



An Analysis of the Sources of War Finance and Estimates of the National Income and Expenditure in the Years 1938 to 1943

Presented to Parliament by the Financial Secretary to the Treasury

by Command of His Majesty

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In previous years, attention has been drawn to the continuing nature of the enquiries which form the basis of the following tables. This year has brought with it several new sources of information not previously available and the treatment of the main categories of national income and expenditure has been re-examined to ensure that the methods adopted make use of the figures and other evidence available with as much consistency as possible. The effect of the consequent changes is set out in section H below.

In table I, item 11 (domestic investment) is the balancing figure obtained by difference, and not (except in 1938) by direct estimation. In table II, item 34 (net personal saving) is the balancing figure. Tables III and IV are mainly based on actual figures taken from the Public Accounts, etc., apart from items repeated from tables I and II.

In all the tables that follow, annual figures relate to the United Kingdom and to the calendar and not the financial or fiscal year except where otherwise stated.

The numbers in square brackets refer to items in the main tables, pp. 18 to 25. These numbers are intended solely for reference purposes and no account is taken of the sign of the corresponding item in the main tables.

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

A.—THE SOURCES OF WAR FINANCE.

TABLE A.

	1940.	1941.	1942.	1943.
	(£ million)			
(1) Central government expenditure [93] ...	3,340	4,626	5,110 ⁽¹⁾	5,782
less				
(2) Overseas disinvestment [13] ...	— 756	— 797	— 635	— 655
(3) Expenditure requiring domestic finance ...	2,584	3,829	4,475	5,127
less				
(4) Central government revenue [77 + 81 + 85]	— 1,258	— 1,836	— 2,344	— 2,876
	1,326	1,993	2,131	2,251
less				
(5) Surpluses of extra-budgetary funds and local authorities ⁽²⁾ [48 + 49] ...	— 189	— 220	— 223	— 191
	1,137	1,773	1,908	2,060
less				
(6) Compensation received in respect of claims under war risks insurance schemes and the War Damage Act, Part II ⁽³⁾ [50]	— 36	— 219	— 154	— 136
	1,101	1,554	1,754	1,924
less				
(7) Private saving, including reserves against taxation [46 + 47]...	— 1,210	— 1,472	— 1,614	— 1,749
(8) Residue of central government expenditure not covered by the above sources of finance [10 + 11]	— 109	82	140	175

⁽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 page 4.

This residue, which is numerically equal to the sum of items 10 and 11 of table I, 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) Depletion of stocks and work in progress held under private finance (apart from sales under (a) above) measured by the reduction in their value as reckoned in the calculation of profits;
- (c) Additions to depreciation, obsolescence and similar funds held by firms, institutions and persons;

less—

- (d) New investment financed out of privately-owned funds, including investment of a temporary nature due to work in respect of government contracts ultimately recoverable from the Exchequer. Such temporary investment is shown separately in item 10 of table I;
- (e) Replacements, renewals, etc., charged to depreciation and similar funds;
- (f) Replacements of war losses actually carried out other than those for which compensation is paid under Part I of the War Damage Act. These replacements of war losses must be deducted because credit has been taken in the table above for the *whole* of the compensation received in respect of war risks and war damage claims (other than those arising under Part I of the War Damage Act, item 12 of table I, which do not appear in line (6) because substantially all of these arise only where actual work is put in hand), whether or not it has been applied to replacement.

In comparison with the definitions used in Cmd. 6438, the coverage of the residue in line (8) has been restricted by the exclusion of certain expenditures now shown separately in items 8 and 12 of table I.

Attention is drawn to the statement under (b) above that the net change in stocks and work in progress is measured by the change in their value as reckoned in the calculation of profits. While the practice in this respect is not uniform, the measure given here will approximate more closely to the change in the value of stocks than to the value of the quantitative change. In other words, the calculation of profits takes account of changes in the value rather than in the quantity of stocks. While information is not available that would make possible the measurement of the adjustment required to correct the difference between the net change in stocks as implied here and a measure based on the value of the quantitative change, there can be little doubt that this adjustment would be considerable in the earlier part of the war, especially in 1940 and 1941. On the other side of table I an equivalent adjustment would be required to the figures of profits.

