

## **THE SCOTTISH SECRETARY, THE TREASURY AND THE SCOTTISH GRANT EQUIVALENT, 1888-1970**

*Ian Levitt*

In recent months there has been increased attention given to the post Parliament political situation in Scotland and, in particular, the relation between the dominant political party in the Parliament and the Westminster Government (**Scottish Affairs** 1997, nos 19-21). Even with Labour forming the largest group, there has been considerable speculation about possible sources of conflict ranging from educational policy to public transport, abortion law and fishery rights. Given the differing historical traditions, the dominant size of English institutions and wide diversity of interests between the regions of the UK, such conflict seems almost inevitable. Issues which previously could have been resolved by civil servants working with cabinet ministers in a myriad of Whitehall committees under the guise of 'collective responsibility' will form the subject of open debate when Scottish ministers are obliged to face a different constitutional body. Nevertheless, beyond the possible conflict over particular policies, there is a larger issue which is bound to dominate Edinburgh/Westminster relations and which the present UK Government, by announcing a three year comprehensive spending review, has largely side-stepped. Without doubt many have considered that the history of Scottish administration this century has been dominated by an acute concern amongst the Scottish electorate over public expenditure and the Treasury's reluctant recognition of Scottish conditions (McCrone 1992; Paterson 1994). It is perhaps this issue which has propelled the Scottish electorate into demanding an assertive Parliament and one which, if the opinion polls are correct, demands that the leading party speaks for the Scottish 'interest' with added voice. Yet, this in itself raises important issues of how far the UK Treasury should fund particularly Scottish ventures and

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*Ian Levitt is professor in the Department of Historical and Critical Studies,  
University of Central Lancashire, Preston PR 1 2HE.*

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should be obliged to meet the exigencies of Scottish 'sentiment', irrespective of parallel English or other regional need. Moreover, it is by no means certain that either a future UK Conservative government or the British electorate will continue to accept a higher level of tax, if, on the one hand, the Parliament has its own tax-raising powers and, on the other, tries to argue that Scottish education, health and other needs require additional revenue transfer from England.

To understand the predicament of the UK government towards future public expenditure in Scotland, it is necessary to consider the origins of the Scottish 'grant equivalent', the debates that ranged over its continuance and the role of the Scottish Secretary in promoting a political position that underpinned 'generous' grant allocation as an important binding mechanism of Unionist thought. Recent work has discussed the evolution of this thought and asserted the importance of public expenditure in the equation of support, but without providing a detailed discussion of the arguments used by Scottish Ministers in Cabinet or with the Treasury (Finlay 1998; Mitchell 1998). Other work has charted the differential growth of public expenditure in Scotland, but again without locating the policy debates that underpinned the additional grant-aid (Short 1981; Lee 1995). Further work has reviewed the impact and implication of the decision in the late 1970s to allocate public expenditure within the UK for 'domestic services' by a territorially based formula (the Barnett formula), initially according to shares in population, but more latterly re-adjusted because of alleged greater Scottish needs (Heald 1994). One thing is certain. The original grant was neither deliberately sought, nor did it evolve in any planned or consistently articulated fashion. However, by the 1960s there was broad political and administrative acceptance that Scotland's economic and social infrastructure required additional investment as a permanent feature of UK public policy. The paper will begin by looking at the introduction of the 'Goschen' grant, as it was termed, from 1888-1896, the evolution of argument for differential grant-aid during the inter-war period and finally Scottish attempts to institutionalise higher levels of aid across a much wider field of public expenditure between 1945 and 1970.

#### **THE 'GOSCHEN' GRANT, THE RELIEF OF RATES AND THE UNION, 1888-1896**

Although the power to raise rates in aid of local services had been well-established in mid-19th century Scotland, there is little evidence that Scottish local government sought, or campaigned, for Government grant-in-aid. A number of ad hoc grants were provided for the maintenance of roads (in the

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Highlands dating from the suppression of the Jacobites), for police pay, for the medical relief of paupers and for the care and protection of pauper lunatics, but in general local authorities seemed content that their rateable power could provide the services that local communities wished, or the authorities deemed (Royal Commission on Local Taxation 1902). Only the roads grant attracted any special 'Scottish' consideration in its calculation, an apportionment 'qualified' for the greater mileage per head of population.

In 1885 Gladstone's Liberal Government, with the support of the Conservatives, extended the franchise to the adult male householder and it was recognised that county government, then in the hands of the landlord, also would have to be reformed. The in-coming Conservative Government of 1886 duly agreed to introduce directly elected county councils, but remained concerned over the new councils' impact on the rates. The Conservatives, therefore, decided to tread a careful path between the electoral demand for a democratised local authority and the issue of redistributive taxation. In the 1888 Budget, George Goschen, the Chancellor of the Exchequer, proposed the abolition of the existing ad hoc grants and the introduction of a larger grant-in-aid 'for the relief of the rates', the additional element principally funded out of probate duty (Spinner 1973). The existing aid would be funded through transferring Excise licences from the Exchequer to local authorities. However, probate duty was a UK tax and in order to placate the Irish Nationalists, whose reform of local government (and finance) was delayed, Goschen felt obliged to devise a mechanism to ensure equity between the three 'Kingdoms'. After looking at a number of measures to indicate each country's 'general contribution to the Exchequer', including probate and the tax on beer and spirits, he concluded that Ireland's share of the proposed grant-in-aid was 9/100ths and Scotland's 11/100ths. (Goschen's calculations produced figures slightly below these proportions, but to allow for a margin of error and the Government's commitment to Ireland, he decided to 'round up') (**Hansard** 26 March 1888; **Parliamentary Return** 1890). It was an ingenious formula, which, in the absence of any other macro-economic measurement, the Chancellor felt was self-evidently 'just'.

