



# An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938, 1940 and 1941

*Presented by the Financial Secretary to the Treasury to Parliament  
by Command of His Majesty  
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The statistical material presented in Cmd. 6261 (April 1941) for the years 1938 and 1940, has been revised in the light of further study and more detailed information which has become available. There are some significant revisions of individual items, but apart from changes of definition, the main totals are not much altered. The tables, which now cover the calendar year 1941 as well as 1938 and 1940, have also been rearranged in the interests of a more logical analysis, and additional material has been added. Much of the material given in Part I of Cmd. 6261 is now incorporated in the main tables. The results of more comprehensive enquiries covering overseas disinvestment and expenditure on consumption are, unfortunately, not available in time to be included below, and the figures for these items are given subject to this reserve. Any subsequent modification in either of these totals will require a corresponding change in the total of domestic disinvestment.

In Table I, item 8 (domestic investment) is the balancing figure obtained by difference, and not (except in 1938) by direct estimation. In Table II, item 14 (net personal savings) is the balancing figure. Tables III and IV are mainly based on actual figures taken from the Public Accounts &c., apart from items repeated from Tables I and II.

The tables have been prepared in the Central Statistical Office with the collaboration of the Treasury.



## A.—THE SOURCES OF WAR FINANCE.

				(£ million.)		
				Calendar year, 1940.	Calendar year, 1941.	Budget forecast, 1942-43.
Central government expenditure	...	...	...	3,333*	4,620*	5,286
less Overseas disinvestment	...	...	...	759	798	775†
				<hr/>	<hr/>	<hr/>
Expenditure requiring domestic finance	...	...	...	2,574	3,822	4,511
less Central government revenue	...	...	...	1,253*	1,832*	2,402
				<hr/>	<hr/>	<hr/>
				1,321	1,990	2,109
less Extra-budgetary funds and local authority surpluses‡	...	...	...	176	220	
				<hr/>	<hr/>	
				1,145	1,770	
less Compensation received in respect of war risks and war damage claims§	...	...	...	36	249	
				<hr/>	<hr/>	
				1,109	1,521	
less Savings and undistributed profits, inclu- ding reserves against taxation	...	...	...	823	1,028	
				<hr/>	<hr/>	
Residue (Table I, item 8) from sources indicated below	...	...	...	286	493	

The residue has been provided from the following sources:—

- (a) Sales to public authorities of fixed capital assets (such as sites, buildings and stocks of goods) previously owned privately;
- (b) Sinking funds and depreciation funds of firms and institutions;
- (c) Net depletion of stocks and working capital (apart from sales under (a) above) carried by private finance, measured by the reduction in their value as reckoned in the calculation of the year's profit;

less

- (d) New investment financed out of privately-owned funds;
- (e) Replacements and renewals charged on depreciation funds;
- (f) Replacements of war losses actually carried out (including new ships in private ownership and stocks of commodities lost and replaced within the year).||

\* Adjusted for appropriations-in-aid, &c.

† Including Canadian contribution of £225,000,000.

‡ Excluding the Exchange Equalisation Account, changes in which are already included in overseas disinvestment.

§ See the explanation of this item under (f) below.

|| This deduction must be made because credit has been taken in the table above for the *whole* of compensation received in respect of war risks and war damage claims, whether or not it has been applied to replacement.



No sufficient *data* are available for a statistical analysis of the components of this residue. In 1941 the greater part of the reserve stocks of food and raw materials was held under government finance (their cost being included in budgetary expenditure). They are, therefore, not included in (c) above; and it is known that, so far from being depleted, they were substantially increased. Thus the depletion of stocks of goods in (c), the value of which cannot be closely calculated, mainly affected finished products and non-necessary materials.

Since sinking funds and depreciation funds are usually reckoned as being of the order of £475,000,000 annually, which is about the same as the size of the residue in 1941, it follows that the other items in the above list of sources have about balanced out in that year, sales of fixed capital assets to the government and depletion of stocks under (a) and (c) being approximately equal to gross investment under (d), (e) and (f).

Since the amount of the residue has been obtained by difference, any errors in the other items in the table have been absorbed into it. If, for example, further enquiry should show that the amount of overseas disinvestment or the amount of expenditure on consumption has to be revised, which may be the case, then the residue will be revised by the same amount.

## B.—PROPORTION OF RESOURCES ABSORBED BY GOVERNMENT EXPENDITURE.

This can be calculated on various principles giving widely different results, particularly according to the treatment of payments by the government otherwise than on goods and services. The following is one method of answering the question:—

	1941 £ million.
(1) Total government expenditure (central and local), exclusive of lend-lease aid, at market prices ...	5,107
Less	
(2) Government expenditure otherwise than on goods and services (items 24 + 28 + 32 of Table IV) ...	925
(3) Government expenditure on goods and services at market prices ... ..	4,182
(4) Personal expenditure on consumption at market prices	4,550
Plus	
(5) Subsidies ... ..	139
Less	
(6) Indirect taxes on consumption ... ..	826
(7) Adjusted personal expenditure on consumption ...	3,863
(8) Sum of (3) + (7) ... ..	8,045

The government proportion of the total, ((3) as a percentage of (8)), is 52 per cent. for 1941, compared with 44 per cent. for 1940.

