

# CHAPTER 4

## CENTRAL GOVERNMENT

### 4.0 THE CENTRAL GOVERNMENT SECTOR

#### SCOPE OF THE SECTOR

The Central Government is defined by the C.S.O. as 'embracing all bodies for whose activities a Minister of the Crown, or other responsible person is accountable to Parliament. One of the marks of this accountability is that such bodies submit to Parliament detailed statements of their estimated and actual expenditure and their collection of revenue' [73, p. 251]. In addition to the ordinary civil, revenue and defence departments of the Government this includes a number of bodies 'administering public policy, but without the substantial degree of financial independence which characterises the public corporations' [73, p. 251]. It also includes certain extra-budgetary funds and accounts controlled by departments, such as the National Insurance Funds, the Exchange Equalization Account and the Local Loans Fund;<sup>1</sup> the Issue Department of the Bank of England; and the Post Office Savings Bank.<sup>2</sup>

The Post Office is included in this sector until March 1961; since that date it has enjoyed a more independent status and is accordingly treated as a public corporation. The Metropolitan Police are included with local authorities throughout. For further details of the departments, grant-aided bodies and extra-budgetary funds treated as part of the Central Government see *Sources and Methods* [73], pp. 251-2 and 296-305, and also p. 89, below.

The Irish Free State did not become an independent fiscal unit until 1 April 1922 and the data are adjusted to obtain estimates for 1920 onwards for the United Kingdom of Great Britain and Northern Ireland. For years before 1920, and in an alternative estimate for that year, the estimates relate to the United Kingdom including Southern Ireland.

The information extracted from the government accounts (these are described below) is presented in the national income framework in the form of a consolidated account for the sector as a whole. This involves the elimination of all the numerous receipts from, and payments to, other departments, bodies or funds within the sector and leaves only the transactions

of the government – considered as a whole – with the rest of the economy.<sup>3</sup>

In addition to this elaborate process of consolidation, the published accounts have to be reclassified in accordance with the principles of national income accounting. This involves, for example, the drawing of a distinction between expenditure on goods and services (such as the purchase of military equipment or the payment of wages and salaries to the civil service) and various types of transfer payment (such as old age pensions or national debt interest); or between current and capital expenditure.

In the present chapter the data relating to the Central Government is discussed in six sections, covering both current account and capital account items:

- 4.1 Income from taxes and national insurance contributions, 1900-1965.
- 4.2 Gross trading surplus and rent, interest and dividends, 1900-1965.
- 4.3 Transfers from abroad, 1900-1965.
- 4.4 Current expenditure on goods and services, at current and at constant prices, 1870-1965.
- 4.5 Subsidies, grants and debt interest, 1900-1965.
- 4.6 Transactions in financial assets, 1920-1938.

<sup>1</sup> See Appendix 4.1 at the end of this chapter for a full list.

<sup>2</sup> The Trustee Savings Bank as such is included in the company sector; it is not treated as part of the Central Government. However, all money deposited in their ordinary departments must be paid over to the National Debt Commissioners (i.e. a government department) and is invested by them, principally in government securities. All transactions in securities between the Trustees of Savings Banks and the Commissioners are therefore eliminated (see Chapter 4.6) as inter-government transactions. For the treatment of interest on these securities see Chapters 4.2 and 4.5.

<sup>3</sup> For some purposes it is also convenient to consider the public authority sector as a whole and a consolidated account can be drawn up which further eliminates the main transactions between the Central Government and the local authorities. This is done in Table 14. The transactions eliminated are interest paid by local authorities on loans from the Central Government, and government grants to local authorities. Taxes on income and expenditure paid by local authorities and payments in lieu of rates by the Central Government are not eliminated.

The one category of government transactions omitted from the above is investment, i.e. fixed capital formation and stockbuilding by government departments and trading enterprises; this is covered in Chapters 9.0 and 9.3 (but see also Table 34).

The presentation of the estimates for this sector follows a slightly different pattern from that adopted in the preceding chapters. Since the estimates for all six sections have a common origin in the Central Government's accounts, it is convenient to begin with a general description of these accounts and of the problems involved in deriving the required estimates from them. More specific problems of definition and estimation are reserved for the individual sections. Similarly, the discussion of the consistency and reliability of all the estimates for the government sector is brought together in one place at the end of this general introduction.

#### SOURCES AND METHODS OF ESTIMATION

The present estimates cover the period from 1870 to 1965, but with progressively less detail as we go back in time. In terms of their scope and immediate provenance, they can be viewed as the result of estimates made for five sub-periods. From 1946 onwards the series were all compiled by the C.S.O. and published in the annual Blue Book. No further references are made in Chapter 4 to the estimation of the 1946-65 series. The primary sources and methods are in general very much the same as those described in full for 1920-38 in this and later sections.

For 1939-45 estimates were published by the C.S.O. in the *National Income White Papers* [65] and in the *Statistical Digest of the War* [77] but with less detail than in the post-war period; and for many series with different definitions. The published estimates were adopted and adjusted to the current definitions wherever possible, but in a number of cases it was necessary to go back to the primary sources and construct new series.

For 1920-38 an extremely elaborate and thorough analysis of the government accounts was undertaken by J. E. G. Utting with the assistance of Mrs G. Eisner and Mrs D. E. Wedderburn. This was done in the early 1950s, but the results have not previously been published.<sup>1</sup> For the earliest period, 1900-19, it was necessary to build up a complete set of new estimates from the government accounts and related documents. The work was, however, limited to the series required for the current account of the Central Government, and the accounts were not analysed in the same detail as for later years. I have not, for example, made a purpose classification of expenditure on goods and services or

distinguished between domestic and foreign transactions. Finally, for the years 1870-99 I have given estimates only for the two series required for the principal national account tables: current expenditure on goods and services and taxes on expenditure.

For all years from 1900 to 1965 the various series comprising the Central Government current account are set out in Table 12. For 1920-38 the capital account is also given in Table 34. Additional details are given for selected years for the main components of income from taxes and national insurance contributions in Table 4.2 and of subsidies and grants to persons in Tables 4.3 and 4.4. A purpose classification of current expenditure on goods and services at current and at 1938 prices is shown in Table 33 for 1920-38. The two series estimated also for 1870-99 are combined with the corresponding series for local authorities and included in Table 2 at current prices and in Table 5 at constant prices. Table 6.6 brings together all government transactions for 1920-38 affecting the balance of payments on current account.

The general character of the government accounts has changed remarkably little over this period. The brief note on the accounts which follows is written with reference to the estimates made for 1920-38, but the description would in all major respects apply equally to the other periods, at least until the change in the Exchequer accounts in 1964/5. A more detailed description of certain items is given in the first edition of *Sources and Methods* [74, pp. 214-22].

Four principal sets of accounts may be distinguished: the *Finance Accounts*, the *Appropriation Accounts*, the *Estimates* (together with the *Supplementary Estimates*) and a variety of less important accounts published by individual funds and bodies. General references elsewhere in this chapter to 'the government accounts' are to one or other of these four sets of accounts.

At the centre of the complex of departments, bodies and funds which comprises the Central Government is the Exchequer. Its accounts are published as 'Exchequer Receipts and Issues' in the annual volumes of

<sup>1</sup> Estimates of a few items were made available to J. B. Jefferys and D. Walters for their study of national income and expenditure [184] and to A. T. Peacock and J. Wiseman for *The Growth of Public Expenditure in the United Kingdom*, 1961 [226]. I have made a few adjustments to certain of the original estimates (including some of those published in these two studies); these arise either from changes in definition or from corrections made to series which were not fully completed by Utting. I have also added some series, such as the estimates for debt interest, for transactions in financial assets, and for expenditure on goods and services at constant prices.

*Finance Accounts* [20]. But the Exchequer accounts are not in themselves any guide to the sources of Central Government income or to the ways in which it is spent. The Exchequer is merely a financial agency, receiving money, mainly from the revenue departments and from borrowing, and issuing it to the spending departments or for the repayment and service of the National Debt. Furthermore, the Exchequer accounts show only the cash receipts and issues of the Exchequer itself; and since nearly all its transactions are with other government departments or funds, these do not necessarily reflect the transactions of the government as a whole with the outside world.

The first items listed as receipts in the Exchequer account are all obtained from the revenue departments. The actual sums received from the public by these departments, the change in the balances held by the departments, and the sums handed over to the Exchequer (corresponding to the amounts shown as Exchequer receipts) are all published in later tables in the *Finance Account*. These tables can therefore be used to relate the Exchequer receipts to the transactions of the government as a whole, so far as these categories of receipts are concerned. A number of other items listed as 'Revenue received into the Exchequer' (e.g. Post Office,<sup>1</sup> Crown Lands, Receipts from Sundry Loans etc., and Miscellaneous Receipts) can be similarly treated, although in the case of Crown Lands there are offsetting payments which have also to be taken into account.

The remaining items of Exchequer receipts (repayment of advances made by the government and new government borrowing) are mainly genuine transactions with outside bodies, although care must be taken to note cases where the repayment is in respect of a temporary loan to some other department or fund, or where new debt is merely absorbed by another government body. This latter case is not identifiable in the Exchequer account, but may be picked up in the accounts of the body concerned.

On the issues side of the Exchequer account, the first items relate to Consolidated Fund services (mainly 'above the line' interest on the National Debt and issues to sinking funds), and the details of most of these – like those of revenue – are given in the *Finance Account*. But the next group, Supply Services, which relates to the normal expenditure of all the ordinary central government departments, is treated quite differently. Here the supporting detail given in a later section of the *Finance Accounts* contains no indication of the actual expenditure of the departments, but merely relates the sums granted them by Parliament to the actual Exchequer issues and any amounts outstanding.

For details of departmental expenditure, and of certain kinds of receipt, it is necessary to turn to the *Appropriation Accounts*. Similarly for many of the other Exchequer issues, it is necessary to turn to other subsidiary accounts for an explanation of the use to which the funds were actually put – the Exchequer issue is merely a payment to some other body.

The *Appropriation Accounts* [17] are the second principal source of information about central government expenditure and, to a much lesser degree, income. They show the actual use by departments of the funds voted by Parliament and transferred from the Exchequer. They are in three main groups: the Navy, Army and Air Appropriations, the Revenue Department Appropriations, and the Civil Appropriations. The first group covers the Navy, Army and Air Force, the government departments responsible for them, and various related organisations such as the Navy Dockyards and Royal Ordnance Factories; the second group covers Customs and Excise, Inland Revenue and the Post Office; and the third covers the remaining departments including all the major departments of state, as well as bodies like the Ministry of Works and H.M.S.O., the main function of which is to provide services for other departments.

The *Appropriation Accounts* for these main groups are sub-divided into classes (in 1938/9, for example, there were eleven 'civil' classes) and the classes are further divided into votes. To a certain extent each vote brings together the expenditure connected with a particular object or purpose. The votes are in turn sub-divided by sub-heads and for the most part these show the economic character of the expenditure. There might, for example, be one sub-head for salaries and wages, a second for purchases of equipment and a third for grants to industry.

A number of bodies, such as the Agricultural and Medical Research Councils, which are largely maintained from government funds and come within this sector, also have their accounts appended to the *Appropriation Accounts*.<sup>2</sup>

Although the *Appropriation Accounts* run to several hundred pages each year, and the information about

<sup>1</sup> The case of the Post Office is discussed more fully later (pp. 74–5).

<sup>2</sup> An exception to this general rule is the Metropolitan Police, which is controlled by the Home Office and has its accounts published in the *Appropriation Accounts* but is actually financed by a rate levied on local authorities in the area. After some uncertainty this method of finance has been adopted by the C.S.O. as the relevant criterion, and the Metropolitan Police are therefore treated as a local authority.

departmental expenditure is set out in considerable detail, the analysis given is frequently not of the kind which is required in a system of social accounts. Social accounting classifications require not only a regrouping of the various items but also in many cases a further breakdown of individual items. Additional information which provides a guide to this breakdown can generally be obtained from the Central Government *Estimates* [19]. These are published annually in the February or March preceding the financial year to which they refer. They are subdivided by classes and votes corresponding to those in the *Appropriation Accounts* and they show a good deal more detail. When it is anticipated that the year's expenditure will differ appreciably from that estimated, *Supplementary Estimates* are presented to Parliament during the year and these are also published. Since the outcome of the year does not usually correspond exactly to the estimates plus supplementary estimates, the *Appropriation Accounts* not only compare expenditure with that estimated, but also give reasons for the major variations. It is thus possible in most cases to derive a sound breakdown of *Appropriation Account* items with the aid of the *Estimates*.