In England his proposals were generally welcomed, but Scottish opinion was less certain (**The Glasgow Herald** 27 March 1888; **The Scotsman** 28 March 1888). Liberal MPs, in particular, indicated their opposition and stressed that there had been no Scottish demand to assist the property-owner by the relief of the rates (**Hansard** 24 April 1888 and 18 December 1888). Instead the MPs pressed for the grant of £155,000 to be used to fund the relief of school fees, which for reasons of historical tradition was thought a more appropriate object for State assistance. Outside Parliament various groups also raised

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opposition, particularly when Lord Lothian, the Scottish Secretary, announced that he wanted to use part of the grant to assist with the cost of poorhouse relief (**Parliamentary Paper** 1888). Poor Law officials, amongst others, thought that this would encourage pauperism. In the event Lord Lothian decided to allocate the grant for four purposes: Scottish roads, the relief of Highland distress, increased assistance for pauper lunatics and a grant for boarded-out pauper children. The following year, after the grant for pauper children had been withdrawn, 'in deference to Scottish opinion', Lord Lothian allocated the bulk of the additional probate duty to the relief of school fees. By contrast, English local authorities received further aid in relief of the rates. In 1890 Goschen's Budget increased the duty on beer and spirits and, as planned, transferred a number of Excise licences to the Local Taxation Account (as it became known). The increased grant (which now totalled £750,000) allowed the Scotch Education Department to introduce free elementary education (PRO, CAB 37/29).

The Government decided that in England the next distribution would be used to achieve a similar scheme of free education. Initially the Government also proposed that the additional revenues would fund an extension of Scottish secondary education, a proposal which MPs generally welcomed (**Hansard** 3 February 1891). However, the four Scottish cities decided to press the Government for the level of rate relief received by English cities and with the assistance of the parochial boards met Goschen to argue their case (**The Glasgow Herald** 25 March 1891). The Chancellor seemed impressed with their argument about equity and the growing 'burdens' on property and decided that the 1891/2 distribution would continue to be allocated on the 11/100ths principle, though he refused to be drawn on whether this implied all other distributions would be stereotyped (**Hansard** 4 May and 11 June 1891). The SED, in fact, had opposed extending the formula to education, principally because it sought funding on the basis of the English capitation fee (based on average attendance), which appeared more favourable (PRO, CAB 37/42). However, after receiving a number of deputations from Scottish institutions, the Government decided that it would seek fresh legislation to transfer the bulk of the elementary education charges to the separate Public Education (Scotland) Vote. Goschen also agreed, as an interim measure for 1891/2, to allocate Scotland's additional share of revenues (£110,000) to the relief of the rates.

The Education and Local Taxation Relief (Scotland) Bill introduced in February 1892 proposed two new principles for funding Scottish local government. First, it proposed that the Local Taxation Account should provide relief of the rates on a permanent basis. Second, it proposed that the

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Treasury should 'fix' the Scottish schools grant at a particular level, 'or such other amount as Parliament may determine, having regard to the amount of the (English) Fee Grant under The Elementary Education Act, 1891'. In fact, although the Bill did not prescribe any formula, Goschen fixed the 1892/3 grant at 11/80ths of the English Fee Grant (£265,000), the same proportion as used in the Local Taxation Account. The Liberal Opposition again attacked the Government's policy of assisting the property-owner through rate relief, which they repeated was against the Scottish tradition (**Hansard** 25 February 1892). Campbell-Bannerman was amongst the fiercest of the Liberal speakers and claimed that the Bill would interfere with local authority decision-making and stereotype future allocations between the three 'Kingdoms', irrespective of actual or changing need. He added that

He could conceive nothing more demoralising or ineffective than the mere handing over - flinging - a lump sum of money to people, saying 'Here, if you are short of money you may make it up out of that. We do not care much what particular object this relief shall be applied to. Relieve your rates, make yourselves popular and leave us alone.'

There was also considerable alarm from other MPs that relief to the Highlands, with its reliance on subsistence agriculture, would be seen as a Scottish and not an Imperial charge. They said that the Government had accepted that Ireland with a similar economy should receive considerable grant-aid from the rest of the UK. In response the Government repeated that although the law and practice of Scottish local government differed from England, the general trend of governance - the provision of parks, libraries, scavenging, street lighting, etc. - was the same and they would be open to criticism if they did not attempt to equalise grants-in-aid. The level of support for any particular programme, it added, could vary, but that was a matter for the Scottish Secretary, on the advice of the Scottish local authority.

Gladstone's Liberal Government, appointed in October 1892, was placed in a dilemma over Goschen's formula. Scottish institutions had accepted the national distribution of grant aid as fair and reasonable, and many had begun projects to enhance local amenities. Similarly the SED realised that the distribution gave a much higher degree of certainty over future planning than the more variable capitation fee. A Treasury attempt in February 1893 to abandon the formula in the allocation of the School Fee Grant (it said that the number of Scottish schoolchildren had declined) was strenuously opposed. The SED pointed out that under the 1892 Act they had received 11/80ths of the amount spent in England and as the 1891 Act was the principal Act governing England, the Scottish grant should be increased in exact

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proportion. The SED also pointed out that fresh legislation would be required, which the minority Government might not be able to pass. (The Government was dependent on the votes of the Irish Nationalists.) With some reluctance the Treasury withdrew the proposal, the Scottish Secretary informing MPs that the formula had come to represent Scotland's 'due' share of educational expenditure (**Hansard** 28 August 1893).

