



An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938, 1940, 1941 and 1942

*Presented by the Financial Secretary to the Treasury to Parliament
by Command of His Majesty
April 1943*



PRINTED AND PUBLISHED BY HIS MAJESTY'S STATIONERY OFFICE.

To be purchased directly from H.M. STATIONERY OFFICE at the following addresses:
York House, Kingsway, London, W.C.2; 120 George Street, Edinburgh 2;
39-41 King Street, Manchester 2; 1 St. Andrew's Crescent, Cardiff;
80 Chichester Street, Belfast;
or through any bookseller

1943

Price 6d. net

Cmd. 6438

In the preamble to the statistical material presented in Cmd. 6347 (April 1942), it was stated:—

“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.”

These enquiries are now substantially further advanced, and, in addition, the main categories of national income have been re-examined in the light of later information. The effect of this additional information is set out in section G below.

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 28 (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 calculation of the proportion of resources absorbed by government expenditure given in section B of Cmd. 6347 has been discontinued.

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

A.—THE SOURCES OF WAR FINANCE.

	1940.	1941. (£ million.)	1942.
(1) Central government expenditure ...	3,339	4,616	5,103 ⁽¹⁾
<i>less</i>			
(2) Overseas disinvestment	— 756	— 797	— 632
(3) Expenditure requiring domestic finance	2,583	3,819	4,471
<i>less</i>			
(4) Central government revenue ...	— 1,259	— 1,828	— 2,343
	1,324	1,991	2,128
<i>less</i>			
(5) Extra-budgetary funds and local authority surpluses ⁽²⁾	— 186	— 220	— 231
	1,138	1,771	1,897
<i>less</i>			
(6) Compensation received in respect of war risks and war damage claims ⁽³⁾ ...	— 36	— 248	— 215
	1,102	1,523	1,682
<i>less</i>			
(7) Savings and undistributed profits, including reserves against taxation ...	— 1,080	— 1,323	— 1,509
(8) Residue (table I, item 8) from sources indicated below	22	200	173

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) Depletion of stocks and working capital (apart from sales under (a) above and temporary investment under (d) below) carried by private finance, measured by the reduction in their value as reckoned in the calculation of profits;

less

- (d) New investment financed out of privately-owned funds, including investment of a temporary nature due to the financing, out of private funds, of work in respect of government contracts ultimately recoverable from the Exchequer;
- (e) Replacements and renewals charged on depreciation funds;

⁽¹⁾ Excluding expenditure equivalent to the Canadian contribution of £225,000,000. This sum is also excluded from lines (2) and (4).

⁽²⁾ Excluding the Exchange Equalisation Account, changes in which are already included in overseas disinvestment.

⁽³⁾ See the explanation of this item under (f) on p. 4.

was calculated by taking the average of the change between 1938 and 1942 in the cost at market prices of buying the collections of goods and services bought in 1938 and 1942 respectively.⁽⁶⁾ Since the diversion to war purposes of resources used in peace-time for the satisfaction of consumers' needs has necessitated a considerable change in the structure of consumers' purchases, it might have been expected that the two components of the final average would differ somewhat widely. This, however, is not in fact the case, the proportionate increase between 1938 and 1942 in the cost of purchasing each collection being almost the same. The two percentage changes are sufficiently close to one another for their average to afford a reasonable measure of market price changes applicable to personal expenditure on consumption.

By adjusting the figures of personal expenditure on consumption for changes in the level of prices, an indication is obtained of the movement in the quantum of consumers' purchases. The resulting series are as follows:—

	1938.	1940.	1941.	1942.
Proportionate change in—				
(1) Personal expenditure on consumption at market prices, including indirect taxes and excluding subsidies ...	1.00	1.06	1.11	1.19
(2) Personal expenditure on consumption, excluding specific indirect taxes and increased by subsidies ...	1.00	1.04	1.07	1.11
(3) Personal expenditure on consumption in terms of constant prices ...	1.00	0.88	0.82	0.82
(4) Retail prices, excluding specific indirect taxes and increased by subsidies ...	1.00	1.18	1.30	1.36

The figures in line (3) confirm the estimate previously given on page 5 of Cmd. 6347, where it was stated that "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," inasmuch as the more accurate figure now available turns out to be 18 per cent.

It is important that the price series given in line (4) should not be confused with the Ministry of Labour's Cost of Living index, since the former series covers the expenditure of all classes of the community and includes luxuries as well as necessities.

