

## CENTRAL-LOCAL FISCAL RELATIONS IN THE UNITED KINGDOM

In attempting to solve the problem of the proper relationship between central and local finance, a great deal is to be gained by studying the experiences and solutions of other countries. As a start in that direction, a survey of central-local fiscal relationship in the United Kingdom is presented in this memorandum.

### A Note of Explanation

The basic tables for this study require a certain amount of explanation as to the sources of the data, the classifications used, the estimates made, and so on. In order to keep the text reasonably clear of obstruction and avoid unnecessary repetition, these explanations are presented in footnotes to the tables, and the tables placed before the text. Other explanatory matters are presented in this note for the same reasons.

1. The United Kingdom is a unitary state. All power is concentrated at the center. It is made up of three units; (a) England and Wales, (b) Scotland, and (c) Northern Ireland. All are directly under the central authority of the King and Parliament. For most purposes they can be considered as one, but in some matters a differentiation is helpful.

Northern Ireland has a separate parliament and executive government. The Parliament has power to legislate for its own area except in regard to matters of Imperial concern and matters "reserved" to the Imperial Parliament -- making of peace or war, treaties, naturalization, external trade, coinage, postal service, etc. The executive power is vested in the Governor "on behalf of his majesty the King"; he is advised by ministers responsible to Parliament. The bulk of the taxation of Northern Ireland is imposed and collected by the Imperial authorities, who make certain deductions and remit the balance to the Northern Irish Exchequer.

Full legislative and executive powers for England, Wales, and Scotland are vested in the Imperial Parliament. Only in the case of local governments are special provisions made for Scotland. By a steady process

of devolution since 1885 the central control of Scottish local authorities is not controlled by the Ministry of Health, as is the case for England and Wales, but by a group of special Scottish Department, e.g. the Secretary of State for Scotland, the Department of Health, the Scottish Education Office. (Cf. Memorandum by the Scottish Office on the Local Government System of Scotland, 1925).

Until the Twenties, the territory that is now Eire was in some manner or other connected with the United Kingdom. An almost complete break came with the treaty of December 6, 1921, when the Irish Free State was established. In the tables, data for Eire are included up to 1922 only, and excluded thereafter.

2. The structure of local government in England and Wales requires some attention. The local structures of Scotland and Northern Ireland are somewhat different, but it seems advisable to leave them out of consideration rather than go into the detail which would be necessary.

Outside large cities there are three layers of local government. At the top is the administrative county, which has grown in power at the expense of the underlying units until it is responsible for the largest part of the administration of education, police highways, and public assistance. The entire area of the administrative county is subdivided into municipal boroughs, urban districts, and rural districts. Municipal boroughs are usually small cities. Their governmental organization differs from that of urban and rural districts, and they have somewhat wider powers. All these units of local government may operate such public utilities as seem desirable, but rural districts have undertaken comparatively few of these services. The third layer of local government is the parish. Parishes cover the entire area of the county, but owing to their small size they have very few powers remaining.

The county borough exists side by side with the administrative county and is essentially a combined city and county government, having the powers of both the administrative county and the municipal borough. Most of the large cities are county boroughs. The London Government, however, is made up of a county and subsidiary metropolitan boroughs. Here the county is responsible for education and welfare; the metropolitan boroughs for highways and health. In the matter of utilities the county operates the tramways; the boroughs are responsible for electricity, markets, and cemeteries.

The general plan of local government outside London is outlined in Chart I.

Chart I

Organization of English Local Government

Administrative County Principal functions: education, police, highways, welfare health			County Borough Principal functions: all county and borough functions
Municipal Borough Principal functions: health, housing, minor roads, public utilities, often education, sometimes police.	Urban District Principal functions: health, housing, minor roads, public utilities, sometimes education.	Rural District Principal functions: health, housing, sometimes minor roads, sometimes public utilities.	
Parish Nominal in urban areas. Principal function: protection of community interests.			

SOURCE: Mabel Newcomer, Central and Local Finance in Germany and England, 1937, p. 163

3. In order to get a fairly complete picture of central-local fiscal relations and the relative importance of the two levels of government in the national economy, non-budgetary as well as budgetary expenditures and revenues have been included in the tables. In fact, an attempt has been made to set forth all moneys flowing in and out of the hands of governmental bodies. Thus, the total outlays on, and revenues from, those public enterprises which are directly managed by the governmental authorities have been included, while no attention is paid to the public or semi-public boards, such as the B.B.C., the Central Electricity Board, and the London Passenger Transport Board, which independently manage their own finances.

Moreover, the annual individual contributions to, and public payments from various pension, unemployment and health insurance funds have been included. These, obviously, directly affect the national economy.

4. War finance presents a special and difficult problem. Rather than spread the whole study too thin, the question of war finance has been excluded, and only peace-time central-local relations have been treated.

5. The chief sources of the statistical data used in this study are indicated in the footnotes to the tables. A great deal of use was also made of certain secondary materials. Rather than acknowledge indebtedness at every point in the text, these sources are set forth below.

- Ursula K. Hicks, The Finance of British Government, 1938.  
Joseph Sykes, British Public Expenditure, 1933  
A Study in English Local Authority Finance, 1939  
Colin Clark, National Income and Outlay, 1937  
Herman Finer, English Local Government, 1934  
Mabel Newcomer, Central and Local Finance in Germany and England,  
1937  
George Jaszi, "The Budgetary Experience of Great Britain in the  
Great Depression", Public Policy, Vol. I, 1940.  
Gwilym Gibbon, "The Expenditure and Revenue of Local Authorities",  
Journal of the Royal Statistical Society, Vol. 99, Part 3.  
"The Public Social Services", Journal of the Royal Statistical  
Society, Vol. 100, Part 4,  
Report of the Committee on National Expenditure, 1931  
Report of the Committee on Local Expenditure, 1932  
R. Magill and E. P. King, A Summary of the British Tax System, 1934  
H. R. Bowen, English Grants-in-Aid, 1939  
Michael Daly, "Regional Differences in Rates and Rateable Values  
in England and Wales, 1921-1936", Quarterly Journal of  
Economics, Vol. 54, August 1940.

Table 1

REVENUES, EXPENDITURES, AND DEBTS OF THE NATIONAL AND LOCAL GOVERNMENTS OF THE UNITED KINGDOM  
(In millions of pounds)

Fiscal Year	Revenues			Expenditures			Debts		
	United Kingdom	National Government	Local Governments	United Kingdom	National Government	Local Governments	United Kingdom	National Government	Local Governments
			1/			2/			
1902-03	257.4	161.4	96.0	319.0	167.4	151.6	1,235.3	798.3	437.0
1912-13	341.8	202.3	139.5	359.1	173.2	185.9	1,361.6	716.3	645.3
1914-15	396.6	245.1	151.5	746.9	541.9	205.0	1,827.5	1,165.8	661.7
1922-23	1,307.4	981.7	325.7	1,264.8	783.4	481.4	8,719.5	7,812.6	906.9
1928-29	1,287.4	916.0	371.4	1,345.2	762.8	582.4	8,949.0	7,620.9	1,328.1
1932-33	1,280.3	914.0	366.3	1,433.6	862.1	571.5	9,432.8	7,859.7	1,573.1
1934-35	1,279.6	897.2	382.4	1,372.0	760.2	612.0	9,513.0	7,902.4	1,610.6
1935-36	1,337.3	941.2	396.1	1,430.6	780.0	650.6	9,546.6	7,901.6	1,645.0
1936-37	1,413.6	999.3	416.3	1,487.2	806.7	680.5	9,591.1	7,909.6	1,681.5
1937-38	1,489.6	1,054.6	435.0	1,590.1	875.6	714.5	9,868.0	8,149.0	1,719.0
1938-39	1,570.1	1,113.1	457.0	1,804.4	1,054.2	750.2	10,060.1	8,301.1	1,759.0
1939-40	1,719.2	1,240.2	479.0	2,695.4	1,907.7	787.7	10,884.2	9,083.2	1,801.0

1/ Receipts from grants-in-aid have been deducted.