In 1895 the Royal Commission on Agriculture reported and supported the claims of the farming industry that it had sustained considerable 'distress' as a result of imports and falling land prices. Lord Salisbury's second Conservative Government accepted much of the Report and proposed a Bill to provide rate relief to the owners of agricultural land in England. Immediately afterwards a similar measure was introduced for Scotland and the Government again adopted Goschen's formula for allocating funding between the English and Scottish Local Taxation Accounts. Although the Liberals vigorously opposed the Bill and secured a concession which limited relief to the farmer and not the landowner, the Government rebuffed any criticism of the allocation. Its spokesman pointed out that no-one had seriously questioned Goschen's estimate of Scotland's contribution to the Exchequer or Scotland's right to receive an 'equivalent grant' (**Hansard** 13 July 1896). Similarly the Conservatives confirmed that it would continue to use the formula in the allocation of the School Fee Grant to Scotland.

The period 1888-96 had witnessed a considerable change in the structure and finance of local government. However, as a Treasury official reported to the Royal Commission on Local Taxation, the principles underlying Conservative policy appeared inconsistent and opened a new chapter in central and local government relationships (Royal Commission 1899). On the one hand, the Conservatives had sought to democratise the local authority and give it new duties; 'good government' in education, public health and other areas stemmed from the quality of local decision-making. On the other hand, they had transferred the responsibility for raising a much larger amount of expenditure from the local authority to central government; indeed the increase on local authority expenditure, 1888-96, was virtually equal to the additional grant-aid. The official noted that the Conservatives had certainly protected the fiscal interests of the ratepayer, but at a price. In future, he suggested, it was likely that the electorate - and the local authority - would look to central Government to fund additional welfare.

Liberal MPs believed the same argument applied to Scotland (Caldwell 1905). Although the thrust of Conservative policy may have been to limit the impact of enfranchisement on the rates, it similarly established a different

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relationship between Scottish administration and Westminster. 'Equivalent' treatment meant that decisions over the funding of Scottish welfare had been removed from the local authority and handed to the Treasury. The Scottish Secretary, MPs and local authorities may well have been able to decide whether education, public health or any other programme should be prioritised, but they remained closely dependent on the quantum of welfare a UK Parliament thought necessary for England. The unintended consequence of English local government reform and the political necessity to placate the Irish nationalist had inadvertently bound Scotland much closer to the Union, a fact which devolutionist Liberal MPs noted with considerable dismay.

**SCOTTISH CONDITIONS, GRANT-AID AND DIFFERENTIAL NEEDS 1919-39**

By 1919 the structure of British welfare provision had been radically altered from the 'night-watchman' State of the 19th century. Old age pensions were introduced in 1908, followed by trades boards for the low paid, labour exchanges for the unemployed and national insurance benefits for the sick and the unemployed (Fraser 1985; Jones 1991). All these schemes and services were either funded or managed through State organisations and further reduced the pressure on the rates. However the Liberal Government 1906-15 and the subsequent War-time Coalition could not completely bypass the local authorities, and by the Armistice of 1918 the development of specific services, like child welfare and the care and control of TB, were encouraged by a series of grants. These were normally a percentage of the expenditure incurred - the more a local authority developed a service, the more it earned in grant-aid. The 1919 Housing Act added another dimension and limited local authority liability in the provision of new housing to a penny rate in England and three-quarters a penny in Scotland (**The Scotsman** 30 May 1919). (Scottish rates were based on gross 'rentals', whereas in England rates were paid after a series of deductions.) Although Scottish law meant that there were important differences in local administration, the basic principle guiding Government policy was to facilitate the growth of social provision through the encouragement of rate-supported services.

The onslaught of the depression in 1921 brought an end to the Government's policy of peace-time reconstruction. By the time the Conservatives won the 1922 General Election, the policy of economic retrenchment had seen the truncation of the further development of State-aided housing and local authority schemes of welfare (Levitt 1995). In Scotland the housing total under the 1919 Act stood at less than two-thirds its Goschen equivalent. The

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new Conservative Government was committed to social reform, but its primary objective was to keep inflation under control by linking changes in public expenditure much more closely to the growth of the economy. Where grant-aid was thought necessary, the principal aim was to shift a greater part of the responsibility from the State to the local authority and the ratepayer (Levitt 1988).

In March 1923 the Ministry of Health proposed a new scheme of subsidised housing, with grants to the local authority at a much lower level than in the 1919 Act. After consulting the Scottish local authorities, Lord Novar, the Scottish Secretary, proposed an additional subsidy for Scotland to take into account differences in the Scottish climate, the building tradition and the greater housing need (four times the level of overcrowding) (PRO, CAB 24/159). The authorities had argued that they could not match the level of English housing completions without a substantial increase in the rate burden. The Cabinet, after a special review, rejected the request and told Novar that 'regional differentiation' in social provision was unacceptable if that meant English workers had to pay additional taxes to support Scottish needs (PRO, CAB 26/5). A similar argument was used to reject a request to assist 'necessitous' Poor Law authorities affected by high levels of relief to the unemployed. Baldwin, then Chancellor of the Exchequer, was one of the most hostile ministers and indicated that Novar's bid for additional grant-aid would lead to other areas identifying 'anomalies' in the Scottish case and demanding a similar level of aid, irrespective of the Scottish circumstances. Ultimately, he argued, it would conflict with the Government's policy on the growth of public expenditure. To underline the Treasury's case, Baldwin pointed out that grant-aid to England and Scotland was governed by a tradition and commented:

Hitherto the proportion generally observed between the two countries has been that of 80:11 introduced by Mr. Goschen in 1888 as being the proportions in which they then contributed to the Exchequer, though it is now slightly more favourable to Scotland than her present contributions would warrant. In certain cases and particularly where a service is administered on an identical basis in both countries, the distribution has simply followed the needs of the service, but the result on the whole has not been very different from the Goschen proportion, as most of these services depend on the numbers of the population which approximate to that proportion for the two countries. There have of course been exceptions above and below the proportion, but taking the Government

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grants as a whole, the Goschen proportion has been fairly well observed.  
(PRO, CAB 24/160)

Baldwin accepted that the formula brought a certain 'rough justice' to Scottish claims, but, like Goschen in 1888, he thought that territorial equity held an inherent appeal both north and south of the border.