Since part of the residue is obtained by difference, it absorbs the errors in all the other items of table I in so far as they do not cancel out. It is therefore a very precarious figure and will remain so until information is available which enables the whole of it to be measured directly. On the other hand, apart from changes of definition, the sum of the balancing items in tables I and II (items 11 and 34) is comparatively stable. The reason can be seen from a consideration of the left hand side of table III. For when these two balancing items are taken together with items which are known fairly accurately, they add up to the deficit of the central government, which is accurately known.

B.—THE COMPOSITION OF PERSONAL EXPENDITURE ON CONSUMPTION.

TABLE B.

	1938.	1939.	1940.	1941.	1942.	1943.
	(£ million.)					
(1) Food	1,198	1,240	1,235	1,260	1,320	1,264
(2) Drink and tobacco	442	490	612	750	906	1,053
(3) Rent, rates, and water charges	491	510	515	512	511	510
(4) Fuel and light	203	204	210	231	242	240
(5) Other household goods... ..	274	265	257	244	216	184
(6) Clothing	447	460	497	453	485	447
(7) Travel, including privately-owned vehicles and their running expenses	289	264	179	202	217	227
(8) Other services	490	489	488	502	512	520
(9) Other goods including the income issued in kind to H.M. Forces and Auxiliary Services	238	256	317	403	448	536
(10) Personal expenditure on consumption at market prices [7]	4,072	4,178	4,310	4,557	4,857	4,981

Further investigations have brought about numerous revisions in detail, new information having become available which greatly improves the reliability of the estimates. In particular a revision of the greater part of retail sales other than food, drink and tobacco has been undertaken during the last year by the Board of Trade.

Taken together, these revisions have led to a redistribution of expenditure between the different items without, however, a significant change in the aggregate. The only important change compared with the figures given in Cmd. 6438 is due to a considerable increase in the estimate for "other services," where further research indicates expenditure some 5 to 10 per cent. greater than had been traced previously.

In interpreting this table, the following definitions should be borne in mind. In general, these figures relate to expenditure met out of personal income, including that of charities and other non-profit-making bodies as well as of individuals. The figures include purchases by civilians and by members of the Forces out of their pay and cash allowances, but for recent years may be subject to some revision later as more exact information becomes available of expenditure by British troops abroad and by United States, Dominion and Allied troops in this country. Expenditure on consumers' goods and services by businesses and public authorities is, as far as possible, excluded except in certain cases where the object purchased is resold to persons as part of a composite product or service. Thus, personal expenditure on meals in restaurants and hotels is spread over several

categories: the cost to the establishment of the food used appears in group (1), food; the rent of the building in group (3), rent, rates and water charges; the chinaware and cooking utensils purchased in group (5), other household goods, and an allowance for the purely service and managerial element of expense in group (8), other services.

The figures represent the expenditure of consumers in the above sense on goods and services of all kinds whether these are provided out of new production or from stock. In the case of second-hand goods an allowance is made in "other services" for the costs, including profit, of handling and reconditioning exclusive of the sums paid to original owners.

The composition of the nine sub-groups is set out below. The descriptions have been expanded somewhat in the interests of clarity but, with the single exception that repair work to clothing now appears in "other services," the composition of each item is substantially the same as in Cmd. 6438.

(1) *Food*—comprises purchases of food, including such beverages as tea, coffee and cocoa, by households together with the cost of food used in canteens, restaurants and hotels.

(2) *Drink and tobacco*—comprises expenditure on beer, wine, spirits, other alcoholic beverages and tobacco.

(3) *Rent, rates and water charges*—includes an allowance in respect of buildings occupied by non-profit-making bodies, hotels, boarding houses, etc., in addition to private dwelling houses.

(4) *Fuel and light*—includes coal, coke, gas, electricity and paraffin.

(5) *Other household goods*—includes new furniture, furnishings, household linens, blankets, etc., hardware, soap, cleaning materials, etc.

(6) *Clothing*—includes dress materials, millinery and haberdashery, boots and shoes and all forms of men's, women's and children's wear. The expense of making-up customers' materials, but not altering or repairing old garments, is included here.