The *Appropriation Accounts* also include details of receipts accruing directly to the departments. These are of two kinds: those authorised to be used as appropriations in aid, which are offset against the department's own expenditure in calculating its entitlement from the Exchequer, and those which are not so authorised and must be surrendered direct to the Exchequer. A section at the beginning of each Class in the *Appropriation Accounts* relates the actual expenditure and receipts of the departments to the estimated amounts, and to the sums due from and to the Exchequer.

Although the *Appropriation Accounts*, like the Exchequer account, are on a cash basis, there is no direct correspondence between these reconciliation statements and those which appear in the Exchequer account. The latter relates sums due from the Exchequer to the departments (including balances outstanding from earlier years) to the cash issues actually made, whereas the former relates the formal grant for the year (excluding any outstanding balances) to the actual cash transactions of the departments. Changes in the balances held by departments can only be inferred from a comparison of their cash payments and receipts with the cash issues made to them by the Exchequer and their surrenders to the Exchequer.

Finally, at the periphery of the accounting structure are a number of bodies and funds which keep and publish separate accounts, but which are closely controlled by one or other of the departments already

mentioned and so can reasonably be included with them. Most of these bodies receive the major part of their funds through one of the accounts included in either the *Finance Accounts* or the *Appropriation Accounts*. In constructing the inter-war estimates, this fact was in several cases the principal clue to their existence. However, the mere fact of being financed largely or mainly by the Central Government is not in itself sufficient reason for classing a body with the Central Government, and it was also necessary to look for evidence of the degree of financial control exercised by the Treasury or some other central department. The fact of publication of the accounts by the Stationery Office may perhaps in itself be regarded as some evidence of government responsibility for the manner of spending of the funds accounted for; another criterion which was employed was to exclude all bodies exercising effective control over the disposal of their balances; but in a number of cases the decision whether or not to include a particular account in the 1920-38 series was ultimately made on a somewhat subjective basis. A complete list of the bodies and funds covered by the estimates for this period is given in the appendix at the end of this chapter.

The method of deriving the social accounting estimates from these four sets of accounts can thus be summarised (and the magnitude of the task undertaken by Utting and his colleagues best indicated) as follows: each of the thousands of recorded government transactions was individually scrutinised and assigned to a social accounting category showing:

- (a) the economic character of the transaction,
- (b) the specific outside sector involved in all transactions not involving other government departments, and
- (c) the object or purpose of the transaction.

Examples of this three-way classification would be a grant to a local authority for the support of education, or a purchase from abroad of military equipment.

Two further points must be noted. Firstly, the financial provisions arising from the creation of the Irish Free State became effective on 1 April 1922, and the government accounts include the revenue from, and expenditure for, this area until 31 March 1922.<sup>1</sup> An official, and reasonably accurate, apportionment of tax revenue between England and Wales, Scotland and

<sup>1</sup> The Irish Free State did not immediately become a completely self-contained fiscal unit and for the first few financial years certain minor adjustments were made in respect of customs and excise revenue collected in Great Britain and Northern Ireland but attributable to the Irish Free State, and vice versa.

TABLE 4.1 COMPARISON WITH THE BLUE BOOK ESTIMATES OF  
CENTRAL GOVERNMENT INCOME AND EXPENDITURE IN 1938 (£M.)

	Blue Book (1)	Present estimate (2)
<i>Receipts</i>		
Gross trading surplus	} 38	16
Rent, interest and dividends		34
Taxes on income	386	383
Taxes on expenditure	410	415
National insurance and health contributions	109	109
Current grants from overseas governments	—	1
Total	<u>943</u>	<u>958</u>
<i>Expenditure</i>		
Current expenditure on goods and services	454	439
Subsidies	32	35
National insurance benefits	124	122
Other current grants to persons	126	132
Debt interest	213	232
Current grants to local authorities	142	142
Current grants paid abroad	8	8
Total	<u>1,099</u>	<u>1,110</u>
Balance: Current deficit	-156	-152

SOURCE: (1) 1967 Blue Book [75], p. 6.

(2) Table 12.

Ireland was made in an annual return to the House of Commons and the last in this series<sup>1</sup> was used, together with subsequent data on Northern Ireland,<sup>2</sup> to estimate the Southern Ireland share of taxes received in the period January 1920 to March 1922. On the expenditure side it is possible to identify some of the specific payments to Southern Ireland, but these cover only a small part of the relevant total. Moreover, there is no uniquely 'correct' method of allocating by region such general government expenditures as administration or defence. Therefore, for total current expenditure on goods and services and for subsidies a token deduction was made on the basis of the Southern Ireland share of the total population in 1921 (6.8 %). No deduction was made for payments of debt interest, since the outstanding debt was not affected by the secession.

Secondly, the great majority of the accounts relate to the government's financial year ending on 31 March. The conversion to a calendar year basis was generally done by the standard method, e.g. 1938 is taken as one-quarter of 1937/8 plus three-quarters of 1938/9. In a few cases, however, it was clear that this method would not be accurate and some more appropriate procedure was adopted. Details are given of such cases in the individual sections which follow after a general note on the consistency and reliability of the estimates.

#### CONSISTENCY AND RELIABILITY

The consistency of the series is good and in all major respects the same basic definitions have been used throughout. A comparison with the current Blue Book estimates for 1938 is set out in Table 4.1.

The only large differences are in the combined estimate for gross trading surplus plus rent, interest and dividends and in debt interest paid. It seems possible that one major explanation, affecting both interest received<sup>3</sup> and interest paid is a difference in the treatment of the Local Loans Fund in 1938. The C.S.O. seems to include in interest received in 1938 only the *excess* of interest received by the Local Loans Fund over interest paid by the Fund on the Local Loans Stock. In the present estimates, the gross £16 m. received is

<sup>1</sup> *Revenue and Expenditure (England, Scotland and Ireland)*, H.C.207, 1921 [93].

<sup>2</sup> Northern Ireland residuary share of reserved taxes. *Statistical Abstract* [35, No. 81], p. 208.

<sup>3</sup> The Blue Book does not give separate estimates for 1938 for the trading surplus and rent, interest and dividends. But an estimate is given for the combined trading surplus of Central Government and local authority enterprises [75, 1967], p. 2, amounting to £64 m. This agrees closely with the present estimate of £16 m. plus £46 m. for local authorities from Chapter 5.2; see p. 97, below.

included in the receipts side, and £13 m. is included with debt interest paid<sup>1</sup> on the expenditure side.<sup>2</sup> The other source of the discrepancy in the estimate of debt interest appears to be the omission by the C.S.O. of the interest element of the annuities paid by the Post Office.<sup>3</sup> On all these points, the present estimate for 1938 is thus consistent with the estimates for 1939–45 and the post-war years.

The remaining differences are very slight and are probably accounted for partly by timing adjustments, partly by small differences in the classification of certain items, e.g. certain payments treated as subsidies to producers or as grants to non-profit-making bodies in the present estimates appear to be included in the Blue Book estimate for purchases of goods and services.

The reliability of all the main series in the current account is good for all peace-time years, slightly less good during the two World Wars. The estimates are drawn from a comprehensive set of accounts, so that there are no sampling errors, and the basic information recorded is in most cases related to the same concept that is required for national income accounts. On the other hand,

the accounts are complex and the detail overwhelming, so that errors can arise through omission or duplication of items, and there are also problems in converting from a financial to a calendar year basis.

The subjective estimates of the margins of error in all the main items in the current account (those of more than, say, £20 m. p.a.) can be summarised as follows:<sup>4</sup>

1870–99	B	1921–38	A
1900–13	A	1939–46	B
1914–20	B	1947–65 <sup>a</sup>	A

<sup>a</sup> See C.S.O. [73], p. 295.

For the smaller items the absolute errors are also likely to be small, but they would be a little larger relative to the size of the estimate and would be perhaps one grade lower in each period.

Turning to the capital account for 1920–38 (Table 34), the majority of items are probably of a slightly lower order of reliability and should perhaps rank as grade B, with net borrowing through sales of marketable securities and acquisition of gold and foreign currency for 1920–32 as grade C.

#### 4.1 INCOME FROM TAXES AND NATIONAL INSURANCE CONTRIBUTIONS, 1900–1965

##### DEFINITION OF THE SERIES<sup>5</sup>

Government tax receipts can be classified into four categories:

(a) *Taxes on income.* These are broadly ‘direct taxes’ assessed on the basis of factor incomes. The principal taxes included under this heading are income tax (including Schedule A taxation on actual and imputed rental income from property), sur-tax (before 1928/9 known as super-tax), and various taxes on profits.<sup>6</sup> Also included are the war damage premiums collected in 1941–5, and the land values tax of 1910–20. The estimates represent the net amounts collected from taxpayers, i.e. receipts less any repayments.

(b) *Taxes on capital.* These are defined as taxes paid on a ‘once for all’ basis. This applies to death duties (estate duty, legacy, succession and corporation duties and probate duty), to the special contribution levied in 1948/9, and to the taxes on capital gains levied from 1964. Net receipts from these taxes are shown in the Central Government capital account and the corresponding payments appear in the capital account of the personal sector.

(c) *Taxes on expenditure.* These are indirect taxes related to the volume of production of, or trade in, particular goods and services, as distinct from taxes related to the income or capital resources of particular house-

holds or corporate bodies. They include taxes which constitute costs of production such as excise duties on spirits

<sup>1</sup> See item 2 (a) of Table 4.5, p. 84.

<sup>2</sup> All Local Loans Stock issues by the Fund was redeemed at the beginning of 1947. The treatment adopted by the C.S.O. for the post-war period includes in interest received the total interest on loans to local authorities [73, p. 269]; and interest paid on the loans raised to finance the lending to local authorities is automatically included in debt interest paid, since the stocks form part of the National Debt. The present treatment of the pre-1947 receipts and payments would thus seem to produce a consistent set of estimates.

<sup>3</sup> See item 2 (e) of Table 4.5, p. 84. This item was only included by the C.S.O. from 1956 onwards [74, p. 202]. A retrospective adjustment was made in the 1956 Blue Book to the estimates for 1946–54, but the 1938 estimate was apparently left unaltered.

<sup>4</sup> See Chapter 1.4 above for further description of the reliability grades.

<sup>5</sup> Based on C.S.O. [73], pp. 259–60.

<sup>6</sup> Profits tax (January 1947 – April 1966), excess profits levy (January 1952 – December 1953), national defence contribution (April 1937 – December 1946), excess profits tax (April 1939 – December 1946), corporation profits tax (January 1920 – June 1924) and excess profits duty and munitions levy (roughly 1914–21). The dates given relate to the period for which the taxes were in force; revenue would generally continue to come in for some years after repeal.

and customs duties on tobacco; the profit earned by the Post Office by virtue of its monopoly position as a trading body;<sup>1</sup> taxes on final buyers arising from the purchase, possession or use of particular goods, e.g. purchase tax on consumer durables; stamp duties on the transfer of property; motor vehicle licence duties; land tax, mineral rights duty and inhabited house duty; fees or licences paid to the government for services which it alone can provide,<sup>2</sup> e.g. passport fees and war risks insurance premiums for 1939–45; and fines or penalties imposed by the government.<sup>3</sup>

The amounts shown for the taxes and fees etc. are the net receipts collected (or the net payments by the receiving department to the Exchequer) except in the case of purchase tax. For this tax an adjustment is made for the difference between actual receipts and the estimated amount charged to purchasers in the year by registered traders.<sup>4</sup>

For the Post Office, the tax is defined from April 1912 until March 1956 as its surplus, i.e. the excess of trading receipts over all trading costs including interest and depreciation (see also p. 75 below). Before 1912 proper commercial accounts were not kept by the Post Office and the estimate is only approximate; from April 1956 to March 1961 the tax is a fixed sum of £5 m. p.a. and thereafter it is the contribution in lieu of taxes made from the Post Office Fund [73, p. 264]. For the B.B.C. the amount shown as tax is the revenue retained by the Exchequer, i.e. the gross receipts from broadcasting licences less the grant paid by the government to the B.B.C. for its Home Services.

