

## Chapter V. Public Sector Expenditure on Goods and Services

Perhaps the single most important stimulus for our exercise in assessing the medium-term prospects for the economy has been the publication by the Government, starting in 1969, of its detailed plans for public expenditure looking five years ahead. The principal immediate purpose of the analysis we have undertaken is to provide the necessary economic perspective for judging the impact of the proposals contained in the most recent Public Expenditure White Paper (Cmnd. 4829).

2. Although a large number of improvements in presentation have been made since the first White Paper (Cmnd. 4234), the incorporation of these estimates in the present kind of exercise remains a far from straightforward task. In particular, it is still difficult to relate White Paper figures to public expenditure measured in the National Income Accounts; there remain a number of points on which Treasury guidance has to be sought before the estimates can be adapted to the National Accounts framework which must inevitably be used in our analysis.

3. A further difficulty is that the status of the White Paper figures is not perfectly clear in relation to more recent Government announcements involving expenditure changes. For example, it is not clear whether the increased hospital building programmes announced in February 1972 are in addition to those contained in the White Paper, or whether they are included in it.

4. A more fundamental problem is that the burden of public expenditure on the economy as a whole goes a good deal beyond the direct pre-emption of output represented by public sector expenditure on goods and services. Certain other types of expenditure (in particular subsidies, current and capital grants at home and overseas, and possibly debt interest) are recognised to have an indirect effect on demand which in some cases is quite large in relation to the sums involved. So far as we could, we have allowed for such effects in our projections of demands elsewhere in the economy, the sectors principally affected being private housebuilding and the balance of payments, but there is much scope

for improvement in the accuracy of our procedures in this respect.

5. Since our main purpose is to examine the consequences of the programmes actually implemented between 1960 and 1971 and currently proposed for 1972-5, actual public sector expenditures are treated throughout our exercise as being at par. We do not ask here whether actual expenditure, past or projected, is in line with the Government's stated objectives for the public sector, or with what the par economy can reasonably sustain.

6. Briefly, our main conclusion in this Chapter is that public sector expenditure on goods and services is expected to grow at approximately the same rate between 1971-5 as that experienced earlier in the period:

Public Expenditure on Goods and Services, 1960-75 <sup>(1)</sup>

	1960	1975	Growth Rates	
			1960-71	1971-75
	(£ billion; 1963 market prices)		(% per annum)	
Public consumption	4.8	6.6	2.1	2.3
Housebuilding	0.3	0.6	5.3	1.6
Other public sector fixed capital formation	1.5	2.9	4.7	3.9
Total <sup>(1)</sup>	6.6	10.1	2.9	2.7

(1) Excludes stockbuilding, which is included in total stockbuilding - see Chapter VI.

Derivation of the figures

7. For the period 1960-71, data for the main categories of public expenditure on goods and services at 1963 market prices was obtained from the January 1972 edition of Economic Trends (1971 being estimated on the basis of three-quarters' figures). Our projections of future expenditure were based on the Government's latest comprehensive estimates contained in the White Paper. To these were added the extra expenditures on nationalised industries, roads, etc. scheduled for 1972/73 and 1973/74, announced in the House of Commons on 23rd November, 1971.

8. A number of adjustments were necessary in order to convert the White Paper estimates, which are for fiscal years and expressed in 1971 survey prices, to the required calendar year and 1963 price basis. (1) Firstly, projected aggregate expenditures (at 1971 survey prices) in each of the relevant economic categories were obtained from the detailed estimates by programme and main economic category given in Table 3.9 of the White Paper, and to these were added the further increases announced in November 1971. (The published estimate of "shortfall" was allocated in its entirety between the "goods and services" categories on a pro-rata basis

---

(1)

The expenditure estimates in the White Paper are given on two alternative bases, the first being at the prices ruling at the time of the survey, and the second being at the anticipated outturn prices of the survey (fiscal) year, with in addition an allowance for the "relative price effect". The first version is thus at conventional constant prices and measures changes in the physical volume of public sector output in principle according to the conventions that are used for all constant price series in the National Accounts. The second introduces a measure of the year to year change in the unit cost (excluding taxes) of public sector output relative to the unit costs of domestic output as a whole, and is therefore a better indication of the public sector's burden on resources. However, in this exercise, we utilise estimates in volume terms for the sake of consistency in dealing with the various components of aggregate demand. The increasing relative labour content of public sector output (or, at least, the "current" component of that output) is in principle allowed for in our projections of overall productivity growth, but since the share of public sector current expenditure in total expenditure, as conventionally measured in real terms, is not expected to change very much by 1975, its impact on the productivity trend can be considered to be negligible.

and deducted from the expenditure estimates.)<sup>(1)</sup> The resulting projections were then expressed at 1963 prices using a price deflator for each category obtained by dividing the outturn for the four quarters of fiscal year 1970/71 at 1963 prices published in Economic Trends by the White Paper outturn for 1970/71 at 1971 survey prices. Finally these estimates on a fiscal year basis were converted to a calendar year basis by allocating 75 per cent of projected expenditure in each fiscal year to the nearest calendar year, and the remainder to the following calendar year.

#### Movements in the Major Items

9. The principal movements in expenditure can be summarised as follows:

Public Sector Expenditure on Goods and Services 1960-75<sup>(1)</sup>  
(£ million; 1963 market prices)

Year	Public Consumption	Housebuilding	Other fixed capital formation	Total
1960	4775	301	1505	6581
1971	6023	532	2496	9051
1975	6603	567	2904	10074
<i>Growth rates (% per annum)</i>				
1960-71	2.1	5.3	4.7	2.9
1971-75	2.3	1.6	3.9	2.7

(1) Excluding stockbuilding, which is included in total stockbuilding - see Chapter VI.

(For further details, see Appendix Table 2)

Projected growth in the total of expenditure is very slightly lower than that recorded for the period 1960-71; were the average rate of growth for the past period continued to 1975, total expenditure would be no more than £30 million higher than the projected level at that date. Quite large changes are nevertheless

(1) It was further assumed that the whole of the "contingency reserve" will be appropriated for transfers, etc.

expected in the growth rates of the main components. In particular it is anticipated that local authority housebuilding, following its sharp fall between 1969 and 1971, will grow relatively slowly thereafter. Other capital formation is also expected to grow at a somewhat slower rate than in the past period (especially compared with the rapid growth between 1960 and 1965). Within this total, investment in roads, surface transport and health and environmental services is planned to increase relatively rapidly (at  $6\frac{1}{2}$  per cent per annum), while that on nationalised industries is expected to grow annually by only 2 per cent on average - the bulk of the increase having been brought forward as a result of the November measures to the earlier half of the projection period. It is perhaps also worth noting that capital expenditure on schools, universities, etc., is expected to fall quite sharply from 1972 to 1975.

10. As regards current expenditure, outlays on the health service, education, law and order, roads and "miscellaneous local services" are all expected to grow at about the same rate as total GDP, (the projected annual growth rate for the total of these being about  $3\frac{1}{2}$  per cent), while those on defence, financial administration and trade and industry (where reductions in aircraft projects are an important factor) are not expected to increase by very much over the projection period.