

**TREASURY
NATIONAL
INCOME
AND
EXPENDITURE
1938 - 1950**



An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938 and 1940

*Presented by the Financial Secretary to the Treasury to Parliament
by Command of His Majesty
April 1941*



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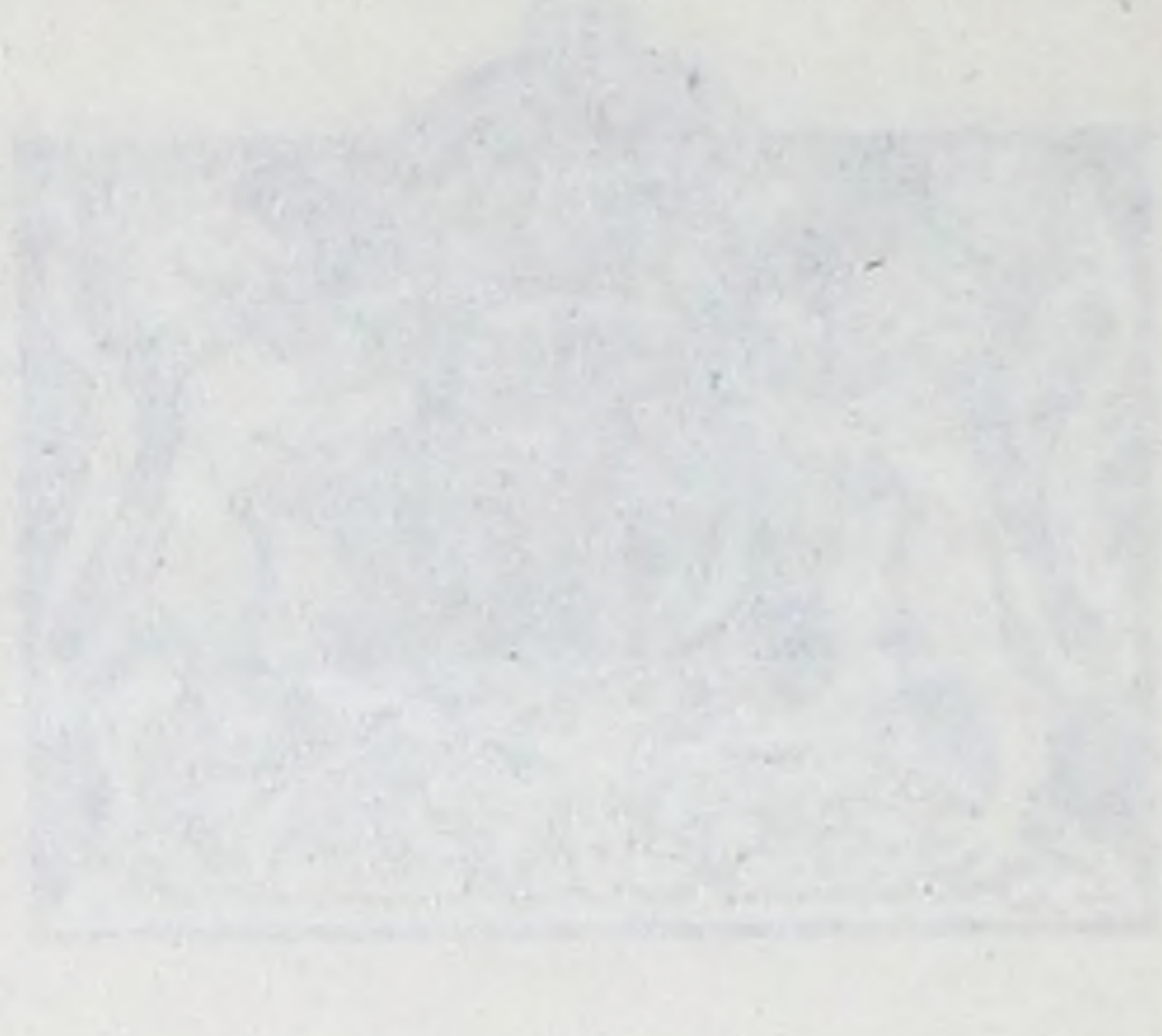
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This paper contains two series of statistical estimates, the first prepared in the Treasury and designed to analyse the sources of war finance; and the second an estimate of the national income and expenditure in the calendar years 1938 and 1940, prepared in the Central Statistical Office and designed to measure in money terms the main elements in the nation's income, expenditure and savings and the net amount of funds available for government purposes from private sources.

