Public Policy and Politics

Series Editors: Colin Fudge and Robin Hambleton

Important shifts are taking place in the nature of public policy-making and government at both the central and local level. Increasing financial pressures, the struggle to maintain public services, the emergence of new areas of concern, such as employment and economic development, and increasing partisanship in local politics, are all creating new strains but at the same time opening up new possibilities.

The series is designed to provide up-to-date, comprehensive and authoritative analyses of public policy and politics in practice. Public policy to us involves the implicit or explicit mediation of social and economic forces by the state, is determined by political action as a result of conflict or consensus, and leads to specific patterns of response and activity by government, by non-governmental and private agencies, and by the public.

Two key themes are stressed throughout the series. First, the books link discussion of the substance of policy to the politics of the policy-making process. Second, each volume aims to bridge theory and practice. The books capture the dynamics of public policy-making but, equally important, aim to increase understanding of practice by locating these discussions within differing theoretical perspectives. Given the complexity of the processes and the issues involved, there is a strong emphasis on inter-disciplinary approaches.

The series embraces not only governmental activity, but also central – local relations, public-sector/private-sector relations and the role of non-governmental agencies. Comparisons with other advanced societies will form an integral part of appropriate volumes.

Every effort has been made to make the books in the series as readable and usable as possible. Our hope is that it will be of value to all those interested in public policy and politics – whether as students, practitioners or academics. We shall be satisfied if the series helps in a modest way to improve understanding and debate about public policy and politics during the 1980s.

Public Policy and Politics

Series Editors: Colin Fudge and Robin Hambleton

PUBLISHED

Christopher C. Hood, *The Tools of Government*

Peter Malpass and Alan Murie, *Housing Policy and Practice*

K. Newton and T. J. Karran, *The Politics of Local Expenditure*

Ken Young and Charlie Mason (eds), *Urban Economic Development*

FORTHCOMING

Gideon Ben-Tovin, John Gabriel, Ian Law and Kathy Stredder, *The Local Politics of Race*

Tony Eddison and Eugene Ring, *Management and Human Behaviour*

Colin Fudge, *The Politics of Local Government*

Robin Hambleton, *An Introduction to Local Policy-Making*

The Politics of Local Expenditure

**K. Newton
and
T. J. Karran**

M
MACMILLAN

© K. Newton and T. J. Karran 1985

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No paragraph of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright Act 1956 (as amended).

Any person who does any unauthorised act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

First published 1985

Published by
Higher and Further Education Division
MACMILLAN PUBLISHERS LTD
Houndmills, Basingstoke, Hampshire RG21 2XS
and London
Companies and representatives
throughout the world

Filmsetting by Vantage Photosetting Co Ltd,
Eastleigh and London

British Library Cataloguing in Publication Data
Newton, K.

The politics of local expenditure.— (Public
policy and politics)

1. Local finance—Great Britain

I. Title II. Karran, T.J. III. Series
336'.014'41 HJ92423

ISBN 978-0-333-34427-9

ISBN 978-1-349-17849-0 (eBook)

DOI 10.1007/978-1-349-17849-0

Contents

<i>Acknowledgements</i>	ix
<i>List of Tables</i>	xi
<i>Guide to Reading the Book</i>	xiii
1 Local Spending in Context	1
Introduction	1
Public spending in the UK and other western nations	2
Local government spending in the UK and other western nations	6
Long-term and recent trends in the UK	10
Local responsibilities	12
Local government and private consumption compared	15
Conclusion	19
2 Right-Wing Arguments: Local Government as a Parasite	20
The Bacon and Eltis thesis: too few producers	21
Marketed and non-marketed goods and services	23
Increases in local employment	26
Crowding-out: labour and capital	29
Local services and economic health	32
Conclusions	33
3 Left-Wing Theories: The Fiscal Crisis of the State	36
Crude Marxist theories	36
The fiscal crisis of the state	37
The widening gap between state income and expenditure	40
‘Contradictions’ and problems	41
The tax gap	43
International comparisons	43
State workers	45

vi *Contents*

Theory and evidence	47
Conclusions	49
4 The Revolution of Rising Expectations	52
Social and demographic changes	52
Economic changes	56
New and better services	59
Conclusions	65
5 The Politics of Local Spending	67
Central government	67
Local government	77
The general public	80
Conclusions	82
6 Spiralling Costs	84
Labour intensity and the relative price effect	85
Capital intensity	90
The costs of land and building materials	93
Public consumption expenditure	95
Conclusions	96
7 The Squeeze on Income	99
The intolerable burden on the ratepayer?	99
Non-domestic rates	104
The politics of the rates	105
Sales, fees, and charges as a source of local income	107
Grants from central government	109
Conclusions	112
8 Knee-Capping Local Government	114
Introduction	114
Recent history	115
Central-local financial relations in the 1980s	119
Constitutional issues	121
Does central government need to control local spending?	123
Public opinion on constitutional change and financial cuts	124
The future	126