2/ Grants-in-aid to local units have been deducted.

Table 2

REVENUES, EXPENDITURES, AND DEBTS OF THE NATIONAL AND LOCAL GOVERNMENTS  
PERCENTAGE DISTRIBUTION

(Percentage distribution according to jurisdiction)

Fiscal Year	Revenues			Expenditures			Debts		
	United Kingdom	National Government	Local Governments	United Kingdom	National Government	Local Governments	United Kingdom	National Government	Local Governments
1902-03	100	62.7	37.3	100	52.5	47.5	100	64.6	35.4
1912-13	100	59.2	40.8	100	48.2	51.8	100	52.6	47.4
1914-15	100	61.8	38.2	100	72.6	27.4	100	63.8	36.2
1922-23	100	75.1	24.9	100	61.9	38.1	100	89.6	10.4
1928-29	100	71.2	28.8	100	56.7	43.3	100	85.2	14.8
1932-33	100	71.4	28.6	100	60.1	39.9	100	83.3	16.7
1934-35	100	70.1	29.9	100	55.4	44.6	100	83.1	16.9
1935-36	100	70.4	29.6	100	54.5	45.5	100	82.8	17.2
1936-37	100	70.6	29.4	100	54.2	45.8	100	82.5	17.5
1937-38	100	70.8	29.2	100	55.1	44.9	100	82.6	17.4
1938-39	100	70.9	29.1	100	58.4	41.6	100	82.5	17.5
1939-40	100	72.1	27.9	100	70.8	29.2	100	83.5	16.5

Table 3

TAXATION, EXPENDITURES, AND DEBTS OF THE NATIONAL AND LOCAL GOVERNMENTS  
AS PERCENTAGE OF NATIONAL INCOME

Fiscal Year	National Income (net) (in £ millions)	Per Cent of National Income Represented by Government Taxation			Per Cent of National Income Represented by Government Expenditures			Number of Years Purchase of National Income Represented by Public Debt		
		United Kingdom	National Govt.	Local Govts.	United Kingdom	National Govt.	Local Govts.	United Kingdom	National Govt.	Local Govts.
1902-03	1,795 <sup>1/</sup>	11.0	7.8	3.2	17.8	9.3	8.4	0.69	0.44	0.24
1912-13	2,241	11.0	7.5	3.5	16.0	7.7	8.3	0.61	0.32	0.29
1928-29	4,351	22.0	17.6	4.4	30.9	17.5	13.4	2.06	1.75	0.31
1932-33	3,874	25.3	21.0	4.3	37.0	22.3	14.8	2.43	2.03	0.41
1934-35	4,611	21.2	17.4	3.8	29.8	16.5	13.3	2.06	1.71	0.35
1935-36	4,504	22.6	18.5	4.1	31.8	17.3	14.4	2.12	1.75	0.37
1936-37	4,519	23.9	19.6	4.3	32.9	17.9	15.1	2.12	1.75	0.37
1937-38	4,800	23.9	19.7	4.2	33.1	18.2	14.9	2.06	1.70	0.36
1938-39	5,000	24.4	20.1	4.3	36.1	21.1	15.0	2.01	1.66	0.35
1939-40	5,600	24.1	20.1	4.0	48.1	34.1	14.1	1.94	1.62	0.32

<sup>1/</sup> From Colin Clark, National Income and Outlay, 1937, pp. 88, 90, and 232. The figures for 1902-03 were estimated on the basis of the annual averages for 1894-1903 and 1904-10 as given by Mr. Clark; those for 1912-13 are the annual average for 1911-13. For 1928-29 and later years, the national income for the fiscal period (April 1st to March 31st) was arrived at by taking the figures for three-quarters of one year and one-quarter of the following year (from Mr. Clark's series). The figures for 1936-37 and subsequent years were arrived at by deducting £400 million for maintenance and depreciation (Mr. Clark's estimate of maintenance and depreciation during the early 30's is close to £400 million per year, and the White Paper's estimate for 1938 is £400 million) from Mr. Clark's gross income estimates for these years as quoted by The Economist, Budget Supplement, April 13, 1940. The White Paper's estimates ("An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938 and 1940." Cmd. 6261) for 1938 and 1940 are close to those of Mr. Clark -- £4,415 million for 1938 and £5,586 for 1940.

Table 4

PER CAPITA TAX BURDEN, GOVERNMENTAL EXPENDITURES, AND PUBLIC DEBT:  
UNITED KINGDOM  
(In pounds)

Fiscal Year	Population (Thousands)	Per Capita Tax Burden			Per Capita Governmental Expenditures			Per Capita Public Debt		
		United Kingdom	National Govt.	Local Govts.	United Kingdom	National Govt.	Local Govts.	United Kingdom	National Govt.	Local Govts.
1902-03	41,459 <sup>1/</sup>	4.8	3.4	1.4	7.7	4.0	3.7	29.8	19.3	10.5
1912-13	45,222	5.5	3.7	1.7	7.9	3.8	4.1	30.1	15.8	14.3
1922-23	44,026	22.9	18.9	4.0	28.7	17.8	10.9	198.1	177.5	20.6
1928-29	45,601	21.0	16.8	4.2	29.5	16.7	12.8	196.2	167.1	29.1
1932-33	46,335	21.2	17.6	3.6	30.9	18.6	12.3	203.6	169.6	34.0
1934-35	46,666	21.0	17.2	3.8	29.4	16.3	13.1	203.9	169.3	34.5
1935-36	46,869	21.8	17.8	4.0	30.5	16.6	13.9	203.7	168.6	35.1
1936-37	47,081	23.0	18.8	4.1	31.6	17.1	14.5	203.7	168.0	35.7
1937-38	47,289	24.3	20.0	4.3	33.6	18.5	15.1	208.7	172.3	36.4
1938-39	47,494	25.6	21.1	4.5	38.0	22.2	15.8	211.8	174.8	37.0
1939-40	47,676	28.3	23.6	4.7	56.5	40.0	16.5	228.3	190.5	37.8

<sup>1/</sup> For 1902-03, the population figures for April, 1901 were used; for 1912-13, those of April, 1911 were used. For both periods, they are inclusive of the territory which is now Eire. The local tax and debt data for these years are also inclusive of figures for Eire. The data for later years include Northern Ireland only. For 1922-23, the population figures for June, 1921 were used. For 1928-29 and subsequent years, the estimated figures for the middle of each prior year (e.g., for 1928-29, the population figure for the middle of 1928) were used.



Table 5  
EXPENDITURES OF THE NATIONAL GOVERNMENT OF THE UNITED KINGDOM  
(In millions of pounds)

Fiscal Year	Total 1/	Civil (adminis- tration)	Social 2/	Public enter- prise	Develop- mental 3/	Defense	Interest payments 6/	Exchequer contributions to local revenues	Payments to sinking fund 7/	Total grants to local govern- ments 8/
1902-03	183.6	14.1	13.9	14.6	2.3	100.6	27.2	10.9	--	16.2
1912-13	199.5	16.8	51.4	23.0	6.2	72.5	19.9	9.7	4.6	26.3
1914-15	569.6	17.5	51.9	26.1	5.4	437.5	21.7	9.5	1.0	27.7
1922-23	871.0	39.8	271.6	49.9	11.8	163.4	324.0	10.5	--	87.6
1928-29	866.4	53.8	292.8	57.2	21.1	114.8	311.5	15.2	57.5	103.6
1932-33	1,008.2	62.5	433.4	59.3	22.9	103.0	282.2	44.9	26.3	146.1
1934-35	907.2	38.7	407.1	64.0	26.4	113.9	211.7	45.4	12.3	147.0
1935-36	937.6	63.6	387.3	67.2	25.8	136.9	211.5	45.3	12.5	157.6
1936-37	971.2	62.7	366.0	72.3	27.4	186.7	210.9	45.2	13.1	164.5
1937-38	1,042.5	81.1	336.7	72.9	15.4	4/266.1	216.2	54.1	10.5	166.9
1938-39	1,232.7	94.9	369.8	75.3	21.9	399.8	216.8	54.2	13.2	178.5
1939-40	2,085.2	101.9	360.5	79.3	16.5	5/1,250.0	222.8	54.2	11.4	177.5

1/ Exclusive of payments to sinking fund.