In interpreting these figures it is desirable to recognise that from slightly different points of view it would be possible to adopt a system of weighting which would justify an index of quantity changes either higher or lower than the one given here. To illustrate the position with the example of food, an index of the nutritional value of food consumed would show a smaller decline than the food component of the present index of quantities, but such an index would make no allowance for the fact that dietary standards are maintained in war-time with some inevitable sacrifice of

⁽⁶⁾ The figures were obtained not by a direct comparison between 1938 and, say, 1942, but by linking together direct comparisons of adjacent intermediate periods. A direct comparison of 1942 with 1938 would, however, yield a figure which differed only in the third place of decimals.

consumers' ordinary preferences. On the other hand, an index of quantity change which fell more than the one given here would be obtained if it were assumed that consumers were rigid in their peace-time preferences, for it is unlikely that consumers would buy the collection of goods and services which they do at present at the relative prices now ruling, in the absence of rationing and other forms of control.

The series given here of personal expenditure on consumption in terms of constant prices indicates the position of the community as a whole, but not necessarily that of any particular class or individual. Any measure of price changes obtained by dividing either series of money values by the series in terms of constant prices, should not be used for other purposes such as the reduction of the net national income or the expenditure of public authorities on goods and services to terms of constant prices. Price movements in other sections of the economy have been very different from those applicable to consumers' expenditures, but it is not at present possible to provide any numerical measure of them.

D.—PRIVATE SAVINGS.

PERSONAL SAVINGS.

	1938.	1940.	1941.	1942.
	(£ million.)			
(1) Gross personal savings, including allowance for accrued taxation	241	807	1,004	1,271
less				
(2) Death duties, etc.	— 90	— 85	— 94	— 100
(3) Net personal savings after allowance for death duties, etc....	151	722	910	1,171
less				
(4) Increase in allowance to meet accrued taxation ⁽⁷⁾	— 17	— 94	— 206	— 280
(5) Net personal savings after allowance for accrued taxation	134	628	704	891

The allowance to meet accrued income tax in each year is the excess of tax liabilities accrued during the year, on the assumption that there will be no change in the rate of tax, over total payments during the year in respect both of tax currently due and of arrears. Thus in order to obtain the total amount required at the end of 1942 to meet the taxation accrued and unpaid, though not necessarily due, at that date, the figures in row (4) must be added together; that is to say, the aggregate at that date was 580 (=94+206+280) *plus* the amount accrued and unpaid at the end of 1939, *plus* or *minus* any adjustment due to changes in the rate of tax between the dates of earning and of assessment. The same applies to the increases in allowances to meet accrued taxation on impersonal income shown in line (7) below.

(7) 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 was stated on page 6 of Cmd. 6347 that an attempt to check the figures of personal savings by direct methods suggested that the figures of net personal savings were not over-estimated and that it would have been easier on such evidence to justify a higher than a lower total. This has been borne out by the revised estimates, which give a considerably higher figure than before for personal savings in 1940 and 1941. On the other hand, it was then thought likely that a more exact estimate of expenditure on consumption would increase rather than decrease that figure, but, as explained above, this expectation has not been fulfilled.

IMPERSONAL SAVINGS.

	1938.	1940.	1941.	1942.
		(£ million.)		
(6) Gross impersonal savings, including allowance for accrued taxation... less	182	358	413	338
(7) Increase in allowance to meet accrued taxation	— 12	— 183	— 233	— 148
(8) Net impersonal savings, after allowance for accrued taxation ...	170	175	180	190

NET PRIVATE SAVINGS (PERSONAL AND IMPERSONAL).

	1938.	1940.	1941.	1942.
		(£ million.)		
(9) Net personal savings after allowance for accrued taxation ...	134	628	704	891
(10) Net impersonal savings after allowance for accrued taxation...	170	175	180	190
(11) Aggregate net private savings after allowance for accrued taxation ...	304	803	884	1,081

The series in line (11), *i.e.*, the sum of lines (5) and (8) above has been obtained indirectly by deducting direct estimates of personal consumption and taxes met out of private incomes from direct estimates of private incomes. Net impersonal savings have then been estimated separately and the remainder allocated to personal savings. There is, however, no very precise line between "personal" and "impersonal." Impersonal savings in the present context is intended to include not only the net undistributed profits of companies but also the savings held in the business accounts of traders, farmers and other individuals. For savings used to extend farm equipment or to repay business mortgages and other debts cannot reasonably be regarded as personal. Great precision cannot be achieved in the estimation of the last-mentioned kinds of impersonal savings, since in these cases there is not the line between distributed and undistributed profits that exists in the case of companies. Any revision of the item of impersonal savings would require an equal and opposite change in the estimate of personal savings.