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It should be noticed that the figures on pp. 3-8 relate to the periods September 1939 to August 1940 and September 1940 to February 1941, but that the tables which follow relate to the calendar years 1938 and 1940.

I.—AN ESTIMATE DESIGNED TO ANALYSE THE SOURCES OF WAR FINANCE

(prepared in the Treasury)

TABLE I

(£ million)

	Year Sept. 1, 1939, to Aug. 31, 1940	Half Year Sept. 1, 1940, to Feb. 28, 1941
Total Government Expenditure* ...	2,633	2,108
less Increase in Departmental and Exchequer Balances	- 36	- 34
	<hr/>	<hr/>
True Expenditure	2,597	2,074
less Revenue	- 1,148	- 837
	<hr/>	<hr/>
	1,449	1,237
less net extra-budgetary receipts of Public Departments (exclud- ing the Savings Banks and the proceeds of sale of pre-war resources of the Exchange Equalisation Fund)	- 113	- 90
	<hr/>	<hr/>
	1,336	1,147
less proceeds of sale of pre-war resources of the Exchange Equalisation Fund	- 184	- 204
	<hr/>	<hr/>
Net amount borrowed through sterling public loans	1,152	943

* Comprising Exchequer expenditure *plus* net Exchequer issues of a capital nature (e.g., Overseas Trade Guarantees Act, 1939, and similar Acts), *plus* £9 million for Telephone Capital Advances (net).

TABLE II
Analysis of forms of sterling public loans
 (£ million)

	Year Sept. 1, 1939, to Aug. 31, 1940	Half Year Sept. 1, 1940, to Feb. 28, 1941
Post Office and Trustee Savings		
Banks	82	95
National Savings Certificates (net)	125	83
Defence Bonds	146	84
Other public issues (net)*	261	385
Fiduciary Issue (increase)	50	—
Treasury Bills held by the Market (net)	458	- 29
Bankers' Deposit Receipts	30	325
	1,152	943

An analysis of the ultimate sources from which the aggregate of sterling public loans set forth in Table II has been subscribed, involves several elements of estimation.† A portion of the amount subscribed represents (1) the re-investment by residents of the cash proceeds of overseas capital resources, which they have sold themselves or which the Treasury have acquired from them, after allowing for cash absorbed by the re-purchase of British securities from overseas, and (2) the employment of the net increase of overseas balances in London after allowing for foreign balances withdrawn; the total of these two items is estimated altogether at £358,000,000 in the first year of the war and at £275,000,000 in the first half of the second year.

The deduction of £358,000,000 and £275,000,000 from the total of sterling public loans, leaves the following amounts borrowed from strictly domestic sources :—

1st year of war

£794,000,000

1st half of second year

£668,000,000

These figures include the increase or decrease in sums held against taxes accrued but not yet due, estimated at an increase of £140,000,000 in the first year of the war and a decrease of £20,000,000 in the first half of the second year. The first of these estimates is explained by the higher rates of accrual of taxation imposed in the 1940 Budgets not yet reflected in tax collections; whilst the corresponding estimate at the end of the first half of the second year would have shown a much greater reduction if the effect of the seasonal collection of income-tax had not been off-set by a

* Gross public issues less securities redeemed, less purchases of Government securities (both of new issues and of pre-war issues) by Public Departments.

† The figures given below for the first half of the second year of the war may also be subject to subsequent revision in detail when certain final figures, not yet to hand, are available.

substantial increase in Excess Profits Tax accrued but not yet collected.

A further item in this total can be reached with some accuracy. It is estimated that the savings of local authorities and of institutions and the undistributed profits of companies accounted approximately for £272,000,000 in the first year of the war, and £131,000,000 in the first half of the second year.

Adjusting for these two factors we are left with a residue of:—

First year of war

£382,000,000

First half of second year

£557,000,000

This residue is made up of (1) the re-investment of sums realised from certain domestic capital assets, specified in more detail below, for which their owners have received cash, and (2) the amount provided out of net current personal savings, including in this any additional bank balances or bank notes held by individuals as well as sums actually invested by them.