As Novar predicted Labour MPs took almost violent exception to the Cabinet's decision and claimed that the logic of Baldwin's argument would be to increase regional inequality. One MP attacked the Government for failing to understand that the combination of unemployment and poor housing had greatly eroded a local authority's ability to provide comparable provision and added:

In Scotland we have not received anything like the equivalent which has been given to England in regard to the number of houses in proportion even to the requirements of both countries ... and that we ought to be put at once in the same position as England before any alteration in the original [1919] scheme is proposed to be carried out.  
(**Hansard** 24 April 1923)

Other MPs took a similar view and argued that either Scotland formed part of the UK with equivalent rights, or it did not and, if it did not, then the Government should support a Scottish bid for Home Rule. Interestingly a series of internal Scottish Office inquiries showed that proportionately more than 11/80ths was spent on education, agriculture and the health services (NAS, DD 5/535, DD 5/588 and SOE 6/1/26). Less was spent on roads, but the greatest deficit was on housing where Scottish local authorities indicated that the State subsidy was insufficient to meet both the higher building cost and the greater extent of slum housing. Scottish local authorities, the Scottish Office suggested, recognised the need, but had reached the limit of their rateable capacity.

The 1924 election saw the Conservatives win a landslide victory, except on Clydeside where Baldwin, now the Prime Minister, recognised that his Party had failed to convince the electorate of its commitment to social reform. In a complete reversal of policy he approved a request from the Scottish Secretary, Sir John Gilmour, to fund a £2m. crash programme of steel housing. The programme was not a success for technical reasons, but it flagged that the Conservatives accepted that a uniform social policy was not necessarily appropriate to Scottish conditions. Neither, as Baldwin freely admitted to a Glasgow audience in 1925, was continued political unrest in the

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interests of the Union (**The Glasgow Herald** 2 October 1925). The following year the Conservatives agreed to retain the 1924 Labour Government's subsidy (£9 per house for forty years), despite reducing it in England, a policy of differential grant-aid that successive Governments continued until the outbreak of war.

Baldwin's Government recognised that similar grant difficulties affected English authorities in the Northeast and elsewhere and decided to promote a general reform of local government, amalgamating many of the smaller authorities and transferring a considerable number of their responsibilities to the county councils (PRO, CAB 24/196). The existing percentage and Local Taxation Account grants (outside of education and the police service) would be abolished and replaced by a 'block grant' based on a set of factors related to need and the rateable capacity of the local authority to support services. The 'weighted' factors included the number of children, unemployment, rateable value and, in rural areas, road mileage per head of population. Scottish rateable value was adjusted by the same proportion (25 per cent) as in the 1919 Housing Act. The Government indicated that grant would be fixed for a number of years and then revised to take into account changes in the distribution of need (**Parliamentary Paper** 1928).

Officially the introduction of the 'General Exchequer Contribution' stood at variance with Goschen's notion of a territorial distribution to grant-aid. However, the Government was 'mindful' of past Parliamentary debates on Scottish conditions and in a White Paper on Local Government reform estimated that the Scottish share of new grant-aid was £750,000, a sum not less than its 'Goschen' equivalent. (Scotland, like England would continue to receive the existing quantum of grant-aid and, in addition, a proportionate element for the de-rating of industry and agriculture.) In fact the Treasury assessed the Scottish share of new aid at slightly less, but thought the sum represented 'a fair settlement', which was 'favourable to Scotland but not to an unreasonable degree' (NAS, DD 5/724).

At one level the 1929 Local Government (Scotland) Act broke with the 'Goschen' tradition and the later Liberal reforms. Grant-aid to local authorities was based, not on the percentage of expenditure incurred or through the relief of the rates, but on equalising the rate burden sufficient to bring local services up to an acceptable national standard. Such addressed many of Labour's concerns that the working class in poorer authorities should share equally in the rising expectations of material welfare. At another, it reinforced the Treasury's control of what that national standard should be and, as the Opposition acknowledged, bound Scotland even more closely to

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the quantum of welfare thought appropriate for England. Labour MPs, like the Liberals in 1892, attacked the Bill for apparently stereotyping Anglo-Scottish financial relations, irrespective of changing needs, and suggested that the Government was negating the Bill's principal aim of redistributing resources to the less well-off local authority, wherever they were located. Walter Elliot, then the junior Scottish Office minister, felt sufficiently concerned about the criticism to confirm that, if the Scottish position did deteriorate and local authorities suffered, he would 'approach the Treasury' to secure a larger grant (**Hansard** 14 December 1928).