The figure £8,045 millions is not a measure of the national income but is the net national income at market prices *plus* net disinvestment *less* the excess of indirect taxes on consumption over subsidies. The above proportion (52 per cent.) is also applicable to income currently produced, as distinct from total resources, if we assume that disinvestment (both overseas



and domestic) is spread evenly between government and non-government expenditure, in which case the inclusion or exclusion of this item makes no difference to the proportion. Since no data are available for checking the degree of correctness of this assumption, it seems best to state the use of government resources as a proportion of the total use of resources.

If the figure of total government expenditure were used, in place of government expenditure on goods and services, a higher proportion for government expenditure as a percentage of total expenditure would, of course, result.

The proportion, 52 per cent., relates to the average of the year 1941, and is, therefore, nine months out of date as at April 1, 1942.

### C.—PERSONAL EXPENDITURE.\*

	1938.	1940. (£ million)	1941.
Personal expenditure on consumption at market prices ... ..	4,041	4,424	4,550
Add Subsidies ... ..	15	70	139
	<hr/>	<hr/>	<hr/>
	4,056	4,494	4,689
Deduct Indirect taxes on consumption ...	472	623	826
	<hr/>	<hr/>	<hr/>
Personal consumption thus adjusted ...	3,584	3,871	3,863

It is necessary to estimate the percentage increase in prices similarly adjusted in order to obtain a measure of the reduction in the *volume* of personal consumption. Index numbers of the cost of living or other indices of market prices are not suitable to measure this increase, since they include some, but not nearly all, indirect taxation, exclude subsidies and do not cover by any means the whole of consumption expenditure. No satisfactory index of prices adjusted in the above sense is at present available.

Moreover, there has been a great change since 1938 in the relative importance of different articles of consumption, and the rise in prices in 1940 and 1941 is not so substantial if articles are weighted according to the volume of their consumption in those years as if they are weighted appropriately to 1938. The measure of the reduction in the volume of consumption in 1941, compared with 1938, cannot be estimated more precisely than that it probably lies within the limits of 15 and 20 per cent. according to the system of weighting which is adopted.

\* Including the expenditure on consumption of charities and other non-profit-making bodies, as well as of individuals, but excluding the expenditure of firms, companies, and institutions which are chargeable as costs.



**D.—PERSONAL SAVINGS.\***

	1938.	1940. (£ million.)	1941.
Gross personal savings, including provision for accrued taxation* ... ..	233	640	909
Death duties, &c. ... ..	90	85	94
Net personal savings after provision for death duties, &c. ... ..	143	555	815
Accrued taxation† ... ..	18	82	150
Net personal savings after provision for accrued taxation ... ..	125	473	665

The above estimates of personal savings have been obtained indirectly by deducting direct estimates of personal consumption and taxes met out of personal incomes from direct estimates of personal incomes. An attempt has been made to check the results by comparing them with direct evidence of the value of personal savings. This suggests that the above estimates of net personal savings are not over-estimates—it would be easier on such evidence to justify a higher than a lower total. On the other hand, a more exact estimate, not yet available, of expenditure on consumption in the last six months of 1941 is likely to increase, rather than to decrease, that figure. Thus, on balance and taking all the evidence into account, there is no sufficient reason for increasing the figures given above.

**E.—PROPORTION OF THE NATIONAL INCOME DEVOTED TO TAXATION.**

	1938.	1940. (£ million.)	1941.
(1) National income (item 5 of Table I)	4,595	5,585	6,338
(2) Direct taxes, War Damage Act contributions and premiums, &c. ...	534	768	1,215
(3) Indirect taxes, rates, war risks insurance premiums, &c., less subsidies	630	850	1,103
(4) Excess of tax liabilities over payments	30	213	239
(5) Total tax liabilities, i.e., sum of (2) + (3) + (4) ... ..	1,194	1,831	2,557
(Percentages.)			
(6) Total tax liabilities as a percentage of national income ... ..	26	33	40

This table shows the proportion of the national income devoted to direct and indirect taxation, rates, compulsory contributions to social insurance and war risks insurance schemes, and contributions and premiums (almost the whole of which are compulsory) under the War Damage Act, abated by the amount of subsidies. The figures in line (4) relate not only to taxes falling on personal incomes, but also to those which fall on other incomes, e.g., National Defence Contribution and Excess Profits Tax.

\* I.e., excluding undistributed profits of businesses and institutions, except that the savings of farmers and the savings of non-profit-making bodies are included.

† I.e., excess of liabilities for direct taxes on personal incomes accrued during the year over payments of such taxes during the year.



