflicted by current methods. And after all it is the size of the national income which conditions the volume of national income tax revenue.

The objection of Dr. Finer [1] that the new method would be very costly is more realistic, but it is a moot one. He suggests that a body of taxing officials as large as that now needed for the State income tax may be required. But this need not be the case. For the basis of the local income rate should be the returns of incomes and profits made to the State; and in this way the regional authorities would be saved the necessity of making duplicate enquiries. Actually, the regional bodies would have to obtain additional information about a comparatively large number of small incomes. But these would be preponderantly wage incomes, particulars of which are comparatively easy to obtain—from employers and varied other sources—and evasion by small-income recipients is less likely and readily checked. Again, as a cost-reducing device, flat-rate charges for incomes falling within somewhat wide income groups at the lower extremes of income could be utilised. These would avoid the trouble and difficulty attendant upon the exact ascertainment of such small incomes. Other cost-reducing devices could doubtless be discovered by practical administrators. It should not be overlooked that against the additional cost must be offset the savings in the cost of the machinery and staffing needed for local rating. In 1934–35 the expenses of valuation were £0·91m., and the costs of rate collection £1·91m., a total of £2·82m. Even if, after all, costs of collection exceeded this figure, the loss resulting might well be more than offset in the shape of the profound stimulus to productive effort and therefore to the national income which would result from a system of imposts that appreciably reduces the lamentably large adverse psychological and physical consequences instigated by the system now reigning. In this matter, indeed, what is

[1] *English Local Government*, p. 411.

needed is not a strict and perfervid regard for matters of accountancy, but a statesmanlike consideration of total advantages and disadvantages.

A more fundamental objection can be found in the argument that to utilise the basis of income ignores other possible bases—outstandingly, property and land. With this may be joined the desirability, in a soundly conceived scheme of taxation, of relying not upon one source of levy alone, but of devising a system of varied taxes so that the defects of any one are qualified by the advantages of the others. Clearly, these arguments are well founded. But administrative reasons alone come down heavily against the multiplication of separate taxes for purely local purposes. In proportion to the revenue they would be required to yield, even in a regional area, they would be conspicuously more costly than one main tax alone. And there would not be the saving feature that greater equity would more than offset the extra expense; for multiple taxes would be more vexatious in a local system, and therefore would set up unfavourable psychological, as well as bad physical repercussions. Again, the argument that a multiple system would be more equitable, loses considerable force on account of the proposal made earlier to increase the scale of Exchequer grants; for these are derived from the national revenue system which actually does utilise extensively the method of multiple-base imposts. As for the preference for income as a *fundamentum*, relative to, *e.g.*, land or property, the answer is that this is the most comprehensive single method of securing equity as between different taxpayers and different types of economic activity. For the preponderant number of persons possess incomes derived from productive work of one sort or another. Again, incomes are obtained, necessarily, not only from work and enterprise, but from property of all sorts, including land. On the other hand, the bulk of the very numerous working classes possess a fraction only of property of all sorts, and a tax on this alone would thus give rise to exceedingly large disparities which it would be hard to cope with in an equitable manner. The ownership of land is still more highly concentrated, and

would therefore be even less desirable as a sole subject of impost. There is, in fact, no other single index of ability to pay which can bear comparison with that of income. Lastly, local revenue is at present founded on one base only, and that basis, as Cannan points out, is unsatisfactory because " . . . it everywhere places a certain burden on immovable property while exempting other sources of income. . . ." [1]

Another objection is made in a report on a local income tax prepared by the Council of the Institute of Municipal Treasurers and Accountants, that

" The substitution of a local income tax for the rate would mean the acceptance of the principle that the cost of all services administered by a local authority should be shared on the basis of ability alone and not on the basis of benefit. It would accentuate the position (which already exists) that a local taxpayer would contribute his share of those services whether the benefit he derived was great, small or non-existent." [2]

This argument, however, is met substantially by the suggestion made earlier to increase the revenue to be derived from Other Receipts; for persons would contribute to a considerable extent according to the services from which they elected to benefit. And it may be recalled that the proposal was roundly to increase such revenue. But, it is suggested, no more service beyond this should be paid to the benefit principle.[3] The history of taxation luminously displays the unwisdom and the unwarrantability, from the standpoint of the community as a whole, of allowing to this principle more than a necessary modicum of range and influence. In particular, reference may be made to the point that in many instances excessive regard for the benefit principle in levying would have deplorably adverse consequences for the national income, especially by restricting the capacity of the numerous body of poor persons to

[1] *The History of Local Rates*, p. 197.
[2] *Local Government Finance*, May, 1936, p. 202.
[3] *Cf.* the declaration of the Kempe Committee in 1914: " However difficult it may be to devise a basis . . . which will absolutely accord with the abilities of the contributors to contribute, we feel that the nearer it approaches to that ideal the more equitable will it be . . . " (Cd. 7315, p. 71, g. 259).

elucidate their maximum contribution to economic effort—arising from their inability to procure an adequate supply of vital services. Incidentally, persons who apparently do not benefit directly from local services often secure considerable indirect benefits. Moreover, the principle of ability has come to be the most important separate basis of the national scheme of taxation, in this country and elsewhere. And if it should be objected that there is a greater element of local benefit in local services, the answer may be given that while this may have been so in pre-war times, in post-war years it is the quasi-national services which have largely provoked higher local expenditure ; while what used to be purely local services now often diffuse their utilities over the whole country. If, therefore, any single principle of revenue raising is elected, there is no question of the inherent superiority of that of ability.

