Social Expenditure of Public Authorities and Economic Growth 1947-66

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SOCIAL expenditure in this context refers to the consolidated expenditure of public authorities on education, health, housing and income maintenance. Public authorities comprise the Central Government (including extra-budgetary funds) and Local Authorities. Public corporations are excluded. A major obstacle in relating this expenditure to the growth of national output is the absence of an official classification of public authorities' expenditure according to purpose of expenditure within the national income framework. It has been necessary, therefore, to classify all the relevant data in this way.[2] Debt interest, redemption of securities and loan repayments are included in the total expenditure of public authorities but we have not included here any estimate of the portion of these attributable to social purposes. Because of this, the share of social expenditure, notably that of housing, is underestimated in the total expenditure of public authorities. The concept of output used is gross national product at market prices.[3] The year 1966 is the latest for which it was possible to include data, as information on expenditure by local authorities for the financial year 1966–67 only became available at the end of 1969.

A complete picture of social expenditure in relation to national output would include information of private as well as public social spending. Such data are not

[1]I am deeply indebted to Miss Carroll of the Central Statistics Office (CSO) for invaluable assistance with data, and to Professor Michael Fogarty and Dr. Kieran Kennedy who read and criticized drafts of this article.

[2]The CSO published a breakdown of central government expenditure according to purpose of expenditure for the first time for 1966 in the *Irish Statistical Bulletin*, June 1969. Valuable estimates of public authorities' expenditure by purpose of expenditure have been made by M. O'Donoghue and A. A. Tait, "The Growth of Public Revenue and Expenditure in Ireland" in *Economic Policy in Ireland* (Dublin: Institute of Public Administration, 1968) and by B. A. O'Loughlen "The Patterns of Public Expenditure in Northern Ireland and the Republic: 1954–1965", *Journal of the Statistical and Social Inquiry Society of Ireland*, Vol. XXI, Part VI. However, neither of these sets of estimates was appropriate for our purpose.

[3]Estimates were also made using gross national product at factor cost. The only significant difference was that the shares of social expenditure were increased in this case.

available. We have confined ourselves to social expenditure of public authorities as defined bearing in mind that only a partial view of total social spending is thereby revealed.

Growth and Composition of Public Social Expenditure 1947–66

Social expenditure of public authorities at current prices increased from £31·8 m. in 1947 to £176·5 m. in 1966, i.e. by 455 per cent. Table 1 shows that over the period expenditure on education increased from £8·3 m. to £41·8 m., on health from £6·2 m. to £37·1 m., on housing from £3·4 m. to £29.7 m.,

TABLE 1: *Growth of Public Social Expenditure 1947–66*

	1947		*1949*		*1966*		*1947–1966*	*1949–1966*
	£m.	*% of Total*	*£m.*	*% of Total*	*£m.*	*% of Total*	*% change*	
Education	8·3	26·1	9·1	17·7	41·8	23·7	403·6	359·3
Health	6·2	19·5	9·5	18·5	37·1	21·0	498·4	290·5
Housing	3·4	10·7	15·0	29·2	29·7	16·8	773·5	98·0
Income Maintenance	13·9	43·7	17·8	34·6	67·9	38·5	388·5	281·5
Total Social Expenditure	31·8	100	51·4	100	176·5	100	455·0	243·4

and on income maintenance from £13·9 m. to £67·9 m.

In comparing changes in the shares of the four categories it is more indicative of the trend for the whole period if we compare 1966 with 1949 rather than with 1947. This is chiefly due to the abnormally depressed level of housing in 1947 and 1948. There have been marked shifts in the shares of the four categories in the total between 1949 and 1966. The share of income maintenance rose from 34·6 per cent to 38·5 per cent, of education from 17·7 per cent to 23·7 per cent, of health from 18·5 per cent to 21·0 per cent, while the share of housing fell from 29·2 per cent to 16·8 per cent. Broadly this illustrates the post-war trend—a significant increase in the share of education, smaller and roughly proportionate increases in the shares of health and income maintenance and a very big fall in the share of housing.