**F.—DISTRIBUTION OF PERSONAL INCOMES IN THE FINANCIAL YEAR 1940-41 BY RANGES OF GROSS INCOME SHOWING THE EFFECTS OF CHANGES IN INCOME TAX AND SURTAX, 1938-41.**

Range of Gross Income.	Aggregate Gross Income 1940-41.	Aggregate Net Income with Income Tax and Surtax at—			Proportion of Gross Income retained with Income Tax and Surtax at—		
		1938-39 rates.	1940-41 rates.	1941-42 rates.	1938-39 rates.	1940-41 rates.	1941-42 rates.
£	£m.	£m.	£m.	£m.	%	%	%
Under 250 ... ..	3,344	3,329	3,301	3,242	99.6	98.7	96.9
250-500 ... ..	1,038	1,000	946	883	96.3	91.1	85.1
500-1,000 ... ..	477	428	391	358	89.7	82.0	75.1
1,000-2,000 ... ..	320	266	230	203	83.1	71.9	63.4
2,000-10,000 ... ..	367	259	206	174	70.6	56.1	47.4
10,000 and over ... ..	176	88	50	39	50.0	28.4	22.2
Total of above ...	5,722*	5,370	5,124	4,899	93.8	89.5	85.6

This table gives an estimate of the amount of personal income in different ranges of gross income. As in the case of income tax assessment, the income of a husband and wife are reckoned as one income. The aggregate net income with income tax and surtax at 1940 rates is the amount of income retained† in the financial year 1940-41. The figures in the corresponding columns headed 1938-39 and 1941-42 do not relate to the incomes of those years, but to the income which would have remained after tax in 1940-41, if the taxation of 1938-39 or of 1941-42 had been in force in that year. Transfer payments, other than National Debt interest and interest accrued on National Savings Certificates, (items 4 to 7 of Table II) have been included in the incomes below £250.

\* Excluding investment income of non-profit-making bodies estimated at £64,000,000, making a total of £5,786,000,000 (see item 8, Table II, for year ending March 31, 1941).

† After setting aside all current liability for these taxes.



## Estimates of net national income

£ million

Year ending—	Dec. 31st, 1938.	Dec. 31st, 1940.	March 31st, 1941.	June 30th, 1941.	Sept. 30th, 1941.	Dec. 31st, 1941.
1. Rent of land and buildings ... ..	373	383	381	379	379	379
2. Profits and interest...	1,351	1,542	1,591	1,632	1,677	1,722
3. Salaries, and the pay and allowances (in cash and kind) of officers in H.M. Forces and Auxiliary Services ... ..	1,081	1,176	1,188	1,200	1,210	1,216
4. Wages, and the pay and allowances (in cash and kind) of other ranks in H.M. Forces and Auxiliary Services ... ..	1,790	2,484	2,643	2,773	2,893	3,021
5. Net national income	4,595	5,585	5,803	5,984	6,159	6,338

\* For notes on the items of this table see p. 16.



## I

and expenditure in 1938, 1940 and 1941.

£ million

Year ending—	Dec. 31st, 1938.	Dec. 31st, 1940.	March 31st, 1941.	June 30th, 1941.	Sept. 30th, 1941.	Dec. 31st, 1941.
6. Personal expenditure on consumption at market prices ...	4,041	4,424	4,440	4,485	4,520	4,550
7. Expenditure at home and abroad, by public authorities, on goods and services at market prices ...	833	3,056	3,506	3,830	4,031	4,182
8. Private net investment at home and war losses made good ...	406	(—286)	(—380)	(—443)	(—497)	(—493)
9. Private and government net investment abroad... ..	—55	—759	—846	—931	—844	—798
10. Subsidies ... ..	15	70	98	124	128	139
<i>Less</i>						
11. Indirect taxes and rates specifically on consumption ... ..	—472	—623	—682	—714	—785	—826
12. Other indirect taxes, rates, &c. .. ..	—173	—173	—176	—177	—179	—178
13. War risks insurance premiums ...	—	—124	—157	—190	—215	—238
14. Net national expenditure ... ..	4,595	5,585	5,803	5,984	6,159	6,338



\*TABLE

## Estimates of personal incomes, expenditure

£ million

Year ending—	Dec. 31st, 1938.	Dec. 31st, 1940.	Mar. 31st, 1941.	June 30th, 1941.	Sept. 30th, 1941.	Dec. 31st, 1941.
1. Rent of land and buildings, profits and interest (including National Debt interest and interest accrued on National Savings Certificates†) received by persons ...	1,500	1,673	1,692	1,702	1,702	1,706
2. Salaries, and the pay and allowances (in cash and kind), of officers in H.M. Forces and Auxiliary Services ...	1,081	1,176	1,188	1,200	1,210	1,216
3. Wages, and the pay and allowances (in cash and kind), of other ranks in H.M. Forces and Auxiliary Services ...	1,790	2,484	2,643	2,773	2,893	3,021
4. Pension payments ...	132	150	160	170	176	177
5. Payments in respect of unemployment and the relief of poverty ...	110	63	50	41	35	28
6. Health payments ...	35	35	33	33	32	32
7. Other transfer payments...	—	15	20	27	30	27
8. Personal incomes before deduction of direct taxes, &c. ...	4,648	5,596	5,786	5,946	6,078	6,207
† National Debt interest and interest accrued on National Savings Certificates	222	243	244	254	265	273

\* For notes on the items of this table, see p. 18.