Another drawback is provided by the many economic readjustments which would arise on the cessation of the local rating system. These would take place initially because the amount of imposts upon productive enterprises of various sorts would be altered. Yet this constitutes one of the basal reasons for the change. And there would be no objection of principle to other sorts of economic innovation—*e.g.*, inventions and technical improvements, the removal of tariffs, and the cessation of inflation, giving rise to readjustments on even a widespread scale if it were believed that the advantages to be obtained to the national income outweighed the disadvantages to it. The issue in this case is essentially similar. Actually, all the necessary readaptations would be very widely spread ; and it is not improbable that, in fact, they would be fraught with less aggregate disturbance to producers than at first appears owing to the effects of the de-rating reform of 1929. For as a result of this, industrial hereditaments now contribute but a comparatively small fraction of the total of local rating revenues. It is even arguable that the proposed reform would be attended with less convulsive effect than was the derating scheme itself ; for, by contrast, the changes would be distributed over the whole body of producers

instead of being limited to the heavy and basal industries; and, more important, they would provoke fewer inequities. To tax producers on the basis of capacity as indicated by profits, is less prone to promote psychological animadversion or to erect physical obstacles to economic activity than to tax them in a way which is but remotely associated with capacity.

In addition, however, it might be contended that personal ratepayers would gain less than is apparent on a first impression, because the derating of house property would enable owners of buildings and sites to raise rents.[1] Indeed, it could be averred that Poorer persons, in particular, would suffer by the change: since if the whole of their present contribution to local rates were added to rents, they would have to bear the net additional burden involved by taxation of their incomes. Not only, moreover, would houses be affected, but occupiers, as such, of all types of rateable hereditaments.

There is no doubt that this constitutes the most formidable and weighty objection to the proposed reform. It is possible that, granted the existence of equilibrium conditions in the present, rents of all occupied properties and sites would tend to be raised by approximately the amount of the discontinued rates, with undesirable transfer to the owners. Nevertheless, certain points oppose this possibility. The position of house and property owner-occupiers need not be perceptibly altered for the worse; and it may be reasonably supposed that a large part of the total of industrial and commercial properties is occupied by owners,[2] while a considerable fraction of the total of house property is occupied by owners—especially, of course, by those in the Richer category and the higher sections of the Poorer. Further, much property is now leased, and probably a considerable amount of those industrial and commercial establishments which are leased are protected under long, or comparatively long leases from increases of rent. As for hereditaments the rents of which are liable to be raised,

[1] *Cf. Local Government Finance, op. cit.* p. 202.
[2] Burton, *The Finance of Local Government Authorities*, p. 232.

to-day demand is considerably more elastic than it was, for instance, in earlier post-war years. The elasticity is greater of course, in some sections of the property market than in others. Even so, the fact that present ratepayers will be called upon to pay in income taxation an aggregate amount equal to the rating levies which would cease to be imposed, and that the distribution of the new levies would not be violently divergent from that of the old, must, despite frictional influences, cause demand for both houses and all other types of property to be definitely more elastic than if the rating levies were removed without the equivalent addition of new taxation. After all, aggregate income will remain unchanged, and its distribution will not be profoundly modified. Again, in the case at any rate of dwellings, the slower pace of population and family increase must add further to that elasticity of demand, and demonstrably so. This combination of influences would therefore militate substantially against the likelihood that rents would tend to rise at all appreciably. On the supply side, although partly due to a lowering of costs, the continuance in recent years of private building at a somewhat high level suggests that the equilibrium rate of returns acceptable to property owners is still exceeded by that recently secured, and that the course of market returns in the more immediate future will be downwards.[1] It is known, too, that at present building supply facilities are generally very elastic, and more ample than they were, say, a decade ago. So soon, therefore, as rents tended to increase, supply would prove highly responsive. Therefore, if the rate of return on property were to rise but slightly it would elicit an appreciable and not long delayed increase in supply sufficient to obviate the possibility of any serious increase of rents. Coupled with this, the psychological effects of the removal of local rates would be such as to promote greater readiness on the part of speculative builders to enter upon new construction. In point of fact, the mere announcement of the intention to adopt the new scheme would probably cause quite a flutter in new building activity.

[1] Assuming interest rates do not rise greatly then.

Perhaps enough has been said to indicate that there are weighty arguments opposing the assertion that rents would rise disastrously, or, indeed, at all substantially ; and, more important, that when and if they exhibited a tendency to increase, the pricing mechanism would function to bring about correctives. The only serious qualification to this verdict is that there would probably be a time-lag in effecting the necessary readaptations. But this could be met by the delayed application of the full change. If local rating levies were reduced gradually, and the new scheme of taxation were introduced equally gradually, time sufficient to provide for readjustment would be given and the process could proceed smoothly.

If, despite the above arguments, the view were taken that the risk of upset and dislocation were too great relative to the expected measure of gain, then it may be pointed out that actually a similar scheme, in effect, was carried through in 1929 ; and that without precautions against disturbance of the sorts outlined above. A basal point, further, is that any complete new scheme differently founded would involve the expurgation of the present rating system, and that unless a new departure is made the undesirable features and anachronisms of the prevailing scheme will be more sharply manifest with the expected necessity for local rating revenues to increase in future. And it may be argued in favour of unwillingness longer to acquiesce in the contemporary unsatisfactory state of affairs in rating, that the history of taxation attests the wisdom of removing and expunging taxes which either had proved themselves to be intrinsically bad or had been rendered non-virtuous or inexpedient owing to altered conditions. Moreover, economic science proclaims and validates change of a sort which has for its object the dethronement of the worse and its supersession by the better : the preference for the more economical to the less economical in the proper and full sense of the term.