One important aspect of the distinction between taxes on expenditure and taxation of income or capital is that the former are regarded as an element in the prices of final expenditure which has no counterpart in factor incomes. They are therefore deducted from expenditure at market prices to get estimates at factor cost.

(d) *National insurance and health contributions.* The contributions to national insurance (for contributory pensions and unemployment insurance) and to national health funds by employers and employees are treated as a form of tax because of their compulsory nature; and as a tax on income because they are associated with direct benefits to the employee and are paid, in part, from his income.

Taxes on income, taxes on expenditure and national insurance and health contributions are shown for 1900–64 in Table 12. A more detailed picture of the composition of these taxes is given for selected years in Table 4.2. For 1870–99 taxes on expenditure are shown (together with local authority rates) in Table 2. Taxes on capital are given for 1920–38 only in Table 34. For 1900 and 1910 see also Table 4.2.

#### SOURCES AND METHODS OF ESTIMATION<sup>5</sup>

1946–1965

See p. 67 above.

1939–1945

Taxes on income and capital are as given by the C.S.O. [77, Table 184]. Taxes on expenditure are from the same source with adjustments to include the tithe annuities payable by landowners under the Tithe Act 1936; and exclude the grant paid by the government to the B.B.C. for its Home Services. This brings the series into line with the current definition. National insurance contributions by employers and employees are summarised in the *Annual Abstract of Statistics* [9, No. 86, Tables 43–5].

1920–1938

Calendar year figures of customs and excise duties collected were kindly supplied by H.M. Customs and Excise. Calendar year figures of taxes on income and on capital and of motor vehicle and stamp duties were taken from the quarterly *Exchequer Return*.<sup>6</sup> This represents the amount received during the year by the Exchequer from the Inland Revenue rather than the amount received by the Inland Revenue from the public, but a comparison of the financial year figures shows that the difference is trivial.

The Post Office surplus (after providing for interest and depreciation) was taken from the *Post Office Commercial Accounts*<sup>7</sup> [25]; and the few remaining minor taxes on expenditure were derived from the *Appropriation Accounts*. These series were converted to a calendar year basis by the standard method.

<sup>1</sup> See also Chapter 4.2.

<sup>2</sup> Where the government does *not* possess monopoly or compulsory powers, the fees or receipts for services are regarded as a credit to be set off against the corresponding expenditure on goods and services (see Chapter 4.4).

<sup>3</sup> For 1939 onwards, the licences collected and retained by local authorities are included in Central Government taxes on expenditure (offset by a grant); for earlier years this item is included directly as a local authority tax on expenditure. See Chapter 5.1.

<sup>4</sup> See C.S.O. [73], p. 255. This adjustment is not made for the period from the inception of purchase tax in October 1940 to the end of 1945.

<sup>5</sup> For more detailed discussion see also pp. 67–70 above.

<sup>6</sup> The *Weekly Exchequer Return* is published by the Treasury in the *London Gazette* and a quarterly *Return* is issued to the press. A convenient summary of the four returns for the calendar year was compiled for the *Journal of the Royal Statistical Society*, e.g. 1910–11, LXXIV, p. 464.

<sup>7</sup> The surplus cannot be accurately measured by the excess of receipts over expenditure shown for the Post Office in the *Appropriation Accounts* or the *Finance Accounts* since the latter relates only to the cash transactions of the Post Office.

TABLE 4.2 CENTRAL GOVERNMENT INCOME FROM TAXES AND NATIONAL INSURANCE CONTRIBUTION SELECTED YEARS, 1900-38 (£M.)

	1900 <sup>a</sup>	1910 <sup>a</sup>	1920 <sup>a</sup>	1925	1930	1935	1938
1. <i>Taxes on expenditure</i>							
Customs and excise duties:							
Beer	13.4	12.8	113.0	83.1	76.4	60.6	65.6
Spirits and wine	26.6	22.9	74.0	54.3	44.7	38.5	40.4
Tobacco	12.2	16.8	56.6	53.3	62.8	73.1	83.9
Sugar, molasses etc.	—	3.0	31.5	19.9	14.4	11.9	12.4
Tea, coffee, cocoa etc.	6.2	6.4	19.4	6.6	1.0	5.1	10.9
Oil	—	0.4	3.6	—	15.9	44.6	55.8
Entertainments	—	—	11.5	5.6	7.1	8.5	8.1
Other	4.9	8.6	17.6	14.0	22.8	57.4	59.8
Total	63.3	70.9	327.2	236.8	245.1	299.7	336.9
Motor vehicle licence duties	—	—	—	17.1	27.4	28.6	34.6
Stamp duties	7.6	9.4	27.8	24.8	21.6	24.8	23.3
Post Office surplus	3.3	4.1	—5.3	6.4	9.2	12.4	10.5
Broadcast licence revenue <sup>b</sup>	—	—	—	0.1	0.5	1.3	0.5
Land tax and inhabited house duty	2.5	2.6	2.6	1.0	0.9	0.8	0.8
Tithe Act annuities	—	—	—	—	—	—	2.7
Other	1.0	1.0	4.0	2.7	3.7	5.0	5.5
Total	77.7	88.0	356.3	288.9	308.4	372.6	414.8
2. <i>Taxes on income</i>							
Income tax	20.0	38.1	327.7	264.1	241.4	233.3	307.7
Sur-tax and super-tax	—	2.0	51.1	65.4	59.1	48.7	58.9
Profits tax and N.D.C.	—	—	—	—	—	—	14.8
Excess profits duty and corporation tax	—	—	243.6	14.2	2.2	2.3	1.3
Total	20.0	40.3 <sup>c</sup>	622.7 <sup>c</sup>	343.7	302.7	284.3	382.7
3. <i>Taxes on capital</i>							
Death duties	19.1	23.8	49.6	58.4	81.4	86.9	77.6
4. <i>National insurance contributions</i>							
Unemployment insurance	—	—	5.1	36.9	30.5	44.2	45.2
National health insurance	—	—	22.7	28.1	26.5	27.8	30.6
Contributory pensions	—	—	—	—	24.0	25.7	33.1
Total	—	—	27.8	65.0	81.0	97.7	108.9
5. Total income from taxes and national insurance contributions	116.8	152.1	1056.4	756.0	773.5	841.5	984.0

<sup>a</sup> Including Southern Ireland. For 1920 the estimated revenue collected in Southern Ireland is: taxes on expenditure £22 m., taxes on income £13 m., and taxes on capital £2 m.

<sup>b</sup> Amount retained by Exchequer.

<sup>c</sup> Includes land values tax: £0.2 m. in 1910 and £0.3 m. in 1920.

National insurance and health contributions were taken from the published accounts of the three separate funds. National health insurance accounts [4] were kept on a calendar year basis throughout. For unemployment insurance [6] the financial year ended on 4 July until 1926, and was then changed to 31 March with a nine-month period in 1926/7; in converting to a calendar year basis allowance was made for the

occasions when rates of contribution changed during the course of the financial year.<sup>1</sup> Contributory pensions were introduced with effect from 4 January 1926 and the accounts [5] were made up to 31 March of each year from 1927.

<sup>1</sup> There are useful summaries of such changes in the *Abstract of Labour Statistics* [1], e.g. 18th Abstract, pp. 86-9.

1900-1919

For this period, taxes collected by both the Customs and Excise and the Inland Revenue departments were obtained from the calendar year summaries of the quarterly *Exchequer Returns*.<sup>1</sup> The Post Office *Commercial Accounts* begin in the year 1912/3; prior to that proper trading accounts were not kept. The net revenue from post office, telephones and telegraphs as given in the *Report of the Postmaster-General on the Post Office, 1913-14* (Cd. 7573, 1914), p. 121 has been taken as the nearest

approximation to the required figure. Miscellaneous legal fees, fines etc. were obtained from the *Appropriation Accounts*.

National health and unemployment insurance contributions began in July 1912 and were taken from the summaries in the *Abstract of Labour Statistics* [1].

1870-1899

Taxes on expenditure are the only series estimated for this period. The source is the same as for 1900-19.

## 4.2 GROSS TRADING SURPLUS AND RENT, INTEREST AND DIVIDENDS, 1900-1965

### DEFINITION OF THE SERIES<sup>2</sup>

This section covers two estimates: the gross surplus of Central Government trading enterprises and the rent, dividends and interest received by the government. Both are given for the years 1900-65 in Table 12.

The definition of the trading surplus involves, in the first place, the distinction between government trading enterprises and, on the one side, public corporations, on the other, those departments of the government which are not regarded as trading bodies even though they recover part of the costs of the services they provide by sales to the public (e.g., the National Health Service prescription charges).

The former distinction turns on the degree of financial integration with the Central Government. Trading bodies are very much more closely integrated than public corporations: their expenditure is appropriated annually by specific Vote, and any cash surpluses (apart from working balances) are returned to the Exchequer. The point is well illustrated by the Post Office, which was formerly treated as a government trading enterprise but with effect from April 1961 has been treated as a public corporation in view of the change in its status *vis-à-vis* the government.

The distinction between the trading and non-trading activities of the government is made on the basis of the following criteria:

- (a) that the activity consists in production of goods and services, or in trading, of a kind which is or might be conducted by a private business;
- (b) that distinct sales, either to the public or to a separate branch of the government, can be identified; and that the sales account for the major part of the product;
- (c) that separate accounts of the activity are kept on a commercial accounting basis, or failing this, that records exist from which such accounts can be constructed.

Within the category of government trading enterprises thus defined, three sub-types are distinguished. Firstly, there are the enterprises which aim broadly to cover their costs over a period, but may make a surplus or deficit in individual years, e.g. the Royal Ordnance Factories, the State Management Districts<sup>3</sup> and various bodies trading (usually in time of war) in food and raw materials. This profit or loss is regarded as a factor income and forms part of the national income. Secondly, there are bodies which enjoy a monopoly or near-monopoly position and are able to fix selling prices so as to yield a persistent trading surplus. This surplus is treated not as trading profit, but as a form of taxation, and is included with taxes on expenditure. The only body of this type in the United Kingdom is the Post Office. Finally, there may be trading bodies which are deliberately run at a loss. The deficits of such bodies are treated not as a loss on trading operations, but as government subsidies and appear in Chapter 4.5.

This threefold classification of trading profits or deficits as trading income, taxes and subsidies must, however, be further qualified because of the need to maintain consistency with the definition of trading profits used elsewhere in this study. In other sectors,

<sup>1</sup> From 1 April 1888 to 31 March 1907 certain customs, excise, estate and probate duties were collected centrally, but paid direct to the local taxation account for the local authorities. They are treated here as revenue of the Central Government offset by a corresponding grant to the local authorities. From 1 January 1909 the collection of certain dog and gun licences etc. was transferred to the local authorities and is excluded from the Central Government accounts for 1909-38. See also Chapter 5.3 below.

<sup>2</sup> Based on C.S.O. [74], pp. 184-8. See also [73], pp. 256-8.

<sup>3</sup> This refers to the government controlled and operated public houses in the Carlisle and Gretna areas. They were taken over during the 1914-18 war (when there were a large number of immigrant munitions workers in the areas) and have been run by the government ever since.

profit is measured *before* deduction of any payment of interest on capital (since that is regarded as a transfer payment, not a factor reward) and before provision for depreciation. However, the tax element in the surplus arising from a monopoly position and the subsidy created by deliberately trading at a loss are both more appropriately measured *after* provision for depreciation and payment of interest. The depreciation and interest element of the income of these bodies is, therefore, included in government trading income, which is thus defined as:

(a) the depreciation (at historical cost) and interest of those trading bodies aiming as a matter of policy at gaining a surplus from a monopoly position (the Post Office prior to April 1961) or incurring a loss (e.g. the war-time Ministry of Food);

(b) the trading surpluses, before deducting depreciation and interest, of other trading bodies (i.e. those which aim broadly at covering their costs).