TABLE III

The above analysis can be brought together as follows:—

(£ million.)		<i>1st year of war</i>	<i>1st half of second year</i>
Revenue	...	1,148	837
Extra-budgetary receipts of Public Departments	...	113	90
Overseas sources (see below)	...	542	479
Increase (or decrease) of tax accruals	...	140	- 20
Savings of Local Authorities and of Institutions, and undistributed Profits of Companies	...	272	131
Residue, being re-investment of sums realised from certain domestic capital assets and net current personal savings	...	382	557
		<hr/>	
Government Expenditure	...	2,597	2,074

The residue in the foregoing Table and that in Table C (item 27) below, prepared by the Central Statistical Office, have been computed on the same basis, and differ only in that the two calculations cover different periods, that overseas resources have been separately deducted in Table III and that Table C deals with gross, as opposed to net, savings (see page 7 below). The residue in Table C also corresponds closely to the sum of "disinvestment" as shown in Table A (item 10) and gross personal savings as shown in Table B (item 25). The fact that these last figures agree in total with the figure

in Table C (item 27) reached by an independent method is some confirmation of the reliability of the Tables. It has also been ascertained that any substantial alteration would involve consequential changes in other items which are judged to be improbable in the light of other information available. At the same time, these estimates being in the nature of residuals are subject to a greater possible error than the estimates, based on direct evidence, from which they have been derived.

If calculated to the nearest £10,000,000 for the first year of war and for the first half of the second year on the same basis as has been employed in Tables A and B below, the "re-investment" and "savings" portions of the residue in Table III would work out respectively, subject to the same qualifications as to accuracy, as follows:—

(£ million.)			1st year of war	1st half of second year
Re-investment	of	domestic		
capital assets	60	240
Net personal savings	320	320

It is also important to observe that the above figure of savings is *net*, i.e., after making good death duties and certain other expenses usually charged against capital. To give *gross* savings, which represent what is usually understood by "current savings," it is necessary to add roughly £90,000,000 in the first year of war and £40,000,000 in the first half of the second year, bringing gross personal savings to £410,000,000 and £360,000,000 respectively. These are the figures which (subject to difference of period) are comparable with item 25, Table B (p. 12 below).

The "reinvestment" part of the residue represents the sums made available to the Treasury by the reinvestment on the part of business firms and others of the cash proceeds arising from the net realisation of privately-owned domestic capital assets. It may be well to add a more detailed explanation of what is included in this item.

It has been estimated that an amount in excess of £400,000,000 is annually set aside out of the sale proceeds of current output to provide for repairs and renewals, depreciation and obsolescence charges and sinking funds. In peace-time repairs and renewals and new private investment are carried out on a scale in excess of what becomes available in the above way, and the balance has to be found out of new private savings. At the present time new private investment is at a low ebb, and many normal repairs and renewals cannot be carried out. Thus, instead of these being a call on any part of new private savings, there is a net unspent balance available for the Exchequer of an amount considerably greater in the second year of the war than in the first year, when private activities were on a much larger scale than is now practicable. Allowance must also be made for the sums absorbed or released by private financing of stocks of

finished and unfinished goods held by manufacturers, traders and retailers. On the one hand, money has been absorbed to the extent that private firms have financed munitions and other goods which they are producing for the Government, and where they have had to replenish their stocks at a higher level of price; but the sums thus required have been diminished by the substantial amounts released through the Government taking over large stocks previously held and financed privately and by a reduction in the volume of stocks of finished and unfinished goods, which are no longer being produced on a peace-time scale (for example, motor cars). A further contribution comes from the proceeds of sales of other capital assets, such as land and buildings, to the Government; and also from the receipts of compensation for loss from Government insurance schemes not yet reinvested in replacing the lost property.

The total figure, thus arrived at, was relatively small in the first year of the war partly for the reason already given, that private investment and replacement was more normal, and partly because the main influence of the rise in the replacement prices of stocks took place during that period. It should be pointed out that the estimated reduction in various assets privately held is not in any sense a measure of the change in the national assets as a whole. In particular it takes no account of large stocks paid for out of the Exchequer and now held at home and abroad on Government account.

There are no direct means of evaluating satisfactorily the several sources mentioned in the two preceding paragraphs. The estimates of £60,000,000 and £240,000,000 for "re-investment" given above turn largely, as has been explained, on the validity of Tables A and B. If it should be judged on general grounds that the £60,000,000 and £240,000,000 require correction, counter-corrections would be required both in the figure for net personal savings or other figures in Table III or both, and also in one or more of the items in Tables A and B.