What advantages would be secured from adoption of the proposal ? The principal gain would be that of greater equity, since this would be the necessary outcome of taxing on the basis of ability. The psychological advantages can

hardly be estimated too highly. And it has been contended that psychological considerations are paramount, especially when the volume of levying has attained the dimensions which prevail to-day. The physical effects also would be beneficial. The favourable repercussions upon entrepreneurs must be especially conspicuous, and the advantages for the national income unquestionable. In concrete, no longer would rates be a cost burden, inescapable and too often inalienable. No longer would the amount of the rating demand vary inversely with ability to meet it. The palpable inequities between producers of different goods and services, and producers located in different places, proliferated over the entire field of economic effort as they are now, would be virtually extinguished. Peculiarly important, the basal forms of enterprise and export trading would be shorn of burdens which have impeded them throughout the post-war era. As for persons, regressiveness upon the poor, with all its vicious evils, would be expurgated. The perennially smouldering fires of injustice, the fuel for which is derived from defective valuations and the idiosyncratic variation of poundage rates between different (often neighbouring) authorities, would be extinguished through the dearth of combustible material. The inherent fairness of the new scheme would be apparent; even the repugnance which might be exhibited by the possessors of larger incomes would be minor, since, if the other forms of revenue are increased relatively, as suggested, progression need be gradual only. The local administrations would be saved the worry and expense now provoked by multifarious oppositions to, and querying of, the basis of charge; in recent years this sort of angered quibbling has been voluminous and has amounted at times almost to execration; incidentally it has been provocative of costs which are not visibly recorded, but which, nevertheless, must be charged against the present system. Backward authorities need be less so in future, for constraint upon capacity to spend could be in large part removed. Poverty-stricken places would be succoured by the financial resources of the whole region. The system of revenue-raising itself would lose its woodenness and its

incapacity for adjustment to need, for a luminous characteristic of income taxation is its flexibility. Incidentally, this attribute should prove to be of momentous potentiality as a means of dealing with the depredations and ravages of the trade cycle—both palliative and remedial. Lastly, and above all, the future progress in economic and social betterment of the sort which it is the peculiar capacity of the local authorities to evoke, would be fostered.

Yet if, after all, the suggested reform, or some equivalent of it, is not accepted, what then ? [1] In view of the fact that other possible sorts of complete reform, discussion of which, owing to the space it would entail, is regretfully excluded from the present volume,[2] appear to have even less economic and social justification, and would present greater administrative difficulties and drawbacks, there is no other resort than to seek to improve the present rating scheme. And perhaps the best way of doing this, paradoxically enough, is to limit and curtail the part played by it as an instrument of revenue. Now this can only be secured in three ways—by reducing expenditure ; by increasing the income obtained from Other Receipts ; and by procuring a greater relative contribution from the national revenue. But these have, in fact, been aimed at in the discussion already undertaken. There are solid grounds for expecting that the various suggestions offered concerning future expenditure policy should enable a substantial lowering of the costs of providing current services in the volumes now prevalent. Granted that certain practical difficulties can be successfully disposed of, a round enhancement of the total of Other Receipts is feasible, unattended by any conspicuous drawbacks from the standpoint of the national dividend or even social welfare. And there is a balance of argument in favour of the

[1] The presidential address to the Incorporated Association of Rating and Valuation Officers in 1938 declared : " In the very near future it may become imperative to explore other avenues in the quest for local revenue " (Proceedings p. 13, s. 24). Sir Gwilym Gibbon has said : " Local taxation is on too narrow and inelastic a basis for modern needs and it is doubtful if it can be other " (Journal, *Royal Statistical Society*, 1936, Part 3, p. 485).

[2] Comprehensive and detailed treatment of these is contained in the Evidence to, and Report by, the Royal Commission of 1901, the Kempe Committee of 1914, and various private works.

view that an upwards revision of Exchequer Grants is merited. Not only, moreover, is reliance to be placed upon a considerable measure of relief to local rating in the present, but the more voluminous supply of old services, and the additional commitments which will result from the inception of new services—both of which may be expected in the more immediate future—may be more economically provided by the suggested reforms concerning expenditure policy, by the warrantable scaling-up of Other Receipts and by the likelihood that " national " aspects will figure so prominently as to justify further central grant aid. Hence the feasibility of reform through the curtailment of rating imposts is a thesis which can be sustained. About the benefits which may flow from this there is no need to be loquacious, since in essence they will be the reverse of the disadvantages cited before. Are other emendations of rating feasible ?

There is scope for more accurate valuation. In recent years progress has been effected in this, but there is widespread agreement that technique can still further be improved.[1] There is no need to enter into detail upon what is mainly a technical matter. But very careful, considerate and scientific attention is urgently needed to the problem of the precise mode of determining the valuation figure—the 1925 Rating and Valuation Act dealt with procedure, but offered no suggestion or advice concerning basal methods of valuation. Moreover, at present, the method of assessment actually differs as between one type of hereditament and another. Thus, dwelling-houses are rated on annual rent ; in the case of commercial buildings, shops and works which are owner-occupied

" . . . the method adopted is usually to take the capital value of the land plus the structural value of the building (which is not necessarily the same as the cost of erection) and fix the annual value by ascertaining what would be a reasonable rent to charge in order to show a fair return on the outlay, and then reduce the same to an equivalent annual value." [2]

[1] It is instructive to read the recent Reports of the Annual Conference of the Incorporated Association of Rating and Valuation Officers.

[2] Burton, *The Finance of Local Government Authorities*, p. 232 ; also Clarke, *The Local Government of the United Kingdom* (10th Ed.), p. 604.

Coal mines are rateable on output. The assessment of railways is determined by a separate body—the Railway Assessment Authority. The valuation of licensed premises is frequently that of a percentage of the annual gross receipts over a period of three years.[1] In the case of large public companies and public utility services, the main valuation is based upon receipts and expenses. While administrative difficulties are great, yet not always can the actual practice (which is heavily influenced by legal decision) be reconciled with economic principles, and reform is greatly to be desired.