(7) *Travel*—includes travel paid for out of personal income, and therefore the travel of members of the Forces when at their own expense, in all public conveyances, together with the purchase of vehicles by persons and the running expenses incidental to their use.

(8) *Other services*—includes such services as post, telegraph and telephone, medical, undertaking, domestic, hotel and restaurant, entertainment and repairs to household goods, clothing and footwear, watches, etc.

(9) *Other goods*—includes all goods not appearing above, together with the income issued in kind to H.M. Forces and Auxiliary Services.

C.—PERSONAL EXPENDITURE ON CONSUMPTION AT CURRENT AND CONSTANT PRICES.

Personal expenditure on consumption at market prices and after adjustment for subsidies and indirect taxes is estimated to have changed as follows between 1938 and 1943:—

TABLE C.1.—PERSONAL EXPENDITURE ON CONSUMPTION AT CURRENT PRICES.

	1938.	1939.	1940.	1941.	1942.	1943.
	(£ million.)					
(1) Personal expenditure on consumption at market prices [7]	4,072	4,178	4,310	4,557	4,857	4,981
plus						
(2) Subsidies [14]	15	20	70	140	175	190
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	4,087	4,198	4,380	4,697	5,032	5,171
less						
(3) Indirect taxes specifically on consumption [15] ...	—439	—489	—588	—777	—939	—1,073
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
(4) Personal expenditure on consumption thus adjusted [27]	3,648	3,709	3,792	3,920	4,093	4,098

The study of the average change in the retail market price of goods and services has been revised and continued. The results are given in table C.2. below. The method adopted in calculating the figure for 1943, say, was to take the average of the change between 1938 and 1943 in the cost at market prices of buying the collections of goods and services entering into personal expenditure on consumption (item 7 of table I) in 1938 and 1943 respectively.⁽⁴⁾ 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 1943 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.

⁽⁴⁾ The figures were obtained not by a direct comparison between 1938 and, say, 1943, but by linking together direct comparisons of adjacent intermediate periods. Where a commodity which was on sale in one period was not available in the other, it had, of course, to be left out of the comparison.

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:—

TABLE C.2

	1938.	1939.	1940.	1941.	1942.	1943.
	(1938 = 100.)					
(1) Personal expenditure on consumption at market prices, including indirect taxes and excluding subsidies ...	100	103	106	112	119	122
(2) Personal expenditure on consumption, excluding specific indirect taxes and increased by subsidies ...	100	102	104	107	112	112
(3) Personal expenditure on consumption in terms of constant prices ...	100	100	88	82	81	79
(4) Retail prices, excluding specific indirect taxes and increased by subsidies ...	100	102	118	131	138	141

The series in this table have been revised and, in particular, the price series shown in line (4) shows a slightly greater rise than was estimated in Cmd. 6438. It is important that this price series should not be confused with the Ministry of Labour's Cost of Living Index, since the former covers the expenditure of all classes of the community and includes luxuries as well as necessities. Further precautions in interpreting these figures given at the bottom of p. 6 and top of p. 7 of Cmd. 6438 are not repeated here.

The series given above 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 INVESTMENT AT HOME IN 1938.

Private net investment at home forms the residual item in table I below except in 1938 for which year a direct estimate of this item was made. The figures given below show in broad outline the way in which the totals of both gross and net investment were divided between the main categories of expenditure.

TABLE D.—PRIVATE INVESTMENT AT HOME IN 1938.

(£ million.)

	Gross invest- ment.	Allowances for maintenance, depreciation, etc.	Net invest- ment.
(1) Fixed capital, works, etc.—			
(a) Public utilities	145	80	65
(b) Other branches of activity, including housebuilding—			
(i) Buildings	360	105	255
(ii) Plant and machinery ...	120	100	20
(iii) Other fixed capital, etc. ...	65	55	10
(2) Change in the value of stocks and work in progress as implied in the calculation of profits	(-45)	—	(-45)
(3) Private investment at home... ..	645	340	305

As in the case of the figures in item 11 of table I, these estimates include, as well as purely private investment, the capital outlays of the Post Office and the housing and trading services of local authorities. In general also they include any increase in work in progress on government account for which payment was not made in the period. All other capital expenditure by public authorities is excluded, being included in item 9 of table I. A particularly large exclusion is represented by expenditure on highways and bridges, the inclusion of which would have raised the estimates in line (3) above to £710 million, £390 million and £320 million respectively.

