



# PUBLIC EXPENDITURE

## in 1963-64 and 1967-68

*Presented to Parliament by the Chancellor of the Exchequer*

*by Command of Her Majesty*

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## PART I

### PUBLIC EXPENDITURE SURVEYS

1. In the Budget speech of 1961 the then Chancellor of the Exchequer said :

“ We need increasingly to look at all public expenditure together instead of piecemeal, and to look at it for a period of years in relation to prospective resources. I have recently set in hand a study of the whole problem of public expenditure in relation to the prospective future growth of our resources for a period of five years ahead. If we look back for a decade, it will be found that, for a time after 1951, total public expenditure—and in this I include the whole of the public sector, central and local government, above- and below-the-line, the national insurance funds, and the capital expenditures of nationalised industries—rose more slowly than the gross national product. This was largely due to a reduction in the proportion taken by defence. But the process was reversed three years ago, and the share of our total product taken for public purposes is rising again, and rising appreciably. The object of carrying out the study which I have just mentioned is to see how we can best keep public expenditure in future years in proper relationship to the growth of our national product.”

(Official Report, 17th April, 1961, cols. 793-794).

2. Similarly, the report of the Plowden Committee on the Control of Public Expenditure (published in July 1961 as Cmnd. 1432) contained the following recommendation (paragraph 12) :—

“ Regular surveys should be made of public expenditure as a whole, over a period of years ahead, and in relation to prospective resources ; decisions involving substantial future expenditure should be taken in the light of these surveys.”

3. The first full-scale survey of prospective public expenditure in relation to resources took place in 1961, making use of techniques which the Treasury had been developing in earlier studies on a smaller scale. Surveys are now made annually and have become an established part of the Government's machinery for the appraisal and control of public expenditure.

4. The Plowden Committee called attention to the difficulties which any Government might be expected to find in publication of the results of these surveys. But the Government believe that the publication of expenditure figures derived from the latest survey can make a valuable contribution to public understanding.

5. This White Paper shows an estimate of total public expenditure in 1963/64 and an approximate calculation of the prospective level of public expenditure in 1967/68 at constant prices (as defined in paragraph 11) on the basis of the Government's present policies and programmes.

6. With the exception of debt interest (dealt with in paragraph 9 below), the survey covers all central and local government capital and current expenditure, the gross outgoings of the national insurance funds and investment expenditure by the nationalised industries and public corporations.



7. This wide definition has been adopted for three reasons:—

- (a) The Government have a measure of responsibility and control over the whole public sector.
- (b) The Exchequer and other sources of finance for the various public services are so interlocked that these services cannot reasonably be considered in terms of Exchequer expenditure alone.
- (c) In looking forward the Government must examine the expenditure at the point at which it is made, not where it is ultimately financed. They must in this context be concerned with education expenditure, not the general grant; with national insurance pensions, not with the Exchequer contribution to the national insurance funds; with nationalised industries' investment, not with their borrowing.

8. The total of public expenditure is divided for purposes of appraisal and control into functional blocks comparable with the analysis used (in relation to Supply expenditure) in Table II of the Memorandum by the Financial Secretary to the Treasury on the 1963/64 Estimates. Although the main components of total public expenditure classified in economic terms can be derived from the Blue Book *National Income and Expenditure* for past years, this is not at present possible for the functional analysis of the total. It is intended in the 1964 Blue Book to publish such an additional analysis and to establish a greater degree of uniformity in functional, as well as economic terms between national accounting practice and the categories used in the management of public expenditure. The Blue Book relates to the whole of the United Kingdom, but the surveys of public expenditure are concerned primarily with expenditure by public authorities of Great Britain. The individual functional headings exclude expenditure by Northern Ireland public authorities which is treated separately (see paragraph 29).

9. Debt interest, although a part of total public expenditure, is not covered in these forward surveys, because the forecasting of it is dependent on a number of arbitrary assumptions about the level of expenditure, taxation and interest rates over the whole of the intervening period.\* Some figures of public expenditure, including debt interest for past years, are, however, shown in Annex A.

10. The extent to which public expenditure other than debt interest can be accurately forecast varies from item to item. In some fields Departments have been able to make projections of expenditure on the basis of specified policies and programmes; in others the nature of the policy is such that it is necessary to include figures based on the projection of past and current trends or on some other appropriate assumption.

