



Thursday July 16, 2015

UK Public Spending Since 1900

Nobody, in 1900, speculating on the future of government, could have imagined the astonishing growth and scope of public services in the 20th century. Nor would they have imagined that, for many people, this gigantic state provision would seem the very essence of efficiency, compassion, and modernity. The era of the welfare state did not start, of course, in 1948 and the creation of the NHS. It started decades before. You can see how it all happened in the United Kingdom in the charts below.

A Century of Public Spending

Public spending in the United Kingdom has steadily increased from 12 percent of GDP in 1900 to 47 percent today.

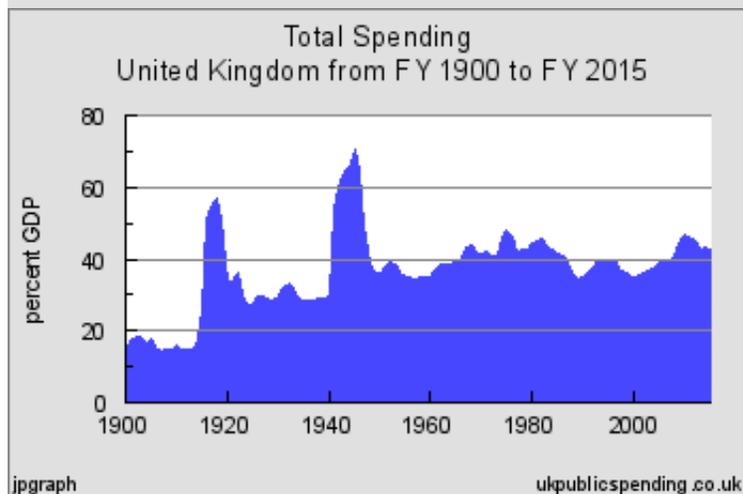


Chart 2.21: Public Spending 1900-2015

35 percent in 1989. But then, with the ERM sterling crisis and associated recession, it rose back to 40 percent of GDP before declining to 36 percent in 2000.

After 2000 public spending increased rapidly, with a peak of 45.5 percent of GDP in 2010 in the aftermath of the financial crisis of 2008, followed by a slow decrease in subsequent years.

Defence Spending since 1900

Defence spending in the United Kingdom has fluctuated in the last century, starting at 6.5 percent of GDP during the Boer War, peaking at 46.4 percent in World War II, declining from 10 percent in the early years of the Cold War to under three percent today.

Defence began in 1900 at 3.69 percent of GDP but quickly expanded during the Boer War to 6.47 percent. After the war it contracted down to about 3 percent of GDP.

World War I saw an extraordinary mobilisation of nation resources, beginning from a standing start of 3.15 percent of GDP spent on defence in 1914. Defence spending soared to 21.68 percent of GDP by 1919. But spending quickly contracted after the Great war, slipping below three percent of GDP by 1927, and staying below three percent thereafter.

Public Spending in the 20th century is dominated by the great exertions of the world wars. But peacetime expenditures show clear trends.

Prior to World War I, public spending sat at about 15 percent of GDP. Then, after the war it emerged at about 25 percent of GDP, and remained at about that level, except for a surge at the start of the depression in the 1930s.

After World War II, public spending consumed about 35 percent of GDP, and this level continued through the 1950s. At about 1960 expenditures began a steady rise that peaked in the early 1980s at 45 percent of GDP.

During the 1980s public spending was cut as a percent of GDP from about 45 percent down to

Defence spending began to increase well before World War II. Starting at 3.01 percent of GDP in 1935, it reached 3.71 percent in 1936, 4.82 in 1937, 8.72 in 1938, and 15.19 in 1939.

Appeasement or no, Britain started to rearm as the storm gathered. After the start of World War II, Britain mobilised all its national resources for the war, spending over 40 percent of GDP on defence for four years, peaking at 46.37 percent of GDP in 1943.

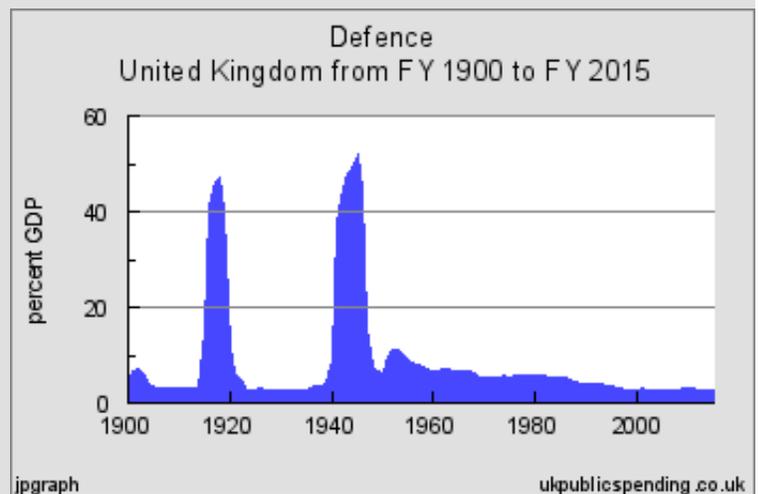


Chart 2.22: UK Defence Spending 1900-2015

The Growth of State Education

Public spending on education has expanded from about two percent of GDP in 1900 to six percent in the second decade of the 21st century.