It has not been possible to provide an independent estimate of the change in the value of stocks, and the figure given in brackets in line (2) is accordingly subject to revision.

Gross investment and allowances for maintenance, depreciation, etc., are treated here in a narrow sense in that they exclude, except in the case of buildings, the greater part of outlays for current repair work. A wider treatment of these outlays would, of course, leave the figures for net investment unaffected since the first two columns of the table would be increased to the same extent. Outlays for land have been excluded throughout since they represent mainly a transfer of ownership of capital within the community.

The composition of item (1) above is as follows:—

(1) (a) *Public utilities*—includes expenditure on contracting and civil engineering work, and on the acquisition and installation of new plant and machinery including railway vehicles, by the main line railway companies, the London Passenger Transport Board, tramway, light railway and trolley vehicle undertakings, dock and harbour authorities, canal undertakings, water supply

authorities, electricity and gas undertakings and the Post Office. The expenditure of both public authorities and companies has been included.

(b) (i) *Buildings*—includes all housebuilding, but in the case of other buildings excludes work done for public utilities and public authorities. The estimate for housebuilding is intended to include the expense connected with foundations, construction, wiring, etc., fittings and certain incidental charges but to exclude the cost of land, roads, main drainage and charges of a legal and financial nature. The figure for gross investment includes expenditure on repairs as well as on new work.

(ii) *Plant and machinery*—comprises expenditure on replacing and extending plant and machinery by all undertakings outside the public authority and public utility field. The figure of allowances for maintenance, depreciation, etc., represents the amount of wear and tear and obsolescence allowances, as computed for income tax purposes, which were due in the year 1938.

(iii) *Other fixed capital, etc.*—consists in the main of expenditure on merchant ships and fishing vessels, road goods vehicles and public service vehicles, together with expenditure on private cars bought by businesses and therefore not included in personal expenditure on consumption. Capital expenditure on farm roads, soil improvement, afforestation, etc., is also included here.

E.—PRIVATE SAVING.

The table below brings together the information on private saving, personal and impersonal, contained in table II.

TABLE E.1.

PERSONAL SAVING.

	1938.	1939.	1940.	1941.	1942.	1943.
	(£ million.)					
(1) Gross personal saving, including allowance for accrued taxation [32+33+34] ...	259	380	858	1,081	1,369	1,594
less						
(2) Death duties, etc. [32] ...	—90	—87	—85	—94	—100	—104
(3) Gross personal saving after allowance for death duties, etc. [33+34]... ..	169	293	773	987	1,269	1,490
less						
(4) Increase in allowance to meet accrued taxation ⁽⁵⁾ [33] ...	—11	—32	—46	—37	—196	—83
(5) Net personal saving after allowance for accrued taxation [34]	158	261	727	950	1,073	1,407

IMPERSONAL SAVING.

	1938.	1939.	1940.	1941.	1942.	1943.
	(£ million.)					
(6) Gross impersonal saving, including allowance for accrued taxation [40+41]	182	266	437	485	345	259
(7) Increase in allowance to meet accrued taxation ⁽⁵⁾ [40] ...	—12	—86	—247	—290	—145	—49
(8) Net impersonal saving after allowance for accrued taxation [41]	170	180	190	195	200	210

NET PRIVATE SAVING (PERSONAL AND IMPERSONAL).

	1938.	1939.	1940.	1941.	1942.	1943.
	(£ million.)					
(9) Net personal saving after allowance for accrued taxation [34]	158	261	727	950	1,073	1,407
(10) Net impersonal saving after allowance for accrued taxation [41]	170	180	190	195	200	210
(11) Aggregate net private saving after allowance for accrued taxation [46]... ..	328	441	917	1,145	1,273	1,617

⁽⁵⁾ 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.

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 1943 to meet the taxation accrued and unpaid, though not necessarily due, at that date on personal income, the figures in line (4) must be added together; that is to say, the aggregate at that date was 405 ($= 11 + \dots + 83$) *plus* the amount accrued and unpaid at the end of 1937, *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).