11. The figures given for 1967/68 do not represent decisions by the Government to spend particular sums in that year. The firmness of the individual figures varies widely but, taken as a whole, the costing is as accurate and realistic as the Government can make it at the present time. Purchases of goods and services are expressed in terms of constant prices: for current expenditure the

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\* But the expenditure covered by the surveys includes an allowance for imputed rent on certain assets owned and used by public authorities. In accordance with the practice adopted for national income statistics, this imputed rental is in some cases based on the interest and capital repayments in respect of the debt incurred to acquire the assets.



figures are based on the 1963/64 Budget Estimates ; for investment expenditure they are at March 1963 prices. The figures for national insurance and other social security benefits allow for the implementation of the Government's policy to give beneficiaries a continuing share in rising prosperity ; for the purpose of this survey this has been interpreted as calling for increases in line with the growth of real earnings. Such payments as grants and loans to industry, subsidies and overseas aid are generally related to current levels of prices. These price bases are referred to collectively as " Survey 1963 prices ".



## PART II

### EXPENDITURE IN 1963/64 AND 1967/68

12. The following table compares an estimate of public expenditure in 1963/64 with the results of the calculation of the prospective level of public expenditure in 1967/68 at Survey 1963 prices on the basis of the Government's present policies and programmes. The prospective increase in the four years is put at about £1,915 million, or 17½ per cent, equivalent to an average annual increase of 4·1 per cent.

#### TOTAL PUBLIC EXPENDITURE

	£ million at Survey 1963 prices		
	1963/64	1967/68	Increase (+) or Decrease (-)
Defence .. .. .	1,905	2,170	+265
Aid and other overseas expenditure ..	310	365	+ 55
Roads .. .. .	360	470	+110
Housing and environmental services ..	1,135	1,315	+180
Education .. .. .	1,260	1,570	+310
Health and welfare .. .. .	1,020	1,160	+140
Benefits and assistance .. .. .	1,745	2,105	+360
Children's services .. .. .	290	315	+ 25
Police and prisons .. .. .	200	230	+ 30
Assistance to industry, transport and agriculture .. .. .	665	620	- 45
Investment by nationalised industries and public corporations .. .. .	1,135	1,330	+195
Administrative and other services ..	705	725	+ 20
Contingency allowance .. .. .	..	250	+250
Adjustments .. .. .	180	200	+ 20
<b>Total public expenditure .. .. .</b>	<b>10,910</b>	<b>12,825</b>	<b>+1,915</b>

#### *Defence*

13. This covers not only the defence budget but also net expenditure on the Purchasing (Repayment) Services Votes (through which the purchases of military and certain other equipment are financed) and civil defence.

#### *Aid and other overseas expenditure*

14. The largest item under this heading is overseas aid expenditure, which, as shown in the White Paper *Aid to Developing Countries* (Cmnd. 2147), has increased from an annual average of £80 million in the mid-1950s to £150 million in 1962/63 and a substantially higher figure in 1963/64. The figures provide for a further considerable increase by 1967/68. Also grouped under this heading is other overseas expenditure, e.g. information, overseas representation and certain subscriptions to international organisations. These items also show a continuing increase over the period.

#### *Roads*

15. Total expenditure by the central Government and local authorities on roads, including related expenditure on street lighting and car parks, is expected to increase at 6·9 per cent per annum on average, from £360 million in 1963/64 to £470 million in 1967/68. Capital expenditure on new construction and major improvements of motor-ways, trunk roads and classified roads (including



those in urban areas) rises from £140 million to £225 million, or by 60 per cent, over the period after allowing for the additional investment in roads approved for North-East England and Central Scotland. The £225 million represents the 1967/68 tranche of the latest five-year road building programme announced by the Minister of Transport on 22nd October, 1963 and the corresponding figure for Scotland. The remaining expenditure is investment in unclassified roads, road lighting and car parks and current expenditure on maintenance and minor improvements.

### *Housing and environmental services*

16. Expenditure on housing includes several types of expenditure; investment in new housing by local authorities, new town development corporations and the Scottish Special Housing Association; the Exchequer and local authority subsidies; net advances by local authorities, and Exchequer advances to housing associations, for house purchase; and improvement grants by local authorities. Under this same heading is also included expenditure on water and sewerage, land drainage, coast protection, general local government services such as the provision of recreational facilities, expenditure under the Town and Country Planning Acts (mostly urban redevelopment) and local administration. Here will fall a considerable part of the increase in expenditure arising out of the Government's proposals for the development of North-East England and Central Scotland.

