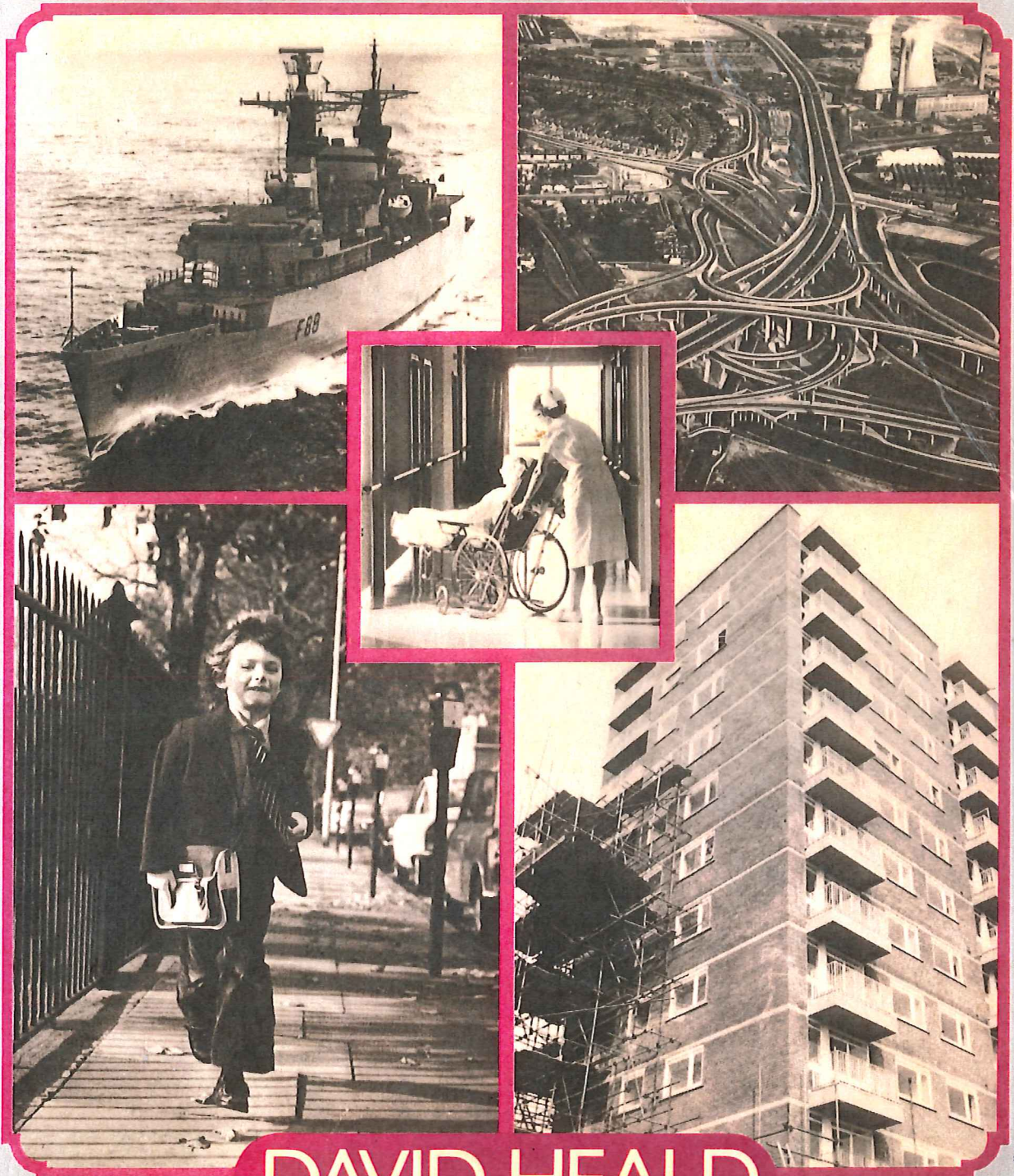


PUBLIC EXPENDITURE



DAVID HEALD

Public Expenditure

Its Defence and Reform

DAVID HEALD

Martin Robertson · Oxford

© David Heald, 1983

First published in 1983 by
Martin Robertson & Company Ltd.
108 Cowley Road, Oxford OX4 1JF.

All rights reserved. Except for the quotation of short passages for the purposes of criticism and review, no part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the copyright holder.

Except in the United States of America, this book is sold subject to the condition that it shall not, by way of trade or otherwise be lent, re-sold, hired out, or otherwise circulated without the publisher's prior consent in any form of binding or cover other than that in which it is published and without a similar condition including this condition being imposed on the subsequent purchaser.

British Library Cataloguing in Publication Data

Heald, David, 1947–

Public expenditure.