Table 2 shows the shares of social expenditure of public authorities in GNP a market prices for certain years. Between 1949 and 1966 total social expenditure of public authorities increased its share from 13·1 per cent to 16·6 per cent. In 1966 education, health and income maintenance all accounted for larger shares

TABLE 2: *Social Expenditure and Total Expenditure of Public Authorities as a Proportion of GNP*

	1947	*1949*	*1955*	*1961*	*1966*
			per cent		
Education	2·5	2·3	2·7	3·0	3·9
Health	1·9	2·4	3·1	2·8	3·5
Housing	1·0	3·8	3·4	2·0	2·8
Income Maintenance	4·2	4·5	5·5	5·6	6·4
Total Social Expenditure of Public Authorities	9·6	13·1	14·7	13·4	16·6
Total Expenditure of Public Authorities	27·3	30·5	31·9	32·6	36·3

than in any other year while housing had made a considerable recovery from its depressed position in 1961 but still accounted for a much smaller share than in 1949 or 1955.

Growth in GNP 1947–66

Between 1947 and 1966, GNP at current market prices increased from £331·9 m. to £1,061 m., or by 220 per cent. Allowing for changes in the value of money, GNP at constant (1958) market prices increased by 60 per cent. While the annual real growth rate of GNP for the whole post-war period averaged around 3 per cent, it tended to fluctuate annually, sometimes severely. The highest annual growth rates, of around 5 per cent, were recorded for the years 1948, 1949, 1960 and 1961. Declines in the region of 1 per cent were recorded for the years 1956 and 1958.

The year 1958 has come to be regarded as a watershed in post-war economic development in Ireland. Evidence, based partly on a comparison of GNP growth rates before and after 1958, has been assembled to support the case that the earlier period was one of stagnation, whilst the period since 1958 was one of rapid growth.[4]

The undoubted achievement of the later period is not in question. It is important, however, to examine more closely the relative achievements of the pre-58 and post-58 periods. This is essential for our purpose because the first period has come to be identified as a period of high "social" relative to "productive" expenditure, whereas the later period is frequently identified with a shift towards "productive"

[4]See, for instance, Professor C. F. Carter, "Can We (Britain) Have an Economic Miracle?", Paper delivered to the Manchester Statistical Society, December 1968; and Dr. Garret FitzGerald, *Planning in Ireland* (Dublin: Institute of Public Administration and London: PEP, 1968).

expenditure. To some extent the faster growth rates achieved in the later period are interpreted as a result of this "productive" shift.

In comparing the growth of output between 1947 and 1966 and before and after 1958 two general points may be made. Firstly, the growth rate is influenced by the base year selected, and secondly, when assessing longer-term performance it is generally preferable to compare years of high activity, i.e. when capacity is reasonably well utilized.

In the cases which we cited above, Professor Carter measures two ten-year periods, 1948–58 and 1958–68, while Dr. FitzGerald takes two nine-year periods, 1949–58 and 1958–67. To start with 1948 or 1949 rather than 1947, the first year for which a comparable series of data is available, is sometimes justified on the grounds that activity did not recover to pre-war levels until the end of the forties. In fact, the level of real GNP in 1947 was roughly as high as the highest pre-war level. Nevertheless, if this is the reason, then it is inconsistent to take 1958 as the base for the second period. In 1958 GNP at constant (1958) prices was below the 1954 level. Therefore, GNP in 1958 was relatively worse *vis-à-vis* GNP in 1954 than was GNP in 1947 *vis-à-vis* GNP before the war. Furthermore, in 1958 the position was worse with regard to employment than with regard to output. The total at work was falling in 1958 and continued to fall until 1962. The extraordinary depression of GNP in 1958 suggests that the growth rates of 4·2 per cent and 5 per cent in 1959 and 1960 are comparable with the growth rates of 5·0 per cent and 5·1 per cent in 1948 and 1949. By taking 1958 as base the growth rate for the second period is increased in the same way as the rate for the earlier period would be increased by selecting 1947 as base. To illustrate this point, if we exclude the period 1956-58 in which real GNP actually declined, and take two seven year periods, 1948–55 and 1959-66 we get growth rates for the two periods of 17 per cent and 27 per cent. These rates are clearly contrasting though considerably less dramatically than rates of 15 per cent and 46 per cent given by Professor Carter for 1948-58 and 1958-68 or rates of 9 per cent and 39 per cent given by Dr. FitzGerald for the periods 1949-58 and 1958–67. The implication of this would seem to be that output grew fairly well between 1947 and 1955, that it grew much better after 1958, but that there was a drastic depression between 1956 and 1958.