## II

and savings in 1938, 1940 and 1941

£ million

Year ending—	Dec. 31st, 1938.	Dec. 31st, 1940.	Mar. 31st, 1941.	June 30th, 1941.	Sept. 30th, 1941.	Dec. 31st, 1941.
9. Personal expenditure on consumption at cost of production ...	3,584	3,871	3,856	3,895	3,863	3,863
10. Excess of indirect taxes and rates specifically on consumption over subsidies ... ..	457	553	584	590	657	687
11. Direct tax payments other than death duties, &c., and War Damage Act contributions and premiums met out of personal incomes ...	374	532	586	640	687	748
12. Death duties and stamps on the transfer of property ... ..	90	85	86	87	91	94
13. Excess of direct tax liabilities on personal incomes over payments...	18	82	80	105	147	150
14. Net personal savings after setting aside the excess of direct tax liabilities over payments ... ..	(125)	(473)	(594)	(629)	(633)	(665)
15. Personal expenditure on consumption, savings and direct taxes, &c. ... ..	4,648	5,596	5,786	5,946	6,078	6,207



## Central Government expenditure and the sources

£ million

Year ending—	Dec. 31st, 1938.	Dec. 31st, 1940.	Mar. 31st, 1941.	June 30th, 1941.	Sept. 30th, 1941.	Dec. 31st, 1941.
1. Central government revenue ...	885	1,253	1,397	1,529	1,688	1,875
2. Net personal savings including provision for accrued taxes... ..	143	555	674	734	780	815
3. Undistributed profits after payment of taxes and War Damage Act contributions and premiums but including provision for accrued taxes ... ..	313	268	270	260	247	213
4. Surplus on extra-budgetary funds ... ..	21	140	181	170	180	166
5. Local authority surplus ... ..	4	36	42	47	51	54
6. Compensation received in respect of claims under the Marine and Commodity War Risks Insurance Schemes and the War Damage Act ... ..	—	36	71	135	202	249
<i>Less</i>						
7. Private net investment (or <i>plus</i> disinvestment) at home and war losses made good ... ..	— 406	286	380	443	497	493
8. Private and government net investment (or <i>plus</i> disinvestment) abroad ... ..	55	759	846	931	844	798
9. Central government deficit ...	130	2,080	2,464	2,720	2,801	2,788
10. Central government expenditure ... ..	1,015	3,333	3,861	4,249	4,489	4,663

\* For notes on the items of this table see p. 19.



## III

from which it was financed in 1938, 1940 and 1941

£ million

Year ending—	Dec. 31st, 1938.	Dec. 31st, 1940.	Mar. 31st, 1941.	June 30th 1941.	Sept. 30th, 1941.	Dec. 31st, 1941.
11. Central government revenue ...	885	1,253	1,397	1,529	1,688	1,875
12. Unemployment Fund ...	—1	24	45	50	57	64
13. National Health Funds ...	—	9	9	10	10	8
14. Local Loans Fund ...	—2	5	7	8	8	9
15. Other extra-budgetary receipts including war risks insurance and certain War Damage Act receipts, Exchange Equalisation Account and reduction in Exchequer balance	258	515	566	497	291	73
16. Reconstruction Finance Corporation loan ...	—	—	—	—	31	87
17. Receipts from capital transactions included in miscellaneous revenue, and appropriations in aid arising from capital transactions ...	5	10	10	10	10	10
<i>Less</i>						
18. Sinking funds ...	—11	—12	—17	—17	—17	—17
19. Other expenditure (net) ...	4	—8	1	3	5	13
20. Finance through government agencies ...	253	543	621	561	395	247
21. Post Office and Trustee Savings Banks ...	1	119	160	197	208	214
22. National Savings Certificates including increase in accrued interest ...	3	168	182	204	207	213
23. Defence Bonds ...	—	180	190	203	186	174
24. Other public issues (net) ...	62	552	684	865	990	1,021
25. Increase in fiduciary issue ...	10	50	50	50	100	150
26. Increase in Treasury bills held outside government departments and Bank Ways and Means ...	—199	130	147	121	239	279
27. Bankers' deposit receipts ...	—	338	430	519	476	473
28. Tax reserve certificates ...	—	—	—	—	—	17
29. Public borrowing at home ...	—123	1,537	1,843	2,159	2,406	2,541
30. Central government expenditure ...	1,015	3,333	3,861	4,249	4,489	4,663