2/ Includes, besides outlays on services such as education and health, old age pensions, unemployment insurance benefits and health insurance benefits. For details, see Table 8.

3/ Chiefly outlays on roads.

4/ Figures for 1937-38 and subsequent years include outlays on civil defense and issues out of defense loans.

5/ Estimate, the Economist, Budget Supplement, April 13, 1940.

6/ Includes management and expenses (roughly £1 million annually from 1934-35 to date).

7/ A statutory sinking fund was instituted under the Finance Act of 1923.

8/ For the years 1902-03 to 1934-35, figures of receipts of local authorities from government grants were used. For 1936-37 and subsequent years, Financial Statement data of Exchequer grants for local services were used. These data are not identical within a given fiscal year because of the time lag between authorization and collection.

SOURCES: Statistical Abstracts for the United Kingdom; Finance Accounts of the United Kingdom; Financial Statements; The Economist, Budget Supplement, April 13, 1940.

Table 6  
 SOCIAL EXPENDITURES OF THE NATIONAL GOVERNMENT OF THE UNITED KINGDOM  
 (In millions of pounds)

Fiscal Year	Total	Education	Pensions			Unemployment benefits <sup>4/</sup>	Public health benefits <sup>4/</sup>	Other social outlays <sup>5/</sup>
			Old age <sup>1/</sup>	Military	Other <sup>3/</sup>			
1902-03	13.9	13.3	---	2/	0.6	---	---	---
1912-13	51.4	19.5	12.2	2/	0.3	0.6	15.7	2.6
1914-15	51.9	20.2	12.6	2/	0.3	1.0	15.8	1.5
1922-23	271.6	49.8	22.5	81.2	1.4	52.4	29.4	34.9
1928-29	292.8	49.5	49.1	56.5	11.2	51.0	37.6	37.0
1932-33	433.4	51.6	59.8	47.2	24.1	112.4	37.5	101.3
1934-35	407.1	52.8	62.0	43.7	26.4	93.8	36.0	92.4
1935-36	387.3	55.9	64.0	42.7	27.2	92.7	36.7	63.1
1936-37	365.5	53.5	65.7	41.7	27.2	90.7	33.3	53.4
1937-38	336.7	63.1	63.0	40.6	27.7	42.3	39.3	55.2
1938-39	369.3	65.3	71.5	39.7	23.4	62.1	40.4	62.4
1939-40 <sup>6/</sup>	360.5	66.9	74.2	33.5	28.5	43.3	44.2	64.4

- <sup>1/</sup> Comprises old age pensions payable from age 70 and contributory pensions, age 65-70 (which came into force on January 2, 1928).
- <sup>2/</sup> Military pensions are not identified in the Finance Accounts and Financial Statements for 1902-03, 1912-13, and 1914-15.
- <sup>3/</sup> Chiefly widows' and orphans' pensions (contributory and non-contributory).
- <sup>4/</sup> Includes costs of administration but does not include interest payments or debt payments of funds (i.e. transfer payments).
- <sup>5/</sup> Chiefly health and labor outlays; includes also certain administrative costs connected with social expenditures.
- <sup>6/</sup> Estimated.

SOURCES: Statistical Abstracts for the United Kingdom; Finance Accounts of the United Kingdom; Reports of the Unemployment Insurance Statutory Committee; National Health Insurance Fund Accounts; Widows', Orphans' and Old Age Contributory Accounts.

Table 7  
EXPENDITURES OF LOCAL GOVERNMENTS IN THE UNITED KINGDOM <sup>1/</sup>  
(In millions of pounds)

Fiscal Year	Total	Civil	Social	Public enterprises	Developmental	Other	Loan charges	Expenditures out of loans for capital works
1902-03	151.6	<sup>2/</sup> 8.9	<sup>3/</sup> 51.8	<sup>4/</sup> 46.7	<sup>5/</sup> 21.1	<sup>6/</sup> 23.1	<sup>1/</sup> 24.1	<sup>1/</sup> 40.2
1912-13	185.9	11.1	72.4	54.3	20.0	28.1	39.1	23.3
1914-15	205.0	14.4	77.0	64.3	23.5	25.8	41.1	25.1
1922-23	481.4	29.6	220.1	150.6	56.1	25.0	65.9	84.6
1928-29	582.4	33.6	268.8	182.8	68.8	28.4	101.4	116.0
1932-33	571.5	34.5	253.9	191.3	67.5	24.3	120.8	96.2
1934-35 <sup>7/</sup>	612.0	36.3	285.2	198.6	64.7	27.2	123.5	88.8
1935-36	650.6	38.5	312.7	202.4	66.8	30.2	122.9	106.6
1936-37	680.5	40.6	331.0	216.1	63.9	28.9	125.3	124.7
1937-38 <sup>8/</sup>	714.5	42.6	344.2	229.1	60.7	37.9	127.8	145.9
1938-39 <sup>8/</sup>	750.2	44.7	358.0	242.8	57.7	47.0	130.4	170.7
1939-40 <sup>8/</sup>	787.7	46.9	372.3	257.4	54.8	56.3	133.0	199.7

- <sup>1/</sup> Expenditures out of loans for capital works and loan charges (i.e., interest on and provision for re-payment of borrowed moneys) are included in the figures under the various classifications, (as well as set aside in columns 7 and 8). Payments into sinking funds are not distinguished in the British reports.
- <sup>2/</sup> Comprises general administrative outlays, including police, justice, fire brigades and public lighting.
- <sup>3/</sup> Comprises outlays on education, health (including parks and sewers), relief of the poor, and housing (to the extent to which housing is subsidized - i.e., the amount by which expenditures on housing exceed receipts from rents).
- <sup>4/</sup> Comprises (a) outlays on trading services, (b) outlays on items which pay for themselves (e.g., private street works and small holdings and allotments), and (c) housing expenditures to the amount covered by receipts from rents.
- <sup>5/</sup> Comprises expenditures on highways and bridges.
- <sup>6/</sup> Includes loan charges for northern Ireland (which are not allocated to various services as are those for England, Wales, and Scotland).
- <sup>7/</sup> Figures for Scotland for 1934-35 and subsequent years are not available, and have been estimated.
- <sup>8/</sup> No local figures for 1937-38 and subsequent years are available. Total expenditures for those years have been estimated on the basis of a modified projection of trends.

SOURCES: Statistical Abstracts for the United Kingdom; Twentieth Annual Report of the Ministry of Health.

Table 8

COMBINED EXPENDITURES OF THE NATIONAL AND LOCAL GOVERNMENTS OF THE UNITED KINGDOM <sup>1/</sup>

(In millions of pounds)

Fiscal Year	Total	Civil	Public enterprises	Social	Develop- mental	Defense	Interest payments <sup>2/</sup>	Other	Local loan charges <sup>2/</sup>
1902-03	319.0	23.0	61.3	65.7	23.4	100.6	27.2	23.1	24.1
1912-13	359.1	24.9	77.3	107.4	25.6	72.5	19.9	28.1	39.1
1914-15	746.9	28.7	90.4	111.6	28.5	437.5	21.7	25.8	41.1
1922-23	1,264.8	58.8	200.5	439.4	58.1	163.4	324.0	25.0	65.9
1928-29	1,345.2	75.2	240.0	502.1	75.7	114.8	311.5	28.4	101.4
1932-33	1,433.6	84.8	250.6	634.2	76.8	103.0	282.2	24.3	120.8
1934-35	1,372.0	62.1	262.6	636.5	79.9	113.9	211.7	27.2	123.5
1935-36	1,430.6	88.2	269.6	637.0	80.9	136.9	211.5	30.2	122.9
1936-37	1,487.2	88.7	288.4	632.3	78.1	186.7	210.9	28.9	125.3
1937-38	1,590.1	105.1	302.0	616.2	65.9	266.1	216.2	37.9	127.8
1938-39	1,804.4	116.6	318.1	662.1	64.6	399.8	216.8	47.0	130.4
1939-40	2,695.4	129.8	336.7	665.5	54.8	1,250.0	222.8	56.3	133.0

<sup>1/</sup> Excluding from the national figures grants to local authorities, to avoid double counting. Data of grants for specified services are available for England and Wales only. Grants to Scotland and Northern Ireland have been deducted from the total only, (during the 30's they amounted to roughly £20 million), as were grants in relief of rates for England and Wales.