While it is still impracticable to construct a direct estimate of personal savings by setting down the net change in all assets held by persons, some information can be provided on the distribution of bank deposits. The following table, provided by the courtesy of the Clearing Banks, shows the movement of net personal and other accounts:—

June 30, 1940. June 30, 1941. Dec. 31, 1941. June 30, 1942. Dec. 31, 1942.

(£ million.)

(1) Total deposits held by Clearing Banks ...	2,469	2,946	3,329	3,263	3,629
<i>less</i>					
(2) Advances to customers and other accounts...	— 962	— 859	— 807	— 800	— 773
(3) Total deposits (net) ...	1,507	2,087	2,522	2,463	2,856
(4) Personal deposits (net)	617	661	692	704	820
(5) Other deposits (net) ...	890	1,426	1,830	1,759	2,036

Net personal deposits in line (4) exclude the accounts of businesses, financial institutions, public authorities, and also, for example, those of individual traders, shopkeepers, farmers and professional men where the accounts are known to be used for the purpose of business. Non-resident deposits and sundry accounts are also excluded. No attempt has been made to adjust for the amount of bank accommodation obtained by the discounting of bills.

The figures in line (5) have been obtained by subtracting those in line (4) from those in line (3). Thus line (5) includes non-resident deposits and sundry accounts as well as the business deposits of which it is mainly made up.

E.—PROPORTION OF PRIVATE INCOME (PERSONAL AND IMPERSONAL) DEVOTED TO TAXATION.

	1938.	1940.	1941.	1942.
	(£ million.)			
(1) Private income (item 37 of table II) ...	4,920	6,156	7,063	7,836
(2) Direct taxes, social insurance contributions of employees, War Damage Act contributions and premiums, etc., met out of private income ...	552	794	1,231	1,527
(3) Indirect taxes and rates specifically on consumption <i>less</i> subsidies ...	416	508	628	781
(4) Other indirect taxes, etc., met out of private income ...	170	200	240	220
(5) Excess of tax liabilities over payments ...	29	277	439	428
(6) Total tax liabilities in respect of private income, <i>i.e.</i> , (2) + (3) + (4) + (5) ...	1,167	1,779	2,538	2,956
	(percentages.)			
(7) Line (6) as a percentage of line (1)	24	29	36	38

This table shows the proportion of the private 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 relate not only to taxes falling on personal incomes, but also to those which fall on other private income, *e.g.*, National Defence Contribution and Excess Profits Tax.

The figures in line (4) are estimates of that part of the sum of items 12 and 13 of table I which is met out of private income, *i.e.*, which does not appear in the expenditure by public authorities on goods and services at market prices. Consideration of table IV below will show that the remaining part of these taxes and compulsory payments represents transfers within the public authority sector and is, therefore, self-financing. It does not have to be met out of private income.

It is not possible to estimate accurately the division of these taxes and compulsory payments between those to be met out of private income and those which represent transfers within the public authority sector. The figures given in line (4) represent approximate orders of magnitude, but it is unlikely that any inaccuracy they contain perceptibly affects the percentages in line (7).

F.—DISTRIBUTION OF PRIVATE INCOME BY RANGES OF GROSS INCOME SHOWING THE EFFECT OF CHANGES IN INCOME TAX AND SURTAX, 1938-41.

Financial Year 1940-41.

Range of gross income.	Number of incomes.	Aggregate gross income 1940-41.	Aggregate net income with income tax and surtax at—		Proportion of gross income retained with taxes at—	
			1938-39 rates.	1940-41 rates.	1938-39 rates.	1940-41 rates.
£	000's.	£m.	£m.	£m.	%	%
Private income at the disposal of individuals—						
Under 250	3,328	3,322	3,302	99.8	99.2
250-500	3,295	1,069	1,036	984	96.9	92.0
500-1,000	770	516	457	411	88.6	79.7
1,000-2,000	250	345	283	245	82.0	71.0
2,000-10,000	97	360	256	197	71.1	54.7
10,000 and over	8	170	84	48	49.4	28.2
Other private income	—	624 ⁽⁸⁾	...	210	...	33.7
Total private income	—	6,412	...	5,397	...	84.2

Financial Year 1941-42.