Another conspicuous problem of which further consideration is warranted is that of achieving uniformity in valuation over the country as a whole. In view of the fact that, in April, 1935, there were no fewer than 11,677,167 separately valued hereditaments,[2] this is a formidable task. But it is symptomatic of the lack of serious progress towards uniformity that the coming into force of the Third Valuation List had to be postponed from April 1st, 1939, to April 1st, 1941, on account of the fear of the Central Valuation Committee [3] that it would be impracticable earlier to realise the scheme of uniformity laid down by the Rating and Valuation Act, 1925. Concerning this matter the President of the Incorporated Association of Rating and Valuation Officers declared that—

"In the making of the valuation lists the Central Valuation Committee should be endowed with more than merely advisory powers to deal with those County Valuation Committees who do not take adequate steps to secure uniformity. In their turn, County Valuation Committees should be given less cumbrous means than they at present possess to attain correctness and uniformity in their areas." [4]

Another matter which warrants attention concerns the de-rating formula. The working of this was examined by a joint committee consisting of financial advisers acting on

[1] Clarke, *op. cit.*, p. 605.
[2] Report, *Ministry of Health*, 1935–36, p. 165.
[3] Expressed in a letter to the Ministry of Health dated February 12th, 1938.
[4] Report, *56th Annual Meeting and Conference*, p. 12, s. 20.

behalf of local authorities, nominees of the Institute of Municipal Treasurers and the County Accountants Society, financial officers representing necessitous areas and officials of the Ministry of Health in 1936–37, and a very comprehensive and detailed review of the situation was undertaken. In view, however, of the anomalies described on pp. 122–6, and their persistence—even if in modified form—it is disappointing to find that no basal alteration was made in the constitution of the formula. On this matter the Report says :—

" Consideration was accordingly given to the introduction of additional factors, such as the number of old age pensioners, the number of children of school age, and the number of persons in receipt of out-relief and to various suggestions for altering the method of assessing the relative needs of counties and county boroughs which have been made from time to time and during the course of the investigation. These were examined and the results compared but the conference reached the conclusion that it was not practicable to secure a satisfactory improvement by these means." [1]

Instead a compromise was arrived at by " . . . some strengthening of the existing factors." [2] Undeniably, the results of the great labours expended by the conference warrant no small measure of approval and this should be recorded. The situation which may be expected to result in consequence of the decisions taken will be manifestly more favourable. Nevertheless, it would appear that there is still reason for alteration and improvement. To suggest this, one general illustration only need be given. The following table [3] indicates the figures of net gain or loss on the Third Fixed Grant Period (beginning 1937) as compared with the Second Fixed Grant Period (1933–37), after taking account of the net effect of the Trunk Road transfer and of the merger of the Unemployment Contributions; and this is compared with the poundage rates prevailing in 1936–37, the last year of the Second Fixed Grant Period.

[1] *Report on Result of Investigation under Section* 110 *of Local Government Act*, 1929, p. 7.
[2] *Ibid.*, p. 8.
[3] *Report on Result of Investigation under Section* 110, *Local Government Act*, 1929; *Rates and Rateable Values*, 1936–37.

Places and Counties (1)	Poundage Rate, 1936–37 d. (2)	Net Poundage Rate Gain or Loss in Third Fixed Grant Period d. (3)	Column 2 minus (or plus) Column 3 d. (4)
Bournemouth	91	1·1	89·9
Eastbourne	96	0·9	95·1
Southport	99	2·4	96·6
Oxford	100	0·9	99·1
Blackpool	102	3·1	98·9
Rutland (county)	109	4·8	104·2
Hastings	112	1·6	110·4
Canterbury	114	1·5	112·5
Westmorland (county)	114	1·8	112·2
Bath	120	0·8	119·2
Barrow	159	0·9	158·1
Birkenhead	168	10·7	157·3
Birmingham	174	— 1·1	175·1
Dewsbury	180	4·1	175·9
Halifax	180	— 5·2	185·2
Leeds	186	3·5	182·5
Swansea	186	10·6	175·4
Dudley	192	8·6	183·4
Bradford (Yorks)	195	1·9	193·1
Liverpool	197	17·8	179·2
Rotherham	201	1·8	199·2
Sheffield	204	9·8	194·2
Stoke-on-Trent	204	8·5	195·5
Sunderland	214	38·5	175·5
Norwich	216	12·1	203·9
Durham (county)	222	20·8	201·2
Carmarthen (county)	233	27·5	205·5
Monmouth (county)	256	38·6	217·4
Glamorgan (county)	264	24·5	239·5
Barnsley	269	27·7	241·3
Merthyr Tydfil	348	60·7	287·3

The table indicates the variable situation which will still prevail in different areas in rate poundage. It is necessary to recognise, of course, that this leaves out of account the element of rateable value, and also is not concerned with other factors making for differentiation of burden. Yet the

derating scheme operated to reduce the greatest single cause of disparity in assessment—through the 75 per cent. reduction of assessment on industrial properties—and since its introduction in 1929 continuous effort has been exerted to curtail divergences in valuation. Now, too, there must be much larger uniformity in the assessment of dwelling houses than there was then, due to the Rating and Valuation Act, 1925; and assessment of these is the predominant determinant of aggregate valuations. Again, the derating grants were specifically and specially designed to diminish variability of rates due to the growth of expenditure upon quasi-national items, easily the most considerable cause of disparate rates. For these reasons, the question may seriously be asked—is the existence of disproportionalities in rates, such as will remain even after this latest revision of the Exchequer Grants, economically and socially to be desired? There is only one answer. A further point remains. It is hard to resist the conclusion that the acquiescence of the local authorities as a whole in the new awards was not unassociated with the fact that, of the 149 revisions, only thirteen represented smaller awards; and these latter only declined by an average of 1·4*d*., while the former increased by an average of 7·9*d*.