Social and Productive Expenditure

The question which we now examine is to what extent was the more rapid growth of output in the sixties associated with a displacement of the social element in the total expenditure of public authorities?

In the late fifties heavy emphasis was placed on the necessity for a "productive shift" in public expenditure. The Capital Investment Advisory Committee drew a distinction between social or redistributive, and productive investment: "To the extent that an investment expenditure does not provide a flow of goods and services capable of being sold at competitive prices it is redistributive. We choose this term to focus attention on the fact that real income is not being created, but rather redistributed."[5] The Committee give certain examples to illustrate this distinction. "The provision of a new school building is, perhaps, best regarded as a redistributive investment: for it must be maintained by transfers of monetary (and therefore of real) income."[6]

The case presented by the Capital Investment Advisory Committee is favoured by certain economic arguments. However, two questions which imply objections may be asked. Firstly, with what time period was the Committee dealing? If it was dealing with the longer run which appears to be the case in the Third Report, then a school may contribute as much to productivity growth as a factory (or at least, some factories). Equally, roads and houses, further examples of social investment suggested by the Committee, are essential infrastructure without some of which it is difficult to see how productive activities can take place at all. The second question is how many of the productive investment areas proposed by the Committee would qualify as yielding a flow of competitive goods and services? Of the ten areas mentioned by the Committee, nine relate wholly or partly to agriculture, forestry and fishing. The other one is technical, technological and scientific education.[7] The sole references to industrial development concern "market research agencies overseas for both agriculture and industry", and "Development of new manufacturing activities especially in fields ancillary to agriculture."

The Committee's view on the role of social investment is better understood when considered in relation to the role it assigned to exports. The broader issue of the relationship between economic growth and the respective functions of export and home demand is therefore involved. It is clear that a major reason why social expenditures were considered less desirable than productive expenditures was because the former do not generate exports directly. The Committee recognised that the stimulus to economic growth could come either from home demand or exports. However, they dismissed the former possibility. By implication, the potential contribution of social expenditure to economic growth was also dismissed. One reason for this emphasis on exports was a fear of balance of payments difficulties founded in the deficits of the preceding years, and accentuated by the Central Bank statement that external assets were "dangerously low" in 1956.[8] Nowadays the fear seems less justified in view of the strong position of our external assets over the period as a whole. Also, between June and September 1956 net external assets of the commercial banks rose from £75 m. to £83 m. which was just the level of December 1955. The net external assets rose further during 1957. The emergence of a balance of payments deficit of £36 m. in 1955 after three years in which deficits had not exceeded £9 m. had sounded a warning note which the accompanying large rise in domestic capital formation did not dispel. As a result of corrective measures the deficit which fell to £14 m. in 1956

[5]Capital Investment Advisory Committee, *Third Report* pp. 5–6.
[6]*Ibid.*, p. 6.
[7]*Ibid.*, p. 20.
[8]*Report of the Central Bank, 1955–56.*

became a surplus in 1957. However, between 1955 and 1957 gross domestic physical capital formation fell by over 25 per cent from £101·6 m. to £73·6 m. in current prices.

An allied reason for the emphasis on export-generating investment was probably an incipient disillusionment with protective policies as a means towards providing a viable growth of output and employment. A policy for growth which relied more on the stimulation of domestic demand would require to be buttressed for a time by at least selective protection.