Range of gross income	Number of incomes.	Aggregate gross income 1941-42.	Aggregate net income with income tax and surtax at—		Proportion of gross income retained with taxes at—	
			1938-39 rates.	1941-42 rates.	1938-39 rates.	1941-42 rates.
£	000's.	£m.	£m.	£m.	%	%
Private income at the disposal of individuals—						
Under 250	3,398	3,392	3,307	99·8	97·3
250-500	4,450	1,490	1,445	1,276	97·0	85·6
500-1,000	1,050	685	613	495	89·5	72·3
1,000-2,000	285	400	328	245	82·0	61·3
2,000-10,000	97	360	256	170	71·1	47·2
10,000 and over	8	170	84	35	49·4	20·6
Other private income	—	761 ⁽⁸⁾	...	200	...	26·3
Total private income	—	7,264	...	5,728	...	78·9

These tables, which relate to income *received* in 1940-41 and 1941-42, show the amount of private income at the disposal of individuals in different ranges of gross income. The category of other private income includes the investment income of charities, the increase in assurance funds and the undistributed profits of *companies* together with all liabilities for National Defence Contribution and Excess Profits Tax. It is not the same as impersonal income shown in table II which does not include the first two of the above categories but makes allowance for the business savings of private traders, etc., as well as the undistributed profits of companies.

As in the case of income tax assessment, the incomes of a husband and wife are reckoned as one income. Further, in the table relating to 1940-41, for example, the aggregate net income at 1940-41 rates is the amount which would have resulted if all taxpayers had during that year paid the full tax liability at 1940-41 rates on the income actually received by them in that year. The figures in the corresponding column headed 1938-39 do not relate to the income of that year, but to the income that would have remained after tax in 1940-41, if the taxation of 1938-39 had been in force in that year.

The whole of transfer payments other than National Debt interest has been included in the incomes below £250.

⁽⁸⁾ Including all liabilities for National Defence Contribution and Excess Profits Tax which are deducted together with income tax in arriving at net income.

G.—A COMPARISON WITH Cmd. 6347.

As stated in the preamble, it is now possible to give substantially more accurate estimates of certain items as a result of additional information that has become available since last year. So far as the main items are concerned, the position may be summarised as follows:—

- (1) The estimates of profits and salaries are now known to be higher than was supposed a year ago, while the estimate of wages, etc., is slightly reduced. In the case of salaries, the new figures are approximately 10 per cent. higher than those previously given for 1940 and 1941. In the case of profits and interest, comparable percentages are 5 and 12. However, as may be seen from table II, item 15, paid out profits are not greatly affected and are even somewhat reduced. The net national income as a whole is increased by $2\frac{1}{2}$ and 4 per cent respectively in the two years.
- (2) The more reliable estimates of personal expenditure on consumption now available indicate that this item was slightly over-estimated in Cmd. 6347. The figures now available for 1940 and 1941 are 3 and 1 per cent. below the corresponding estimates given last year.
- (3) Consequent upon the increase in the estimates of profits and salaries, there is an increase in the estimates of direct tax liabilities and therefore in the figures given for the excess of tax liabilities over payments.
- (4) Further information on overseas disinvestment leaves the figures given in Cmd. 6347 substantially unchanged. It has not so far been possible to provide a further check on this figure by the direct estimation of the balance of overseas payments on current account.
- (5) As a consequence of the rise in income and fall in consumption there is a substantial decline in the residual estimate of private net disinvestment at home. At the same time, there is a corresponding rise in savings, including allowance for accrued taxation, a considerable part of which is absorbed by the increase in the estimates of such allowance.

The extent of the revision under (5) illustrates the precarious nature of residual figures in circumstances in which they cannot be checked by direct estimates.

The new figures are believed to be much more accurate on the strict definition of the meaning of the residual figure. The reason why this is so falls under two headings:—

(a) The previous estimate of the residual figures was partly justified by reference to the large amount of the accumulating sinking funds, etc., against depreciation which represented a net reduction in the national wealth in so far as they could not be employed currently. The new figures do not necessarily disturb the conclusion that disinvestment of this kind was taking place. It would now appear, however, that, in using this factor to explain the residual figure previously published, not enough allowance was made for various expenditures incurred for war purposes, partly for building, partly for the working capital of government contractors, which is carried temporarily by private business finance and therefore reckons, under the definition, as positive private home investment, and offsets the depreciation

which is not currently made good. There is evidence of an increase in the value of stocks and work in progress carried under private finance.

(b) It was explained in Cmd. 6347 (note 2 on page 16) that a change had been made from the procedure adopted in Cmd. 6261 by which sums used for writing down stocks which have fallen in value were deducted from business earnings. It was also stated that such an adjustment was only required in times of falling prices. This last conclusion has been the subject of legitimate criticism. It is right either to keep the statistics entirely in money terms without adjustment for price changes, or to adjust for falling and for rising prices alike. Since no uniform practice is adopted in bringing the effects of the rising prices of stocks into profits and since no adequate statistics are available of the amounts so brought to account, it has seemed better to revert to the procedure of Cmd. 6261 and make no adjustment for either contingency. It follows that the resulting figure for disinvestment relates to the money value of stocks as reckoned in the calculation of profits. Thus, in so far as rising prices offset, in terms of value, a decline in quantity, there is no apparent disinvestment in terms of money, in spite of the real disinvestment which has occurred. The effect of the rising prices at which stocks are taken into profits should be apparent both in an increased level of profits before tax and in a decreased residual figure for disinvestment, etc.