1. Finance, Public – Great Britain

I. Title

336.41 HJ1001

ISBN 0–85520–418–4

ISBN 0–85520–419–2 Pbk

Typeset by Freeman Graphic, Tonbridge
Printed and bound in Great Britain by
Billing and Sons Ltd., Worcester

CONTENTS

| | |
|----------------------------|------|
| List of Tables and Figures | x |
| Preface | xiii |

PART ONE: THE CONTEXT

| | | |
|---|--|----|
| 1 | The Tarnished Consensus | 3 |
| | Consensus Triumphant | 3 |
| | Consensus Tarnished | 6 |
| 2 | The Meaning of Public Expenditure | 10 |
| | Introduction | 10 |
| | The Arithmetic and Politics of Public Expenditure/GDP Ratios | 12 |
| | Policy Substitutes for Public Expenditure | 18 |
| | The Expenditure Record | 22 |
| | Conclusion | 32 |
| 3 | The Monetarist Challenge | 33 |
| | The Vulnerability of the Keynesian Orthodoxy | 33 |
| | The Link between Monetarism and the Free Market | 34 |
| | Crowding Out | 38 |
| | Monetarist Policies and the PSBR | 41 |
| | Conclusion | 54 |

PART TWO: VALUES

| | | |
|---|-------------------------------|----|
| 4 | Freedom | 58 |
| | Introduction | 58 |
| | The Nature of Freedom | 58 |
| | Free Economy – Strong State | 68 |
| | Freedom and the Welfare State | 77 |
| | Conclusion | 83 |

| | | |
|------------------------|---|-----|
| 5 | Efficiency | 85 |
| | Introduction | 85 |
| | Conceptions of Efficiency | 85 |
| | The Efficiency Case against Public Expenditure | 89 |
| | Market Failure | 94 |
| | Questioning the Paretian Framework | 102 |
| | State Failure | 107 |
| | Conclusion | 118 |
| 6 | Equality | 120 |
| | Introduction | 120 |
| | The Relationship Between Equity and Efficiency | 122 |
| | The Meaning of Equality | 124 |
| | Limiting the Domain of Inequality | 128 |
| | The Charge of Paternalism | 132 |
| | Policies for Reducing Inequality | 136 |
| | Has the Strategy of Equality Failed? | 141 |
| | Conclusion | 147 |
| | Appendix: Combining the Pareto criterion with a social welfare function | 148 |
| PART THREE: MECHANISMS | | |
| 7 | Public Accountability | 153 |
| | The Need for Accountability | 153 |
| | The Mechanisms of Accountability | 154 |
| | The Failure of Accountability | 164 |
| | Conclusion | 173 |
| 8 | Managing and Controlling | 174 |
| | The Distinguishing Characteristics of the Post-Plowden System | 174 |
| | The End of Planning? | 193 |
| | Rescuing the System from Despair and Cynicism | 196 |
| | Conclusion | 203 |
| 9 | Collective Bargaining | 204 |
| | The Growth of Public Employment | 204 |
| | The Characteristics of UK Public Sector Industrial Relations | 207 |
| | The Impact of Collective Bargaining on | |
| | Public Expenditure Planning | 226 |
| | Policies towards Public Sector Industrial Relations | 227 |
| | Conclusion | 233 |
| 10 | Decentralization and Territory | 234 |
| | The Case for Decentralization | 234 |
| | The Meaning of Territorial Equity | 239 |

| | |
|---|-----|
| Public Expenditure and Territorial Equity | 244 |
| Intergovernmental Grants as a Facilitator of Decentralization | 249 |
| Conclusion | 252 |

PART FOUR: THE FUTURE

| | | |
|----|---|-----|
| 11 | The Crisis of the Keynesian Social Democratic State | 257 |
| | A Tradition in Disarray | 257 |
| | The Marxist Critique of the Capitalist State | 261 |
| | The Fiscal Crisis of the State | 263 |
| | Constraining the Leviathan State | 270 |
| | In Defence of the Keynesian Social Democratic State | 275 |
| 12 | Paying for Public Expenditure | 279 |
| | Introduction | 279 |
| | The Distortion of the Tax Structure | 283 |
| | Erosion of the Tax Base | 292 |
| | The Degree of Progression and the Definition of the Tax Base | 293 |
| | Conclusion | 297 |
| 13 | Privatization | 298 |
| | Introduction | 298 |
| | Charges | 299 |
| | Contracting out | 306 |
| | Denationalization and Load-shedding | 311 |
| | Liberalization | 315 |
| | Conclusion | 316 |
| 14 | Reflections | 318 |
| | Notes | 325 |
| | Bibliography | 335 |
| | Author Index | 363 |
| | Subject Index | 367 |