Clearly, any developmental policy must be constrained by the risks of internal inflation and by the state of the balance of payments if a drain on foreign exchange resources is caused by too high a level of imports. Certain types of expenditure may more obviously and more directly generate exports. The short-term and long-term effects must still be distinguished so that export demand does not automatically assume continued long-term priority thereby leaving home demand and accompanying social investment (leaving aside the latter's possible contribution to exports) as permanent second bests. This might be interpreted in the context of the fifties as an endorsement of the need for greater "productive" expenditure but not necessarily to be judged as an endorsement for the permanent priority of export demand in the overall growth strategy.

A further important reason for the advocacy of a displacement of social spending in the late fifties was the apparent satisfaction of a variety of social needs. In the event, and especially in relation to housing, the notion that, a "virtual satisfaction of needs" had been achieved proved to be illusory. The belief may be understood in light of the then declining population and the vacancies which existed in certain housing estates, notably those of Dublin Corporation. Nonetheless in other areas there was an awareness of persistent housing needs, "In some areas it was found that a large proportion of persons in need of re-housing were of the poorest sectors of the community and unable to pay the rents for the normal types of house being built by local authorities".[9] A review of needs by the local authorities indicated that about 11,000 working-class families were awaiting re-housing by them at 31 March 1958.[10] Further, evidence was then available which suggested that the housing situation in Ireland was unsatisfactory by international standards.[11]

Displacement of social expenditure

Given the arguments favouring the displacement of social expenditure, to what extent did this in fact happen in the case of social expenditure as covered by our definition?

Table 3 shows that between 1959 and 1963, i.e. the period of the First Programme, total social capital expenditure of public authorities rose from £9·5 m.

[9]*Report of the Department of Local Government*, 1954–55, p. 31.

[10]*Report of the Department of Local Government*, 1957–58, p. 20.

[11]P. O hUiginn, "Some Social and Economic Aspects of Housing—An International Comparison" *Journal of the Statistical and Social Inquiry Society of Ireland*, 1959–60, Vol. XX, Part III, p. 37.

TABLE 3: *Social Current and Capital Expenditure of Public Authorities, and a Proportion as of Total Current and Capital Expenditure of Public Authorities 1949–66*

Year	*Social Current Expenditure*	*Social Current / Total Current*	*Social Capital Expenditure*	*Social Capital / Total Capital*	*Social GPCF*	*Social GPCF / Total GPCF*	*Total Social / Total*
	£m.	%	£m.	%	£m.	%	%
1949	38·0	42·9	13·4	43·6	11·0	59·1	43·1
1953	57·9	47·5	20·4	43·0	12·3	53·0	46·2
1956	68·5	48·3	16·4	31·7	11·0	47·4	43·9
1957	72·1	50·2	11·1	27·2	7·1	40·6	45·1
1958	71·2	49·0	9·0	24·1	6·0	35·1	43·9
1959	75·8	49·8	9·5	22·2	5·7	32·4	42·7
1961	86·3	46·5	10·9	21·4	5·7	25·7	41·2
1963	104·1	48·6	15·3	23·5	8·5	27·8	42·8
1966	149·0	49·1	27·5	33·3	17·6	41·9	45·7

to £15·3 m. in current prices. By contrast, between 1953 and 1958 total social capital expenditure of public authorities fell from £20·4 m. to £9·0 m. in current prices. Data for capital formation alone show a similar trend. Between 1953 and 1958 expenditure on social gross physical capital formation by public authorities was halved, falling from £12·3 m. to £6·0 m. There was a further fall to £5·7 m. in 1961. Between 1961 and 1966 social gross physical capital formation of public authorities has increased threefold. Total (i.e. current plus capital) social expenditure as a proportion of total expenditure of public authorities has been remarkably stable since 1949. In 1949 it was 43·1 per cent compared with 45·7 per cent in 1966. During the period of the First Programme 1959–63 the social share in total expenditure of public authorities increased marginally. The ratios of both social capital expenditure to total capital expenditure and social gross physical capital formation to total gross physical capital formation of public authorities fell steadily between 1953 and 1961. Almost all of the decline in these ratios had taken place by 1959. Between 1953 and 1959 the share of social capital in total capital expenditure of public authorities fell from 43·0 per cent to 22·2 per cent. The corresponding ratio for gross physical capital formation fell from 53·0 per cent to 32·4 per cent. Between 1959 and 1963 social capital as a percentage of total capital expenditure of public authorities rose from 22·2 per cent to 23·5 per cent, while the corresponding ratio for social gross physical capital formation fell somewhat from 32·4 per cent to 27·8 per cent.