TABLE IV

If the sums obtained from other overseas sources are added to the sums raised out of the pre-war resources of the Exchange Equalisation Fund, we have the following estimate of the net expenditure financed by sale of gold and securities or by an increase of overseas liabilities, a total which is in close agreement with a direct estimate which has been made of the net adverse balance of overseas payments on income account:—

	<i>1st year of war</i>	<i>1st half of second year</i>
	£	£
Proceeds of pre-war resources of the Exchange Equalisation Fund	184,000,000	204,000,000
Other overseas sources	358,000,000	275,000,000
Adverse Overseas Balance ...	<u>542,000,000</u>	<u>479,000,000</u>

TABLE V

It follows that the Government Expenditure financed out of strictly domestic resources was as follows:—

	<i>1st year of war</i> £	<i>1st half of second year</i> £
True Government Expenditure ...	2,597,000,000	2,074,000,000
Paid for out of overseas sources ...	542,000,000	479,000,000
<hr/>		
Net expenditure requiring domestic finance ...	2,055,000,000	1,595,000,000

The net Government expenditure requiring domestic finance is the amount which has to be met out of tax revenue and domestic loans (apart from loans taken up out of the sterling proceeds of the sale of overseas assets); but it is not the same thing as total domestic expenditure by the Government. Speaking generally, if there is an excess of imports for private consumption over exports, the sterling equivalent of the net amount of foreign exchange thus required becomes available to the Exchequer, directly or indirectly, to meet part of its domestic outgoings. On the other hand, if there is an excess of exports, the amount requiring domestic finance is greater than the amount of domestic expenditure.

2. ESTIMATE OF THE NATIONAL INCOME AND EXPENDITURE IN 1938 AND 1940

(prepared in the Central Statistical Office)

1. The results of this investigation are presented in three tables, namely :—

Table A.—estimates of net national income and expenditure ;

Table B.—estimates of personal incomes, personal expenditure and personal savings ;

Table C.—estimates of the net amount of funds available for government purposes from private sources.

2. In view of the great changes in the situation which occurred in the course of 1940, estimates are given in Table A not only for the year as a whole, but also for each quarter. These latter estimates are necessarily more approximate than those for the whole year, and should therefore be treated as providing no more than a broad indication of movements during the year.

3. Any estimate of the kind now submitted is necessarily only approximate in character, and in the case of many items cannot do more than measure the relative orders of magnitude involved. This applies particularly to estimates of those quantities which have been much affected by the disturbing influences of war.

4. In all the tables the estimates are given in terms of the prices current at the period in question.

5. Seasonal fluctuations have not been removed in the quarterly estimates for 1940. The effect of their retention is exemplified by the high level of personal expenditure (item 7) at Christmas, which has the effect in the fourth quarter of 1940 of increasing disinvestment in retail stocks included in item 9.

6. Brief explanatory notes on certain items in the tables (which have been numbered continuously) are attached to the tables.

TABLE

Estimates of net national income

£ million

	1938 year	1940 year	1940			
			1st quarter	2nd quarter	3rd quarter	4th quarter
1. Rents	352	370	92	93	93	92
2. Profits and interest before deduction of National Defence Contribution and Excess Profits Tax ...	1,178	1,514	347	387	394	386
3. Salaries	980	1,135	264	276	295	300
4. Wages (including payments to armed forces and earnings of shop assistants) ...	1,820	2,483	562	622	647	652
5. Other income ...	85	84	21	21	21	21
6. Net national income (before deduction of direct taxes)	4,415	5,586	1,286	1,399	1,450	1,451

A

and expenditure in 1938 and 1940

£ million

	1938	1940	1940			
	year	year	1st quarter	2nd quarter	3rd quarter	4th quarter
7. Personal expenditure at market prices	3,997	4,303	1,023	1,076	1,084	1,120
8. Expenditure by the government at home and abroad, and local authorities, on goods and services... ..	849	3,100	558	646	887	1,009
9. Indirect taxes, rates, etc.	-643	-868	-193	-205	-227	-243
10. Net investment, or disinvestment, at home and abroad ...	210	⁽¹⁾ (-949)	⁽¹⁾ (-102)	⁽¹⁾ (-118)	⁽¹⁾ (-294)	⁽¹⁾ (-435)
11. Balance unaccounted for	2	—	—	—	—	—
12. Net national expenditure	4,415	5,586	1,286	1,399	1,450	1,451

⁽¹⁾ obtained by subtracting the sum of items 7, 8 and 9 from item 6, and therefore dependent on the accuracy of those figures.