<sup>2/</sup> Interest on national debt. Local loan charges are allocated to services in the British figures, and cannot be segregated from the individual services. Data of total loan charges are given, however, and have been set aside in the last column.

Table 9

EXPENDITURES FOR DIFFERENT FUNCTIONS OF THE NATIONAL AND LOCAL GOVERNMENTS  
PERCENTAGE DISTRIBUTION

Fiscal Year	Total			Civil			Public Enterprises			Social			Developmental			Defense	Interest	Other
	United Kingdom	National Government	Local Governments	United Kingdom	National Government	Local Governments	United Kingdom	National Government	Local Governments	United Kingdom	National Government	Local Governments	United Kingdom	National Government	Local Governments	National Government	National Government	Local Governments
1902-03	100	52.5	47.5	7.2	4.4	2.8	19.2	4.6	14.6	20.6	4.4	16.2	7.3	0.7	6.6	31.5	8.5	7.2
1912-13	100	48.2	51.8	6.9	3.8	3.1	21.5	6.4	15.1	29.9	9.7	20.2	7.1	1.5	5.6	20.2	5.5	7.8
1914-15	100	72.6	27.4	3.8	1.9	1.9	12.1	3.5	8.6	14.9	4.6	10.3	3.8	0.7	3.1	58.6	2.9	3.5
1922-23	100	61.9	38.1	4.6	2.3	2.3	15.9	4.0	11.9	34.7	17.3	17.4	4.6	0.2	4.4	12.9	25.6	2.0
1928-29	100	56.7	43.3	5.6	3.1	2.5	17.8	4.2	13.6	37.3	17.3	20.0	5.6	0.5	5.1	8.5	23.2	2.1
1932-33	100	60.1	39.9	5.9	3.5	2.4	17.5	4.2	13.3	44.2	26.5	17.7	5.4	0.7	4.7	7.2	19.7	1.7
1934-35	100	55.4	44.6	4.5	1.9	2.6	19.1	4.6	14.5	46.4	25.6	20.8	5.8	1.1	4.7	8.3	15.4	2.0
1935-36	100	54.5	45.5	6.2	3.5	2.7	18.8	4.7	14.1	44.5	22.6	21.9	5.7	1.0	4.7	9.6	14.8	2.1
1936-37	100	54.2	45.8	6.0	3.3	2.7	19.4	4.9	14.5	42.5	20.2	22.3	5.3	1.0	4.3	12.6	14.2	1.9
1937-38	100	55.1	44.9	6.6	3.9	2.7	19.0	4.6	14.4	38.8	17.2	21.6	4.1	0.3	3.8	16.7	13.6	2.4
1938-39	100	58.4	41.6	6.5	4.0	2.5	17.6	4.1	13.5	36.7	16.9	19.8	3.6	0.4	3.2	22.2	12.0	2.6
1939-40	100	70.8	29.2	4.8	3.1	1.7	12.5	3.0	9.5	24.7	10.9	13.8	2.0	---	2.0	46.4	8.3	2.1

Table 10

## TAX RECEIPTS OF THE NATIONAL GOVERNMENT OF THE UNITED KINGDOM

(In millions of pounds)

Fiscal Year	Total	Income	Death Duties	Stamp Duties	Customs	Excises	Motor Vehicle	Pay Roll	Other
1902-03	139.7	38.7	18.1	8.2 <sup>1/</sup>	34.6	37.4	--	-- <sup>2/</sup>	2.7 <sup>3/</sup>
1912-13	168.2	44.8	25.2	10.0	33.5	38.0	--	13.4	3.3
1914-15	207.6	69.4	28.4	7.6	38.7	42.3	--	18.3	2.9
1922-23	833.3	379.0	56.9	22.2	123.0	157.3	12.3	58.6	24.0
1928-29	764.8	293.8	80.6	30.1	119.0	134.0	25.4	79.5	2.4
1932-33	814.6	312.2	77.1	19.2	167.2	120.9	27.9	87.0	3.1
1934-35	802.4	280.0	81.4	24.1	185.1	104.6	31.5	92.6	3.1
1935-36	835.4	289.1	88.0	25.8	196.6	106.7	30.8	96.4	1.7
1936-37	885.8	310.8	88.0	29.1	211.3	109.5	32.7	102.7	1.7
1937-38	947.2	355.0	89.0	24.2	211.6	113.7	34.6	105.9	3.2
1938-39	1,003.3	398.4	77.4	21.0	226.3	114.2	35.6	106.9	23.5
1939-40	1,125.0	459.9	77.7	17.1	262.1	137.9	34.1	108.0	28.2

<sup>1/</sup> Consists of duties on (a) stock and share transfers, (b) cheques and bills, (c) land and property, and (d) certain miscellaneous items.

<sup>2/</sup> Includes all compulsory contributions to social insurance and pension funds. Figures for 1938-39 and 1939-40 were partly derived from Reports of the Unemployment Insurance Statutory Committee; National Health Insurance Fund Accounts; Widows, Orphans and Old Age Contributory Accounts; and Finance Accounts of the United Kingdom; and were partly estimated.

<sup>3/</sup> The only substantial receipts included in the miscellaneous group are corporation profits taxes of around 20 millions for 1922-23; and the National Defense Contribution of over 20 millions for 1938-39 and 1939-40.

SOURCES: Statistical Abstracts for the United Kingdom; the Economist, Budget Supplement, April 13, 1940; Finance Accounts of the United Kingdom; and sources included in foot-note No. 2.

### Agencies of Control

Although great importance was attached to local initiative in the nineteenth century, there has never been in England a local autonomy comparable to the freedom which American cities have enjoyed. A considerable amount of control by the center was always inherent in the British system.

Local authorities do not possess the inherent and independent power to frame their constitution or determine the scope and character of their functions. The general authority of local governing bodies is derived authority, derived from Parliament. The fundamental principles determining organization, size, and functions of local authorities are imposed sometimes as a command, and sometimes as permission within limits established by statute. What local authorities must do, and what they may do, what they must spend, and what they may spend, these vital things are dependent upon the specific authorization of Parliament.

The actual application of these principles is in the hands of the Departments in Whitehall, to whom considerable power is delegated by statute. The central administrative authority guides and controls; it exercises a general tutelage and discipline.

The Courts, too, play a part. The powers and duties of local authorities are rarely laid down in precise and unmistakable detail in statutes. Some powers are discretionary, others obligatory. It has been necessary for the Courts to determine exactly what the discretionary powers of local authorities really involve, and in what circumstances the local authorities can use their discretion in the performance of the obligatory duties. In a number of cases, the Courts have been expressly excluded by statute from interfering with the powers wielded by the central

Departments over local authorities, but these, though exceedingly important in principle, are comparatively few in number when contrasted with the cases in which the Courts may intervene. The control of the Courts over local authorities invariably manifests itself in three categories of cases:

1. Where the authorities go beyond the powers granted to them by statute (i.e. commit ultra vires acts);
2. Where the authorities are not performing the duties imposed on them by statute; and
3. Where the authorities exercise functions subject to appeal to the Courts.

Thus, the law not only hedges local authorities about very narrowly, but provides for its own execution through two means, administrative control and judicial control.

#### Central Control of Local Finances

There is, obviously, a very intimate relationship between governmental policy and public finance. Thus, central control of whatever nature over local authorities will in some way affect their finances. Some methods of control, however, affect local finance more directly, and on these we shall concentrate.