## The Income, Deficit and Expenditure of

£ million

Year ending—	Dec. 31st, 1938.	Dec. 31st, 1940.	Mar. 31st, 1941.	June 30th, 1941.	Sept. 30th, 1941.	Dec. 31st, 1941.
<i>Direct taxes, War Damage Act contributions, &amp;c.</i>						
1. Central government ...	480	708	791	895	976	1,115
2. Extra-budgetary funds ...	54	60	63	66	98	100
3. Local authorities ...	—	—	—	—	—	—
4. Total ...	534	768	854	961	1,074	1,215
<i>Indirect taxes, rates, war risks insurance premiums, &amp;c.</i>						
5. Central government ...	382	516	575	606	677	719
6. Extra-budgetary funds ...	54	181	218	254	282	304
7. Local authorities ...	209	223	222	221	220	219
8. Total ...	645	920	1,015	1,081	1,179	1,242
<i>Miscellaneous income from public property, trading &amp;c.</i>						
9. Central government ...	23	29	31	28	35	41
10. Extra-budgetary funds ...	14	20	15	15	14	14
11. Local authorities ...	26	27	26	26	27	27
12. Total ...	63	76	72	69	76	82
<i>Deficit.</i>						
13. Central government ...	130	2,080	2,464	2,720	2,801	2,788
14. Extra-budgetary funds ...	— 21	— 140	— 181	— 170	— 180	— 166
15. Local authorities ...	— 4	— 36	— 42	— 47	— 51	— 54
16. Total ...	105	1,904	2,241	2,503	2,570	2,568
<i>Income plus deficit.</i>						
17. Central government ...	1,015	3,333	3,861	4,249	4,489	4,663
18. Extra-budgetary funds ...	101	121	115	165	214	252
19. Local authorities ...	231	214	206	200	196	192
20. Total ...	1,347	3,668	4,182	4,614	4,899	5,107

\* For notes on the items of this table see p. 20.



## IV.

## Public Authorities in 1938, 1940 and 1941.

£ million

Year ending—	Dec. 31st, 1938.	Dec. 31st, 1940.	March 31st, 1941.	June, 30th, 1941.	Sept. 30th, 1941.	Dec. 31st, 1941.
<i>Subsidies.</i>						
21. Central government ...	15	70	98	124	128	139
22. Extra-budgetary funds ...	—	—	—	—	—	—
23. Local authorities ...	—	—	—	—	—	—
24. Total ...	15	70	98	124	128	139
<i>Payments in respect of claims under the Marine and Commodity War Risks Insurance Schemes and the War Damage Act.</i>						
25. Central government ...	—	36	71	135	202	249
26. Extra-budgetary funds ...						
27. Local authorities ...						
28. Total ...	—	36	71	135	202	249
<i>Transfer payments.</i>						
29. Central government ...	342	372	382	403	420	425
30. Extra-budgetary funds ...	134	115	108	107	104	99
31. Local authorities ...	23	19	17	15	14	13
32. Total ...	499	506	507	525	538	537
<i>Expenditure on goods and services.</i>						
33. Central government ...	625	2,861	3,317	3,645	3,849	4,003
34. Extra-budgetary funds ...						
35. Local authorities ...						
36. Total ...	833	3,056	3,506	3,830	4,031	4,182
<i>Total expenditure.</i>						
37. Central government ...	1,015	3,333	3,861	4,249	4,489	4,663
38. Extra-budgetary funds ...	101	121	115	165	214	252
39. Local authorities ...	231	214	206	200	196	192
40. Total ...	1,347	3,668	4,182	4,614	4,899	5,107



## NOTES ON PARTICULAR ITEMS IN THE TABLES.

TABLE I.

1. As in item 1 of table A of Cmd. 6261, this item represents the income from the ownership of lands, houses, &c., after allowance has been made for maintenance and repair. In contrast to Cmd. 6261, it includes incomes from these sources below the effective income tax exemption limit and such incomes received by non-profit-making bodies, *e.g.*, charities, colleges, &c. These incomes were included in item 2 of table A of Cmd. 6261, which covered the whole of small property incomes and of the investment income of non-profit-making bodies, irrespective of their sources.

2. As in item 2 of table A of Cmd. 6261, aggregate profits here are net, *i.e.*, after current business losses have been deducted. Also, as before, this item excludes interest on the national debt (which appears as a transfer payment in item 1 of table II below) and income due to foreigners, but includes miscellaneous government income (such as trading profits, investment income and certain receipts from abroad). In contrast to Cmd. 6261, in which item 2 of table A included all incomes from property below the income tax exemption limit or received by non-profit-making bodies, only that part of such incomes appears here which takes the form of profits or interest (see note 1 above). On the other hand, incomes below the income tax exemption limit belonging to persons working on their own account which were included in Cmd. 6261 in "other income" (item 5 of table A) are now included in this item. Another important change from the procedure adopted in Cmd. 6261 is that no deduction from earnings is now made for sums used to write down stocks which, though unchanged in quantity, have fallen in value. The previous procedure was inconvenient, inasmuch as under it stocks were written down when they had fallen in value, but not written up when they had risen in value. A further purpose of this adjustment which affects the value of investment in stocks is explained in the note to item 8 below. Sums so deducted in 1938 are estimated at £135,000,000, so that, relative to the corresponding item (2 of table A) of Cmd. 6261, this item is increased on this account in 1938 by £135,000,000. No other year is affected by the change since this adjustment is only required in times of falling prices.

3. In contrast to item 3 of table A of Cmd. 6261, this item includes: (a) the untaxed allowances whether in money or in kind (food, clothing and lodging, &c.) received by officers in H.M. Forces and Auxiliary Services, previously included in item 4 of table A; (b) the whole of the earnings of shop assistants, a part of which was previously included in item 4 of table A; (c) small salaries below the income tax exemption limit previously included in item 5 of table A.