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 income from direct estimates of private income. Net impersonal saving has then been estimated separately and the remainder allocated to personal saving, which here includes the saving of charities and non-profit-making bodies. There is, however, no very precise line between "personal" and "impersonal." Impersonal saving in the present context is intended to include not only the net undistributed profits of companies but also the saving arising in the business accounts of traders, farmers and other individuals. For saving made 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 saving, 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 saving would require an equal and opposite change in the estimate of personal saving.

The figures for personal saving have been raised in comparison with those given in Cmd. 6438 as a result of the revision of the estimates of income and expenditure which are discussed in section H below. A change of treatment introduced as a result of the "pay as you earn" scheme is also described in section H.

The estimates given last year of the distribution of bank deposits, provided by the courtesy of the Clearing Banks, are continued in the following table:—

TABLE E.2.
DEPOSITS HELD BY CLEARING BANKS.

	<i>Dec 31,</i> <i>1941.</i>	<i>June 30,</i> <i>1942.</i>	<i>Dec. 31,</i> <i>1942.</i>	<i>June 30,</i> <i>1943.</i>	<i>Dec. 31,</i> <i>1943.</i>
	<i>(£ million.)</i>				
(1) Total deposits held by Clearing Banks ...	3,329	3,263	3,629	3,630	4,032
less	.	.	.	.	.
(2) Advances to customers and other accounts...	— 807	— 800	— 773	— 744	— 743
(3) Total deposits (net) ...	2,522	2,463	2,856	2,886	3,289
(4) Personal deposits (net)	692	704	820	859	972
(5) Other deposits (net) ...	1,830	1,759	2,036	2,027	2,317

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.

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

TABLE F.

	1938.	1939.	1940.	1941.	1942.	1943.
	(£ million)					
(1) Private income [43]	5,038	5,402	6,375	7,326	8,059	8,703
(2) Direct taxes, social insurance contributions of employees, War Damage Act contributions and premiums, etc., met out of private income [80]	549	599	789	1,230	1,520	1,905
(3) Indirect taxes and rates specifically on consumption less subsidies [29]	424	469	518	637	764	883
(4) Other indirect taxes, etc., met out of private income	165	170	190	230	210	180
(5) Excess of tax liabilities over payments [33 + 40]	23	118	293	327	341	132
(6) Total tax liabilities in respect of private income <i>i.e.</i> , (2) + (3) + (4) + (5)	1,161	1,356	1,790	2,424	2,835	3,100
(percentages.)						
(7) Line (6) as a percentage of line (1)	23	25	28	33	35	36

This table shows the proportion of private income devoted to direct and indirect taxation, rates, compulsory contributions to social insurance and war risks insurance schemes, and contributions and premiums (almost all 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 income, but also to those which fall on other private income, *e.g.*, National Defence Contribution and Excess Profits Tax.

The reduction in the percentages in line (7) compared with the corresponding figures in Cmd. 6438 is due in part to the removal of income tax accruals on incomes assessed under Schedule E from line (5) and in part to the upward revision of income in line (1). The reasons for these changes are explained in section H below.

The figures in line (4) are estimates of that part of the sum of items 16 and 17 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).

**G.—DISTRIBUTION OF PRIVATE INCOME BY RANGES OF INCOME
SHOWING THE EFFECT OF CHANGES IN INCOME TAX AND SURTAX,
1938 and 1942.**

TABLE G.
1938.

Range of income before tax.	Number of incomes.	Aggregate income before tax, 1938.	Aggregate income after income tax and surtax at—		Proportion of income before tax retained after deduction of taxes at—	
			1938-39 rates. ⁽⁶⁾	1942-43 rates.	1938-39 rates.	1942-43 rates.
£	000's.	£m.	£m.	£m.	%	%
Private income at the disposal of individuals which can be allocated to different ranges—						
Under 250 ... ..	...	2,681	2,676	2,616	99.8	97.6
250-500	1,745	595	578	499	97.1	83.9
500-1,000	500	350	311	244	88.9	69.7
1,000-2,000	195	270	224	160	83.0	59.3
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	—	612 ⁽⁷⁾	506	...	82.7	...
Total private income	—	5,038	4,635	...	92.0	...