It is believed that the revised figures show more accurately the effect of both these influences.

TABLE

Estimates of net national income and

£ million

	1938.	1940.	1941.	1942.
1. Rent of land and buildings	381	389	385	384
2. Profits and interest	1,241	1,624	1,926	2,183
3. Salaries, and the pay and allowances (in cash and kind) of officers in H.M. Forces and Auxiliary Services	1,081	1,288	1,338	1,408
4. Wages, and the pay and allowances (in cash and kind) of other ranks in H.M. Forces and Auxiliary Services	1,787	2,425	2,970	3,409
5. Net national income	4,490	5,726	6,619	7,384

For notes on the items of this table see p. 22.

I

expenditure in 1938, 1940, 1941 and 1942

£ million

	1938.	1940.	1941.	1942.
6. Personal expenditure on consumption at market prices	4,035	4,282	4,509	4,800
7. Expenditure at home and abroad, by public authorities, on goods and services at market prices	845	3,059	4,194	4,608
8. Private net investment at home and war losses made good	287	(-22)	(-200)	(-173)
9. Private and government net investment abroad	-55	-756	-797	-632
10. Subsidies	15	70	142	150
<i>less</i>				
11. Indirect taxes and rates specifically on consumption	-431	-578	-770	-931
12. Other indirect taxes, rates, etc. ...	-206	-205	-220	-239
13. War risks insurance premiums ...	—	-124	-239	-199
14. Net national expenditure	4,490	5,726	6,619	7,384

TABLE

Estimate of private income and outlay

£ million

Personal

	1938.	1940.	1941.	1942.
15. Rent of land and buildings, profits and interest (including National Debt interest and interest accrued on National Savings Certificates) received by persons ...	1,515	1,648	1,650	1,811
16. Salaries, and the pay and allowances (in cash and kind), of officers in H.M. Forces and Auxiliary Services ...	1,081	1,288	1,338	1,408
17. Wages, and the pay and allowances (in cash and kind), of other ranks in H.M. Forces and Auxiliary Services ...	1,787	2,425	2,970	3,409
18. Pension payments ...	131	151	178	200
19. Payments in respect of unemployment and the relief of poverty... ..	112	64	30	18
20. Health payments	35	35	33	39
21. Other transfer payments	—	15	29	11
22. Personal income before tax	4,661	5,626	6,228	6,896

Impersonal

30. Impersonal income before tax	259	530	835	940
31. Impersonal income before tax	259	530	835	940

Private

37. Private income before tax (sum of items 22 and 31)	4,920	6,156	7,063	7,836
---	-------	-------	-------	-------

For notes on the items of this table see p. 23.

II

in 1938, 1940, 1941 and 1942

Income		£ million			
		1938.	1940.	1941.	1942.
23. Personal expenditure on consumption adjusted for subsidies and specific indirect taxes, rates, etc.		3,619	3,774	3,881	4,019
24. Excess of indirect taxes and rates specifically on consumption over subsidies		416	508	628	781
25. Direct tax payments other than death duties, etc., and War Damage Act contributions and premiums met out of personal income		385	537	715	825
26. Death duties and stamps on the transfer of property		90	85	94	100
27. Excess of direct tax liabilities on personal income over payments		17	94	206	280
28. Net personal savings after setting aside the excess of direct tax liabilities over payments		(134)	(628)	(704)	(891)
29. Personal outlay		4,661	5,626	6,228	6,896

Income					
32. National Defence Contribution and Excess Profits Tax payments		15	68	231	348
33. Other direct tax payments including War Damage Act contributions and premiums met out of impersonal income		62	104	191	254
34. Excess of direct tax liabilities on impersonal income over payments		12	183	233	148
35. Net impersonal savings after setting aside the excess of direct tax liabilities over payments		170	175	180	190
36. Impersonal outlay		259	530	835	940

Income					
38. Private outlay (sum of items 29 and 36)		4,920	6,156	7,063	7,836

TABLE

Central Government expenditure and the sources

£ million

	1938.	1940.	1941.	1942.
39. Central government revenue	891	1,259	1,828	2,343
40. Net personal savings including allowance for accrued taxes	151	722	910	1,171
41. Undistributed profits after payment of taxes and War Damage Act contributions and premiums but including allowance for accrued taxes	182	358	413	338
42. Surplus on extra-budgetary funds ...	22	148	154	151
43. Local authority surplus... ..	7	38	66	80
44. Compensation received in respect of claims under the marine and commodities war risks insurance schemes and the War Damage Act	—	36	248	215
<i>less</i>				
45. Private net investment (or <i>plus</i> disinvestment) at home and war losses made good	—287	22	200	173
46. Private and government net investment (or <i>plus</i> disinvestment) abroad ...	55	756	797	632
47. Central government deficit	130	2,080	2,788	2,760
48. Central government expenditure ...	1,021	3,339	4,616	5,103

For notes on the items of this table see p. 24.