To the extent that the social share of total gross physical capital formation of public authorities was lower in 1963 than in 1959 there was some displacement of social expenditure over the period of the First Programme. However over the same period there was a rise in both the shares of social capital and total social expenditure.

Viewing the post-war period as a whole the ratio of total social expenditure to total expenditure of public authorities has not changed significantly. In the case of capital expenditure alone, the social share fell between 1949 and 1961, most of the fall taking place by 1959. It would appear that the slower growth of output in the fifties was accompanied by a high, but falling, level of social capital expenditure, and a rapidly falling ratio of social capital to total capital. Since 1961 the position has been reversed and both the level and share of social capital expenditure have risen rapidly. Therefore, while it may be true that the slower growth in the fifties was in part attributable to a relatively high, though falling, level and share of social capital expenditure, it is not true that the more rapid growth of the sixties has been associated with a diminishing social share. Since 1961 the social capital share has risen markedly and is now comparable with the shares in the mid-fifties.

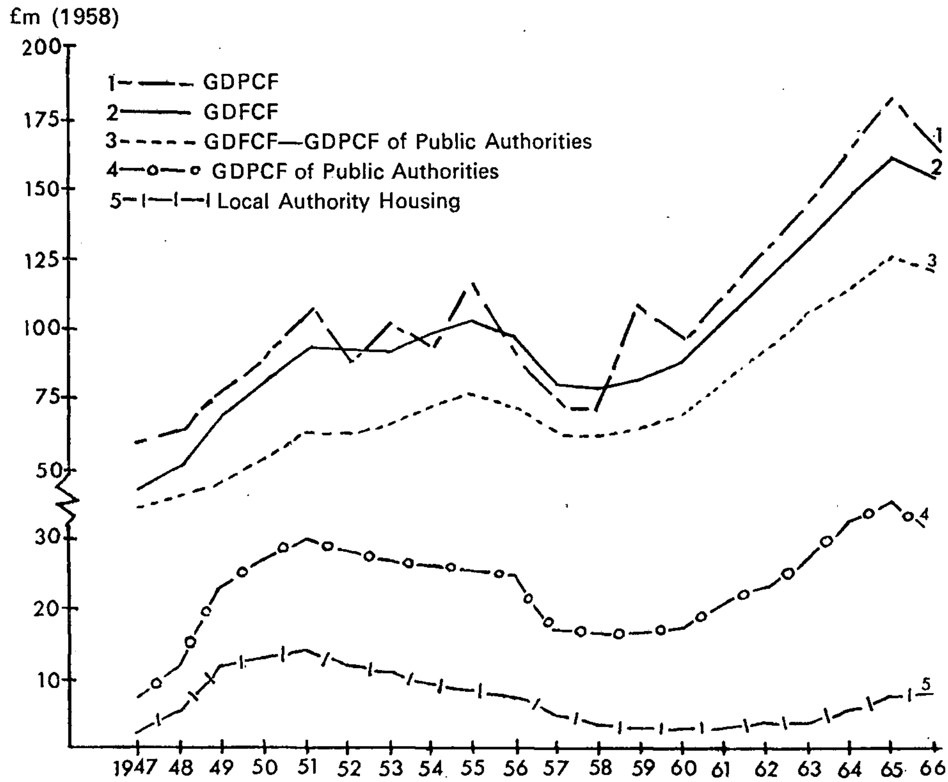
Between 1949 and 1958 the average of the annual shares of social capital in total capital expenditure of public authorities was 37·6 per cent. This compared with a much lower average annual share of 24·5 per cent between 1959 and 1966. The conclusion from this is that in the period since 1958, even though the social capital share was rising, the average share of total capital expenditure of public authorities devoted to social purposes was less than in the period 1949-58, even though the share was falling. We have shown that the trend was downward in the first period and upward in the second period. Therefore it cannot be argued that the faster growth in the second period was achieved by further reducing the social capital share. A different argument[12] might be that growth was faster in the second period due to the lower *average* share of social capital over the period. This may well be the case. However, while this latter argument can be supported by the figures for the social capital share it cannot be supported by the figures for the total social share. As mentioned earlier the total (current plus capital) social share in public authorities' expenditure has been remarkably constant between 1949 and 1966.