4. As in Cmd. 6261, an allowance for income received in kind (food, clothing and lodging, &c.) by, *e.g.*, other ranks in H.M. Forces and Auxiliary Services and domestic servants, has been added to their cash income and allowances. The estimate of personal expenditure on consumption at market prices (item 6) includes a similar allowance. This item differs in definition from item 4 of table A of Cmd. 6261 by the exclusion of that part of the earnings of shop assistants which was previously included here, and is now included in item 3.

5. This item is the sum of items 1 to 4 and is an estimate of the incomes received by factors of production in, or only temporarily absent from, the United Kingdom in the course of producing the current output of goods and services of all kinds. These incomes are, of course, "before tax" since all taxes, direct and indirect, falling on these incomes whether paid directly by individuals (including non-profit-making institutions), or through businesses or public authorities, will be paid out by them. The item is "net" in the sense that the sums shown in items 1 and 2 exclude that part of gross receipts which is set aside in the calculation of net profit for the maintenance and repair or replacement of all existing capital equipment (such as houses, machinery or stocks) which is being currently worn out or used up.

6. This item shows, as did the corresponding item (7 of table A) of Cmd. 6261, the money value of all consumption goods and services either bought by individuals and non-profit-making bodies or received by them as income in kind. The figures



shown here are therefore at prices which include indirect taxes, rates, &c., and war risks insurance premiums which appear in the market price of these goods and services. They exclude costs which, being met by government subsidies, do not enter into market prices.

7. This item excludes expenditure by public authorities which does not arise from a direct demand for goods and services. Thus it excludes (i) transfer payments, (ii) claims paid in respect of war losses, (iii) loan repayments, payments to sinking funds, &c., (iv) subsidies, and (v) Post Office expenditure and the expenditure of local authorities on housing and trading services. The treatment of class (v) may be illustrated by the case of the Post Office. As in Cmd. 6261, (a) Post Office new capital expenditure is included in net investment at home (item 8), (b) personal expenditure on postal services appears in personal expenditure on consumption (item 6), and (c) business expenditure on these services is included as a cost of production in the price of the other goods and services enumerated in items 6, 7 and 8.

This item differs from item 8 of table A of Cmd. 6261 in that the latter included subsidies, now shown separately in item 10.

Lend-Lease assistance is entirely excluded from this item. Thus in so far as goods are now received under Lend-Lease this series is not a consistent measure of the value of the total amount of goods and services currently at the disposal of public authorities, since it includes overseas resources obtained by borrowing or disinvestment, but not those obtained under Lend-Lease provisions.

8. This item is composed of (a) gross expenditure on fixed capital and its upkeep, i.e., new investment, and replacement and repairs (whether normal or resulting from war damage) actually made good, provided that it is financed privately or forms part of the capital expenditure of the Post Office or the housing and trading services of local authorities, *minus* (b) sinking funds and depreciation allowances which have been set aside in the calculation of profits in item 2, *minus* (c) receipts from the sale to public authorities of existing privately owned capital assets, such as land, buildings or stocks, *plus* (d) the increase in stocks, excluding (e) below, held under private finance (as valued for the calculation of profits in item 2), *plus* (e) stocks replaced to make good war losses, *plus* (f) expenses connected with the investment of savings, such as certain legal costs and stamp duties incurred in the transfer of property, which do not enter into the market value of other goods and services.

This item differs from item 10 of table A of Cmd. 6261 in that it excludes net investment abroad (now shown separately in item 9) and that there is not deducted from it sums paid out in respect of war losses—see note on item 13 below. Further, investment in stocks is now defined as the value of the change in stocks rather than the change in their value with the result that the estimate of investment in stocks in 1938 is now increased by £135,000,000 as compared with the estimate in Cmd. 6261. This means that investment in stocks is now valued on the same basis as investment in fixed capital.

It has been impossible to make a direct estimate of the constituents of this item for the war years. The figures in brackets have been obtained by subtracting the sum of items 6, 7, 9, 10, 11, 12 and 13 from item 5 and are therefore dependent on the accuracy of these estimates.

9. This item is an estimate of the net increase (or, when negative, decrease) in the foreign assets of the United Kingdom and is equal to the United Kingdom balance of payments on current account. Any liability incurred as a result of Lend-Lease assistance is not taken into account in this item just as the value of the goods and services received in this way are not included in item 7 above. It is subject to revision in the light of further investigations now in progress.

10. This item is restricted to the following classes of payments made by the central government to meet the costs of goods and services bought by the public: (i) agricultural subsidies such as the beet sugar subsidy, milk subsidy, wheat deficiency payments and grants in respect of fertilizers, grassland ploughing and field drainage, (ii) losses incurred on the commercial accounts of the Ministry of Food and the Ministry of War Transport, and (iii) a subsidy to coal paid by the Mines Department. This item is included here since it represents payments in respect of costs not appearing in the market value of goods and services.

11. This and the two items following require to be deducted from the sum of items 6 to 9 (which equals the net national income at market prices) since they



appear in market prices but do not appear in any of items 1 to 4. The item includes (i) customs and excise duties, (ii) duties on privately owned motor vehicles, (iii) local rates on dwelling houses, &c.