The first review of the Act occurred in 1933, when the Scottish grant was increased by £100,000, an increase proportionately greater than in England. (The slump caused a much higher percentage of the population to seek Poor Law relief.) The depleted Opposition (after the 1931 election) meant that there was little Parliamentary debate about the amending legislation, though the small band of Clydeside Labour MPs attacked the National Government for its failure to take a broader measure of poverty in weighting the calculations (**Hansard** 7 March 1933). Outside Parliament, the nascent but vocal Scottish National Party took a more assertive attitude and petitioned the Government that Scotland was contributing proportionately more to Imperial taxation than it received in public expenditure (NAS, DD 5/558). The Government, clearly worried about the upsurge of nationalism in Europe and the apparent inability of social democratic parties to sustain working class loyalty, refuted the suggested and published a return which demonstrated that Scotland's share of public expenditure was above the 'Goschen line', though its contribution was below (**Parliamentary Return** 1932). A further claim in 1935 was similarly refuted, with J.M. MacCormick (SNP Secretary) being told that the Scottish contribution to 'Imperial Services' was not 'in excess of her economic capacity' (**The Glasgow Herald** 19 October 1935). The letter added that:

- (1) Scotland is not called upon to make any fixed contribution to Imperial Services (i.e. debt services, defence, war pensions ,etc.
- (2) The fiscal charges borne by Scotland are the same as those borne by England and Wales, and the standard of social services and other local expenditure is, broadly speaking, the same in Scotland as in the rest of Great Britain.
- (3) According to the 1931-2 return, Scotland's total revenue contribution was not 11/80ths - i.e. 13.75 per cent. - but only 9.29 per cent of the corresponding contribution by England and Wales: in other words,

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Scotland's contribution to general revenue was only slightly over 7/80ths of that of England and Wales.

(4) Even if population were taken as the basis for distributing grants, it would be found that Scotland's population has declined relatively to that of England, and that in 1931 it was not 13.75 per cent. but only 12.12 per cent. of England and Wales.

Scotland, it concluded, had not been 'unfairly treated' by the UK Government, which continued to use the 'Goschen' formula where no other suitable form of apportionment could be found .

However by this time Scottish local authorities had begun their own campaign and they wrote to the Scottish Secretary claiming that the grant formula did not take into account either the severity of the depression in Scotland or its length (NAS, DD 5/731). The position was exacerbated after the 1934 Unemployment Assistance Act, which transferred responsibility for the unemployed on the Poor Law to the Unemployment Assistance Board, but allowed the Government to offset part of the cost from the local authority. Glasgow estimated that the loss to the City effectively negated the principle that the 1929 Act should provide additional assistance to 'necessitous' areas.

In January 1936 the Scottish Secretary authorised an investigation into the method of distributing the block grant in the next 'fixed' period 1937-42, and at the same time instigated a review of the future of unemployment contributions by the local authorities (**Parliamentary Return** 1937). However, in July the Government indicated that it was considering merging in the grant the whole of the contributions payable by local authorities under the 1934 Act and also indicated that local authorities would receive a further reduction in the grant when the Ministry of Transport assumed responsibility for trunk roads (NAS, DD 5/812). The net effect of the changes would have been to reduce the Scottish grant and effectively prevent additional assistance to the necessitous areas. Scotland, the investigation noted, had too few 'prosperous areas' that could support Clydeside and the Highlands.

Neville Chamberlain, the Chancellor of the Exchequer, accepted that the Scottish situation would militate against the operation of the 1934 Depressed Areas Act (which was intended to rehabilitate the areas for industry) and agreed to discount the Scottish contribution to the unemployment assistance and road funds (£745,000 and £90,000 respectively) (NAS, DD 10/171). He also agreed with Elliot, then Scottish Secretary, to adjust the Scottish factors

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of need and provide additional weightings for unemployment and sparsity of population. However, Elliot told the Cabinet that one of the reasons for the Scottish local authority not developing services was the fear of another slump and its impact on rateable values (NAS, DD 10/169). He commented on a further concession obtained from Chamberlain:

In order to deal with the (rating) situation in the depressed areas and the more sparsely populated areas, including the Highlands and Islands, the new money, after taking into account the adjustments in respect of Unemployment Contributions and Trunk Roads, has been increased [from £500,000] to £600,000. The increased Grant ... is only sufficient to give the necessitous areas in Scotland relief broadly equivalent to what they have received if they had been in England.  
(PRO, CAB 24/267)

Elliot was evidently pleased with the settlement and told MPs that the amending Bill would provide the Scottish local authority with a greater degree of security in the planning of provision. He added that under the legislation 'a substantial proportion of the special (additional) relief for Scotland' would be guaranteed, 'in subsequent grant periods'. (The Scottish proportion of the English grant-aid was set at 12/80ths.) Scottish local authorities generally welcomed the Bill and in Parliament Labour MPs offered only muted criticism and were effectively silenced when Elliot's junior Minister commented:

For some years we have had in Scotland a small section of opinion which has been sedulously propagating statements, to the effect that the financial policy of the Imperial Parliament is unduly favourable to England. The public in Scotland will, no doubt, observe, not only that the relief of nearly £1,500,000 made available under the Bill for Scottish local authorities is nearly a third of the English total, but also that it contains new subventions from the Exchequer which have no counterpart at all in the corresponding English measure, amounting to the greater part of £1,000,000 for the benefit of Scotland alone.  
(**Hansard** 15 April 1937)

The Local Government (Financial Provisions) (Scotland) Act 1937 secured the Scottish local authority with special consideration in grant-aid as a permanent feature of the 'block grant' arrangement. The uniqueness of Scottish conditions, its higher level of unemployment, its slum housing and its generally poorer social infrastructure meant that there was no alternative to State aid if comparable provision with England was to be maintained. In