Social Expenditure and Short-Run Variations in Output

Having briefly examined the relationship between social expenditure of public authorities and the growth of output in the post-war period we now consider the relationship between short-run variations in the two. As variations in investment are generally considered the more important in explaining cyclical fluctuations we concentrate on investment. In this case it is essential to look at the pattern of total investment as well as the public authorities' element, social or otherwise.

[12]Dr. Kieran Kennedy drew my attention to this argument.

The chart below which is based on data in constant (1958) prices,[13] shows, as might be expected, that the long-run trend of total gross domestic physical capital formation has been largely influenced by the trend of fixed capital formation, while the short-run variations are associated chiefly with stock changes.



There is no indication that capital formation of public authorities has operated at all in a counter-cyclical fashion. Quite the reverse. Public authorities appear to have been influenced by the trade cycle in the same way as private investors to spend in prosperity and economise in depression. From our point of view it is especially interesting that the chief item of social capital formation, local authority housing, appears to have been a major villain of the piece. There were marked cut-backs in local authority housing in 1953, 54, 57, and 58. Unemployment soared in 1953 and 1957 while real GNP actually fell between 1956 and 1958.

[13]GDPCF of public authorities in constant (1958) prices was obtained by using a price index of total GDFCF (1958 = 100). This was used as GDPCF of public authorities contains little stock changes. In the case of expenditure on local authority housing a price index of expenditure on dwellings (1958 = 100) was used.

Capital formation in local authority housing fell from £7·7 m. in 1956 to £3·7 m. in 1958 (in 1958 prices) while employment on local authority housing schemes in the same two-year period fell from over 6,000 to 2,500.[14] Also between 1956 and 1958 total public authorities' capital expenditure on housing fell from £14·3 m. to £7·6 m. (in 1958 prices). It is not very surprising that the change in dwellings accounted for 41 per cent of the fall in gross domestic physical capital formation in 1957, the change in local authority housing alone accounting for just half of this.

The chart also suggests the remarkable degree of association between private and public fixed investment. The value of the correlation coefficient between the annual percentage changes in gross physical capital formation of public authorities and total gross fixed capital formation minus gross physical capital formation of public authorities for the period 1950–66 is $r = 0{\cdot}86$. This high correlation probably comes about because private investment depends to a significant extent on public authorities' capital formation.

Conclusion

The slower growth of the fifties was associated with a higher annual average, though falling, social capital share in total capital expenditure of public authorities. The opposite was true in the sixties. The total social share in public authorities' expenditure did not vary significantly over the period 1949-1966 as a whole. In the short run there is no evidence that expenditure on capital formation by public authorities operated in a counter-cyclical fashion.

Closer study of the period is in order before any definite conclusions might be drawn as to the association of social expenditure of public authorities with economic growth. For one thing investments take time before their benefits may be reaped. It is possible that some of the benefits of a high level of social spending, for instance on houses and hospitals in the early fifties, may only have come to fruition say ten years later, in the early sixties. A balanced growth of both "social" and "productive" components of the expenditure of public authorities with an overall eye on stabilising possibilities may be considered more important than the unique dominance of the "productive" element in contributing to growth.

[14] *Returns of Local Taxation* and *Reports* of the Department of Local Government.