Another desirable improvement of the system is to endeavour to alter it so as to give much more weight to the principle of ability, as opposed to that of benefit. It is the comparative absence of reference to this principle which provokes the regressiveness of the present rating levies—regressiveness which is peculiarly ostentatious in the case of the poor. It is more blatant, however, in the case of imposts upon industrial and commercial enterprises, because rates are charged irrespective of whether profits are being obtained or not, and without reference to the size of these. Its most pronounced manifestation occurs in the case of highly profitable businesses requiring but minutely small premises, in contrast with the lowly profit returns which may be earned by businesses requiring the occupation of premises of large dimensions. Regression on the poor can only be entirely banished by a system founded on the principle of

ability. Under the present rating scheme, something might be attempted by granting remissions from the normal rating charge on houses occupied by poor persons, based on numbers of dependants and children in accordance with a pre-determined scale. But it would be difficult to secure that some, or perhaps the whole, of the concession should not become transferred to landlords through the raising of rents. Indeed, objectionable though it is in principle, it might become necessary to apply the machinery of rent control. A closer approximation to levying on the basis of ability may be obtained in the case of dwelling houses occupied by the Richer. And the case for attempting to alter the rating scheme to this end would be stronger if it should prove impracticable to introduce a sufficiently material degree of progression into the charges for services included under Other Receipts. The present scale of deductions used for the purpose of establishing the net annual value of dwelling houses could be amended so as progressively and roundly to reduce the allowances now granted in the case of dwellings occupied by the Richer. In the case of such properties, there would be less risk that the final incidence would not be on the Richer—both as occupier and owners. To secure that greater effect should be given to the canon of ability in the two other cases is, under the prevailing methods of valuation, exceedingly difficult, if not impossible. It could only be adequately and firmly secured by the method now used to assess public utilities—that of taking account of receipts and expenses. But it would be worth while to explore the possibilities of this innovation.

To deal with the problem of the variability of rating burdens from one place to another, suggestions have already been made to scale up Other Receipts, to revise the system of Exchequer Grant aid, and the enlargement of local government areas. On this matter, therefore, no more need be said.

Lastly, granted the resort to regionalisation of certain services on the lines broached previously, it is necessary to arrange for the acquisition of revenue by the regional authorities. In large part, that revenue could be derived

from Other Receipts and Exchequer Grants. For the services which it is proposed to transfer to direct administration by the regional authorities are those suited to charges on a *quid pro quo* basis, and also—being quasi-national—are eligible for a substantially high degree of State assistance. This is a fortunate situation, since the amount of revenue to be extracted from the local authorities within the region would be comparatively modest: therefore demands for it would be attended with less reluctance in payment. Plainly, the regional bodies would need to appropriate part of the rating revenues of the constituent bodies, if two distinct levies were to be avoided. And to determine the share to fall on each component unit would necessitate the construction of a formula. That should present no undue difficulty, since probably it could be largely—if not entirely—founded upon the volume of service or goods supplied to each unit. Even so, it might be deemed to be politically advisable, if not economically justifiable, to introduce partially the element of capacity; otherwise local areas needing a comparatively disproportionate volume of service may be involved in the difficulty that taxable capacity was inadequate, or at times was subjected to undue strain. In any event, however, the possibilities of alternative methods of solution of the difficulty are such as to be capable of removing many of the contemporary hardships and inequities. And here, with that last proposal, this volume must close.

APPENDIX

EXPENDITURE [1]

HOUSING

£m.

	1919–20	1920–21	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27
Expenditure on Revenue Acc. .	1·49	4·32	10·21	14·63	16·33	18·08	21·28	26·17
Expenditure on Capital Acc. .	4·84	52·21	81·73	29·64	11·30	24·03	46·97	65·29

	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35
Expenditure on Revenue Acc..	32·19	32·57	35·11	37·97	40·07	41·76	42·77	44·45
Expenditure on Capital Acc. .	66·19	42·93	42·80	37·40	39·60	28·24	30·64	29·32

[1] *Local Taxation Accounts* amplified by figures supplied by the Ministry of Health.

TRADING SERVICES

£m.

	1919–20	1920–21	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27
Expenditure on Revenue Acc.								
Cemeteries .	1·22	1·47	1·46	1·34	1·32	1·38	1·43	1·46
Markets .	1·24	1·53	1·61	1·66	1·70	1·55	1·57	1·63
Water .	13·14	15·61	16·44	15·08	15·42	15·84	17·02	17·27
Gas . .	17·16	21·67	20·83	16·75	16·84	16·97	16·68	21·35
Electricity .	13·36	17·88	17·36	16·03	17·56	19·12	20·39	25·23
Transport .	20·45	25·23	24·44	22·47	21·66	22·51	23·66	24·09
Harbours, etc. .	15·34	17·72	16·36	15·32	14·29	14·21	14·16	13·84
Other .	0·95	1·90	2·81	2·12	2·00	2·20	2·13	2·35
	82·86	103·01	101·31	90·77	90·79	93·78	97·04	107·22
Expenditure on Capital Acc.								
Cemeteries .	0·04	0·11	0·18	0·16	0·14	0·17	0·20	0·19
Markets .	0·05	0·38	0·13	0·09	0·10	0·24	0·33	0·22
Water .	1·94	3·99	5·52	5·39	5·21	6·67	6·45	5·33
Gas . .	0·93	1·94	2·92	2·01	1·19	1·43	1·90	2·84
Electricity .	3·62	8·38	11·50	9·25	8·49	9·66	11·81	12·13
Transport .	1·40	2·79	3·51	2·50	2·13	2·58	2·59	2·74
Harbours, etc. .	2·08	3·58	2·62	1·86	1·97	2·36	2·21	2·00
Other .	—	1·64	0·66	0·20	0·14	0·44	1·49	0·43
	10·06	22·81	27·04	21·46	19·37	23·55	26·98	25·88

(continued on p. 293.)

TRADING SERVICES (*continued*)

£m.