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essence it was the 'Goschen' formula turned on its head. Scotland's contribution to Imperial taxation was recognised as falling below the 11/80ths formula, but its needs were recognised as requiring a much higher level of Imperial aid. 'Goschen' had simply become the benchmark to judge whether or not the Government's policy adequately addressed the Scottish issue. This was seen in other areas of assistance. In 1936 the Government passed the Maternity Services (Scotland) Act which provided grants to hard-pressed local authorities; no such grant to improve maternity services was available in England. The State-assisted Scottish Special Housing Association was established in 1938 to build houses in areas where the local authority programme was in difficulty. The aim was to secure a Scottish programme that could equal in 'Goschen' terms the English public and private sector completions. The same principle underpinned the war-time Emergency Hospital scheme which was ostensibly for the casualties of mass bombing but, in practice, was to build hospitals in areas of local authority deficiency. As the Scottish press noted, differential grant-aid symbolised the Government's commitment to maintaining a comparable standard of social provision throughout the UK, irrespective of Scottish resources (**The Glasgow Herald** and **The Scotsman** 2 March 1937). However, it also symbolised the Government's determination to defuse the growth of Scottish nationalism, something which the Scottish ministers saw as considerably more 'dangerous' than a higher level of public expenditure (NAS, HH 1/896). In doing so it confirmed the final eclipse of 19th century radical Liberal thought that identified 'Scottishness' with Home Rule, self-help and the minimalist State. The Conservative-dominated Government had produced an alternative view of 'Scottishness' which linked national self renewal with State-led development, aided and to an increasing extent controlled by the UK Treasury. It was a twist to Scotland's political economy that led Labour MPs on more than one occasion to feel that the Conservatives had captured the high ground of Scottish politics.

### **SCOTTISH RESOURCES, ECONOMIC REGENERATION AND GRANT-AID POLICY 1945-70**

The post-war Labour Government's plan to institute a National Health Service, based on a State-run hospital service, and also to transfer the remaining parts of the Poor Law to the National Assistance Board reduced the local authority's need for grant-aid. It meant that a significant proportion of pre-war Scottish concern over the meeting of medical and allied needs was subsumed within UK policy, a fact which Labour ministers used to indicate

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would lead to additional resources, especially for Scotland's cash-starved hospital service. It also meant that Labour were prepared not to be outflanked by the Conservatives in identifying that the Scottish electorate rather liked the idea of State-led development promoting social and economic welfare. Labour's general commitment to an increased level of public expenditure was used ruthlessly to isolate and eventually deflate the post-war 'Covenant' campaign (Levitt 1998).

In 1946 the Government announced that it would introduce legislation to amend the 1937 Act and replace the 'block grant' with an 'equalisation' grant designed to bring the rate resources of the poorer local authority up to a national standard (NAS, DD 5/818). Although the quantum of aid would be smaller than under the 'block grant', the Government estimated that in 1946/7 the Scottish share of the new grant would have been about 12/80ths of England's. The legislation also altered the method of calculating the grant to equate the 'weighted' rateable value of the local authority (adjusted for population structure, road mileage and the difference in the valuation system) with the average rateable value in England (NAS, DD 5/837). The essential aim was to put local authorities in both countries in the same position before calculating the grant-aid and appealed to Labour's anti-nationalist sentiment (**Parliamentary Paper** 1947). The impact in Scotland was to shift the greater part of the Scottish equalisation grant to the Highlands, an area where historically rateable values had been low. However, it had the reverse effect on the four Scottish cities which received virtually no grant, despite higher than average unemployment. Conservative MPs, in particular, pointed out that the Government's policy appeared contradictory. On the one hand it suggested that Glasgow had the comparable rate resources of a city with full employment, like Birmingham, but on the other that the Corporation should invest in the City's infrastructure to attract industry and employment (**Hansard** 19 November 1947). Such, they added, conflicted with Labour's belief that the State should take positive steps to redistribute industry from the more prosperous South-East and Midlands of England. The MPs claimed that the differences in valuation procedures between England and Scotland meant that the 25 per cent allowance was insufficient to equalise the Scottish grant to the English total. They also pointed out that there was no provision in the legislation to 'guarantee' the Scottish proportion of the grant, which meant that as Scottish, but not English, property was valued each year, it was likely that the Scottish share of the grant would decline. (Rateable values tended to increase with economic growth.) The Government was caught on the defensive and agreed to review the working of the 1948 Local Government Act after the next English revaluation due in the early 1950s.

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By the time the Conservatives took office in 1951 it was evident that the disparity between the English and Scottish equalisation grant had grown (the 1951/2 grant was estimated at about 10/80ths of the English total) and James Stuart, the Scottish Secretary, agreed to an inquiry into its operation (NAS, SOE 6/1/104a). The inquiry, composed of civil servants and local councillors, noted that they could not calculate with 'precision' the difference between the level of English and Scottish rateable value, but concluded that 'the present addition of 25 per cent. was unfair to Scotland'. It commented:

In these circumstances we are forced to the conclusion that, if additional assistance is to be provided for Scottish local authorities, it must be determined on some other basis; and we are unable to suggest any basis more appropriate than the Goschen equivalent of 11/80ths of the equalisation grant which is payable in any particular year to local authorities in England and Wales. The Goschen formula has for long determined the amount of the education grant in Scotland; and it has been used for many other purposes both in connection with local government and in other spheres.