TABLE B

Estimates of personal incomes, personal expenditure and personal savings in 1938 and 1940

£ million					
	1938	1940		1938	1940
	year	year		year	year
13. Net national income ⁽¹⁾	4,415	5,586	18. Food, drink and tobacco	1,648	1,973
<i>Add—</i>			19. Rent, rates, fuel and light, household goods, and domestic service	959	991
14. National Debt interest, old-age pensions, social insurance benefits, &c. ...	490	494	20. Clothing and laundry	469	512
<i>Deduct—</i>			21. Private motor vehicles (including running expenses) ...	118	50
15. Direct tax liabilities	—492	—868	22. Other travel ...	169	164
16. Impersonal incomes after deduction of direct tax liabilities (i.e. (a) undistributed profits less business losses; (b) investment income of charities; and (c) miscellaneous Government income included in 2 above) ...	—265	—301	23. Other goods and services	634	613
			24. Total personal expenditure at market prices	3,997	4,303
			25. Gross personal savings ⁽²⁾	(151)	(608)
17. Personal incomes (after deduction of direct tax liabilities)	4,148	4,911	26. Personal expenditure and savings ...	4,148	4,911

(¹) see item 6 (Table A above).

(²) obtained by subtracting item 24 from item 17, and therefore dependent on the accuracy of those figures.

TABLE C

Estimates of the net amount of funds available for government purposes from private sources in 1938 and 1940

£ million

	1938 year	1940 year		1938 year	1940 year
27. Gross personal savings and net dis-investment at home or abroad ...	(⁽¹⁾ -70)	(⁽¹⁾ 1,549)	31. Total government expenditure ...	1,004	3,332
28. Impersonal savings (i.e., (a) undistributed profits after deduction of direct tax liabilities and of business losses, (b) other institutional savings, and (c) net savings of local authorities) ...	203	281	32. Total revenue ...	- 885	- 1,257
29. Excess of tax liabilities over tax payments ...	53	193	33. Excess of government expenditure over revenue ...	119	2,075
			34. Net receipts of extra-budgetary funds ...	- 21	- 139
			35. Death duties and stamps on transfer of property ...	88	87
30. Net amount of funds available from private sources for government purposes	186	2,023	36. Net amount of funds required for government purposes from private sources	186	2,023

(¹) Obtained by subtracting items 28 and 29 from item 36. Apart from errors of estimation, this figure should correspond to the sum of gross personal savings (item 25) and of disinvestment (item 10). These amount to -£59 millions in 1938 and £1,557 millions in 1940. The data in Table C are mainly independent of those in Tables A and B. The result obtained in Table C affords, therefore, some evidence that the conclusions of Tables A and B are not likely to be widely inaccurate.

NOTES ON PARTICULAR ITEMS IN THE TABLES

TABLE A

1. This item is based upon estimated assessments under Schedule A, adjusted to allow for increases since the last year of re-assessment and for the effects of air-raid damage.

2. This item is based upon estimated assessments under Schedules B to D adjusted to exclude income due to foreigners, and interest on national debt, to take account of business losses, and to include income from small property, investment income of charities, and miscellaneous government income (*i.e.*, trading profits, investment income and certain receipts from abroad).

3. This item is based upon estimated assessments under Schedule E, excluding weekly wage-earners assessed half-yearly.

4. In the case of wage-earners receiving part of their income in kind—*e.g.*, members of the armed forces and domestic servants—allowances have been added to their cash wages. The estimate of personal expenditure (items 7 and 24) has been raised by a similar amount.

5. The earnings of salaried workers or of workers on their own account whose incomes are below the income tax exemption limit have been included.

7. See note on item 4 and Introductory Note.

8. This item excludes items of public expenditure not involving a direct demand for goods and services, such as (i) interest on national debt, (ii) grants-in-aid to local authorities, (iii) government contributions in lieu of rates, (iv) non-contributory old-age pensions, pensions administered by the Ministry of Pensions and cash benefits paid by the Assistance Board, (v) government contributions to social insurance, (vi) loan repayments and payments to Sinking Fund, and (vii) public assistance (outdoor relief). Expenditure by the Post Office is excluded, for (a) its capital expenditure is included in item 10, (b) personal expenditure on postal services is included in item 7 and (c) business expenditure on postal services is included as a cost of production in the price of the other goods and services enumerated in items 7, 8 and 10. Similarly, expenditure by local authorities on housing and trading services is excluded. This item includes subsidies.

9. This item includes receipts from (i) customs and excise duties, (ii) stamp duties other than those on the transfer of property, (iii) motor vehicle duties, (iv) local rates, (v) compulsory contributions of employers to social insurance, and (vi) that part of compulsory contributions to war risks insurance which are not paid out in compensation. This item requires to be deducted because it is included in items 7, 8 and 10, but not in item 6.