A list of trading bodies and the treatment of their profit or loss is given for the post-war period by the C.S.O. [74, pp. 223-4, and 73, pp. 296-7]. For 1900-45 see p. 89 below.

With regard to the Post Office Savings Bank, it should be noted that, in conformity with the definition of trading income used elsewhere in this study for banks (see Chapter 7.1, pp. 141-2) its receipt of investment income is not part of trading income (i.e. is not a payment to a factor of production) but appears below as part of income from property. In consequence, the bank makes a trading loss equal to its expenses of operation.

Turning next to the other type of income from property, this consists of rent, dividends and interest received by the government. Interest on government loans to local authorities (via the Local Loans Fund) and public corporations is included, but interest received by one department from another (e.g. national debt interest received by the National Insurance Funds) is excluded. In the case of the Post Office Savings Bank and the Trustee Savings Banks, the definition introduced in the 1967 Blue Book [75, 1967, p. 114] measures the investment income of these bodies by the interest received from outside the Central Government, i.e. on their holdings of securities other than those of the government. In the earlier definition, which is the one used in the present estimates for 1900-45, the figure included is the net amount for interest accrued on securities held (including government securities) less interest paid and credited to depositors.<sup>1</sup> There is a corresponding change on the debit side of the account in the treatment in Chapter 4.5 of debt interest paid. The difference between the two definitions appears to

be negligible prior to 1956 and only becomes significant in the 1960s.

Rental income is defined as in Chapter 8: it is measured before depreciation and includes an imputed rent for land and buildings owned and used by the government.

Two other items are included by the C.S.O. in income from property for a few years, though they are not strictly either rent, dividends or interest.<sup>2</sup> One is the loss incurred by the Exchequer in 1945-7 as a result of illegal currency operations in Europe by British troops and government employees. The other is the half-share of the profits of United Kingdom - Dominions Wool Disposals Ltd paid to Australia and other Dominion participants in 1945-51.

#### SOURCES AND METHODS OF ESTIMATION

##### *Gross trading surplus*

1946-1965

See p. 67 above.

1939-1945

The newly-made estimate for this period is not very satisfactory. It covers the profit received by the government under the agreement by which it took control of the railways (including the London Passenger Transport Board) with effect from 1 September 1939;<sup>3</sup> the interest and depreciation charged by the Post Office [25]; and the trading loss (expenses of operation) of the Post Office Savings Bank.<sup>4</sup> It ought also to include any trading profits or losses of the Board of Trade, Ministry of Supply and other government departments engaged in trading operations in raw materials etc., but for the most part the necessary data are not available. Since these departments were not aiming to make a profit, but only to cover their expenses, the amount involved may not be too large. There will be an offsetting error in the estimate of current expenditure on goods and services.

<sup>1</sup> As noted on p.66 n. 2 the securities are not held directly by the Trustee Savings Banks; the interest on them actually accrues to the Fund for the Banks for Savings and interest is paid or credited in the first instance to the Trustees of Savings Banks.

<sup>2</sup> See C.S.O. [74], p. 199.

<sup>3</sup> The railways were guaranteed a certain net revenue and any amount in excess of this was paid to the Exchequer. Details are given in annual returns (see, e.g., Ministry of Transport, *Government Control of Railways*, Cmd. 6252, 1941 [64]) but I have used the somewhat different results given in the 1947 *National Income White Paper* [65, Cmd. 7099, p. 32].

<sup>4</sup> See *Savings Banks and Friendly Societies* [36], Post Office Savings Bank Fund and Savings Banks Fund.

1900-1938

In addition to the Post Office and Post Office Savings Bank the estimates for this period include minute sums for the interest and depreciation of the Royal Ordnance Factories and the State Management Districts.<sup>1</sup> For the period during and immediately after World War I, the profit or loss arising from the trading operations (including food, raw materials and insurance) of the Ministry of Food, Ministry of Munitions, Board of Trade and the Royal Commission on the Sugar Supply<sup>2</sup> are also included. There are, however, a number of difficulties arising from variations in the form and timing of the published accounts for these years, and the estimates are very approximate.

1946-1965 *Rent, interest and dividends*

See p. 67 above.

1900-1945

Estimates made for this period cover the following items: interest accrued to the Post Office Savings Bank

and the Fund for the Banks for Savings less interest paid and credited to depositors in the Post Office Savings Bank and to the Trustees of Savings Bank [36]; interest received from local authorities;<sup>3</sup> interest on loans or investments received from enterprises such as the Anglo-Persian Oil Co. and the Cunard Steamship Co.; interest received from abroad on government loans<sup>4</sup> and on the investment in the Suez Canal Co.; actual rents received (less expenses) from Crown Lands and other property, plus an imputed rent for property owned and occupied by the government. This was taken as equal to the rateable value of the property on which contributions in lieu of rates were paid to the local authorities.<sup>5</sup> The estimate for 1945 also includes the two special deductions arising from illegal currency operations and distribution of profits from the sale of wool (see p. 75 above) and they account for the sharp fluctuation in the series.

For those items for which no special source is given, the estimates are derived from the *Finance Accounts* supplemented by the *Appropriation Accounts*.

### 4.3 TRANSFERS FROM ABROAD, 1900-65

#### DEFINITION OF THE SERIES

This section covers both current and capital grants from overseas governments and certain capital transfers from abroad. The distinction between current and capital grants is 'based on the purpose of the grant in each case, as conceived by those responsible for policy, not on the objective characteristics or accounting features of the transaction'. [74, p. 199]. Current grants from overseas governments include the Defence Aid grants from the United States and Canada in the early 1950s, less the United States share of the sterling counterpart of the grants; the reparations received from Germany in 1921-31; and the gifts to Britain, principally from India and the Dominions, during World War I.<sup>6</sup>

Capital grants from abroad arise only in the post-1946 period. The main item is the grants from the United States Government under the European Re-

and the Royal Commission on the Sugar Supply, *Accounts for the period August 1914 to 31st March 1918*, Cmd. 447, 1919 [53]. From 1919/20 sugar was deliberately sold at a loss and this is treated as a subsidy. See Chapter 4.5.

<sup>3</sup> The main item is the interest received by the Local Loans Fund as shown in its annual *Accounts* [3], but small amounts of interest received by the Public Works Loan Board, and shown in the *Finance Accounts*, are also included.

<sup>4</sup> Following the funding of the debts due to Britain from France, Italy and other allied powers, there was no distinction made between payments of interest and repayment of principal. The whole of the amount received by Britain was paid into the Exchequer and when Sir Otto Niemayer (the Controller of Finance) was taxed by the Comptroller General with his failure to set aside any part of the sum received as a capital sum available for the redemption of the national debt, he replied: '...it would be a pure exercise of imagination to bisect this into two portions and I do not propose to do so.' (See the Treasury papers in the Public Record Office, T/160/135/F.4970/01, letter dated 27 March 1926.) Accordingly, the whole amount is treated in the present estimates as a current receipt. These payments to Britain were suspended in 1932 under the Lausanne agreement.

<sup>5</sup> See Ministry of Health, *Annual Reports* [13] and Stamp [247], pp. 30 and 39-40.

<sup>6</sup> These gifts from abroad were shown as such in the *Finance Accounts*. Other substantial 'contributions towards the cost of the war' were shown as Appropriations-in-Aid in the *Army Appropriation Accounts* and are treated here as sales of goods and services to Indian and Dominion forces in the field.

<sup>1</sup> Separate accounts were published annually for the Ordnance Factories. Accounts for the State Management Districts were included in the annual *Trading Accounts and Balance Sheets* [38].

<sup>2</sup> See Ministry of Munitions, *Raw Materials, Trading Accounts*, Cmd. 788, 1920 [54]; and subsequent *Trading Accounts and Balance Sheets*, [38] published as Cmd. 1062, 1920, Cmd. 1368, 1921, H.C. 126, 1922, and later issues annually; the war-time Vote of Credit and other *Appropriation Accounts*

covery Programme. Gifts from the Australian and New Zealand governments in 1947 and 1949 are also included. The remaining capital transfers from abroad cover receipts from the sale of surplus war stores held abroad, settlements of debts and claims arising from World War II, and a variety of other receipts resulting from government operations abroad. See C.S.O. [74, p. 206, and 73, p. 276] for further details.

It must be noted that grants in kind are excluded entirely both from government receipts and from final expenditure on goods and services. This means that all lend-lease aid from the United States to Britain in 1941-5 is excluded from the estimates. See Chapter 6.0 for further information on this aid.

Current grants from overseas governments are shown for 1900-65 in Table 12. The capital grants and transfers received in 1946-55 are included in the balance of payments estimates in Table 15.

#### 4.4 CURRENT EXPENDITURE ON GOODS AND SERVICES, AT CURRENT AND CONSTANT PRICES, 1870-1965

##### DEFINITION OF THE SERIES

This covers the current expenditure by the Central Government on purchasing goods and services, including the services of government employees (civilian and military). All purchases of military equipment are included, but non-military fixed capital assets and stocks are excluded, as are payments of national debt interest, grants, subsidies and other transfers and loans and loan repayments. Imputed rental payments in respect of government-owned land and buildings are included. Goods and services received under lend-lease during 1941-5 are not included, but goods purchased for cash and given to the Allies under the reciprocal aid programme are included. For the sums involved, see Chapter 6.0, p. 113.

Purchases by the National Insurance Funds are included, but those of government trading bodies are excluded. Actual and imputed purchases by one government body from another are included in those cases where the transaction is not eliminated on consolidation of the accounts, i.e. where the purchase by the one body is not classified as sales of goods and services by the other, but as some other source of income such as rent or, in the case of the Post Office, as part of trading income.

The series is net of receipts from sales of goods and services by non-trading bodies where such receipts are not treated as a tax on expenditure (cf. Chapter 4.2, pp. 74-5).

The results are set out for 1900-65 in Table 12 and

##### SOURCES AND METHODS OF ESTIMATION

The estimates for 1915-38 are based largely on the *Finance Accounts*, except that for 1921-4 the timing of reparations receipts was based on the amounts collected and paid into the Special Account set up under the German Reparations (Recovery) Act<sup>1</sup> and not on the amount paid by the account to the Exchequer. After the closing of the account the amount shown for the financial year was taken as the calendar year receipt. The £9 m. raised in London by Germany in 1930 (by the issue of 5 % International Sterling Bonds) and paid as reparations to Britain was not recorded in the *Finance Accounts* but is also included in this series. It was used to reduce the national debt [20, 1930-1, p. 17] and should strictly be treated as a capital grant.

No grants were identified before 1915 or in the period 1939-45.

for 1870-99 are shown (together with local authority expenditure) in Tables 2 and 5. A purpose classification of expenditure in 1920-38 is given in Table 33.

##### SOURCES AND METHODS OF ESTIMATION

###### (i) *At current prices*

1946-1965

See p. 67 above.

1939-1945

Separate series for current expenditure on goods and services by the Central Government and by local authorities are available in Peacock and Wiseman [226, pp. 176-8 and 203]. These appear to be equal to the combined series given in *Statistical Digest of the War* [77] with an adjustment to local authority expenditure to include debt interest on loans for non-trading purposes.<sup>2</sup>

Three adjustments were made to the C.S.O. estimates for the Central Government expenditure as given by Peacock and Wiseman: to exclude the estimated amount of government-financed capital expenditure in manufacturing industry<sup>3</sup> (since this is included in Chapter 9.1 as part of gross fixed capital formation);

<sup>1</sup> See, e.g. [58], Cmd. 1664, 1922.

<sup>2</sup> See Chapter 5.4 below.