	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35
Expenditure on Revenue Acc.								
Cemeteries .	1·50	1·56	1·58	1·67	1·63	1·65	1·64	1·67
Markets .	1·64	1·82	1·93	1·95	1·96	1·99	2·04	2·14
Water .	17·55	18·14	19·02	19·30	19·32	19·65	20·16	20·54
Gas . .	17·37	16·92	16·92	16·69	16·32	16·04	16·12	16·15
Electricity .	24·06	26·02	28·60	30·41	32·17	34·19	36·55	40·34
Transport .	25·15	25·82	26·68	26·97	26·85	26·17	22·34	21·78
Harbours, etc. .	14·99	13·87	13·90	13·36	13·23	12·19	12·51	12·70
Other .	2·49	2·40	2·76	3·25	3·34	3·55	3·64	3·81
	104·75	106·55	111 39	113·60	114·82	115·43	115·00	119·13
Expenditure on Capital Acc.								
Cemeteries .	0·18	0·17	0·21	0·21	0·27	0·25	0·22	0·29
Markets .	0·37	0·55	0·78	0·58	0·35	0·22	0·11	0·11
Water .	4·80	4·89	5·08	4·95	5·52	4·16	3·71	3·98
Gas . .	2·32	1·58	1·51	1·66	1·39	1·17	1·18	1·24
Electricity .	13·14	14·58	15·26	14·28	13·62	10·86	11·43	12·73
Transport .	2·62	2·76	2·36	2·64	2·71	1·59	11·12	1·79
Harbours, etc. .	3·66	3·04	1·67	1·55	2·02	1·44	1·31	0·96
Other .	0·56	0·94	1·09	0·90	0·70	0·92	0·91	1·05
	27·71	28·51	27·96	26·77	26·58	20·61	29·99	22·15

HIGHWAYS

£m.

	1919–20	1920–21	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27
Expenditure on Revenue Account								
Highways . .	25·86	38·49	41·42	40·25	41·39	45·78	48·79	49·54
Private Streets .	0·63	1·02	1·06	1·09	1·38	1·60	2·11	2·47
	26·49	39·51	42·48	41·34	42·77	47·38	50·90	52·01
Expenditure on Capital Account								
Highways . .	1·17	3·66	6·17	8·96	8·35	9·92	9·99	9·53
Private Streets .	0·02	0·11	0·19	0·15	0·26	0·43	0·56	0·59
	1·19	3·77	6·36	9·11	8·61	10·35	10·55	10·12

	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35
Expenditure on Revenue Account								
Highways . .	52·13	47·64	50·86	52·41	51·86	46·76	46·27	47·46
Private Streets .	2·71	2·79	2·41	2·47	2·46	2·22	2·17	2·51
	54·84	50·43	53·27	54·88	54·32	48·98	48·44	49·97
Expenditure on Capital Account								
Highways . .	8·41	11·94	16·25	18·85	18·96	10·23	8·70	7·23
Private Streets .	0·72	0·94	1·72	1·71	1·90	1·69	1·55	1·62
	9·13	12·88	17·97	20·56	20·86	11·92	10·25	8·85

EDUCATION

£m.

	1919–20	1920–21	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27
Expenditure on Revenue Account								
Elementary . .	46·52	59·85	62·12	59·73	57·92	58·72	59·63	59·90
Higher . . .	9·83	14·03	15·69	15·06	14·38	15·15	15·88	16·11
	56·35	73·88	77·81	74·79	72·30	73·87	75·51	76·01
Expenditure on Capital Account								
Elementary . .	0·26	0·74	0·95	0·51	0·47	0·84	1·81	2·71
Higher . . .	0·48	1·20	0·81	0·35	0·41	0·57	1·30	1·70
	0·74	1·94	1·76	0·86	0·88	1·41	3·11	4·41

	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35
Expenditure on Revenue Account								
Elementary . .	59·83	62·62	64·34	65·94	64·41	62·47	63·14	65·86
Higher . . .	17·16	18·45	19·35	20·67	20·65	20·11	20·21	21·07
	76·99	81·07	83·69	86·61	85·06	82·58	83·35	86·93
Expenditure on Capital Account								
Elementary . .	3·50	4·33	3·83	5·05	7·10	4·13	2·79	3·06
Higher . . .	2·24	2·34	2·13	2·71	2·72	1·55	1·06	1·25
	5·74	6·67	5·96	7·76	9·82	5·68	3·85	4·31

HEALTH SERVICES

£m.

	1919–20	1920–21	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27
Expenditure on Revenue Account								
Sewers	7·32	8·67	8·95	8·15	8·34	8·71	9·04	9·35
Refuse	6·50	8·30	7·87	6·90	6·49	6·60	6·76	6·86
Tuberculosis	2·10	3·26	3·34	2·92	2·76	2·87	3·00	3·17
Venereal Diseases	0·30	0·48	0·46	0·42	0·39	0·39	0·40	0·39
Other Infectious Diseases	3·11	4·40	4·32	3·64	3·20	3·19	3·27	3·42
Maternity and Child Welfare	1·17	2·05	2·00	1·69	1·66	1·71	1·85	2·19
Baths, Wash-houses	1·51	1·97	1·80	1·64	1·66	1·70	1·74	1·79
Parks, Pleasure Grounds, etc.	2·53	3·50	3·92	3·53	3·81	4·17	4·39	4·50
Lunacy and Mental Deficiency	7·27	9·28	9·52	8·92	8·96	9·03	9·35	9·64
Other Health	2·16	3·41	3·48	3·25	3·33	3·48	3·67	3·91
	33·97	45·32	45·66	41·06	40·60	41·85	43·47	45·22
Expenditure on Capital Account								
Sewers	0·66	2·30	3·53	4·61	4·83	5·04	5·64	4·46
Refuse	0·07	0·33	0·27	0 34	0·37	0·31	0·27	0·31
Tuberculosis	0·17	0·53	0·52	0·18	0·07	0·28	0·19	0·23
Venereal Diseases	—	—	—	—	0·01	—	0·01	0·01
Other Infectious Diseases	0·02	0·27	0·10	0·16	0·11	0·12	0·22	0·24
Maternity and Child Welfare	0·07	0·13	0·11	0·07	0·02	0·05	0·07	0·05
Baths, Wash-houses	0·04	0·10	0·12	0·25	0·43	0·38	0·33	0·43
Parks, Pleasure Grounds, etc.	0·15	0·50	0·88	1·05	1·31	1·37	1·79	1·27
Lunacy and Mental Deficiency	0·10	0·22	0·32	0·19	0·18	0·42	0·38	0·46
Other Health	0·01	0·30	0·38	0·33	0·39	0·43	0·54	0·63
	1·29	4·68	6·23	7·18	7·72	8·40	9·44	8·09