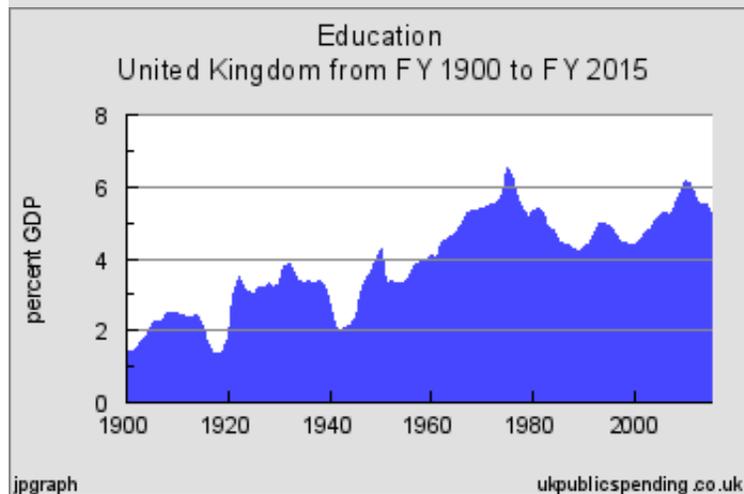


Chart 2.23: Education Spending 1900-2015

In the 2000s education spending increased rapidly, rising from 4.34 percent of GDP in 1999 to a peak of 6.07 percent of GDP in 2010.

State spending on education in Britain started out the 20th century at a little less than two percent of GDP. Spending increased steadily, breaching three percent of GDP in 1946 and reaching 3.37 percent of GDP in 1955.

Starting in 1956 education spending increased rapidly, breaching four percent of GDP in 1960 and peaking at 6.5 percent of GDP in 1975.

During the late 1970s and the 1980s education spending declined as a percent of GDP, reaching a low of 4.25 percent in 1989. In the early 1990s education expanded, reaching 5.07 percent of GDP in 1995. In the late 1990s education spending declined to 4.33 percent of GDP in 1998.

The Steady Growth of Health Expenditures

Public spending for health services increased steadily through most of the 20th century, from 0.3 percent of GDP to six percent of GDP by 1980. Following a mild decline in the 1980s and 1990s, health spending increased rapidly in the 2000s to a peak of 8 percent of GDP in 2009.

At the beginning of the 20th century, government spent about 0.5 percent of GDP on health. But spending began to increase in 1909 after passage of the National Insurance Act, reaching 1.14 percent of GDP in 1921.

Health spending increased steadily in the 1920s and 1930s reaching 1.91 percent of GDP at the start of World War II. Spending kept steady during the war and then increased briskly after the war, reaching 3.07 percent just before the National Health Service was set up in 1948.

Costs rose sharply in the early years of the NHS, reaching 3.6 percent of GDP by 1950 and then dropping to 3.0 percent of GDP by 1955. Spending increased steadily after the mid 1950s, running at about 3.5 percent of GDP in the early 1960s and increasing to 4.0 percent of GDP by 1970 and peaking

at 4.98 percent of GDP in 1975.

Health spending declined in the late 1970s, down to 4.7 percent of GDP in 1979 and increased thereafter, reaching 5.24 percent of GDP in 1981 before beginning a decline to 4.28 percent in 1988. Then spending began increased to 5.35 percent of GDP in 1993 and declined to 4.9 percent of GDP by 1998.

Spending began increasing sharply after 1999, and reached 8.01 percent of GDP in 2009. Planned health care spending in the mid 2010s is expected to hold just below 8 percent of GDP.

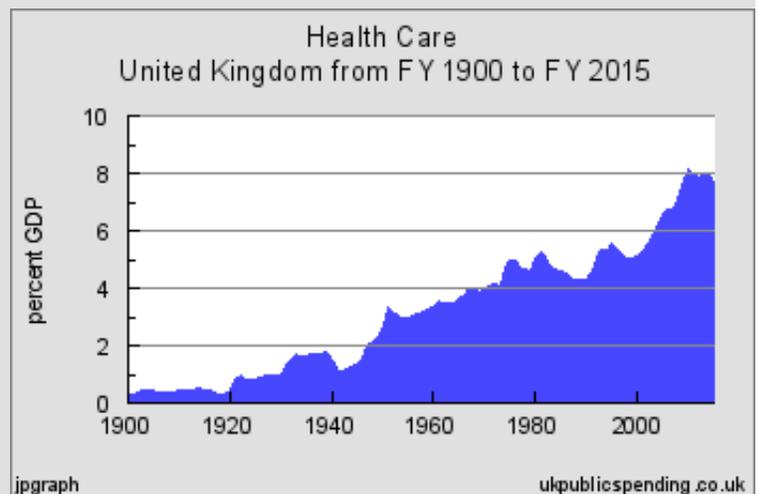


Chart 2.24: Health Spending 1900-2015

The Huge Growth of 20th Century Social Spending

Public spending for "Social Protection" started at 0.7 percent of GDP in 1900 and has now reached over 15 percent of GDP.