12. This item includes (i) compulsory contributions of employers to social insurance, (ii) motor vehicle duties not included above, (iii) stamp duties other than those on the transfer of property, and (iv) local rates not included above.

13. This item shows the premiums paid under the Commodity and Marine War Risks Insurance Schemes, but not contributions and premiums under the War Damage Act, which are treated like direct taxes (see item 11, table II).

Items 11 to 13 are equivalent to item 9 of table A of Cmd. 6261 with the exception that the latter included only the excess of premiums received over claims paid out under these schemes, the balances having been included in item 10 of table A of Cmd. 6261 (see note on item 8 above), while item 13 includes the whole of the premiums received.

14. This item is the sum of items 6 to 13 and is an estimate of expenditure on the factors of production in, or only temporarily absent from, the United Kingdom. It is therefore by definition equal to item 5.

## TABLE II.

1. This item is composed of items 1 and 2 of table I *plus* National Debt interest and accrued interest on National Savings Certificates *less* undistributed profits before tax *less* liabilities for National Defence Contribution and Excess Profits Tax *less* War Damage Act contributions and premiums paid by businesses *less* miscellaneous income from public property, &c. (see item 12 of table IV).

2 & 3. The same as items 3 and 4 respectively of table I.

4. This item is composed of non-contributory and contributory old age pensions, other contributory pensions, supplementary pensions and cash payments in respect of war pensions and service grants.

5. This item is composed of unemployment insurance benefits, unemployment allowances and outdoor relief paid by local authorities.

6. Cash benefits under the National Health Insurance Scheme.

7. Certain transfer payments, *e.g.*, billeting allowances, arising out of the war.

The sum of 4 to 7 *plus* the National Debt interest and interest accrued on National Savings Certificates (included in item 1 above) is equal to the total of transfer payments shown in item 32 of table IV.

8. This item is the sum of items 1 to 7 and shows the total of disposable money incomes received by persons (including non-profit-making bodies). It differs from the corresponding item (17 of table B) of Cmd. 6261 in two main respects. First, it is before tax; that is to say, items 11 and 13 of this table would have to be deducted from it before the two items were comparable as regards the treatment of taxation. Second, it includes the investment income of non-profit-making bodies which is here regarded as accruing to the personal section of the community.

9. This item is equal to item 6 of table I *less* item 10 of table II.

10. Numerically equal to item 11 of table I *less* item 10 of table I.

11. This item includes payments of (i) income tax (other than that paid by businesses in respect of undistributed profits), (ii) surtax, (iii) employees' contributions to social insurance, and (iv) War Damage Act contributions and premiums met out of personal incomes.

12. Excluded from item 15 and included in 25 of table B of Cmd. 6261.

13. This item shows the excess of the liability for direct taxes accruing on current incomes at current rates of taxation over current direct tax payments. It relates particularly to income tax and surtax, since in these cases liabilities in respect of current incomes (payable in the future) differ considerably from current payments at times when money incomes or rates of taxation are changing.

14. This item represents the excess of personal money incomes over outgoings for consumption and liability for taxes, compulsory contributions, &c., including death duties. It has been obtained throughout by subtracting the sum of items 9 to 13 from item 8; it therefore depends on the accuracy of those items.

15. This item is the sum of items 9 to 14, which show the various ways in which personal money incomes are disposed of. Current incomes may be either



(a) spent on consumption, (b) paid away in taxes and the like, (c) set temporarily aside against increased liabilities to tax, or (d) added to past savings. Since this list is exhaustive the item is by definition equal to item 8.

TABLE III.

1. This item, the sum of items 1, 5 and 9 of table IV, is composed of total ordinary revenue *plus* receipts from classes, which may be appropriated in aid of Votes, corresponding to gifts, taxes and income from property *less* receipts from the Post Office Fund, which is treated as an extra-budgetary fund, *less* Post Office Vote of Credit expenditure (since the Post Office is treated as part of the private section of the economy; see note to item 7 of table I) *less* receipts from capital transactions included in miscellaneous revenue, which are properly regarded as a part of the finance of the deficit, *less* transfers between public authorities included in miscellaneous revenue *less* departmental receipts in excess of those appropriated in aid of Votes since these appear in miscellaneous revenue and also, so far as they are relevant, in receipts from classes, which may be appropriated in aid of Votes, corresponding to gifts, taxes and income from property.

2. The sum of items 13 and 14 of table II.

3. This item represents the undistributed profits of businesses after payment of taxes and compulsory contributions. The excess of current liabilities over payments of National Defence Contribution and Excess Profits Tax and any sums used to write down the value of stocks, which, though unchanged in value, have fallen in price (see note to item 2 to table I), have not been deducted.

4. Item 14 of table IV with its sign changed. The current account of extra-budgetary funds as a whole has shown an excess of income over expenditure.

5. Item 15 of table IV with its sign changed. See note to item 4 above.

6. Item 28 of table IV. The whole of the compensation received by claimants appears here as available to finance the deficit, since allowance is made for outgoings on war losses made good in item 7 below.