Methods of control of local finance by the central government fall into two broad classes: (a) those which emerge as effects of supervision which is primarily political; and (b) more direct financial control.

##### A. Political Supervision

1. Since World War I, by far the greatest changes in the tempo and direction of local expenditure are traceable directly to changes in local responsibilities depending on legislation. This legislation has been either compulsory or heavily grant-aided. Permissive unassisted legislation (which



was common--and largely ineffectual--before the war) has almost entirely disappeared. The most striking examples of the effect of legislation in securing expansion are to be found in the field of housing, while the economy provisions of 1931 illustrate the reverse course. Changes such as these are by themselves of sufficient magnitude to alter the whole layout of local budgets.

2. Another method of political control which has considerably increased since the first World War is the determination of the political (and hence financial) status of individual local authorities by Parliament.

A change of administrative status means an alteration of the duties and financial responsibilities of a local authority. Considerable changes in the status of particular districts have been brought about as a result of the financial reorganization introduced by the Acts of 1925 and 1929.

3. The central government has a power of approval in the alterations of areas. As a result of the Local Government Act of 1929, extensive alterations in district boundaries are being made (under central supervision) by the county councils. The aim is to achieve a more effective and more economical unit of government. In consequence of redistricting, the number of rural districts was reduced from 718 to 539 between 1928-29 and 1934-35, and the number of urban districts was reduced from 782 to 697 in the same period.

4. The use by central Departments of Statutory Rules and Orders and persuasive circulars directly affects local policy and the administration of local functions. The government Departments which are responsible for carrying out the statutes concerning the constitution and functions of local authorities apply the law by means of Orders and Regulations. Also, immediately

after the passage of a statute, the central Departments frequently issue memoranda and circulars explaining the law and suggesting methods of administering it.

Furthermore, the Departments are made responsible by statute for the efficiency of the service coming within their jurisdiction. They therefore act as guide, mentor, and encourager of the authorities responsible for the local execution of the powers, publishing explanations, statistics, recommendations, etc. In addition, the Departments have numerous bodies for research and consultations, making available to the local authorities expert advice. The central authorities keep a constant check on local conditions and actions by means of inquiries conducted by central officers and by means of certain required reports and returns.

All this central direction and tutelage has extreme significance for the carrying out of unified and coordinated policies. The rapid reaction to the economy provisions of 1931 is a good illustration of this. It is also important in the attempt to bring standards of service (as, for example, in education and health) to a uniform level.

The extent of financial control which may be exercised indirectly by political means is thus very considerable. Legislative and administrative control is clearly an effective tool for long-period development. Also, though rather unwieldy for use in the trade cycle, it may secure important short-period changes in activity, if backed up by more direct financial measures (as illustrated by the experience of the Economy Act of 1931).

#### B. Financial Controls

Purely financial control over local policy and activity is exercised in several ways: (1) by right of audit and by accompanying statutory requirements of certain statistical returns, (2) by control over long-term

borrowing, and (3) by the grant-in-aid system. The relevant central authority for (1) and (2) is the Ministry of Health. As regards (3), the grants contributed by the Board of Education, the Home Office, and the Ministry of Transport are also of considerable importance. Since Departments work in conjunction, and all ultimately under Treasury supervision, the prospects of coordinated action are not much diminished by this diversification of financial control (although it may possibly tend to weaken the chance of a quick response to cyclical changes).

1. Audit - The accounts of all Counties, Urban and Rural Districts, and Parishes are annually audited by officials of the central authority-- the District Auditors. Extraordinary audits may be, and from time to time are held; and they enable the central authority to begin operations the moment a local emergency is sensed, and before harm is caused by delay. The general accounts of County and non-County Boroughs are not audited, but certain specified accounts of these units are audited, and they may by local Act subject themselves to audit by the Ministry of Health. Sometimes the Ministry of Health forces such an Act as the price of assistance. Yet there are many weaknesses in this chain of control. In the absence of detailed information on a number of points (which is impossible to obtain as there is no uniform system of cost accounting), the District Auditors can hardly perform any more useful direct economic function than disallowing illegal excesses. The information furnished by the centralized audit, together with the various required statistical returns, furnishes, however, a basis for a more coordinated policy and a more thorough financial control in the long run.

2. Supervision of borrowing - All local loans require authorization by the central authority, except where loan powers have been obtained directly

from Parliament.

Local authorities are controlled in their borrowing powers by two instruments: (a) they cannot borrow except according to certain statutes which define the purposes and state the maximum periods for repayment (e.g., for purchase of tramways a maximum of 30 years; for electricity plant, 20 years; land for housing, 80 years; and for schools, 60 years;) and (b) the central Departments sanction the scheme and the occasion of the loan, and exercise a discretion regarding the period for repayment. Actually, the sanctioning authority for loans is vested mainly in the Ministry of Health, even when the subject comes under the general superintendence of other Departments, e.g. school buildings and the Board of Education, and roads and the Ministry of Transport. Concentration of the sanctioning power in one Department permits an effective method of reviewing the whole financial position of a local authority. The Ministry of Health must be satisfied that the works are needed, that they are suitable and soundly planned, and that the financial condition of the authority warrants the raising of a loan.

With few exceptions, permission to borrow requires three steps. First, a preliminary sanction must be obtained from the Ministry. This depends mainly on the volume of outstanding debt, relative to rateable value. Next, a local inquiry must be held. Finally, a detailed return of the purposes for which the loan is required must be furnished. Although there are many obvious advantages in such a rigid system of control, the whole process is somewhat lengthy, and in the short period tends to limit the amount of borrowing undertaken. Its effect on the volume of investment in the long run is not clearly discernible; it has certainly been successful in preventing over-borrowing.

There is the question whether rapid short-term expansion and contraction (such as would be necessary for a cyclical public works program to be effective) could be brought about under the present system. One method of rapidly increasing local investment would be for the central government to increase its grants for capital expenditures. So far this method has been used very sparingly. In 1936-37, for instance, direct grants for capital works were roughly £4 million, while total grants amounted to over £139 million. Another method is for the Exchequer to assume responsibility for part of the interest charge. The rapid expansion of housing owes much to this factor. These methods alone are not sufficient, however. Sudden expansion requires that local plans be ready in advance. Cognizance of this fact was taken in 1938, when the Minister of Health asked each local authority to undertake a survey of their probable capital expenditure during the following 5 years, and to submit to him a program of the capital works which they proposed to carry out in the period, with a rough estimate of the probably cost.

In the circular making this request, the Minister pointed out that it was only by such means that authorities could take a reasonably long view of their future requirements, and that a long-term review of questions of capital expenditures was necessary not merely in order to secure smooth progress of operations of local authorities, but as a matter of national economic policy. It was emphasized that the program to be submitted could be provisional only and that it was of primary importance that an authority should be able to accelerate or retard the execution of its program as circumstances might require. Suggestions were also made

for settling questions of priority and it was recommended that the necessary preparations for schemes likely to involve much preliminary work should be made so as to enable the actual work to be put in hand with a minimum of delay when conditions were most favorable. With a shelf of local works being developed, and with questions of priority and machinery being worked out, the possibilities for rapidly adjusting local investment to national fiscal policy have been greatly enhanced.

3. Grants-in-aid.- The most important instrument of financial control in the British system is the grant-in-aid. Indeed, in few, if any, countries do grants-in-aid play as important a part in the financial relations of national and local governments as in Great Britain. Because of its importance in the British fiscal structure, the grant system deserves detailed attention.

The grant-in-aid can be, and has been, used for a number of purposes, each of which has inherent in it some element of control. The purposes which have been the chief stimuli to central grants have been: (1) the improvement of local government services, (2) compensation for lost revenue sources or for new burdens imposed by the central government, (3) general relief of local rates in order to carry out a national policy, and (4) equalization of local resources.

It is apparent that the purpose of the grant will influence the basis of distribution. Thus, percentage (or matching) grants have been used to stimulate local governments to higher standards of service, whereas block grants, which offer no incentive to more or better local services, have been used to equalize resources.