10. This item includes (a) net investment or disinvestment in foreign assets, (b) net home investment or disinvestment in fixed or working capital privately financed (excluding disinvestment due to war damage to property for which no compensation is paid) and (c) certain expenses connected with the investment of savings. In consequence the global figure of disinvestment in 1940 was made up of (i) the net loss of overseas assets plus the net increase in liabilities to foreigners, (ii) the sale of existing fixed capital, land or stocks by private enterprise to the state, (iii) that part of the normal allowances for depreciation, &c., which was not actually used in replacing capital equipment, (iv) that part of the compensation paid for war damage to property which was not used for the actual replacement of the damaged property, and (v) an offsetting item due to the necessity of replacing stocks at a higher price. For the effect of seasonal fluctuations, see Introductory Note.

SUPPLEMENTARY NOTE ON TABLE A

The proportion in which the current effort of the country is devoted to each of the three categories enumerated in items 7, 8 and 9 is shown when indirect taxes,* &c. (item 11), are deducted in the ratio in which they fall on each of these categories.

During 1940 the resources devoted to personal consumption and to the demands of the central government and local authorities together exceed the resources available from the net national income and are supplemented by the resources made available by disinvestment of capital assets at home and abroad.

Proportion of net national income devoted to various purposes
(percentages)

	1938	1940			
		first quarter	second quarter	third quarter	fourth quarter
Total net national income	100	100	100	100	100
Consumption	77	66	64	62	63
Central and local government	19	42	45	59	67
Net investment or disinvestment	4	- 8	- 9	- 21	- 30

TABLE B

14. This item includes (i) interest on the National Debt, (ii) the pensions and other items referred to in note 8 (iv) above, (iii) unemployment insurance benefits, (iv) public assistance (outdoor relief), (v) cash benefits under the national health insurance scheme, (vi) contributory pensions for widows, orphans, and old age, and (vii) billeting allowances paid by the state.

15. This item is based upon estimates of the direct tax liability accruing on incomes at current rates of taxation and at the current level of incomes, and, therefore, differs from actual tax payments during the periods in question. Direct taxes include Income Tax, Sur-Tax, National Defence Contribution, Excess Profits Tax, and workers' compulsory contributions to social insurance.

23. This item includes (i) newspapers, (ii) medical services, (iii) hotel and restaurant services, (iv) entertainments, (v) postal services, (vi) hairdressing, (vii) expenditure on betting less winnings, (viii) funeral expenses, (ix) private education, (x) clubs, &c.

24. See note on item 4.

* For this purpose indirect taxes have been divided into two categories: (a) those falling only on personal consumption, such as duties on beer and tobacco, and on private motor vehicles and rates on dwelling houses, and (b) those falling on production generally, such as duties on commercial vehicles and rates on premises other than dwelling houses. Those in category (a) have all been deducted from the value of personal consumption, and those in category (b) have been assumed to be spread evenly over (i) consumption, (ii) Government expenditure on goods and services, and (iii) expenditure on home investment.

25. Since item 15 includes tax liabilities and not actual payments of direct taxes, personal savings exclude the sums that should be set aside to meet tax liabilities in any period in which current incomes are higher than those which have been the basis of assessment for actual current tax payments.

TABLE C

28. Net savings of local authorities represent the estimated difference between the capital expenditure of local authorities (exclusive of capital expenditure on trading services and housing, which are included in item 27) and the gross savings of local authorities through repayment of debt, sinking fund payments, &c.

29. Since the sums which should be set aside to meet the excess of current liabilities to direct taxes over actual tax payments are excluded from personal savings (items 25 and 27) and from impersonal savings (item 28), this item must be separately included as one of the private sources of funds for the finance of government expenditure.

31. Expenditure based upon estimated payments by the Government includes expenditure under the Defence Loans Acts, 1937 and 1939, and under the Anglo-Turkish (Armaments Credit) Agreement Act, 1938. It excludes (a) self-balancing expenditure, (b) sinking fund payments, and (c) capital expenditure by the Post Office, which is included in item 27.

32. This item excludes self-balancing revenue

34. This item must be deducted, since the accumulation of monies in extra budgetary funds reduces the call upon outside resources for the finance of government expenditure.

35. Since this item of revenue is included in item 32, it must be added here, for it involves a call upon the gross savings of individuals or of institutions.