17. The allowance for investment in public housing provides for an expenditure of £460 million in 1967/68, compared with £395 million for 1963/64. The figure for 1967/68 is related to the Government's intention to reach and maintain a level of building 400,000 houses a year, public and private, in the second half of the 1960s. The environmental services are necessarily associated with housing development, and investment expenditure on them also increases, from £215 million in 1963/64 to £260 million in 1967/68.

18. In arriving at a figure for expenditure other than investment, the total housing subsidy bill is taken to rise from £140 million in 1963/64 to £165 million in 1967/68. Expenditure on the remaining items under this heading, including loans by local authorities for house purchase and improvement, and Exchequer loans to housing associations, is assumed to rise from £385 million in 1963/64 to £430 million in 1967/68.

### *Education*

19. This block of expenditure covers the whole field of education from primary schools to universities, and the figures allow for an average annual increase of 5·7 per cent at constant prices over the period. This illustrates the importance which the Government attach to education and its development in the light of the Robbins and the Newsom Reports. The bulk of the expenditure is current expenditure; and allowance has been made, first, for rapidly rising numbers in schools, technical colleges and teachers' training colleges; secondly, for a continuing rise in standards of school education; and thirdly, for increases in the Government's recurrent grants to Universities, together with the associated increase in the number of student awards. The rate of growth also allows for the increased school and further education building programmes already announced, and for the capital programmes for the Universities and other institutions of higher education.



### *Health and welfare*

20. Allowance is made for total expenditure (capital and current) on health and welfare to grow at an annual average rate of 3.3 per cent at constant prices. The figures provide for the development of the hospitals and local health and welfare services in accordance with the Government's 10-year plans. They allow for a rise in investment expenditure from £80 million in 1963/64 to £115 million in 1967/68—an average annual rate of increase of nearly 10 per cent.

### *Benefits and assistance*

21. Even if there were no further changes in rates of benefit, expenditure on national insurance benefits, war pensions, non-contributory old age pensions and national assistance would in any case rise substantially because of the continuing increase in the number of retirement pensioners. The Government's policy envisages that recipients of national insurance and other social security benefits will continue to share in the rising prosperity which a steadily expanding economy will bring. For the purposes of this survey it has been assumed that from 1963/64 benefit increases will in real terms be broadly in line with the increase in real earnings per head corresponding to the growth of productivity implied in an increase of 4 per cent per annum in the Gross National Product at constant prices. On this basis total expenditure under this heading would rise from £1,745 million in 1963/64 to £2,105 million in 1967/68.

### *Children's services*

22. Family allowances are the largest item in this group of services (£140 million in 1963/64); the other services are school meals and milk, welfare foods and child care. The increase in estimated expenditure during the period corresponds to the expected increase in the number of children.

### *Police and prisons*

23. Expenditure is assumed to rise at an annual average rate of about 3.5 per cent at constant prices. The major part of police expenditure is on pay and the figures of future expenditure assume an increase of about 10 per cent in the total police strength.

### *Assistance to industry, transport and agriculture*

24. The largest item under this heading in 1963/64 is agricultural support (here estimated at £350 million). The movement of this figure in future years cannot be forecast since it is affected by changes in the level of supplies and in market prices. Moreover, the Government are at present considering adaptations in the agricultural support system. In these circumstances the only practical course for the purpose of the White Paper is to assume for 1967/68 a figure for agricultural support of the same order as that for 1963/64. This heading also covers the grants to the British Railways and Waterways Boards (estimated at about £145 million in 1963/64) as well as other assistance to specific industries, expenditure on the promotion of local employment, and other services to agriculture, fisheries and forestry. The reduction in the total for all this expenditure, from £665 million to £620 million, reflects an expected



reduction in the grants to the British Railways and Waterways Boards but at the same time an expected increase in expenditure on other forms of assistance, e.g. grants for industry in the Development Districts and industrial training.

#### *Nationalised industries' and public corporations' investment*

25. As is shown in the White Paper *Public Investment in Great Britain October 1963* (Cmnd. 2177), investment by the nationalised industries is increasing very rapidly. It will for some time continue to grow fast, mainly because of the steep increase in investment in electricity and Post Office services, but there is likely to be a reduction in this rate of growth later as the immediate requirements are overcome; the total is forecast to rise from £1,135 million in 1963/64 to about £1,330 million in 1967/68. There necessarily remain, however, substantial uncertainties about the level of investment in that year owing to the difficulties of forecasting the future evolution of demand and technological requirements.