Prior to 1929 the purpose of most grants was the improvement of local government services, and percentage grants were widely used. These encouraged localities to expand services, but there were not well designed to achieve national distribution of fiscal burdens, for wealthy districts were obviously able to spend more and thus secure larger grants than poor districts. This tended to accentuate rather than alleviate discrepancies in the fiscal resources of different regions and made possible low tax rates in wealthy regions, while compelling high rates in depressed areas where the need for relief was greatest.

Moreover, prolonged unemployment had greatly increased the burdens and expenditures of local authorities. The rates for poor relief tripled between 1919 and 1927. With declining income the burden of the rates would have become greater even though the amount had remained stationary. To have the amount increase seemed intolerable. Moreover, the increases were greatest just in those localities least able to pay. The absence of any important equalizing factor in the grant system was more than ever apparent. The average rate in the pound was nearly 13 shillings in 1927-28. This was high, being more than 60 per cent of total annual rental value. But in a number of districts, especially in the depressed coal mining counties, rates exceeded 20 shillings, the full annual rental value; in a few cases rates exceeded 30 shillings, or 150 per cent. Reform was due for the whole system.

The Local Government Act of 1929 was introduced with a dual purpose; as a remedy for the disordered condition of local fiscal structures and as a method of promoting industrial recovery. On both these counts the reforms and their consequences are of interest to us.

Before entering upon a discussion of the fundamental changes brought about by the reforms of 1929, an explanation of the English local rating system is necessary.

All local units have the right to levy rates, and the rates comprise the one local tax source available, except for a few unimportant licenses administered by the counties. Thus local governments in England are even more restricted in their revenue sources than local governments in the United States. The rates are levied, much as the general property tax is levied in the United States, to cover the excess of estimated expenditures over other income. The rates differ materially in their nature, however, from the general property tax. In the first place, they are levied on



estimated net rental values instead of on capital values. In the second place, they are limited to income from real estate. Personal property was definitely exempted as early as 1840. In the third place, they are levied on the occupier rather than on the owner. The owner pays on property which he himself occupies but unoccupied property is exempt.

As was pointed out above, the whole local rate structure was in an unhappy state. Extreme variation in rates was the rule. In 1928, the year preceding the introduction of the Local Government Act, the lowest rate levied in England and Wales was 85 pence per pound of annual value and it was levied in the comparatively prosperous industrial area in the Southeast. The highest rate was 366 pence per pound of annual rent and it was levied in the depressed area of Southern Wales. In general, the burden of local taxation was greatest in the depressed areas. This heavier taxation, it was argued, obstructed the recovery in these areas in several ways. It encouraged the migration of industry to other regions. It offered a constant incentive to the landowner to let his property remain unoccupied and thus escape taxation. Moreover, with each removal of property from the valuation lists the burden on the remaining properties became much heavier.

The Local Government Act of 1929 proposed to remedy the situation by a fundamental change in the whole fiscal structure. It was, in fact, an essential part of the government's recovery program. The reform was designed to aid industry in three ways: directly, through derating; and indirectly, through reducing the cost of local government and through equalizing the burden. The cost of government was to be decreased through economies effected by the reorganization of local districts and the transfer of certain functions to larger local units. Equalization was to be achieved partly through the larger units of administration and partly through the formula for

the distribution of grants.

Specifically, the 1929 Act provided for the complete exemption of agricultural land and buildings and for the valuation of industrial and freight-transport properties at 25 per cent of net annual rental value for purposes of rating. Certain precedents for this procedure existed in British fiscal history. In 1874 the right of localities to tax government property was withdrawn and the local jurisdictions were compensated for the loss of revenue by a grant. In 1896, the valuation of agricultural land was reduced fifty per cent for local tax purposes and a grant was provided to cover revenue lost. In 1923, agricultural land was derated an additional twenty-five per cent and a further grant was made available to reimburse the localities. Thus, the loss of revenue to the localities resulting from the exemption of the remaining valuation of agricultural land and buildings under the 1929 Act was not substantial and the reduction of the valuation of industrial property did not constitute a wholly new departure in fiscal relationships.

The Act also abolished a great number of the existing allocated grants (all except those for schools, police and housing, and part of the road grants), and provided a new grant which was more than sufficient to reimburse the localities for the immediate loss of revenue from the discontinued grants and from derating. The basis provided for the distribution of this grant required that 75 per cent be distributed in proportion to losses from derating and the remaining 25 per cent in accordance with a grants formula. The formula, although intricate in its composition, appears to have been evolved for the practical purpose of securing a desired distribution. It is based on "weighted population", i.e., estimated population with allowances for (1) large number of children <sup>under</sup> 75, (2) low rateable value, (3) heavy unemployment, and (4) sparsity of population in relation to road mileage,

It was provided that ultimately all of the grant be distributed on the basis of this formula, but to simplify the process of transition a decreasing proportion is distributed in proportion to revenue losses resulting from derating and from discontinued grants until 1947-48.

As has been pointed out, the chief purpose of the 1929 Act was the reduction of taxation of industrial and farm property as an aid to recovery, but some of the incidental consequences of the measure appear to have had greater significance than its somewhat limited effectiveness in achieving its chief intentions.

Taxes on industrial property were reduced, but doubt exists concerning the stimulative effect of this policy. The marked movement of industry to the south of England was undoubtedly due in some part at least to the high local rates in the industrial areas of the north, which were largely occasioned by the relief problem. In consequence, the derating of factories could to some extent be justified as an aid to depressed areas. But, while rates do not bulk as large in factory costs as before, the fact that prosperous areas benefited along with the depressed areas means that the differential advantage remains. If the government's primary objective was to encourage the development of industry in depressed areas, it could have been achieved more directly and effectively in other ways. The derating of prosperous industries equally with the depressed industries aroused much criticism in the House of Commons at the time that the bill was under discussion, and it would seem a little difficult to justify even as a recovery measure. The consensus of opinion is that it has not achieved its purpose.

The effect of the revision on local rates is difficult to determine with assurance. Rate discrepancies remain great, however, and the lowest and highest rates in 1936 were 7 1/2 shillings and 29 shillings. Moreover,

the greatest loss of valuation occurred in precisely those areas which could least afford to lose taxable capacity. Thus, the county borough with the highest rate lost 20.1 per cent of its rateable value from derating, while that having the lowest rate lost only 0.9 per cent of its total valuation. Some attempts at the equalization of burdens have, however, been made. The national government has extended transitional benefits for unemployed workers so that they have not fallen on local poor relief. Grants for employment schemes have increased, and a new "distressed areas grant" was introduced in 1933. Although rate dispersion has far from disappeared, if dispersion before <sup>the</sup> and after/reform is compared, it is clear that a greater degree of equalization was achieved. It has been calculated that the standard deviation of rates fell from 3.43 in 1928 to 2.95 in 1932. This has been due in very large part to the equalization tendency of the grants formula. The assumption by the national government of the bulk of the cost of unemployment has done more to equalize resources than the equalizing grants, however,

In addition to the differential aid given under the formula grant there has been a tendency since 1931 for other grants to be distributed with greater attention to needs than formerly. Thus the abolition of the 50 per cent minimum guarantee for education in 1931 opened the door for a more considerable differentiation of education grants. There also appears to be an increasing tendency to distribute percentage grants with some attention to needs through the device of dividing local authorities into three or four classes, each of which receives a different percentage of approved expenditure. This has for some years been the custom for road grants. It has also been adopted for expenditure in connection with air-raid precautions. As government costs rise, this tendency to the equalization of resources becomes of increasing importance.

The national government has been able to carry its grants system as far as it has only because of thoroughgoing central supervision and control of local authorities. The reconciliation of local self-government with a substantial degree of central aid is not readily accomplished, however, and Great Britain is still faced with this problem.

Governmental Revenues

In the United Kingdom a large percentage of the national income is taxed away and spent by the government. Table 15 shows tax receipts as percentage of national income, and per capita tax burdens, for certain years before and after World War I.