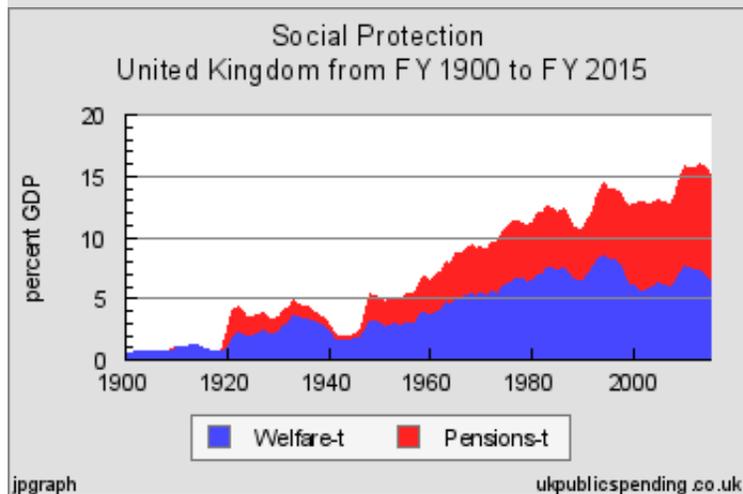


Chart 2.25: Social Spending 1900-2015

At the beginning of the 20th century, government spent about 0.7 percent of GDP on social protection, almost entirely social assistance or welfare, slowly increasing spending to 1.38 percent of GDP at the outbreak of war in 1914.

Social spending exploded after World War I, peaking at 2.2 percent of GDP on welfare in 1922 and 2.25 percent on pensions in 1921. Pensions slowly decreased over the next 20 years to 0.4 percent of GDP by the end of World War II. But welfare payments declined only to 1.9 percent of GDP in the mid 1920s before jumping up to 2.4 percent of GDP after the General Strike in 1926. The Great Depression provoked a further increase in welfare payments, up to 3.66 percent of GDP in 1933. Thereafter, welfare payments

declined to about 1.5 percent of GDP in the middle of World War II.

After World War II welfare payments jumped sharply to 3.2 percent of GDP in 1948 before declining back to about 3 percent of GDP for most of the 1950s. But welfare started increasing by the late 1950s reaching 4.0 percent of GDP by 1962. Pensions hit 2.2 percent of GDP right after World War II and slowly increased in the 1950s, reaching 3.1 percent of GDP in 1961.

Welfare payments grew steadily throughout the 1960s, breaching 5 percent in 1966, and 5.4 percent in 1968. Pensions continued a steady growth, reaching 3.9 percent of GDP by 1968.

Welfare started out the 1970s at 5.35 percent of GDP in 1970 and then hit 6 percent of GDP in 1974 and continued to increase through the inflation and strikes of the late 1970s hitting 7 percent of GDP in the recession of 1981. Pensions started out the 1970s at 3.8 percent of GDP and steadily increased thereafter, hitting 4 percent of GDP in 1973 and 5 percent of GDP in 1981.

In the Thatcher years of the 1980s welfare increased by the mid 1980s to 7.4 percent of GDP by 1984 before declining to 6.4 percent of GDP by 1989. Pensions peaked at 5.05 percent of GDP before declining steadily to 4.2 percent of GDP by 1990.

Starting in 1993 with the new HM Treasury PESA, welfare, including unemployment, social security, incapacity and housing allowances, pegged at 8.25 percent of GDP; pensions came in at 5.28 percent

of GDP.

Following 1993, welfare started a decline, reaching down to a low of 5.5 percent of GDP in 2002. In the financial crisis of 2008 it increased, reaching 7.8 percent of GDP in 2010. Welfare is expected to decline to 6.6 percent of GDP by the mid 2010s.

Following 1993, pensions began a steady increase, reaching just under 6 percent of GDP in 1998, breaching 7 percent of GDP in 2001 to peak at 7.28 percent of GDP in 2002. In the mid 2000s pensions modestly declined down to 6.68 percent of GDP in 2007. But the financial crisis boosted pension costs up to 8 percent of GDP in 2010 and 8.8 percent of GDP for 2013.

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