7 & 8. Items 8 and 9 respectively of table I.

9. The sum of items 2 to 8, which show the *economic* sources from which the central government deficit is financed, and is the same as item 13 of table IV.

10. The sum of items 1 and 9 of this table and the same as item 37 of table IV.

12, 13 & 14. Net increase in these funds available for loan to the Exchequer.

15. The net increase in government securities held by other extra-budgetary funds including the Exchange Equalisation Account, certain receipts in respect of war risks insurance and the War Damage Act, and the reduction in Exchequer balance.

17. These items are included here since they appear in central government expenditure but not in revenue.

19. This item includes net issues under various Acts, *e.g.*, North Atlantic Shipping Act, 1934, Tithe Act, 1936, Anglo-Turkish (Armaments Credit) Agreement Act, 1938, Overseas Trade Guarantees Act, 1939.

20. The sum of items 12 to 19 and represents the total of sums used to finance the central government deficit which is received from government funds and similar sources as opposed to loans from the public.

21. The increase in investments from the net deposits in the Post Office Savings Bank and Trustee Savings Bank.

22 & 23. The net receipts after deduction of repayments.

24. Receipts from public issues, *e.g.*, National War Bonds and Savings Bonds, and Other Debt (net) *less* securities redeemed and excluding purchases of government securities (war or pre-war issues) by public departments.

26. The increase in bills held by the market or by Empire Funds and in Bank Ways and Means Advances.

27. Receipts *less* repayments.

29. The sum of items 21 to 28, showing the amount of public borrowing at home. The sum of item 20 and this item shows the *financial* sources from which the central government deficit is financed, and is equal to item 9.

30. The sum of items 11, 20 and 29 and the same as item 10.



TABLE IV.

This table is a combined statement of the income, deficit and expenditure of public authorities in the United Kingdom. Transfers between one authority and another, such as Exchequer grants to local authorities, are omitted. Expenditure on goods and services for, say, local authorities is obtained by subtracting the sum of items 23, 27 and 31 from item 19. The figure obtained, item 23, represents the income, other than any that may be received from the central government and extra-budgetary funds, *plus* the net borrowing of local authorities, *less* their expenditure on transfer payments (their expenditure on the other excepted categories being nil). Expenditure by local authorities from Exchequer grants is thus attributed to the central government and not to local authorities.

Expenditure on goods and services is here *net* in the sense that it is after deduction of goods and services sold by public authorities to the general public, which are included either in personal expenditure on consumption or in private investment at home.

1. This item is composed of direct taxes such as income tax, surtax, other Inland Revenue duties, National Defence Contribution and Excess Profits Tax; War Damage Act contributions and premiums paid into miscellaneous revenue, *i.e.*, an amount equal to the current value of claims paid; and certain appropriations-in-aid or receipts appearing in miscellaneous revenue which correspond to gifts (*e.g.*, sundry contributions towards the cost of the war) or direct taxes.

2. This item is composed of employees' contributions to social insurance and War Damage Act receipts in excess of those appearing in miscellaneous revenue.

5. This item is composed of customs and excise duties, motor vehicle duties, stamp duties other than those on the transfer of property and appropriations-in-aid corresponding to indirect taxes.

6. Employers' contributions to social insurance and premium payments under the Marine and Commodity War Risks Insurance schemes.

7. This item represents local rates with the exception of water rates, which are treated as current receipts from trading services.

9. Post Office net receipt, receipt from Crown Lands and from Sundry Loans, certain items appearing in miscellaneous revenue, such as contributions towards the cost of the war received from colonial governments and peoples, and certain appropriations-in-aid such as receipts under the Railway Agreement.

10. Mainly interest received in respect of securities held by the funds.

11. An estimate of the profits from trading services and corporation estates treated in such a way that (i) central government grants to local authority trading services, but not transfers from rate fund accounts in aid of deficiencies, and (ii) contributions from local authority trading services to the rate fund account are included.

13. The excess of central government expenditure over revenue. The sources from which this deficit has been financed have been set out in table III.

14. This item shows the decumulation in funds such as the Unemployment and National Health Insurance Funds, of Commodity and Marine War Risks Insurance Schemes' monies, and in numerous accounts held by the National Debt Commissioners, &c.

15. In ascertaining this item capital expenditure on housing and trading services is excluded and appears in private net investment (item 8 of table I). Subject to this, the item is a net figure representing the excess of capital expenditure over savings represented by debt repayments, undistributed profits of trading undertakings, &c.

17. The sum of items 1, 5, 9 and 13; items 18 and 19 obtained similarly.

21. This item has been fully described in the note to item 10 of table I.

25 & 26. The value of claims paid under the Marine and Commodity War Risks Insurance Schemes and the War Damage Act.

29. This item includes (i) National Debt interest, (ii) interest accrued on National Savings Certificates, (iii) contributory and non-contributory old age pensions, (iv) cash payments in respect of war pensions and service grants, (v) supplementary pensions, (vi) unemployment allowances, (vii) billeting allowances.

30. This item consists of Unemployment and National Health Insurance benefits and contributory pensions

31. This item consists of public assistance (out-relief) in money and kind.