<sup>3</sup> G. A. Dean, 'The Stock of Fixed Capital in the United Kingdom in 1961', *J. R. Statist. Soc. Series A*, 127, 1964 [154], p. 334.

to exclude the amount now classified as current grants paid abroad in Chapter 4.5; and to include the net deduction from subsidies now made in Chapter 4.5.

### 1920-1938

The estimates for this period were obtained by the detailed examination and classification of government accounts.<sup>1</sup> They include the expenditure on administration by the three national insurance funds (but not the costs of the approved societies under the National Health Insurance Fund) and also the expenditure on medical benefit of the latter fund. The adjustment from a financial to a calendar year basis was made by the standard method except at the beginning and end of the period, where it was assumed that only one-eighth of the expenditure in 1919/20 was incurred in 1920; and that only three-eighths of the defence expenditure in 1938/9 was incurred in 1938.

The estimates for the years immediately following World War I are net of sales of capital equipment and surplus stores, some part of which should strictly be treated as capital account transfers or reductions of stocks.

A purpose classification of the expenditure, together with a sub-division of the total between salaries and wages and other payments, is shown in Table 33.

### 1886-1919

Estimates for this period were built up from the government accounts without undertaking a complete analysis. Starting from the total audited net expenditure<sup>2</sup> excluding the Consolidated Fund and the Post Office, the required series was obtained by adding imputed rent, Consolidated Fund payments for salaries, etc. and expenses of management of the national debt; adding back the legal fees, fines, etc. (since these are treated as taxes on expenditure, not as a deduction from purchases); and deducting grants to local authorities,<sup>3</sup> universities, church schools,<sup>4</sup> and colonies; old age pensions and national insurance contributions; loans to colonies; and civilian capital expenditure. For 1914-19 certain other deductions were required for such war-time items as loans to Dominions and Allies, subsidies, compensation paid for loss of ships, and sales of surplus stores.<sup>5</sup> In converting from a financial to a calendar year basis, it was assumed that only half of the expenditure in 1914/15 was incurred in 1914; and, as noted above, that seven-eighths of 1919/20 belonged to 1919.

### 1870-1885

For 1886-90 the present estimates for current expenditure on goods and services by the combined Central

Government and local authorities agreed closely with the estimates in Jefferys and Walters<sup>6</sup> [184, p. 8] and their estimates were adopted for the period 1870-85.

### (ii) *At constant prices*

In accordance with the standard procedure,<sup>7</sup> estimates are required for 1948-65 at 1958 prices; for 1938 at 1948 prices; for 1913-48 at 1938 prices; and for 1870-1913 at 1900 prices. For the two war-time periods and for 1870-1913 both of the two basic requirements for an accurate deflation are lacking: we do not have either the detailed composition of expenditure (since for these years the expenditure at current prices was obtained as a residual) or the precise movement of the relevant prices. In addition, there are in all years the usual difficulties encountered in a sector where a large part of the outlay is spent on the purchase of services for which there is no objective measure of quantity (or output).

The results are therefore very rough, and for the war years particularly are best treated with extreme scepticism. For 1870-1919 and for 1938-65 the deflated series is shown only for total public authorities current expenditure on goods and services in Table 5. For 1920-38 a separate estimate for Central Government

<sup>1</sup> See Chapter 4.0, p. 67 above, for more detailed discussion. Since it was not possible to identify all transactions between government departments it was generally the case that the identified purchases of goods and services from other government departments differed slightly from the identified sales to other departments. The larger of the two identified figures was adopted as the estimate for inter-sector transactions and a corresponding adjustment was made to the figure for purchases from, or sales to, other sectors.

<sup>2</sup> There is a convenient summary in the appendices to the annual *Report from the Committee of Public Accounts*, [80] e.g. H.C. 28, 1913, pp. 211-19.

<sup>3</sup> This is taken as equal to the amount received by the local authorities (see Chapter 5.4) less those duties which up to 1906/7 were paid direct to the Local Taxation Account (and so were not included in the total of audited net expenditure).

<sup>4</sup> Taken from Education Department, *Return Showing the Expenditure from the Grant for Public Education in England and Wales*, C.8022, 1896, [43], p. 40, and *Annual Local Taxation Returns* [10].

<sup>5</sup> The deduction for these sales was based on the accounts of the Disposals and Liquidation Commission, not on the payments of cash into the Exchequer. See the reports on the disposal of surplus government property by the Ministry of Munitions [55] and the Disposal and Liquidation Commission [56].

<sup>6</sup> After 1891 the two estimates diverge slightly, but I have not been able to identify the reasons for this.

<sup>7</sup> See Chapter 1.2 above.

current purchases of goods and services at 1938 prices is given in Table 33. An implicit price deflator for total public authorities' current expenditure on goods and services is given in Table 61, column (2).

### 1938-1948

A very broad approximation to the required estimates for 1938-48 at 1938 prices was obtained by combining series for the 'output' of the armed forces and for all other central and local government current expenditure on goods and services. The former is represented by the number in the armed forces at 30 June of each year, weighted by the average forces pay in 1938.<sup>1</sup>

For total public authorities' current expenditure on goods and services other than forces' pay an estimate was first made for 1948 at 1938 prices for six categories of expenditure: for defence expenditure the price relative used for conversion to 1938 prices was based on a weighted average of the average value indices (see Table 61, cols (1) and (3)) for consumers' goods and services (weight 2) and fixed assets (weight 1); for salaries in public administration the price relative used was Routh's index for salaries of male clerical officers in the civil service;<sup>2</sup> for wages of labourers etc. employed in national and local government service the general Ministry of Labour index of wage rates; for local authority educational salaries an index of teachers' salaries calculated by F. Conway;<sup>3</sup> for public health services the consumers' average value index; and for all other goods and services a weighted average of the average value indices for consumers (weight 4) and for fixed assets (weight 1).

For the alternative estimate converting 1938 to 1948 prices the same basic price indices were used, but the quantities were the actual expenditures by the Central Government and local authorities in 1938.

In the absence of current year weights (i.e. details of the pattern of expenditure even at this rather low level of disaggregation) for 1939-47, the estimates at 1938 prices for these years were obtained by deflating the current price expenditure series by an index which combined the average value indices for consumers' goods and services (weight 4) and for fixed assets (weight 1), Routh's index for salaries of male clerical officers (weight 2) and the general index of wage rates (weight 1).

### 1920-1938

For military expenditure, a series at 1938 was built up from five components: average annual numbers in the armed forces at average 1938 rates of pay; civilians on defence votes at average 1938 rates of pay; purchase of land and buildings deflated by the index of building

costs; purchase of military equipment deflated by the general index of machinery costs; and other military expenditure deflated by the average value index for consumers' goods and services. For all other Central Government expenditure, the total combines the average annual numbers in the civil service (excluding those on defence votes) at their average 1938 rate of pay and all other non-military expenditure deflated by the consumers' average value index.<sup>4</sup>

The results are given in Table 33.

### 1914-1919

For these years current expenditure by the Central Government and local authorities other than forces' pay was deflated by an unweighted average of the average value indices for consumers' goods and services and for fixed assets. This was added to the series for the average annual number in the armed forces<sup>5</sup> at average 1938 rates of pay.

### 1886-1913

The price index used to deflate Central Government current expenditure in this period is an unweighted average of four indices: the average value indices for consumers' goods and services and for fixed assets; an index of pay for the executive class of the Civil Service;<sup>6</sup> and an index of average Forces' pay and allowances compiled from data in the Army and Navy *Estimates* [19].

### 1870-1885

For this period total public authorities' current expenditure on goods and services is deflated by an index consisting of the average value indices for consumers' goods and services (weight 2) and for fixed assets (weight 2), and indices of average Forces' pay (weight 1), Civil Service pay (weight 1), and pay of teachers in public elementary schools - see Chapter 5.4, p. 103 (weight 1).

<sup>1</sup> Numbers from the *Annual Abstract of Statistics* [9, No. 87], p. 106; 1938 average pay from Chapman [146], p. 166.

<sup>2</sup> G. Routh, *Occupation and Pay in Great Britain, 1906-60, 1965* [238], p. 124.

<sup>3</sup> F. Conway, 'School Teachers' Salaries, 1945-49', *Manchester School*, 30, 1962 [151], p. 174.

<sup>4</sup> All data on numbers in the armed forces and civil service and on average 1938 rates of pay are from Chapman [146], pp. 166-7. The current price series on the two types of military purchases are from worksheets prepared by Utting for the analysis of the government's purchase of goods and services and the price indices are from Tables 61 and 63.

<sup>5</sup> See Chapter 2.1.

<sup>6</sup> G. Routh, 'Civil Service Pay, 1875-1950', *Economica*, N.S., 21, 1954 [237], p. 216.

## 4.5 SUBSIDIES, GRANTS AND DEBT INTEREST, 1900-65

DEFINITION OF THE SERIES<sup>1</sup>

This section covers:

- (a) Subsidies to public or private trading bodies
- (b) Current grants to persons (including national insurance benefits), local authorities or abroad
- (c) Debt interest
- (d) Capital grants and transfers

The subsidies, current grants and debt interest are set out in the Central Government current account (Table 12) for 1900-64. Additional information on the subsidies and grants is given for 1920-38 in Tables 4.3 and 4.4. The capital grants are estimated only for 1920-38, and are shown in the capital account, Table 34.

The distinction drawn between subsidies and grants, both of which are unrequited payments, is that the former are defined as payments to a *producer or trader*, whether public or private, with the object of reducing the selling price below the factor costs of production. Grants, on the other hand, are unrequited payments to persons (including non-profit-making bodies serving persons, e.g. universities), to local authorities, and to overseas governments, non-residents and international institutions.<sup>2</sup> Subsidies are a component of domestic factor incomes (e.g. of farm incomes, of corporate trading profits, or - in the case of housing - of rent); grants are not.

The principal subsidies are those for housing (payments to local authorities' revenue account, new town development corporations etc.); agriculture; coal mining; railways and civil aviation; and government trading in food and raw materials, during and immediately after the two wars, undertaken with the deliberate intention of selling at prices which did not cover costs. The subsidy is measured after provision for interest and depreciation.<sup>3</sup>

Grants to persons include such items as payments of post-war credits; scholarships and grants to universities, technical colleges, grant-aided schools and scientific bodies; school milk and welfare foods; national insurance grants (pensions, unemployment and sickness benefit, maternity benefit, etc.); non-contributory and war pensions; and national assistance grants.

Current grants to local authorities are those which are treated as current receipts by the recipients and applied to non-trading services. (Current grants to trading services are regarded as part of the current receipts of those services and so enter into the gross trading surplus; and grants for housing are treated as part of receipts and thereby reduce the subsidy paid by the local authorities.) See also Chapter 5.

Current grants paid abroad include grants to colonial

and other governments, payments of pensions and national insurance benefits to persons not resident in the United Kingdom, and subscriptions and contributions to international organisations (e.g. the United Nations and S.E.A.T.O.).

Debt interest consists of payment of interest on the national debt, including interest on loans from foreign governments, but exclusive of interest on securities held within the Central Government (as defined for this chapter, see p. 66 above). It thus excludes, for example, interest on government securities held by the National Insurance Funds, the Exchange Equalisation Account, the Bank of England Issue Department, and the Currency Note Redemption Account.

One important exception to this is the treatment of the Post Office Savings Bank and the Trustee Savings Bank. Although the acquisition of securities by both of these bodies is regarded as the transfer of funds from one Central Government body to another, the interest received by them on their holdings of government securities is *not* excluded from the total of national debt interest paid by the Central Government. The resulting debit in the Central Government current account is offset by a corresponding credit under rent, dividends and interest. (See Chapter 4.2.) The net effect of this particular procedure is that interest credited to depositors in the savings banks is included in debt interest only to the extent that it is financed from interest on government securities held by the savings banks. An alternative (and more direct) procedure would be to include in debt interest the interest credited to depositors rather than the interest on government securities received by the savings banks.<sup>4</sup>

Other components of this item include interest accrued on National Savings Certificates; interest on redemption stock issued under the Tithe Act 1936; interest on guaranteed stock of the Local Loans Fund (until its redemption in January 1947) and of the Irish Land Purchase Fund; the interest element of the annuities paid by the Post Office in order to redeem its borrowing for the Post Office Savings Bank Fund; and prizes on premium bonds.