APPENDICES

<i>A</i>	<i>Technical aspects of local finance</i>	131
<i>B</i>	<i>Sources of local expenditure figures</i>	134
<i>C</i>	<i>Reliability and validity of local authority budgetary data</i>	136
	<i>Guide to Further Reading</i>	137
	<i>Notes and References</i>	139
	<i>Index</i>	154

Acknowledgements

Like local government, this book has incurred a large number of debts. Unlike local government this does not provoke a crisis for us, only the familiar and very pleasant duty of thanking all those who have helped in so many ways in putting the book together. We would like to thank Terry Clark, Patrick Dunleavy, Andrew Gamble, Tore Hansen, David Heald, Dilys Hill, George Jones, Richard Rose and John Stewart for their helpful comments on various pieces of written work. Peter Jackson, Richard Parry, Ron Smith, Murray Stewart and Harold Wolman were kind enough to make unpublished material available to us which became incorporated in one way or another into our own work. We are most grateful to them for keeping us up to date with a rapidly changing and expanding field of research.

Mike Goldsmith helped with characteristically constructive and useful sets of comments on draft chapters, and at the other end of the phone, with a good deal of useful information about sources and people. Jim Sharpe gave freely to the project. In his inimitable way he provoked us into thinking harder and deeper and broader by his ability to bring together ideas in an altogether original and creative manner. Robin Hambleton went through the penultimate manuscript and provided a long list of helpful comments and suggestions. Rod Rhodes did the same and deserves special thanks.

At the University of Dundee, Doris Tindal and Moira Bell put in many, many hours of hard labour. Moira Bell produced tables and ran computer files with unfailing patience, accuracy and thoroughness, ransacked the library for source materials and secondary data, and checked and re-checked drafts and tables. Doris Tindal is the living proof that productivity increases are possible in labour-intensive industries, even when productivity is already remarkably high. Her amazing speed and accuracy with a typewriter make SOS and RUNOFF programmes obsolete. We are hoping to patent her as a new-generation word processor.

The project was funded with a grant from the Social Science Research

Council. We are grateful to the Council and its staff for its consideration and efficiency in dealing with the day-to-day administrative problems of the grant in a way which left us with the maximum possible opportunity to get on with the job. This was particularly appreciated because we know the staff were under a great deal of pressure themselves.

Unlike government, we cannot even try to pass the blame for failings, deficiencies and omissions in the book. We are responsible for these. We know there are deficiencies and omissions, if only because no account of local finances at the present time can possibly be up to date. Major items of legislation involving rate-capping and the abolition of the Greater London Council (GLC) and the metropolitan counties are currently before Parliament, and it is doubtful if changes will, or can, rest there. Local government will be a major item on the political agenda for some time to come, but since we have taken a long-term historical approach to the subject, we hope that this book probes deeper than the issues and problems of the moment, while helping towards an understanding of the profound implications of recent events.

Dundee/Glasgow, 1984

KEN NEWTON
TERENCE KARRAN

List of Tables

1.1 Average general government expenditure (total disbursements) as a percentage of GDP, 1975–80	3
1.2 Changes in general government expenditure as a percentage of GDP, 1970–80 and 1975–80	4
1.3 Changes in general government expenditure minus transfer payments, as a percentage of GDP, 1970–80 and 1975–80	5
1.4 Total tax revenue as a percentage of GDP, 1979	7
1.5 Total local government expenditure as a percentage of GDP and central government expenditure, 1979	8
1.6 Average annual rate of increase/decrease of total local government expenditure as a percentage of GDP, and of central government expenditure	9
1.7 Public expenditure and local expenditure in the UK, 1950–81	11
1.8 Allocation of service responsibilities in eight unitary states in West Europe, 1982	13
1.9 Items of national expenditure: local government compared with private consumption, 1981	16
2.1 Local authority employment: full and part-time, male and female, 1952–82, UK	28
4.1 Post-war legislation with implications for increased local spending, 1944–79	60
5.1 Annual average cumulative change (%) in service expenditures of the highest and lowest spending counties and county boroughs in England and Wales	71
5.2 Percentage annual increases in current grants and current expenditure of services receiving general and specific grants, UK, 1969–79	76
6.1 Wages and salaries as a percentage of the total current expenditure of local authorities, central government and public corporations, UK, 1958–78	87