III

from which it was financed in 1938, 1940, 1941 and 1942

£ million

	1938.	1940.	1941.	1942.
49. Central government revenue	891	1,259	1,828	2,343
50. Unemployment Fund	—1	24	64	74
51. National Health Funds	—	9	8	12
52. Local Loans Fund	—2	5	9	10
53. Other extra-budgetary receipts including war risks insurance and certain War Damage Act receipts, Exchange Equalisation Account and reduction in Exchequer balance	258	515	73	—47
54. Reconstruction Finance Corporation loan	—	—	87	4
55. Canadian Government interest-free loan	—	—	—	157
56. Receipts from capital transactions included in miscellaneous revenue, and appropriations in aid arising from capital transactions	5	10	10	10
<i>less</i>				
57. Sinking funds	—11	—12	—17	—13
58. Other expenditure (net)	4	—8	13	—1
59. Finance through government agencies	253	543	247	206
60. Post Office and Trustee Savings Banks	1	119	214	234
61. National Savings Certificates including increase in accrued interest	3	168	213	231
62. Defence Bonds	—	180	174	134
63. Other public issues (net)	62	552	1,021	1,026
64. Increase in fiduciary issue	10	50	150	170
65. Increase in Treasury bills held outside government departments and Bank Ways and Means	—199	130	279	151
66. Treasury deposit receipts	—	338	473	155
67. Tax reserve certificates	—	—	17	453
68. Public borrowing at home	—123	1,537	2,541	2,554
69. Central government expenditure ...	1,021	3,339	4,616	5,103

TABLE

The Income, Deficit and Expenditure of

£ million

	1938.	1940.	1941.	1942.
<i>Direct taxes, War Damage Act contributions, etc.</i>				
70. Central government	497	734	1,089	1,390
71. Extra-budgetary funds	55	60	142	137
72. Local authorities	—	—	—	—
73. Total	552	794	1,231	1,527
<i>Indirect taxes, rates, war risks insurance premiums, etc.</i>				
74. Central government	372	502	705	883
75. Extra-budgetary funds... ..	54	182	304	272
76. Local authorities	211	223	220	214
77. Total	637	907	1,229	1,369
<i>Miscellaneous income from public property, trading, etc.</i>				
78. Central government	22	23	34	70
79. Extra-budgetary funds	—	—	—	—
80. Local authorities	26	26	31	33
81. Total	48	49	65	103
<i>Deficit.</i>				
82. Central government	130	2,080	2,788	2,760
83. Extra-budgetary funds... ..	— 22	— 148	— 154	— 151
84. Local authorities	— 7	— 38	— 66	— 80
85. Total	101	1,894	2,568	2,529
<i>Income plus deficit.</i>				
86. Central government	1,021	3,339	4,616	5,103
87. Extra-budgetary funds	87	94	292	258
88. Local authorities	230	211	185	167
89. Total	1,338	3,644	5,093	5,528

For notes on the items of this table see p. 25.

IV

Public Authorities in 1938, 1940, 1941 and 1942

£ million

	1938.	1940.	1941.	1942.
<i>Subsidies.</i>				
90. Central government	15	70	142	150
91. Extra-budgetary funds	—	—	—	—
92. Local authorities	—	—	—	—
93. Total	15	70	142	150
<i>Payments in respect of claims under the marine and commodities war risks insurance schemes and the War Damage Act.</i>				
94. Central government	—	—	—	—
95. Extra-budgetary funds	—	36	248	215
96. Local authorities	—	—	—	—
97. Total	—	36	248	215
<i>Transfer payments.</i>				
98. Central government	318	343	394	441
99. Extra-budgetary funds	137	117	101	103
100. Local authorities	23	19	14	11
101. Total	478	479	509	555
<i>Expenditure on goods and services.</i>				
102. Central government	464	2,680	3,831	4,254
103. Extra-budgetary funds	14	13	12	13
104. Local authorities	367	366	351	341
105. Total	845	3,059	4,194	4,608
<i>Total expenditure, excluding transfers to other authorities but including payments out of transfers from other authorities.</i>				
106. Central government	797	3,093	4,367	4,845
107. Extra-budgetary funds	151	166	361	331
108. Local authorities	390	385	365	352
109. Total	1,338	3,644	5,093	5,528

NOTES ON PARTICULAR ITEMS IN THE TABLES.