<sup>1</sup> Based on C.S.O. [74], pp. 190-1 and 201-3. See also [73], pp. 260-1 and 272-3.

<sup>2</sup> For further discussion of various categories of grant-aided bodies, see C.S.O. [74], p. 190.

<sup>3</sup> See also Chapter 4.2, pp. 74-5 above.

<sup>4</sup> This change has now been made by the C.S.O. See p. 75 above. The effect is small before 1960 (nil before 1956) since the interest received other than from government securities was small before that date.

TABLE 4.3 CENTRAL GOVERNMENT SUBSIDIES, SELECTED FINANCIAL YEARS, 1920/1 TO 1938/9 (£M.)

	1920/1 <sup>a</sup>	1925/6	1930/1	1935/6	1938/9
Military defence	2.1	0.4	—	—	—
Housing	3.2	9.2	14.3	16.6	17.8
Coal mining	15.2	19.9	0.1	0.1	0.1
Transport	46.9	0.1	0.4	2.4	1.6
Agriculture	0.6	1.6	6.2	13.3	18.2
Bread, sugar etc.	63.7	—	—	—	—
Total	131.7	31.2	21.0	32.4	37.7

<sup>a</sup> Before deduction of 7 % for payments to Southern Ireland.

Capital grants and transfers are unrequited payments regarded as paid into capital accounts of the recipients, e.g. grants to universities to meet the cost of buildings and equipment, grants to local authorities for capital expenditure, and war damage compensation. The only capital grant identified in 1920–38 is that paid to local authorities, for which see Chapter 5.3.

#### SOURCES AND METHODS OF ESTIMATION<sup>1</sup>

For 1946–65 see p. 67 above. For other years the details are as follows.

##### *Subsidies*

##### *1939–1945*

Estimates are given in *Statistical Digest of the War* [77, p. 200] of total subsidies by the Central Government and local authorities. The local authority component (as estimated in Chapter 5.5 below) was deducted; and two small adjustments made to the residual to conform to certain changes in the definition of Central Government subsidies made since the publication of the war-time estimates. Firstly, overhead expenses of the Ministry of Food are no longer treated as part of the subsidy, but as current purchases of goods and services. Secondly, the loss on the trading operations of the County War Agricultural Executive Committees is treated as a subsidy.<sup>2</sup> These two adjustments result in a small net reduction in subsidies with a corresponding increase in current purchases of goods and services (see Chapter 4.4).

This still leaves some minor discrepancies between the current definition and that used for the *Statistical Digest of the War*, amounting to £16 m. in 1946, but the greater part of that would not apply to the war years, and, furthermore, the published accounts for these years do not provide the information which would be needed to make the relevant adjustments.

##### *1920–1938*

The principal component of the Central Government subsidies for housing in this period is equal to the contribution to the local authorities housing revenue account and the amounts involved were extracted from the local authority accounts (see Chapter 5.3).

The other government subsidies were identified in the government accounts.<sup>3</sup> The largest payments represent the aftermath of World War I and include compensation payments for cancellation of military contracts; the subsidy on bread, sugar, cheese and potatoes sold at a loss; and the compensation payments to the railways,<sup>4</sup> canals and coastwise transport services arising out of government control of the enterprises or of their freight rates during and immediately after the war. The remaining subsidies are those for private housebuilding, for coal mining,<sup>4</sup> for transport (civil aviation and tramp shipping) and for agriculture. The latter item includes the subsidy to the beet sugar industry, the payments from the Wheat Fund (starting in 1932/3) and the Cattle Fund (from 1934/5), the payments under the Milk Act 1933 (including the grant towards the expenses of the Milk Marketing Board), and the fertiliser subsidies (for 1937/8). There is also a large once and for all payment under the guarantee of minimum prices for wheat and oats in 1921/2.

<sup>1</sup> See also Chapter 4.0, p. 67 above.

<sup>2</sup> The necessary data for both adjustments were obtained from the *Appropriation Accounts* [17].

<sup>3</sup> One other item ought to have been included in the present estimate: that part of government contributions to local authorities which is allocated to trading services and so enters into the gross trading surplus of the enterprises (see Chapter 5.2). The amount, which was omitted in error, is small, rising from £0.1 m. in 1920 to £1.1 m. in 1938.

<sup>4</sup> See also Chapter 7.1, pp. 141–5.

TABLE 4.4 CENTRAL GOVERNMENT CURRENT GRANTS TO PERSONS,  
SELECTED YEARS, 1920-38 (£M.)

	1920 <sup>a</sup>	1925	1930	1935	1938
Grants to persons:					
National insurance:					
Sickness benefits	11.2	18.5	23.2	21.2	22.2
Contributory pensions	—	—	31.9	43.9	47.0
Unemployment benefits	4.5	46.5	75.2	44.5	52.7
Old age pensions	23.6	27.6	37.6	44.2	48.7
War pensions etc.	92.3	62.2	49.8	41.2	37.9
Unemployment and retraining <sup>b</sup>	20.9	0.1	0.1	43.3	37.4
Education and child care	1.3	0.6	0.2	0.4	0.7
Other	4.9	1.2	0.5	0.4	0.5
Grants to non-profit-making bodies:					
Education and child care	4.4	4.2	4.0	4.1	4.9
Health, agricultural research etc.	2.2	0.7	1.0	1.5	3.7
	165.3	161.6	223.5	244.7	255.7
Less pensions paid abroad <sup>c</sup>	2.0	2.0	2.0	2.0	2.0
	163.3	159.6	221.5	242.7	253.7

<sup>a</sup> Before deduction of 7 % for payments to Southern Ireland.

<sup>b</sup> Grants for resettlement and training of demobilised men in 1920, and unemployment transitional payments or unemployment assistance benefits in 1935 and 1938.

<sup>c</sup> Transferred to 'Current grants paid abroad'. See p. 83 below.

#### 1914-1919

The estimate for this period covers the payments to the railways, the sugar subsidy (in 1919/20), a small subsidy for cheese, potatoes and cold storage products (in 1918/19 and 1919/20), and payments by the Ministry of Agriculture towards the cost of ploughing etc. in 1918/19.

#### 1870-1913

No subsidies were paid in this period.

#### *National insurance benefits and other current grants to persons (including non-profit-making bodies)*

#### 1939-1945

For this period, the grants comprise the three national insurance benefits (unemployment benefit, sickness benefit and contributory pensions); non-contributory pensions and national assistance grants; war pensions; unemployment allowances; scholarships and training allowances; grants to universities, colleges etc. and to scientific and learned bodies; billeting allowances; milk and vitamin allowances (from 1940); and, for 1945, release leave pay. Calendar year figures for all of these items except grants to universities etc. are given in the 1947 *National Income White Paper* [65, Cmd. 7099, pp. 33-5]. For grants to universities etc. an annual

figure was taken from the *Annual Abstract of Statistics* [9, No. 85, p. 90].

#### 1920-1938

The information required was extracted from the Accounts of the three National Insurance Funds [4, 5, 6] and from the government accounts.<sup>1</sup> Grants paid in this period cover the three national insurance benefits (contributory pensions begin in 1926); old age pensions and war pensions; grants for resettlement and training after demobilisation; special unemployment benefits paid from 1931/2; compensation paid by the army; scholarships; and grants to universities, grant-aided schools, voluntary hospitals and other non-profit-

<sup>1</sup> For the timing of the national insurance accounts see p. 73 above. All other items are given on a financial year basis in the government accounts. Adjustment to a calendar year basis was by the usual procedure, except for the unemployment insurance benefits paid in 1920/1 and 1930/1. A total of £34 m. was paid in the year ended 4 July 1921, but unemployment did not become serious until December of 1920, and so the bulk of the payment was allocated to 1921. Again, payments in the year ended 31 March 1931 were twice as large as those in the preceding year and it was apparent from the change in the number of persons unemployed that something greater than the standard fraction of one-quarter, say one-third, of the payments were made in 1931, i.e. in the last three months of the financial year.

making bodies serving persons. Some £2 m. of the war pensions was paid to persons residing abroad, and this amount was transferred to the item 'Current grants paid abroad'.<sup>1</sup>

A breakdown of the grants paid is shown in Table 4.4.

#### 1900-1919

The source of the estimates for this period is again the government accounts, including those for the National Insurance Funds. The grants paid cover sickness benefit from the inception of national health insurance in 1912; small payments from the Unemployment Insurance Fund from the same date; old age pensions paid from 1909 and war pensions from 1916; the out-of-work donation and grants for resettlement and training paid in 1919; and grants to schools, universities etc. This last item is largest at the beginning of the period prior to the assumption by the local authorities of responsibility for elementary education under the Education Act 1902 and the Education (London) Act 1903.

#### 1900-1945 *Current grants to local authorities*

The series used for all these years is the amount shown in the accounts of the local authorities as received from the Central Government (see Chapter 5.3 for further description). For 1920-38 there is a slight discrepancy between this series and the one identified in the government accounts. In order to preserve the necessary consistency in the two current accounts, the local authority figures have been used for both payment and receipt.<sup>2</sup>

#### 1900-1945 *Current grants paid abroad*

The series identified in the government accounts as grants paid abroad include grants to colonies in aid of local revenues, grants for development and welfare, grants to South Africa in connection with the termination of the Boer War, various special grants made in 1914-19, pensions paid to the Royal Irish Constabulary, the contribution to U.N.R.R.A. expenses during the war years, special assistance to Greece in 1945 and contributions to the League of Nations and the United Nations. In addition, from 1920 onwards £2 m. p.a. was added for war pensions paid to persons residing abroad.<sup>1</sup>

#### 1939-1945 *Debt interest*

The starting point for the estimates for this period is the series for 1938-46 given in the 1946 *National Income White Paper* [65, Cmd. 6784, p. 31] for interest paid by the Central Government to the private sector, including interest accrued on National Savings Certificates. The definition of this series excludes interest

paid on the guaranteed stock of the Local Loans Fund, the Irish Land Purchase Fund and the Northern Ireland Loans Fund, the interest on redemption stock issued under the Tithe Act 1936 and the interest element of the annuities paid by the Post Office in order to redeem its borrowing from the Post Office Savings Bank Fund. The necessary addition was made for these five items.<sup>3</sup> The resulting estimates for 1938 and 1946 were £3 m. below the present estimate for 1938 and the 1967 Blue Book estimate for 1946 respectively, and a corresponding correction was therefore made to the estimates for 1939-45.

#### 1900-1938

A series for total debt interest paid was first obtained from the sum of the national debt interest charged to the Consolidated Fund, the five additional items of interest listed in the paragraph dealing with 1939-45 and the excess of interest accrued over interest paid on National Savings Certificates.<sup>4</sup> This total was converted to a calendar year basis in the usual way.

A series to be deducted from this total was then constructed for national debt interest received by the following government departments: National Insurance Funds (from 1912), Currency Notes Redemption Account (from 1915 to 1928), Bank of England Issue Department, the Exchange Equalisation Account (from 1932), the Local Loans Fund (from 1920), various sinking funds, and the Death Duties Surrendered Securities Account (from 1920 to 1928).

For the National Insurance Funds the amount of interest received from their holdings of government securities is shown in the annual *Accounts* [4, 5, 6]. The *Accounts* of the Local Loans Fund [3], and the government accounts provide the necessary information for the last three of the items listed above.<sup>5</sup> It was, there-

<sup>1</sup> This is based largely on the amount shown for war pensions received in the Irish Free State. See League of Nations, *Balances of Payments*, 1938 [104], p. 73, and earlier issues.

<sup>2</sup> For 1946-65 it is the Central Government figures which are used. See C.S.O. [73], p. 309.

<sup>3</sup> The relevant accounts are published annually.

<sup>4</sup> The Consolidated Fund payments include interest paid on National Savings Certificates whereas the definition requires interest accrued. The difference is measured by the change in the amount of interest accrued on certificates outstanding, the figure for which is given annually in the *Finance Accounts* [20, e.g. 1927-28, p. 74].