xii *List of Tables*

6.2 Annual average cumulative percentage changes in total current expenditure and in wages and salaries of local authorities, central government, and public corporations, UK, 1958–78	89
6.3 Public sector loan debts in the UK, 1958–83	91
6.4 Interest payments as a percentage of total current expenditure of local and central government and public corporations, 1958–83	93
6.5 Rate of change (cumulative annual average) in capital spending, interest payments, and loan debts of local and central government and public corporations in the UK, 1958–78	94
7.1 Domestic rate bills as a percentage of disposable personal income, 1938/9–80/1	102
7.2 Non-tax revenues as a percentage of gross current and capital income of local government in West European nations	107
7.3 Grants from higher levels of government as a percentage of total expenditure of local government in West European nations	110
7.4 The decline in grants and total local spending in the UK, 1975/6–81/2	112

Guide to Reading the Book

Local government is currently one of the hottest topics in British politics, and the highly vexed question of how to pay for it is at the centre of the controversy. It was not always so. Local government used to be easily the duller non-issue on the British political agenda, and its finances were a total mystery to all but a handful of specialists. By and large, local finances are still a mystery, even though phrases like 'the burden of the rates', 'the local fiscal crisis' and 'bringing local finances under control' are common currency in political speeches and front-page newspaper articles. Local finances are infused with political myths, nonsensical beliefs, and increasingly with far-fetched ideological claims. This book dissolves the myths and provides a basis for a hard-headed analysis of the issues at stake.

Chapter 1 sets local spending in its proper context. It compares Britain with other western nations, compares local and central government spending, and compares the size of the bill for various local services with the amount the nation spends privately on such things as alcohol, entertainment, gambling and smoking. These comparisons will surprise many people.

Chapter 2 then examines the right-wing theory which has come to dominate recent British politics and which claims that the growth of the public service sector has resulted in the decay of the nation's economic health. Though the theory is the basis for current government policy, it is shown to be highly dubious so far as local government is concerned. It is inadequate and fails to fit the facts.

Chapter 3 then turns to the left-wing theories of 'the fiscal crisis of the state'. Though a far more impressive and fertile theory than the 'parasite theory' discussed in Chapter 2, the approach also has its problems, particularly when it is applied to the British case. Nevertheless the theory has some merits of general approach, rather than detailed application, which can be used to good effect in analysing the politics of local taxing and spending in Britain.

Chapter 4 is the first of four empirical chapters which examine how

and why local spending has risen in Britain, why local service costs have increased, and why local government income has not increased as readily as costs and expenditure. Chapter 4 discusses the revolution of rising expectations in post-war Britain and the impact this has had on the range and quality of public services which the general public, especially its wealthier sections, have come to expect and demand of local government.

Chapter 5 then examines the various ways in which politics, rather than economic and social factors, have shaped and moulded the course of events. In particular, it deals with the crucial role of central government in demanding more and better local services, with the way in which local government has responded readily to these demands, and with the part played by the general public.

Chapter 6 turns to the way in which rising service costs have pushed up local government spending. It considers, and largely rejects, the idea that the labour intensity of local services causes costs to rise steeply, finding instead that it is the high cost of capital investment which has been a major burden, especially in inflationary periods.

Chapter 7 considers the income side of the local resource squeeze, and shows that local government in Britain suffers from an unusually narrow set of inelastic sources of income. The rates are politically sensitive to a high degree, and lack buoyancy. Fees and charges for local services are also politically sensitive and difficult to raise. And lastly, central government grants are not under local control and have been heavily cut.

The eighth and final chapter discusses the present state of local finances and recent attempts by the Conservative Government to gain control of local taxing and spending. It examines the constitutional and economic aspects of increasing financial centralisation, and argues that the current state of affairs is so unsatisfactory and so unstable that it must change, even if a degree of local autonomy and democratic control of local finances is not restored.