TABLE I.

1. This item represents the income from the ownership of lands, houses, etc., after allowance has been made for maintenance and repair. It includes incomes from these sources below the effective income tax exemption limit and also when received by non-profit-making bodies, *e.g.*, charities, colleges, etc.

2. 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 and income due to foreigners, but includes miscellaneous government income (such as trading profits and certain receipts from abroad). The item includes income from profit and interest received by persons below the income tax exemption limit or by non-profit-making bodies and also incomes below the income tax exemption limit belonging to persons working on their own account. As explained in section G above, the allowance for the year 1938 in respect of sums used to write down stocks has not been continued.

3. This item includes: (a) the untaxed allowances whether in money or in kind (food, clothing, etc.) received by officers in H.M. Forces and Auxiliary Services, (b) the whole of the earnings of shop assistants, (c) small salaries below the income tax exemption limit.

4. An allowance for income received in kind (food, clothing, etc.) 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.

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 "before tax," since all taxes, direct and indirect, falling on these incomes, whether paid directly by individuals (including non-profit-making bodies) or through businesses or public authorities, will be paid out of 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 rent and 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 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, etc., 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, etc., (iv) subsidies. Further, Post Office expenditure and the expenditure of local authorities on housing and trading services are excluded. Thus, (a) Post Office new capital and 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.

Lend-Lease assistance and expenditure equivalent to the Canadian contribution are excluded from this item. Thus, in so far as goods have been received under Lend-Lease or have been paid for out of the Canadian contribution, 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 or as a result of the Canadian contribution.

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 rent and profits in items 1 and 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. The figure for 1938 is affected, as compared with the estimate given in Cmd. 6347, by the change in the basis of the valuation of stocks referred to in the note to item 2 above.

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 overseas 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 is not included in item 7 above.

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 on coal paid by the Ministry of Fuel and Power. 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) certain customs and excise duties and (ii) local rates on dwelling houses, etc.

12. This item includes (i) compulsory contributions of employers to social insurance, (ii) motor vehicle duties on vehicles owned by businesses, (iii) stamp duties other than those on the transfer of property, and (iv) customs and excise duties and local rates not included in item 11 above.

13. This item shows the premiums paid under the commodities and marine war risks insurance schemes, but not contributions and premiums under the War Damage Act, which are treated like direct taxes.

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.

15. This item is composed of items 1 and 2 of table I *plus* National Debt interest received by the private sector of the economy and accrued interest on National Savings Certificates *less* impersonal private income *less* miscellaneous income from public property, etc. (see item 81 of table IV).

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

18. 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.

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

20. Cash and medical benefits under the National Health Insurance Scheme.

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

The sum of items 18 to 21 *plus* the National Debt interest and interest accrued on National Savings Certificates, included in item 15 above, is equal to the total of transfer payments shown in item 101 of table IV.

22. This item is the sum of items 15 to 21 and shows the total of disposable money income received by persons (including non-profit-making bodies).

23. This item is equal to item 6 of table I *less* item 24 of table II.

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

25. This item includes payments of (i) income tax (other than that paid by businesses in respect of business savings), (ii) surtax, (iii) employees' contributions to social insurance, (iv) War Damage Act contributions and premiums, met out of personal income, (v) motor vehicle duties on vehicles owned by persons.

26. Together with item 25 makes up the total of direct tax, etc., payments met out of personal income.

27. This item shows the excess of the liability for the direct taxes included in items 25 and 26 accruing on current income 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.

28. This item represents the excess of personal money income over outgoings for consumption and liability for taxes, compulsory contributions, etc., including death duties. It has been obtained throughout by subtracting the sum of items 23 to 27 from item 22; it therefore depends on the accuracy of these items.

29. This item is the sum of items 23 to 28, which show the various ways in which personal money income is disposed of. Current income 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 22.

30. This item is equal to that part of the net national income before tax (item 5 of table I above) which is neither paid out to persons (in which case it enters, together with transfer payments, into item 22) nor accrues to public authorities as miscellaneous income from public property, trading, etc.

31. See preceding note.

32. Equal to the total payments of National Defence Contribution and Excess Profits Tax.

33. This item is composed of other direct taxes such as income tax and War Damage Act contributions and premiums met out of impersonal private income. Together with items 25, 26 and 32, it is equal to item 73 of table IV.