<sup>5</sup> For the Death Duties Surrendered Securities Account the annual *National Debt Return* [24] shows the amount of securities surrendered. The stocks to which this right applied were 4% Victory Bonds and 4% Funding Loan, and interest was calculated at that rate. After 31 March 1928 the government ceased paying interest to itself on securities which had been surrendered.

TABLE 4.5      CALCULATION OF DEBT INTEREST PAID, SELECTED  
YEARS 1920-38 (£M.)

	1920	1928	1938
1. Interest charged to the Consolidated Fund	327.2	310.6	217.0
2. Add interest paid by:			
(a) Local Loans Fund	2.4	10.9	12.8
(b) Irish Land Purchase Fund	3.1	3.8	4.0
(c) Tithe Act, Account	—	—	2.1
(d) Northern Ireland Loan Fund	—	0.1	0.3
(e) Post Office	0.6	3.5	4.9
3. Add excess of interest paid over interest accrued on National Savings Certificates	11.4	0.8	6.6
4. Total debt interest paid	344.7	329.7	247.7
5. Less interest paid to government departments:			
(a) National Insurance Funds	4.1	7.4	8.7
(b) Currency Notes Account	15.8	6.1	—
(c) Other	4.6	4.1	7.0
6. Debt interest paid	320.2	312.1	232.0

fore, necessary to make estimates for the Currency Notes Redemption Account, the Issue Department and the Exchange Equalisation Account.

During the period when currency notes were issued by the Treasury, the regulations prescribed that government securities should be held by a Currency Note Redemption Account and that a Currency Notes Investment Reserve Account should be built up from the income received, and maintained at a level equal to 5 % of the cost of the securities. Receipts in excess of the 5 % were paid into the Exchequer. Total interest receipts from the account's holdings of government securities, principally Treasury Bills and Ways and Means Advances, were therefore taken as equal to the amount paid into the Exchequer<sup>1</sup> (converted to a calendar year basis) plus the amount added to the Investment Reserve Account in the years 1915-19, when it was being built up, and less the amount by which the Reserve Account was run down, when the note issue was reduced in 1921 and 1922.<sup>2</sup>

Until the amalgamation of the Treasury and Bank of England note issue on 22 November 1927, the only government securities held by the Issue Department were the £11 m. of ancient government debt on which some £0.4 m. of interest was received each year. After the transfer of the Treasury note issue, the Issue Department's holdings of government securities increased substantially and the amount, but not the composition, is known from the Weekly Statement. For the Exchange Equalisation Account not even the amount is known, though a reasonably reliable estimate can be made<sup>3</sup> and it has been officially stated that apart from

a working cash balance the account's sterling assets are invested entirely in 'tap' Treasury Bills. A combined estimate was made for these two departments by the following, necessarily approximate, procedure. The interest paid on all Treasury Bills issued by tender has been estimated by F. W. Paish<sup>4</sup> and the interest on tap bills was obtained by deducting Paish's series from the total of Treasury Bill interest as published in the *Finance Accounts* [20, e.g. 1927-8, p. 37] and converting to a calendar year basis. There is very little error involved in attributing the whole of this interest on tap bills to the two departments. A rough estimate was made of the Issue Department's holdings of government securities other than Treasury Bills,<sup>5</sup> and interest on these was provided for at an arbitrary 3.5 % p.a.

A final allowance, rising from £0.5 m. in 1900 to £2.0 m. in 1938, was made for interest received on

<sup>1</sup> See the *Finance Accounts* [20], e.g. 1927-8, p. 26.

<sup>2</sup> A weekly statement was published in the *London Gazette* and reproduced in *The Economist*.

<sup>3</sup> See D. S. Lees, 'Public Departments and Cheap Money, 1932-38', *Economica*, xxii, 1955 [197], pp. 79-80, and E. Nevin, 'Estimating Departmental Intervention', *Review of Economic Studies*, xx, 1952-3 [219], p. 57. It should be noted that the actual data on department holding, described and used in Chapter 4.6, only became available after the estimates required for this chapter had been completed. The effect on this series for debt interest of errors in the estimated holdings was not large enough to warrant revision.

<sup>4</sup> See the Appendix to Part II of T. Balogh, *Studies in Financial Organization*, 1947 [112], p. 202.

<sup>5</sup> See note 3, above.

government securities held by a variety of small government departments not separately identified, and the estimated total received by all departments was then deducted from the series for total debt interest paid. The deduction is small relative to the amount paid, so that the reliability of the estimate is not seriously

reduced by the uncertainty still surrounding the pre-war holdings of some departments.

The composition of the final estimate for selected calendar years is shown in Table 4.5.

For a reconciliation of this estimate for 1938 with the Blue Book estimate of £214 m. see pp. 70-1, above.

#### 4.6 TRANSACTIONS IN FINANCIAL ASSETS, 1920-38

##### DEFINITION OF THE SERIES

The present estimates cover only the period 1920-38 and are shown in the Central Government capital account, Table 34.<sup>1</sup> Estimates for the post-war years are given in the Blue Book [75, 1968, Table 42] but are not reproduced in this volume.

The estimates cover the cash transactions in financial assets between the Central Government (as defined in Chapter 4.1) and all other sectors of the economy. The assets in question include the note issue; Ways and Means Advances by the Bank of England (Banking Department); Treasury Bills; National Savings; government and government-guaranteed quoted securities; loans to and from foreign governments, local authorities and trading enterprises; and gold and foreign currency. Certain other items, including changes in cash balances held at banks by the various parts of the Central Government, are not shown separately: together with all other errors and omissions in both the current account and the capital account they constitute the residual balancing entry shown as 'Unidentified items' in Table 34.

Transactions between one part of the Central Government and another, e.g. the purchase or sale of government securities by the Post Office Savings Bank, are excluded. All transactions are as far as possible measured in terms of the actual cash received or paid, not in terms of nominal values. In particular, conversion operations affecting only the nominal values are not reflected in the estimates.

##### SOURCES AND METHODS OF ESTIMATION

Six separate forms of short- and long-term government borrowing are shown in Table 34 and these are described in the order in which they are set out in that table.

##### *Increase in note issue*

For 1920-7 this is equal to the annual change in the end-year figures for currency notes issued by the Treasury plus notes issued by the Issue Department of the Bank of England (including notes passed to the

Banking Department) less Bank of England notes held by the Currency Note Redemption Account. After the transfer of the note issue to the Bank of England in November 1928 the series is simply the annual change in the end-year figure for notes issued by the Issue Department. The information is taken from the weekly accounts for the Currency Note Redemption Account and the Issue Department as published in *The Economist* for the Wednesday nearest to 31 December of each year.

##### *Ways and Means Advances by the Bank of England*

This is the annual change in the Ways and Means Advances by the Banking Department. The amount outstanding at 31 December of each year is given in the quarterly *Exchequer Returns* and was reprinted in *The Economist*.

##### *Treasury Bills*

The total of Treasury Bills outstanding at 31 December each year is available from the quarterly *Exchequer Returns* printed in *The Economist*. An estimate of the Bills held at that date by government departments was made and subtracted from the total, and the annual change in the balance outstanding then represents net borrowing from other sectors through the issue of Treasury Bills.

The three principal departmental holders of Treasury Bills were the Currency Notes Redemption Account (until 22 November 1928), the Bank of England Issue Department and the Exchange Equalisation Account. Information on the assets held by these departments was, until recently, a closely guarded secret, but fortunately the security classification has now been removed, and with the kind co-operation of the Treasury I was able to extract the figures for the 31 December holdings of Treasury Bills by these three departments.

Small sums were also invested in Treasury Bills by the Road Improvement Fund, Local Loans Fund,

<sup>1</sup> Table 34 also contains certain other items shown under the heading 'Receipts and expenditure'. The surplus on current account is taken from Table 12. For the taxes on capital see p. 72; for gross fixed capital formation by the Post Office and other government departments see p. 184; and for capital grants to local authorities see p. 100.

National Health Insurance Fund, the Post Office Savings Bank and the Trustee Savings Bank. The amounts held were obtained from the published accounts and where necessary the usual method of interpolation was used to get a rough estimate of the holdings at 31 December.<sup>1</sup>

#### *National Savings*

This comprises the net increase in deposits (including accrued interest) in the Post Office Savings Bank and the ordinary departments of the Trustee Savings Banks; net receipts from the sale of National Savings Certificates; and the increase in Exchequer liability for accrued interest on the certificates. The net change in deposits in the savings banks is calculated from the data given in the *Statistical Abstracts* [35, e.g. No. 83, pp. 263 and 266].<sup>2</sup> Net receipts from Savings Certificates were obtained from the annual *Finance Accounts* and adjusted to a calendar year basis by the procedure described for quoted securities in the following paragraph; and the method of calculation of the net increase in interest accrued is given on p. 83 n. 4.

#### *Government and government-guaranteed quoted securities*

This is based on an estimate of calendar year net receipts from the issue of government and government-guaranteed quoted securities, adjusted to exclude the net acquisition of such securities by government departments. It covers the funded debt, unfunded stocks and bonds, and guaranteed stock issued by the Local Loans Fund and the Irish Land Purchase Fund.

The starting point for the estimate is the table of Exchequer receipts and issues in the annual *Finance Accounts*. This shows in detail the cash raised in each financial year by the 'creation of debt' and the various cash payments to redeem, reduce or repay debt (including payments from sinking funds for the purchase and cancellation of debt). The individual items were scrutinised to distinguish the relevant categories of quoted securities. The corresponding cash transactions for the nine months ended 31 December of each year were then identified in the *Quarterly Exchequer Return*. The required estimate for the calendar year (say 1938) can then be derived by subtracting the net receipts for the nine months ended 31 December 1937 from those for the financial year 1937/8 and adding the residual to the net receipts for the nine months ended 31 December 1938.<sup>3</sup> As previously noted these estimates relate to *cash* transactions and differ substantially from the changes in the *nominal* amount of debt outstanding at the end of each year.<sup>4</sup>

Three adjustments were then made to this series. Firstly, the net cash proceeds from the issue of 3 % Local

Loans Stock and 3 % and other guaranteed stock was added on [3, 2]. Secondly, a deduction was made to exclude the amount paid in cash for 4 % Victory Bonds and other stocks transferred for death duties.<sup>5</sup> This represents the cash payment to the Inland Revenue by the National Debt Commissioners to acquire securities surrendered in payment of death duties. It is dealt with separately from other payments from sinking funds only because the stocks were not cancelled when acquired but held by the Death Duties Surrendered Securities Account. The allocation of the financial year payments, as shown in the *Finance Accounts* [20, e.g. 1927-8, p. 77] to a calendar year basis was made *pro rata* to the other sinking fund operations.

The final adjustment is the deduction of transactions in quoted securities within the government sector as defined for this chapter.<sup>6</sup> An estimate for this item was built up from published and unpublished data for the eight major funds or accounts. For the Currency Notes

<sup>1</sup> The estimate of end-year departmental holdings of Treasury Bills obtained on this basis differs appreciably from Professor Paish's estimates of 'tap' bills outstanding at the end of each year (F. W. Paish, *The Post-war Financial Problem*, 1950 [223], p. 218). In a few years, notably 1938, the tap bill figure is below the estimate of bills held by the specified departments, reflecting holdings by these departments of tender bills. (Cf. [223], p. 217.) In most years the tap bill figure is above the present estimate, indicating either that some tap bills were held by departments other than those accounted for in the present estimates, or that bills were issued to non-official purchasers, including foreign central banks, through the tap rather than by tender. The second explanation applies, in particular to 1921, when the tap bill figure of £370 m. exceeds the present estimate for department holdings of £134 m. On this period see Paish [223], p. 193, and also E. V. Morgan, *Studies in British Financial Policy, 1914-25, 1951* [214], pp. 146-50.

<sup>2</sup> In the case of the Trustee Savings Banks the accounting date was 20 November and no adjustment was made to get a true calendar-year figure.

<sup>3</sup> An element of approximation was involved in some cases where complete information on the amount of debt reduced by sinking fund payments was not available in the *Quarterly Exchequer Return*.