#### *Administrative and other services*

26. The element included for central administration and common services accounts for rather more than half the total under this heading (£410 million in 1963/64); on the basis of recent trends it has been forecast to increase at about  $1\frac{1}{4}$  per cent per annum.

27. The total also includes certain expenditure on civil scientific research and development by the Atomic Energy Authority, the Ministry of Aviation, the Department of Scientific and Industrial Research and other Research Councils. This expenditure is assumed to grow substantially but the increase is partly offset by an expected increase in receipts by the Atomic Energy Authority as a result of the growing nuclear power programme. Total Government expenditure on civil research on the basis used in Appendix E of the Annual Report of the Advisory Council on Scientific Policy, 1962/63 (Cmnd. 2163), is assumed to grow from about £170 million in 1963/64 to about £210 million in 1967/68. Much of this expenditure is covered by this paragraph, but some of it is under other headings notably education (universities) and assistance to industry, transport and agriculture.

#### *Contingency allowance*

28. Experience of public expenditure surveys is that (quite apart from any increase in prices) forward estimates tend to put too low a figure on the eventual cost of implementing present policies. A contingency allowance of £250 million has therefore been made; this is about 2 per cent of the total estimated public expenditure in 1967/68.

#### *Adjustments*

29. The adjustments covered by this figure are necessary to put the total on a basis comparable with the Blue Book *National Income and Expenditure*. The main addition is on account of expenditure by Northern Ireland public authorities which (as explained in paragraph 8 above) has been excluded from the figures under the individual headings.



## PART III

### PUBLIC EXPENDITURE AND RESOURCES

#### *Expenditure : money and resources*

30. These forward calculations of public expenditure are expressed in terms of money. To meet this expenditure money must be raised in taxes, local rates, national insurance contributions, etc., or by borrowing by the Exchequer or public authorities (to the extent that the state of the national economy and the level of savings enable this to be done without inflationary consequences).

31. The wider significance of these expenditures is seen in the demands that they make upon the nation's capacity to produce goods and services, e.g., the nation's resources of human ability and skill of all kinds, and of productive assets of land, buildings and equipment. These are expressed in terms of money, for this is the only practical way to aggregate the variety of economic resources, and the demands upon them.

32. About two-thirds of total public expenditure\* represents direct purchases of goods and services. These include the employment of soldiers, teachers, nurses, street cleaners, research scientists, civil servants, etc. ; the purchase of the goods needed to supply the defence and social services and other government services ; the construction of roads, houses, technical colleges, etc. ; and the building and equipment of power stations, coal mines and nationalised industry generally. These purchases in the aggregate are expected to increase by about 18 per cent in the four years to 1967/68. Included in this aggregate are the demands for new construction work, which are expected to increase by more than 25 per cent in the period.

33. The other one-third of public expenditure is grants, benefits, loans, subsidies of various kinds. Some of these, such as national insurance pensions or students' awards, are to individual people ; some, such as agricultural subsidies or Board of Trade grants to firms setting up in Development Districts, are to businesses ; some are to overseas Governments. These payments give the recipients a claim on the nation's resources ; they enable them to buy goods and services which they could not otherwise have bought.

34. All this public expenditure creates a demand on the nation's production of goods and services either directly or indirectly. If the demands arising from public expenditure rise faster than the nation's production, a smaller proportion of the latter is available for exports, private investment and consumption not generated by public expenditure. In order to keep room for an adequate rate of growth of exports and private investment, it would then be necessary to restrain the growth of private consumption.

35. This is where the " physical " approach, which relates public expenditure to the demands upon the nation's production and resources, fits in with the

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\* In Annex B total public expenditure is divided into current expenditure on goods and services, gross fixed capital formation and other expenditure on the basis used in the national income statistics.



“fiscal” approach, which relates the public expenditure to the taxes, local rates, etc., which are needed to pay for it ; for the growth of private consumption is restrained by taxation.

### *Comparison with prospective resources*

36. The surveys of public expenditure are designed to enable the Government to establish a pattern for the future development of the public services which is properly related to the prospective needs of the community and is consistent with, and supports the prospective growth of, the nation's resources.