34. This item shows the excess of the liability for the direct taxes included in items 32 and 33 accruing on current income at current rates of taxation over the current payments of these taxes. As explained in the note to item 27, accruals of this kind will be payable in the future in so far as current payments are made in respect of assessments based on the income earned in an earlier period.

35. An estimate of impersonal private savings and intended to include not only the net undistributed profits of companies but also the savings held in the business accounts of traders, farmers and other individuals.

36. The sum of items 32 to 35 and by definition equal to item 31.

37. The sum of items 22 and 31.

38. The sum of items 29 and 36.

TABLE III.

39. This item, the sum of items 70, 74 and 78 of table IV, is composed of total ordinary revenue (*including* throughout the period the receipts from wireless licences but *excluding* receipts under the War Damage Act, which appear in extra-budgetary funds, and the Canadian contribution) *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 sector 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.

40. The sum of items 27 and 28 of table II.

41. The sum of items 34 and 35 of table II.

42. Item 83 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.

43. Item 84 of table IV with its sign changed. See note to item 42 above.

44. Item 97 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 45 below.

45 & 46. Items 8 and 9 respectively of table I.

47. The sum of items 40 to 46, which show the *economic* sources from which the central government deficit is financed, and is the same as item 82 of table IV.

48. The sum of items 39 and 47 of this table and the same as item 86 of table IV.

50, 51 & 52. Net increase in these funds available for loan to the Exchequer.

53. 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.

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

58. 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.

59. The sum of items 50 to 58, 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.

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

61 & 62. The net receipts after deduction of repayments.

63. 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.

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

66. Receipts less repayments.

68. The sum of items 60 to 67, showing the amount of public borrowing at home. The sum of item 59, and this item shows the *financial* sources from which the central government deficit is financed, and is equal to item 47.

69. The sum of items 49, 59 and 68, and equal to item 48.

TABLE IV.

This table is a combined statement of the income, deficit and expenditure of public authorities in the United Kingdom. Transfers between one public authority and another, such as Exchequer grants to local authorities are excluded from the income of the receiving authority and from the expenditure of the authority making the transfer. Thus, expenditure by local authorities from Exchequer grants is attributed to local authorities and not to the central government as in Cmd. 6347. Reimbursements to local authorities in respect of expenditure incurred on behalf of the central government have, as far as possible, been shown as expenditure of the central government.

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.

70. Includes income tax, after allowance for the small amount paid by public authorities in respect of their income from property, surtax, other Inland Revenue duties, National Defence Contribution and Excess Profits Tax. In contrast with

the treatment adopted in Cmd. 6347 *all* War Damage Act contributions and premiums are excluded from this item and included in the following item. 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 are also included. The receipts from wireless licences are here treated as direct taxes as also are motor vehicle duties on vehicles owned by persons.

71. Composed of employees' contributions to social insurance and War Damage Act contributions and premiums.

74. Composed of customs and excise duties, motor vehicle duties not included in item 70 above, stamp duties other than those on the transfer of property and appropriations-in-aid corresponding to indirect taxes.

75. Composed of employers' contributions to social insurance and premium payments under the commodities and marine war risks insurance schemes.

76. Composed of local rates with the exception of water rates, which are treated as current receipts from trading services.

78. 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. Interest on National Debt owned by public departments, etc., is excluded.

80. 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.

82. The excess of central government expenditure over revenue. The sources from which this deficit is financed are set out in table III.

83. This item shows the decumulation of the commodities and marine war risks insurance schemes' monies, and of monies held by funds such as the Unemployment and National Health Insurance Funds and in various accounts managed by the National Debt Commissioners, etc.

84. In ascertaining this item, capital expenditure on housing and trading services, which appears in private net investment (item 8 of table I), is excluded. 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, etc.

86. The sum of items 70, 74, 78 and 82; items 87 and 88 are obtained similarly.

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

95. The value of claims paid under the commodities and marine war risks insurance schemes and the War Damage Act.

98. This item includes (i) National Debt interest paid to persons and businesses, (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.

99. Unemployment and National Health Insurance benefits and contributory pensions.

100. Public assistance (out-relief) in money and kind.

103. This item is composed of fees paid to agents under the war risks insurance schemes and War Damage Act and of contributions towards administration costs made by the Unemployment and National Health Insurance Funds, etc.

104. This item differs from the corresponding item in Cmd. 6347 by the inclusion of expenditure out of net transfers from other public authorities.

105. The same as item 7.

106. This item excludes net transfers made by the central government to extra-budgetary funds and local authorities which, in so far as they are spent, appear in items 107 and 108. It therefore differs from item 48 (which also appears as items 69 and 86 and item (1) of section A above) which includes such transfers.