Table 15

	Taxation as a Percentage of National Income			Per Capita Tax Burden (in pounds)		
	United Kingdom	National Gov't.	Local Gov'ts.	United Kingdom	National Gov't.	Local Gov'ts.
1902-03	11.0	7.8	3.2	4.8	3.4	1.4
1912-13	11.0	7.5	3.5	5.5	3.7	1.7
1928-29	22.0	17.6	4.4	21.0	16.8	4.2
1932-33	25.3	21.0	4.3	21.2	17.6	3.6
1938-39	24.4	20.1	4.3	25.6	21.1	4.5

Whereas in prewar years only about 11 per cent of national income was taxed away in the United Kingdom, in recent years that proportion has grown to roughly one-quarter of national income. It is obvious that the taxing away and spending of such a large part of the national income will have profound effects on the economic system. Certain of these effects will be discussed at a later point.

When we examine the revenue side of the British public budget (see tables 10, 11, and 12), we get a completely different picture from that of the expenditure side. Whereas the two levels of government have spent an

almost equal share of the public moneys throughout the twentieth century, by far the greater share of the collection of revenue was made by the Exchequer.

Table 16

Percentage of Total Revenues Collected  
by the National and Local Governments

	<u>National Government</u>	<u>Local Governments</u>
1902-03	62.7	37.3
1912-13	59.2	40.8
1922-23	75.1	24.9
1932-33	71.4	28.6
1935-36	70.4	29.6
1938-39	70.9	29.1

Little attention need be paid to the receipts from public undertakings. These generally cover the costs of economic services. Other non-tax receipts are of little consequence. The tax structure does, however, require some comment.

For the tax structure as a whole, calculations of the Colwyn Committee showed (1) that at the beginning of the century there was an almost complete absence of progression, (2) that by the prewar decade progression had set in, and (3) that since prewar days the tax structure had changed from an approximately proportional incidence to one that has become highly and increasingly progressive in the upper ranges, and at the same time definitely regressive over a gradually extending range of the lower incomes. This is clearly brought out by Table 17 presenting the estimates of the Colwyn Committee regarding the incidence of taxation on various sizes of income in 1913-14 and in 1925-26.

Table 17

Total Taxation as Percentage of Income, 1913-14 and 1925-26  
(Family of Two Adults and Three Minors)

Income (£)	Wholly earned		Half invested	
	1913-14	1925-26	1913-14	1925-26
50	8.0	---	8.8	---
100	5.4	11.9	6.6	13.0
150	4.4	11.6	5.6	12.7
200	4.0	10.2	5.3	11.3
500	4.4	6.2	7.1	8.4
1,000	5.2	11.0	8.3	14.4
2,000	4.9	15.2	8.4	19.3
5,000	6.7	23.2	9.6	29.5
10,000	8.0	31.2	11.8	40.1
20,000	8.3	37.5	13.0	48.7
50,000	8.4	44.4	13.6	57.7

Source: Report of the Committee on National Debt and Taxation, p. 95.

Before the war the tax structure was divided into three parts which were roughly equal — direct and indirect taxation by the central government and local rates. Since the war the first two have grown relatively to the third. This change does not represent any lack of pressure on local rates. On the contrary, as has been pointed out, pressure was so great that it had to be relieved by a reform of the local taxing system.

The main difference between the prewar and postwar situation is the larger part played since the war by the income tax. Before the war the standard rate of income was 1s. 2d. in the £. Since the war, except for a few years during Mr. Churchill's chancellorship, it has never been below 4s. 6d. Income tax receipts have been substantial even during the relatively depressed years of the late twenties and early thirties. This was due in large part to the fact that the income tax reaches far down in the income scale.

Table 18

Total Income Tax Receipts

	<u>(£M)</u>
1902-03	38.7
1912-13	44.8
1922-23	379.0
1928-29	293.8
1932-33	312.2
1935-36	289.1
1938-39	398.4

The important movement in the death duties came after 1920. Receipts from this source were relatively small both before and immediately after the war. Before the war the maximum rate of estate duty was 15 per cent, payable on estates of one million pounds. By the end of the war the percentage had been increased to 20. In the postwar decade, moreover, this levy was extended downward to estates of £110,000. On the larger estates it was made to increase rapidly, reaching 40 per cent at estates above £1.5 million. In 1930 a still higher progression was introduced, reaching 50 per cent at £2.5 million. During the thirties the death duties were relied upon to bring in some £80 million into the exchequer.

Consumption taxes were made to bear their part in financing World War I. There were important increases in rates on liquor and tobacco duties and on certain common articles of food. Immediately after the war, however, concessions on common articles of diet and working-class luxuries began to be made. In 1922, for instance, the tea, coffee and cocoa duties were reduced by a third. Later there were important relaxations of the entertainments tax. The duties on alcohol and tobacco remained high, and were, in fact, increased during the thirties.

The reversal in 1931 of the free-trade policy of the nineteenth century was one of the chief fiscal changes of the postwar period. A start



had been made during the twenties, with the haphazard introduction of several small independent import duties, but not until 1931 was a real tariff imposed. The aggregate exchequer receipts from protective duties did not at first make a very impressive showing, relatively to other sources of revenue. One cause of this was the extent to which home interests were enjoying protection in the form of import quotas which were not reflected in the budget. Another cause was the fall in prices of British imports, due mainly to general depression factors. From the middle thirties, however, with a general improvement in economic conditions, the receipts from custom duties reached impressive proportions.

Since World War I payroll taxes have played an important role in the tax structure. Employers and workers contribute not only to unemployment and health insurance schemes but to old-age pensions as well. The basis of contribution varies in each case, but in every instance the workers' share is substantial. This element in the tax structure, when taken together with the large levies on consumption items, suggests that the increase in social expenditure which has taken place is partly offset in its redistributive effect by the regressivity of the tax structure in the lower ranges.

The postwar position of local finance differed from the prewar in two fundamental aspects. In the first place, the general level of rates was very much higher. In 1914 rates averaged something short of 7s. in the £, or £1 19s. per head of population. By 1921 they had risen to over £4 per head, and have remained more or less at that level. Secondly, a very great divergence between rates in different localities had appeared. Total rates varied at one time from about 5s. to 35s. in the £. In this situation it became evident that drastic steps for the reform of the system of local finance would have to be taken if a widespread breakdown was to be avoided.

The changes in the rate-grant system which took place were in two directions. In the first place, the volume of exchequer contributions increased enormously, both absolutely and as shown in Table 19, in relation to expenditure met from rates.

Table 19  
Grants as Percentage of National Tax Receipts  
and of Local Income from Rates and Grants

Fiscal Year	Grants as Percentage of National Tax Receipts	Grants as Percentage of Local Revenues from Rates and Grants
1902-03	11.6	21.7
1912-13	15.6	25.0
1914-15	13.3	24.5
1922-23	10.5	33.1
1928-29	13.5	35.2
<u>Local Government Act of 1929</u>		
1932-33	17.9	46.7
1934-35	18.3	45.5
1935-36	18.9	45.8
1936-37	18.6	45.7
1937-38	17.6	45.1
1938-39	17.8	45.5
1939-40	15.8	44.2

Secondly, the first important attempt was made to counteract the tendency for rate dispersion to increase. In both of these changes, but particularly in the second, the formula grant (based on needs and adjusted every five years) which accompanied the derating provisions of the Local Government Act of 1929 played a leading role. Prior to 1929 not more than 20 per cent of grants had been directed to the equalization of resources. As a result of the Act the proportion has been increased to about 70 per cent. An important, although less conspicuous part, was played by the Rating and Valuation Act of 1925. This was the first attempt to secure uniformity and regularity of valuation throughout the country. As a result of the two acts, both administrative and valuation areas were considerably enlarged and adjusted.

Besides these two measures other changes also attacked the problem of high rates and rate dispersion. Among the most important of these was the transfer of responsibility for the able-bodied poor to the central government under the Unemployment Act of 1934.