37. New construction work is an important element in the aggregate, and in the four-year period to 1967/68 the demands for the public sector are likely to increase by more than 25 per cent. Expenditure on construction by public authorities absorbs about half the resources of the construction industries. Capacity must be left to meet increases in private investment, in particular for new factories and for private housing. The construction industries are already carrying a heavy load of work and these prospective increases are likely to call for the full use of their resources for many years ahead. Steps are being taken both by the construction industries and by the Government to raise the capacity of the industries more rapidly than in the past. In particular the Government have proposed a National Building Agency to promote the use of improved methods which save labour ; and are also seeking to simplify building regulations, and to introduce a measure of dimensional co-ordination. This will take time and capital ; but it is hoped that this announcement of the prospective scale of demand from the public sector for several years ahead will enable the construction industries to plan ahead to enable themselves to meet it.

38. For the aggregate of public expenditure, the White Paper shows the total, at “Survey 1963” prices, increasing by 4·1 per cent a year between 1963/64 and 1967/68. The Government are aiming at a rate of growth of the Gross National Product at constant prices of 4 per cent a year on average. This rate of growth, if maintained between now and 1967/68, should be enough to support public expenditure on the general scale foreseen in this White Paper ; and implied by the Government's policies. But if these policies seemed likely to make a larger claim on resources than is here envisaged, or if the prospects for economic growth substantially worsened, it would clearly be necessary for the Government to review their policies accordingly.

39. If public expenditure and the Gross National Product developed over the next few years as set out above there would in the event be an increase in the ratio of public expenditure (excluding debt interest) to Gross National Product from the present figure of something like 40 per cent to around 41½ per cent.\* The actual figures since 1952 are shown in Annex A.

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\* If public expenditure and the Gross National Product (G.N.P.) rise at the same rate at constant prices, the ratio of public expenditure to G.N.P. at actual prices will still tend to rise. The reason for this is that services constitute a large part of the purchases made by the public sector and the average price of these purchases rises relative to the price level of the gross national product as a whole, even when this overall level remains stable. This relative rise occurs because the growth of productivity, as measured in the national income accounts, and hence the offset to rising money incomes, is smaller in the production of the output purchased by the public sector than it is for the economy as a whole.



40. It is unlikely that a development of public expenditure on the scale implied will leave much scope for a reduction in the burden of taxation. The level of taxation will, of course, be closely affected by the level of savings. The higher the level of savings, the less the need for taxation. The rate of personal saving has risen in recent years to very high levels, and the Government's policies will continue to be directed to encouraging still higher levels of saving. Provided these are achieved, and a 4 per cent rate of growth of the economy is maintained, the level of total public expenditure implied in this White Paper should be reasonably related to the needs and resources of the community and to the possibilities of the nation's growth.



## TOTAL PUBLIC EXPENDITURE 1952-1962

	Total Public Expenditure (as defined in paragraph 6)	Gross National Product (at factor cost)	Total Public Expenditure (excluding debt interest) as percentage of G.N.P.	Total Public Expenditure (including debt interest) as percentage of G.N.P.
	—£ million—			
1952 ..	5,684	13,961	40.7	45.7
1953 ..	5,911	14,945	39.6	44.6
1954 ..	5,864	15,835	37.0	41.9
1955 ..	6,187	16,860	36.7	41.7
1956 ..	6,648	18,366	36.2	40.8
1957 ..	6,973	19,380	36.0	40.6
1958 ..	7,292	20,268	36.0	40.8
1959 ..	7,775	21,158	36.7	41.5
1960 ..	8,290	22,484	36.9	41.9
1961 ..	9,215	24,015	38.4	43.4
1962 ..	9,782	24,905	39.3	44.1

## ANNEX B

## ECONOMIC CLASSIFICATION OF PUBLIC EXPENDITURE\*

	£ million	
	<i>Survey 1963 prices</i>	
	1963/64	1967/68
Current expenditure on goods and services .. .. .	5,210	6,015
Gross fixed capital formation .. .. .	2,320	2,880
Grants, loans, subsidies, etc. .. .. .	3,380	3,930
<b>TOTAL .. .. .</b>	<b>10,910</b>	<b>12,825</b>

\* Total public expenditure, as defined in paragraph 6, classified in terms of the categories used in national income statistics.

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