(NAS, SOE 6/1/104b)

The Treasury reaction to the Report was like Baldwin's in 1923 and told the Scottish Office that the Government's priority was to control inflation. The growth of the grant since 1948 meant that 'it was not convinced that a concession to Scotland was justified' or, that if it was, 'it could be matched by some compensatory downward adjustment in England and Wales' (NAS, SOE 6/1/133). However, Stuart realised the danger of continued Scottish 'unease' with the apparent inequity of treatment and arranged that Lord Home, the Minister of State, should meet the local authorities. The previous Government may have 'seen off' the Covenant campaign, but he was acutely aware that Labour had done so in the context of maintaining a high level of public expenditure. The authorities 'unanimously' agreed to support the Report and told Home that their experience of the 1948 Act was 'bitter', with many infrastructure projects delayed or abandoned. They estimated that the Goschen formula would add about 38 per cent to the adjustment of valuation, which was considerably less than a number of authorities thought strictly equitable (NAS, SOE 6/1/134a). Stuart accepted the local authorities' view and asked Rab Butler, the Chancellor of the Exchequer, to increase the Scottish grant by an additional £2m. He argued that the publication of the Report meant that a delay in implementing its recommendations 'could not be defended' and that, in his opinion, the Goschen formula was 'a well tried device for meeting Scottish needs'. Butler, with some 'reluctance', but 'having

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regards to the merit of the case' withdrew the Treasury's objection (NAS, SOE 6/1/134b).

The Local Government (Financial Provisions) (Scotland) Act 1954 re-affirmed the pre-war Government's commitment to providing Scotland with special consideration in the allocation of grant-aid (**Parliamentary Return** 1953). As Stuart indicated in Parliament it provided Scotland with 'an immediate and substantial gain' which would assist the local authority to invest in Scotland's infrastructure (**Hansard** 25 November 1953). However, Tom Fraser, a past Labour minister, accepted that the Act would correct an 'anomaly', but, like the Liberals in 1892, he pointed out that the principle of territorial allocation remained at variance with meeting need. He commented:

The Goschen formula is not in any way related to the principle of the Exchequer equalisation grant, which is that the central Government should give financial assistance to local authorities in accordance with the needs of those authorities ... In Scotland we have [the Highlands] which must inevitably attract a more generous grant from central funds, as a ratepayer, than any other part of the UK ... [and] ... if we were to accept the formula as a long term-solution, we should be accepting the inevitability of that part of Scotland outwith the Highlands being held to be responsible for aiding the Highland local authorities, instead of making that a responsibility of the nation as a whole.

Stuart replied by confirming that the Government saw the Act was an interim measure until legislation could be introduced to harmonise English and Scottish valuation law (PRO, CAB 134/1003). He added that this was likely after the Government had received the report of the Committee on Scottish Valuation and Rating.

The Committee reported in 1955 and it recommended considerable alteration in Scottish valuation law, including the abolition of owner's rate (**Parliamentary Paper** 1955). The net effect of the alterations was to reduce the total valuation of Scotland and, as the Scottish Office told the Treasury, the local authorities believed that there was 'an unanswerable case for a very substantial upward adjustment in the amount of the Scottish equalisation grant' (NAS, SOE 6/1/364). The Treasury accepted most of the Committee's recommendations, but pointed out that it would be difficult for the Government to accept that the real level of Scottish rateable capacity was as low as the Committee suggested (about one-twentieths of England) (NAS, SOE 6/1/363). (It alleged that much of the difference was due to the low rent policy of local authorities which influenced the assessment of other house

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property.) Instead it proposed a grant formula based on taking the difference between 'what the Scottish local authority expenditure would be if the expenditure per head of weighted population were the same as in England' and 'what the product of true rates in Scotland would be if the rate burden per head of actual population were the same' (NAS, SOE 6/1/60). In essence the Treasury acknowledged that the Scottish 'equivalent grant' should be the difference between a Scottish local authority's capacity to meet an English standard of provision and the rating resources of England (**Parliamentary Return** 1955). The proposal, which Scottish ministers accepted, meant an additional £1.5m. to the Scottish grant, increasing its proportion to about 13/80ths (PRO, CAB 129/75 1954). The Treasury also conceded that Scottish 'opinion' would require assurances on future grant settlements and agreed that the amending legislation would contain a proviso that the Scottish grant should not fall below the Goschen equivalent (NAS, SOE 6/1/247).

Like Elliot in 1937, Stuart was self-evidently pleased with the settlement and in Parliament outlined that the aim of the financial sections of the Valuation (Scotland) Bill was to ensure that the Scottish local authority could meet English levels of provision. (**Hansard** 15 December 1955). However, there was another element to Stuart's satisfaction. The discussion of the 1948 Act and the amending legislation highlighted the weakness of Scotland's economy to sustain an increase in rateable values comparable to England. Yet at the same time the Act tacitly admitted that the Government's policy was to bring all regions of the UK up to a national standard of provision. Scottish ministers understood the implications of the Act and pressed an extension to the equalisation argument - that the Government should invest on similar terms to revive the Scottish economy and secure a rate of economic growth comparable to England. This was seen most succinctly in 1950 when the Scottish ministers argued successfully that the Government should take steps to expand the programme of industrial estates in the development areas (NAS, DD 10/91). The same applied to Scottish roads, whose investment fell below the 'Goschen' equivalent, and considerable effort went into persuading the Ministry of Transport to agree to the Clyde Tunnel and the Forth Road Bridge (PRO, CAB 134/849 EA(53)117 1953). Similarly the establishment of Cumbernauld New Town, which had no funding parallel in England, enabled the Government to claim that it was resolving the problem of Glasgow's overspill (Levitt 1997).