### Burdens and Expenditures

Total figures for expenditures by public authorities in the United Kingdom for certain selected years in the twentieth century are shown in Table 8. They show a considerable rise in the postwar period as compared with the prewar years. Even if we allow for the change in the value of money and increase the 1912-13 figure by 50 per cent, the expenditure increase in the ten years between 1912-13 and 1922-23 is over 230 per cent, which is sufficiently formidable. The prewar rate was equivalent to about £8 per head. The postwar expenditure has been roughly £30 per head.

It is evident, furthermore, that the community has had to make a considerable readjustment in the relation between public and private spending. In 1912-13 the national income is estimated to have been £2,241 million, so that public expenditures at £359 million, was about 16 per cent. In 1928-29, on the other hand, with income at something like £4,350 million, and spending at £1,350 million, the proportion had risen to roughly 30 per cent. During the late years of the thirties, the percentage of national income represented by government expenditure increased slowly but steadily. This trend is the reverse from that of the nineteenth century, when the national income was increasing considerably faster than public expenditures.

When we turn from total expenditures to examine the movement in the different groups, great divergence is at once apparent. The greatest changes between the prewar and postwar periods are in the cost of the national debt. The smallest item of all before the war, it exceeded all but social

expenditure throughout the twenties. On the other hand, after the conversion operation of 1932, outlay on the debt fell to not much over half its cost in 1926 and 1927, the most expensive years. Military expenditure also shows a large degree of variation. Apart from the sudden drop between 1921 and 1922, due to the liquidation of war undertakings, there was a gradual decline in the cost of military services until 1932-33. From 1932-33 on, there was an increase in military cost, rising sharply after 1938. The increase of government control during the war naturally led to a great extension of the civil service, much of which was of a permanent nature. On the whole, however, except for temporary movements, the cost of administration did not grow faster than total expenditure. Similarly, the growth in outlays on public enterprises has been steady and has followed the general lines of total expenditure.

The most substantial and steady growth of expenditures has been on social services. Table 20 shows their growth and relation to national income.

Table 20

Social Service Outlays in the United Kingdom

	Social Services (£ millions)	National Income (£ millions)	Social Services as Per Cent of National Income
1902-03	65.7	1,795	3.7
1912-13	107.4	2,241	4.8
1928-29	502.1	4,351	11.5
1938-39	662.1	5,000	13.2

At the beginning of the century expenditures on social services amounted to less than 4 per cent of national income. By 1928-29 the figure stood at 11 1/2 per cent, a decade later at over 13 per cent. Largely

because of this huge expenditure on the social services, the British fiscal structure seems to have had an important redistributive effect on the national income. Colin Clark has attempted to calculate the amount of this redistribution.

Table 21  
Burdens and Benefits of Public Finance  
(£M)

	1913-14	1925-26	1935-36
Expenditures benefiting:			
well-to-do	36	336	263
working classes	76	310	429
Taxes, borne by:			
well-to-do	172	663	685
working classes	90	265	338

Source: Colin Clark, National Income and Outlay, Chap. 6. The dividing line between the working classes and the well-to-do is drawn at £160 of annual income for prewar times, and at £250 for the postwar period.

Clark estimates that in 1913-14 the structure of taxation and expenditure was such that the working classes contributed 14 million pounds more in taxation than they received in services directly beneficial to them. By 1924-25 the situation had been reversed. The working classes received 45 million pounds more than they paid in taxes. By 1935-36 the sum so redistributed had risen to 91 million pounds. Ursula Hicks, on the basis of later data, puts this figure at £110 to £115 million.

The growth of social expenditures, together with the increased progressivity of the tax structure, seems to have raised the ratio of consumption to income and lowered the ratio of investment to income. This is borne out by the studies of the Colwyn Committee and of Professor Pigou. Thus, the structure of public finance seems to have imparted a certain stability to the British economic system, mainly by encouraging stable consumption at the

expense of unstable investment. Its effects on economic progress is another matter, which cannot readily be ascertained.

An examination of the roles played by the national government and by the local authorities in the spending of the public moneys reveals several significant factors concerning the fiscal structure of the United Kingdom.

Although there has been a tremendous change in the portion of national income passing through the hands of public authorities, the relative positions of the central and the local governments has not changed significantly, except in war time, so far as the spending of money is concerned. This is clearly revealed in Table 22.

Table 22  
Expenditures of the National and Local Governments  
and Percentage Distribution

Fiscal Year	Expenditures (£ millions)			Percentage Distribution	
	United Kingdom	National Govt.	Local Govts.	National Govt.	Local Govts.
1902-03	319.0	183.6	151.6	52.5	47.5
1912-13	359.1	199.5	185.9	48.2	51.8
1922-23	1,264.8	871.0	481.4	61.9	38.1
1928-29	1,345.2	866.4	582.4	56.7	43.3
1932-33	1,433.6	1,008.2	571.5	60.1	39.9
1934-35	1,372.0	907.2	612.0	55.4	44.6
1936-37	1,487.2	971.2	680.5	54.2	45.8
1938-39	1,804.4	1,232.7	750.2	58.4	41.6

The effect of war, of course, changes the picture quite completely. In the first year of the first World War, 1914-15, the central government was responsible for 72.6 per cent of the total expenditure, while in the first year of World War II, 1939-40, 70.8 per cent of the outlay went through the hands of the central authority. Of recurring expenditures, however, an almost equal share falls to both the national and local governments. In fact, aside from those expenditures which are of a strictly national charac-

ter, namely, those on military services and costs of the world war debt, the larger portion of ~~governmental~~ outlays is managed by the local authorities. The percentage distributions of Table 9 indicate: (1) that since the war social expenditures were shared equally by the two levels of government, (2) that administrative costs for both were comparable throughout the whole period, and (3) that local authorities have been responsible for the bulk of the outlays on public enterprises and developmental services.

In the case of social expenditures, the national government bears the responsibility for pensions as well as for public health and unemployment benefits, (Table 6), while local authorities bear the major costs of health, housing and poor relief. The costs of education are borne about equally by the two levels of government, although the actual outlays are made by the local authorities. Table 23 shows, for England and Wales, the extent to which the social expenditures of local governments have depended upon aid from the center.

Table 23

Percentage of Local Expenditures for Social Services  
Met from Grants: England and Wales

	Education	Health	Housing	Poor relief
1912-13	40.8	8.5	—	8.5
1922-23	50.8	10.1	16.1	3.3
1932-33	42.8	2.3	18.1	—
1935-36	43.1	2.4	17.7	10.6
1938-39	38.7	2.5	15.2	8.6

Besides the Post Office services (i.e., the postal, telephone, and telegraph services), the national government does not directly operate any public enterprise of importance. The local authorities, on the other hand, provide a great number of services of an economic nature (i.e., services which more or less cover their costs). The so-called Trading Services

alone provide a large channel of outlay and cover a variety of fields. In 1936-37, for example, the expenditures of local authorities in England and Wales on trading services were as follows:

Table 24

Local Trading Service Expenditures, 1936-37

	(in £ M)
Water supply	27.4
Gas supply	18.9
Electricity supply	65.2
Cemeteries	2.1
Markets	2.4
Transport (tramways, etc.)	25.3
Harbours, docks, etc.	14.4
Other trading services	5.6

It should be noted that the central government has very little borrowing power for long-term investment, except on behalf of the Post Office. It does, however, contribute to the financing of local investment of a semi-social nature, such as housing and certain public health works. On the other hand, the local authorities carry on a large and varied amount of public investment. Normal trading services include water, gas and electricity, trams and buses, baths, markets and cemeteries. These, together with the building and maintenance of houses, schools, and hospitals, provide a well-established groove for the steady flow of public investment. The gross debts of all local authorities increased from £900 million in 1922-23 to £1,680 million in 1936-37.

In conclusion, it may be pointed out that the British fiscal structure is characterized by the following elements:

1. Increasing fiscal centralization;
2. A narrow local tax base, with large central contributions to local revenues, increasingly based on needs;



3. A unified tax structure which is highly progressive in the upper ranges, but regressive in the lower;
4. A tendency to enhance the stability of the economy; and finally
5. The ability of the central government to plan and execute unified and coordinated socio-economic policies through its predominating control of local administration and finance.