(*continued on p. 297.*)

HEALTH SERVICES (*continued*)

£m.

	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35
Expenditure on Revenue Account								
Sewers	9·64	9·70	10·14	10·51	10·75	11·09	11·38	11·61
Refuse	6·95	6·91	7·14	7·25	7·25	7·06	7·14	7·23
Tuberculosis	3·13	3·18	3·34	3·58	3·60	3·61	3·70	3·83
Venereal Diseases	0·40	0·40	0·41	0·42	0·44	0·43	0·44	0·44
Other Infectious Diseases	3·53	3·65	3·69	3·85	3·36	3·36	3·53	3·85
Maternity and Child Welfare	2·10	2·24	2·40	2·86	3·01	3·05	3·08	3·22
Baths, Wash-houses	1·83	1·89	2·00	2·17	2·24	2·40	2·56	2·59
Parks, Pleasure Grounds, etc.	4·68	4·81	5·22	5·40	5·49	5·33	5·55	5·73
Lunacy and Mental Deficiency	9·71	9·92	10·55	10·76	10·77	11·02	11·38	11·84
Other Health	4·07	4·27	4·65	5·16	5·68	5·62	5·90	6·24
	46·04	46·97	49·54	51·96	52·59	52·97	54·66	56·58
Expenditure on Capital Account								
Sewers	4·21	4·10	4·46	6·46	8·97	8·26	5·72	5·54
Refuse	0·36	0·25	0·27	0·28	0·30	0·23	0·25	0·21
Tuberculosis	0·21	0·22	0·33	0·22	0·26	0·15	0·08	0·12
Venereal Diseases	0·01	0·01	0·01	0·01	—	—	—	—
Other Infectious Diseases	0·28	0·38	0·34	0·47	0·37	0·27	0·32	0·38
Maternity and Child Welfare	0·08	0·09	0·12	0·19	0·10	0·07	0·07	0·12
Baths, Wash-houses	0·55	0·47	0·57	0·99	1·09	0·92	0·46	0·56
Parks, Pleasure Grounds, etc.	1·16	1·39	1·70	2·17	1·69	0·81	0·79	1·37
Lunacy and Mental Deficiency	0·39	0·39	0·88	1·10	1·08	1·52	1·44	1·18
Other Health	0·33	0·33	0·39	0·57	0·55	0·30	0·25	0·36
	7·58	7·61	9·07	12·46	14·41	12·53	9·38	9·84

Poor Relief

£m.

	1919–20	1920–21	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27
Expenditure on Revenue Account . . .	19·20	25·28	34·82	35·72	32·46	31·41	34·63	43·71
Expenditure on Capital Account . . .	0·09	0·23	0·34	0·38	0·47	0·74	0·91	1·15

	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35
Expenditure on Revenue Account . . .	34·72	33·42	33·87	32·01	30·44	32·68	33·89	36·16
Expenditure on Capital Account . . .	1·34	1·17	0·92	0·80	0·58	1·06	0·58	0·76

POLICE

£m.

	1919–20	1920–21	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27
Expenditure on Revenue Account								
Police . . .	17·36	20·81	21·25	18·93	18·80	19·14	20·04	21·00
Justice . . .	1·12	1·36	1·38	1·30	1·26	1·28	1·31	1·31
	18·48	22·17	22·63	20·23	20·06	20·42	21·35	22·31
Expenditure on Capital Account								
Police . . .	0·04	0·09	0·09	0·01	0·01	0·07	0·12	0·22
Justice . . .	0·02	0·08	0·01	0·02	0·02	0·01	0·02	0·01
	0·06	0·17	0·10	0·03	0·03	0·08	0·14	0·23

	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35
Expenditure on Revenue Account								
Police . . .	21·13	21·31	21·66	22·27	22·27	21·54	21·53	22·33
Justice . . .	1·43	1·41	1·45	1·49	1·50	1·49	1·52	1·58
	22·56	22·72	23·11	23·76	23·77	23·03	23·05	23·91
Expenditure on Capital Account								
Police . . .	0·24	0·36	0·37	0·24	0·21	0·18	0·14	0·24
Justice . . .	0·02	0·01	0·01	0·03	0·05	0·04	0·03	0·04
	0·26	0·37	0·38	0·27	0·26	0·22	0·17	0·28

MINOR SPECIFIC

£m.