<sup>4</sup> The expenses (including bonus) of £23 m. incurred in 1932/3 in connection with the conversion of 5 % War Loan were treated as a capital loss.

<sup>5</sup> From 1933 to 1938 there is a small net *addition* to net borrowing equal to the cash proceeds from 4 % Victory Bonds sold or paid off by the National Debt Commissioners.

<sup>6</sup> This does not cover all departments and public bodies. Among the official bodies which had substantial holdings of government securities but which are *not* part of the government sector for our purposes are the Supreme Court of Judicature, the Ecclesiastical Commissioners, the Public Trustee, the Crown Agents and the India Office.

Redemption Account (for 1919–27) and the Bank of England Issue Department (for 1928–38) the end-year holdings of quoted government and guaranteed securities were obtained from the original ledgers to which I was given access by the courtesy of the Treasury. For the Post Office Savings Bank,<sup>1</sup> the National Health Insurance Fund<sup>1</sup> and the Unemployment Insurance Fund<sup>2</sup> the published accounts show the holdings of quoted securities at 31 December, and for the Trustee Savings Banks<sup>1</sup> the information is given for securities held at 20 November, and this was taken as the year-end holding. For the two remaining series: the Treasury Pensions Account (relating to the funds of the Widows', Orphans and Old Age Contributory Pensions) and the Local Loans Fund (including the Local Loans Fund Surplus Income Account) the published holdings are given for 31 March each year and an estimate of the quoted government and guaranteed securities held at 31 December was obtained by interpolation [5, 3].

The annual change in the aggregate of these holdings then gives the required estimate to be deducted from the estimate of net cash proceeds to obtain net government borrowing from other sectors by means of the issue of quoted securities.

#### *External loans*

The estimates for government loans from, and repayments to, foreign governments are derived from the *Finance Accounts* by the same procedure as for quoted securities. The distinction between cash transactions and nominal values is again important because of such factors as capital gains or losses resulting from fluctuations in the exchange rates, or arrangements whereby an outstanding debt was set off against a debt due to the United Kingdom.

The two principal components are first, the repayment by Britain of loans raised in America during 1914–19; these terminated in 1932. Secondly, the foreign credits received from New York and Paris in 1931/2: the nominal value of the credits was £130 m. but the accounts show actual sterling receipts of £152 m. (£135 m. in 1931 and £17 m. in 1932); and the repayments amounted to £53 m. in 1931 and £131 m. in 1932 – an exchange loss of £32 m. A number of smaller foreign loans were also repaid, including the Argentine Railway Loan 1927, Straits Settlement Loans 1928 and 1929 and the 5½% 20-year bonds 1937.

We turn next to three categories of lending by, and repayments to, the government.

#### *Lending to, and repayments by, local authorities*

This consists mainly of advances to the Public Works Loan Commissioners by the Local Loans Fund, and

of the corresponding loan repayments. Financial figures of advances and repayments are shown in the Accounts of the Local Loans Fund [3], and calendar year estimates are obtained by interpolation. There are also minor sums picked up elsewhere in the government accounts.

#### *Lending to enterprises and persons*

This covers a variety of minor loans or investments and repayments identified in the government accounts. It includes, in particular, the advances made by the Irish Land Purchase Fund<sup>3</sup> as shown in the annual accounts [2]; the Finance Account issues under the North Atlantic Shipping Act 1934 and the British Shipping (Assistance) Act 1935; and individual transactions such as the purchase of London Passenger Transport Board Debentures by the Post Office Savings Bank. I have included in repayments the amounts received by the Treasury in connection with the Moratorium Bills of the early years of the war [20, e.g. 1922–3, p. 36].

#### *Lending to, and repayments by, foreign governments<sup>4</sup>*

The loans by the United Kingdom to the Dominions and Allies arising out of World War I are shown in the *Civil Appropriation Accounts* [17, e.g. 1920/1, p. 559]. The last loans were made in 1921/2 and thereafter lending by the government was on a very small scale.<sup>5</sup> In most of the inter-war years amounts received in repayment of the war-time loans to Dominions and Allies exceeded fresh lending, though here too receipts were relatively small after 1921/2. The relevant transactions are principally recorded in the *Finance Accounts* but the series

<sup>1</sup> For these accounts the data required is conveniently summarised in Pember and Boyle, *British Government Securities in the Twentieth Century*, 1950 [227], pp. 463–503. The holdings are presented as at 31 March but refer, in fact, to the accounting dates noted above.

<sup>2</sup> The accounting year for the Unemployment Insurance Fund ended on 31 March but for 1934–8 the holdings of securities at 31 December are available in the *Report of the Unemployment Insurance Statutory Committee* [94], e.g. H.C. 49, 1935, Appendix A. From December 1921 to December 1933 the fund was in debt and held no securities; for 31 December 1919 and 1920 rough estimates were made from the published holdings at 31 March 1919–21 and 20 November 1920.

<sup>3</sup> Some of these advances were made to the Irish Free State and should strictly be treated as external loans.

<sup>4</sup> See also the note on the funding of certain loans, p. 76, n. 4.

<sup>5</sup> Part of these early post-war loans to Europe might perhaps have been classified as grants: the heading in the *Appropriation Account* was 'Loans and grants for reconstruction and relief', but it was not possible to distinguish between the two types of payment.

also includes the £7 m. of War Advances repaid by South Africa in 1934/5. This receipt was recorded in the *National Debt Return* as the money was used for the reduction of the debt. The receipt of £10 m. in 1938 relates to the sum received under the Eire (Confirmation of Agreements) Act 1938; £3.97 m. of this was used to pay off local loans claims against Eire and the balance of £6.03 m. went to the National Debt Commissioners for reduction of debt.

The final identified item is the change in the government's holdings of gold and foreign currency.

#### *Acquisition of gold and foreign currency*

From June 1932 the aggregate gold reserve was held by the Bank of England Issue Department and the Exchange Equalisation Account. A statement of the physical amounts held on the last day of each quarter was published in 1951,<sup>1</sup> and the quarterly changes in these holdings were valued at the average price of gold during the respective quarters<sup>2</sup> to obtain figures for the annual transactions in gold. The end-year holdings of foreign currency are also now available from the Bank of England.<sup>3</sup>

For December 1919 to June 1932 the required estimate is built up from three sources.<sup>4</sup> The first is the holdings of gold by the Issue Department and Currency Note Redemption Account as shown in the published *Returns* for the last Wednesday in each year. The second is the Issue Department's holdings of foreign currency. This was not shown separately but formed part of the item 'Other securities'. For 1919 to 1927 this item was constant except for an increase of £1.3 m. in 1923 and I have ignored it. From 1928-38 the detailed composition has been ascertained from the Issue Department's original ledgers which the Treasury kindly made available. There were small changes in the foreign exchange held in 1928-32, but thereafter no currency was held in the Issue Department.

The third component is the gold and currency held by the Exchange Account. This account was set up by the Treasury in 1915 to acquire the foreign exchange needed to finance purchases of war materials and supplies. Morgan [214, p. 356] gives a summary of dollar transactions up to 31 March 1919, but neither at the Treasury nor the Public Record Office have I been able to find a statement of the foreign exchange held prior to the end of 1922, though the information must surely exist.<sup>5</sup> From there to the end of 1927 the required data are available for the account in New York (the others having been closed).<sup>6</sup> The amount held at 31 December 1927 (£19 m.) was much the same as the amount transferred to the Exchange Equalisation Account when the old Exchange Account was closed in June 1932 (£21 m.)<sup>7</sup> It was assumed that there were no significant fluctuations in the intervening period. This procedure thus leaves any change (presumably reduction) in the assets held during 1920-2 to be reflected in the 'Unidentified items' of Table 34, and is partly responsible for the large positive residual shown for these years.

<sup>1</sup> Reserves and Liabilities, 1931 to 1945, Cmd. 8354, 1951 [66], p. 3.

<sup>2</sup> As given in the Bank of England *Statistical Summary* [262].

<sup>3</sup> *Quarterly Bulletin*, 8, December 1968 [263], p. 389.

<sup>4</sup> This is not a complete assessment of the changes in the United Kingdom's holdings of gold and foreign currency. Substantial amounts of foreign currency were also held by the Banking Department, but for our present purpose this is not treated as part of the government sector. For details see Bank of England, *Quarterly Bulletin*, 10, March 1970. [263], p. 2.

<sup>5</sup> Some very general information about the account is given annually in the 1920s in the Civil Service *Appropriation Accounts*.

<sup>6</sup> The data is given in Treasury papers held at the Public Record Office: T.160/418/F6779/1-2.

<sup>7</sup> Bank of England, *Quarterly Bulletin*, [263], 8, December 1968, p. 379.

## APPENDIX 4.1

# LISTS OF FUNDS AND ACCOUNTS USED IN THE ANALYSIS OF CENTRAL GOVERNMENT INCOME AND EXPENDITURE, 1914-38

### FINANCE ACCOUNTS OF THE UNITED KINGDOM

1. Exchequer Receipts and Issues (including subsidiary detail on later pages)
2. Sinking Funds, etc.

### APPROPRIATION ACCOUNTS

1. Civil Accounts, Classes I-IX<sup>1</sup>
2. Revenue Departments
3. Air Services
4. Army
5. Royal Ordnance Factories
6. Navy Services
7. Vote of Credit (1914/15-1917/18)
8. Ministry of Munitions (1915/16-1919/20)
9. Ministry of Shipping (1917/18-1919/20)
10. Naval and Military Operations and other Expenditure arising out of the War (1918/19)
11. Ministry of Information (1918/19)

### SUBSIDIARY ACCOUNTS WITHIN THE CIVIL APPROPRIATION ACCOUNTS

1. Imperial War Graves Commission
2. Medical Research Council
3. Education (Scotland) Fund
4. Cattle Fund
5. Special Areas Fund
6. Special Areas (Development and Improvement) England and Wales
7. Special Areas (Development and Improvement) Scotland
8. Highlands and Islands Medical Services
9. Essential Commodities Reserve Funds
10. Diseases of Animals Act
11. Small Holders, etc.
12. Forestry Commission
13. Agriculture (Scotland) Fund
14. Coal Mines (Control Agreement) Act
15. Coal Mines (Emergency) Act
16. Rating Relief Suspense Account

### MISCELLANEOUS ACCOUNTS OUTSIDE THE APPROPRIATION ACCOUNTS<sup>2</sup>

1. Unemployment Fund
2. National Health Insurance Fund
3. Widows', Orphans' and Old Age Contributory Pensions
4. Local Loans Fund, Capital and Income Accounts
5. Irish Land Purchase Fund
6. Post Office Savings Bank Fund
7. Savings Bank Fund
8. Currency Note Account
9. Bank of England, Issue Department
10. Road Fund
11. Post Office Fund
12. Tithe Act
13. Colonial Development Fund
14. Wheat Fund
15. Development Fund
16. State Management Districts
17. General Lighthouse Fund
18. Bankruptcy and Companies Winding-up (Accounts of the Official Receiver)
19. Civil Contingencies
20. German Reparations (Recovery) Act
21. Empire Marketing Board
22. Accounts and Balance Sheets of Trading or Commercial Services conducted by Government Departments
23. Raw Materials (Trading Account)
24. Disposals and Liquidation Commission
25. Royal Commission on the Sugar Supply
26. Trading Accounts (Ministry of Food)

### NORTHERN IRELAND FINANCE ACCOUNT

### NORTHERN IRELAND APPROPRIATION ACCOUNTS

<sup>1</sup> Prior to 1926/7 Classes I-VII and Unclassified Services.

<sup>2</sup> Excluding the Exchange Equalisation Account and the Exchange Account, neither of which were published.

# NORTHERN IRELAND MISCELLANEOUS ACCOUNTS

1. Milk Fund
2. General Cattle Diseases
3. Teachers' Superannuation
4. Road Fund

5. Pensions Account
6. Capital Fund
7. Ulster Savings
8. Land Purchase Sinking Fund
9. Church Temporalities
10. Reserve Fund
11. Government Loan Fund