By the late 1950s Scottish ministers acknowledged that the Scottish economy faced the prospect of a further recession and was unlikely to recover unless there was a sustained programme of inward investment (PRO, CAB 134/1745). However, such could not be encapsulated easily within a

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programme of fixed apportionment. What mattered to the ministers was to secure a regional policy that could respond quickly and more responsively to the level of investment required, deal with an 'end of the line economy' and head off a resurgence of nationalist thought (NAS, DD 10/110/2). Thus the establishment of a steel strip mill at Ravenscraig in 1958 was said to symbolise the Government's commitment to regenerating the Scottish economy, as did the later discussion on establishing car and truck manufacturing plants at Linwood and Bathgate (PRO, CAB 128/32). (The investment in Ravenscraig alone was far in excess of the total investment that the Scottish Development Area received throughout the 1950s.) Similarly the Scottish roads programme for the 1960s was set at a level that reflected the need to reduce the travel time between the Scottish periphery and the central belt and between Scotland and the English market (PRO, CAB 134/1687). Livingston New Town represented a desire to restore the urban environment of central Scotland and shift the centre of industry activity away from Clydeside (PRO, CAB 134/1986). The same applied to the establishment of Irvine New Town, whose funding was pursued by the Scottish Secretary with considerable vigour, despite Treasury opposition to its cost (PRO, CAB 134/1810).

The problem for Scotland in adhering to a fixed apportionment of aid was recognised by ministers during the inter-departmental discussion of the 1958 Local Government (Scotland) Act. However, the local authorities demanded that the Government re-affirm its commitment to the grant equivalent sections of the 1956 Act and the ministers abandoned the idea (NAS, SOE 6/1/514). The ministers had felt that the regulations surrounding the new grant scheme (which included education for the first-time) could be used to alter the assessment of need and, if Scottish conditions warranted, enhance an argument to increase its total (NAS, SOE 6/1/513). Labour viewed the Act with considerable suspicion - technically it increased the Treasury's control over the local authority spending programme - and attacked it for not recognising fully the broad range of Scottish needs, from housing to health care (**Hansard** 17 December 1957). Labour returned to the same theme when the Act was amended in 1963 and specifically criticised the failure of the funding formula to address the issue of unemployment (**Hansard** 24 April 1963).

For Labour the arguments presented after 1957 were considerably different from those that ministers expressed during the 1947 Exchequer equalisation grant debate and even in 1953. Fraser had made it clear that the 'peculiarities' of Scottish conditions meant that a much higher level of local authority provision was necessary to secure an equivalent standard of civic life. Within

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the context of a 'sluggish' economy and a higher level of deprivation, he accepted that the need to protect Scotland's infrastructure differentiated the claims of the Scottish working class from those in England. In that respect Labour had more than adopted the pre-war Conservative view that 'Scottishness', national self-renewal and State-led development formed part of the same electoral equation - and for electoral reasons, one that it dare not ignore.

In 1966 the Labour Government removed any reference to grant equivalence in the Local Government (Scotland) Bill. Willie Ross, the Scottish Secretary, announced that the Government believed that a grant formula based primarily on a needs assessment, rather than resources, was a better way to tackle Scottish conditions (**Parliamentary Paper** 1966). In fact, the Government was committed to reducing the impact of local authority spending on the domestic ratepayer and Ross (like the English minister) was able to announce a substantial increase in what was now termed the Rate Support Grant (**House of Commons Report** 1966). Despite close questioning in Parliament, Scottish ministers refused to be drawn on the issue of equivalence, although the actual working out of the formula produced an apportionment that was remarkably similar to the previous Act (NAS, SOE 6/1/978). Officially grant equivalence was no longer Government policy, but in practice Labour ministers remained keenly aware of the subtleties of Scottish opinion towards the wider definition it had acquired. This was seen most succinctly later in 1966 when the Government announced a 'cut-back' in public expenditure. Ross successfully fought a Treasury attempt to impose a reduction in the Scottish employment programme. His officials had pointed out that Scottish unemployment would increase beyond the 100,000 level unless the programme of 'advance' factories and other investment incentives was maintained (NAS, SEP 4/1699). Ross had previously secured Government approval for the establishment of the Highland Development Board and had been amongst the most active of ministers campaigning for an expansive programme of regional aid (PRO, CAB 134/1736).

Unlike 1892, 1937 or even 1956, there was no single Act in the 1964-70 period that encapsulated the Labour Government's attitude towards Scottish grant aid. The 1966 Act formally ended the link with equivalent English local government provision, but MPs from all parties remained acutely aware that the Scottish public expected a sustained programme of Government investment. Ross was frequently reminded of the electorate's view, as was his Conservative successor (for instance, **Hansard** 22 February 1973)

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Public understanding of grant equivalence in the period immediately after 1945 has operated, perhaps, at a deeper and more complex level. Goschen instituted a link between the national contribution to the Exchequer and the development of social provision, and linked Scottish provision to the quantum of aid received by England. Baldwin had confirmed the imperative of Scotland's importance to the Union and eventually took an indulgent attitude towards settlements 'above the line', so long as they followed the general principle of increased Treasury control over the direction of policy. Conservative ministers in the 1930s, worried about the flow of nationalist ideas from the Continent, intermeshed that control with an appeal to Scottish 'sentiment' that such assistance was not necessarily incompatible with Scottish notions of national self-renewal. The 'security' that it provided in an enhanced level of provision offered the electorate the 'hope' that they had previously put in more radical politics - and sustained a new sense of 'solidarity'. Stuart secured the 1951-7 Conservative Government's support for the pre-war position and set out to broaden the formula's application more vigorously to economic development. Later Scottish Secretaries understood the advantage of Stuart's approach, but realised that it could operate only within the context of ministerial denial. English sensitivity to additional taxation had to be recognised, particularly when it meant substantial subvention to secure the movement of English enterprise. After 1966 grant equivalence in a formal sense did not exist, but as one Scottish civil servant of the time reported, the Scottish public had come to expect a level of settlement 'at least two per cent above Goschen' - and special consideration in the provision of nationally determined projects, like atomic energy and the construction of warships. Whether or not the Scottish Parliament wishes to pursue the tradition of a UK grant-aid policy aimed at an equivalent level of provision north and south of the border and has the political resources to do so, remains to be seen.

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