	1919–20	1920–21	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27
Expenditure on Revenue Account								
Libraries	1·01	1·41	1·48	1·47	1·48	1·58	1·71	1·77
Public Lighting	2·40	3·47	3·70	3·70	3·59	3·70	3·90	3·88
Fire Brigades	1·44	1·88	1·99	1·86	1·92	1·98	2·08	2·11
Land Drainage	0·67	0·87	0·87	0·95	1 02	1·01	0·97	0·99
Small Holdings	1·07	2·12	2·53	2·59	2·45	2·33	2·42	2·13
Registration of Electors	1·23	0·97	0·75	0·74	0·82	0·82	0·82	0·74
Valuation	0·15	0·31	0·33	0 26	0·27	0·28	0·35	0·32
Council Elections	0·19	0·13	0·18	0·20	0·11	0·19	0·22	0·13
Weights and Measures	—	0·30	0·30	0·28	0·27	0·28	0·30	0·31
Explosives Regs.	—	0·01	0·01	0·01	0·01	0·01	0·01	0·01
Inspection of Shops	—	0·03	0·03	0·03	0·03	0·03	0·03	0·03
Registration of Births and Deaths	0·11	0·15	0·14	0·13	0·12	0·13	0·12	0·12
	8·27	11·65	12·31	12·22	12·09	12·34	12·93	12·54
Expenditure on Capital Account								
Libraries	—	0·01	0·03	0·01	0·02	0·02	0·08	0·08
Public Lighting	—	0·02	0·02	0·03	0·01	0·03	0·06	0·08
Fire Brigades	0·05	0·17	0·22	0·08	0·13	0·13	0·18	0·21
Land Drainage	0·09	0·12	0·24	0·29	0·38	0·37	0·37	0·24
Small Holdings	4·49	6·14	2·92	1·09	0·42	0·34	0·44	0·26
Valuation	—	—	0·01	—	—	—	—	0·01
Weights and Measures	—	—	—	—	—	—	0·01	0·01
	4·63	6·46	3·44	1·50	0·96	0·89	1·14	0·89

(*continued on p. 301.*)

MINOR SPECIFIC (*continued*)

£m.

	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35
Expenditure on Revenue Account								
Libraries	1·79	1·86	2·04	2·22	2·21	2·23	2·32	2·49
Public Lighting	4·15	4·17	4·33	4·54	4·64	4·61	4·70	4·89
Fire Brigades	2·17	2·23	2·30	2·40	2·46	2·43	2·46	2·57
Land Drainage	1·05	1·03	1·10	1·24	1·37	1·49	1·81	1·90
Small Holdings	2·17	2·12	2·13	2·16	2·21	2·16	2·15	2·18
Registration of Electors	0·52	0·60	0·72	0·74	0·68	0·59	0 60	0·61
Valuation	0·73	1·24	0·99	0·87	0·73	0·88	1·12	0·91
Council Elections	0·20	0·22	0·13	0·23	0·18	0·14	0·22	0·19
Weights and Measures	0·32	0·33	0·34	0·37	0·38	0·38	0·38	0·43
Explosives Regs.	0·01	0·01	0·01	0·01	0·01	0·01	0·01	0·01
Inspection of Shops	0·03	0·03	0·03	0·03	0·03	0·02	0·02	0·02
Registration of Births and Deaths	0·13	0·14	0·15	0·16	0·19	0·22	0·24	0·28
	13·27	13·98	14·27	14·97	15·09	15·16	16·03	16·48
Expenditure on Capital Account								
Libraries	0·09	0·16	0·21	0·30	0·36	0·23	0·23	0·26
Public Lighting	0·08	0·04	0·05	0·09	0·07	0·06	0·06	0·07
Fire Brigades	0·19	0·22	0·22	0·26	0·27	0·21	0·19	0·37
Land Drainage	0·21	0·25	0·47	0·61	0·81	1·17	1·09	0·93
Small Holdings	0·20	0·35	0·35	0·58	0·48	0·31	0·36	0·48
Valuation	—	—	—	—	—	—	—	—
Weights and Measures	0·02	0·02	—	—	—	—	—	—
	0·79	1·04	1·30	1·84	1·99	1·98	1·93	2·11

ADMINISTRATION

£m.

	1919–20	1920–21	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27
Expenditure on Revenue Account								
Administrative	7·42	8·96	8·85	8·07	8·69	8·99	9·48	9·85
Legal and Parliamentary	0·16	0·25	0·35	0·25	0·25	0·28	0·29	0·32
Costs of Rate Collection	0·15	—	0·22	0·20	0·19	0·19	0·20	0·21
	7·73	9·21	9·42	8·52	9·13	9·46	9·97	10·38
Expenditure on Capital Account								
Administrative	0·63	0·86	1·09	0·88	0·38	0·39	0·43	0·42
Legal and Parliamentary	—	—	0·07	0·04	0·06	0·06	0·05	0·05
Costs of Rate Collection	—	—	—	—	—	—	—	—
	0·63	0·86	1·16	0·92	0·44	0·45	0·48	0·47

	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35
Expenditure on Revenue Account								
Administrative	9·20	9·36	10·03	10·69	11·52	10·81	11·02	11·84
Legal and Parliamentary	0·32	0·34	0·33	0·35	0·32	0·28	0·27	0·26
Costs of Rate Collection	1·72	1·77	1·86	1·85	1·84	1·83	1·85	1·91
	11·24	11·47	12·22	12·89	13·68	12·92	13·14	14·01
Expenditure on Capital Account								
Administrative	0·56	0·64	1·02	1·40	1·36	1·70	1·36	1·63
Legal and Parliamentary	0·08	0·04	0·06	0·12	0·02 Cr.	0·03	0·05	0·05
Costs of Rate Collection	—	—	—	—	—	—	—	—
	0·64	0·68	1·08	1·52	1·34	1·73	1·41	1·68

MISCELLANEOUS

£m.

	1919–20	1920–21	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27
Expenditure on Revenue Account . . .	10·64	8·76	8·38	7·43	6·73	6·34	6·03	6·65
Expenditure on Capital Account . . .	0·34	1·32	0·57	0·49	0·24	0·43	1·24	0·84

	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35
Expenditure on Revenue Account . . .	6·03	6·75	7·18	4·05	5·18	4·81	2·89	7·14
Expenditure on Capital Account . . .	0·58	0·96	1·43	1·50	1·34	0·78	1·09	1·36

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