1942.

Range of income before tax.	Number of incomes.	Aggregate income before tax, 1942.	Aggregate income after income tax and surtax at—		Proportion of income before tax retained after deduction of taxes at—	
			1938-39 rates.	1942-43 rates.	1938-39 rates.	1942-43 rates.
£	000's.	£m.	£m.	£m.	%	%
Private income at the disposal of individuals which can be allocated to different ranges—						
Under 250 ... ..	...	3,356	3,348	3,254	99.8	97.0
250-500	5,500	1,854	1,803	1,584	97.3	85.4
500-1,000	1,110	740	664	533	89.7	72.0
1,000-2,000	295	413	343	253	83.1	61.3
2,000-10,000	102	366	263	176	71.9	48.1
10,000 and over	8	170	84	35	49.4	20.6
Other private income	—	1,160 ⁽⁷⁾	...	508	...	43.8
Total private income	—	8,059	...	6,343	...	78.7

⁽⁶⁾ All rates used in this table are the rates current in the fiscal years 1938-39 and 1942-43.

⁽⁷⁾ Including all liabilities for National Defence Contribution and Excess Profits Tax, which are deducted together with income tax in arriving at retained income.

These tables, which relate to income *received* in 1938 and 1942, show the amount of private income at the disposal of individuals, which can be allocated to different ranges. The category of "other private income" is not the same as impersonal income shown in item 37 of table II since while the undistributed profits of companies and all liabilities for National Defence Contribution and Excess Profits Tax are common to both, the figure in this table contains in addition all personal income (including the income of non-profit-making bodies) which cannot be allocated to ranges of income. Examples are the investment income of charities, the increase in assurance funds and certain allowances and income in kind the precise distribution of which is unknown. On the other hand, impersonal income includes, while "other private income" excludes, the business saving of traders, farmers and other individuals.

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 1942, for example, the aggregate net income at 1942-43 rates is the amount which would have resulted if all taxpayers had during that year paid the full tax liability at 1942-43 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 1942, if the taxation of 1938-39 had been in force in that year. The figures of income tax liabilities included in table II fall short of the full liability in the present sense owing to the adjustment described in section H (7).

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

H.—A COMPARISON WITH Cmd. 6438.

As stated in the preamble, new sources of information have become available in the course of the last year and the main categories of the national income and expenditure have been re-examined in the light of all the figures and other evidence obtained. As a result, a further improvement has been made in the accuracy of many of the components of the tables.

The main feature of the comparison between this year's figures and last year's is a further upward revision of income and to a much less extent of personal expenditure on consumption with a consequent change in the balancing items of tables I and II. At the same time, as is shown below, the *relative* movements of income and personal expenditure on consumption are comparatively little affected except where later information from a source already in use has provided revised figures. So far as the main items are concerned, the position may be summarised as follows:—

(1) The principal changes in the components of the national income occur in the case of profits and, to a less extent, salaries. Rent, wages and the income of the armed forces have not been much affected though the estimate for the latter in 1942 has been somewhat increased. The main reasons for the revisions are as follows:—

- (a) Profits as assessed to taxation have been revised in the most recent years and in particular for 1940 and 1941. One of the consequences of this revision is an increase in the excess of direct tax liabilities over payments on impersonal income, item 40 of table II.
- (b) Certain adjustments are necessary because for income tax purposes deductions are sometimes made from a gross figure of receipts which are inappropriate in the present context. Some of these adjustments have been made for the first time. An instance arises in the case of the expenses of financial institutions met out of their interest earnings for which an adjustment has been

made to render the estimate of income generated in these branches of activity consistent with the corresponding entry in expenditure.

- (c) An increase has been made in the allowance for income not brought under assessment to income tax including income in kind. No adequate correction for this source of deficiency was made previously, although farming income, which used to be assessed at a figure only indirectly related to current earnings, has always been independently estimated.

The rise in the estimate for salaries in so far as it is not due to revised figures from sources already in use is accounted for by an increase in the allowance of the kind just mentioned.

These adjustments, which have been put at what are considered moderate figures, are reasonable even if the estimates of income are regarded in isolation. But, in addition, the revised estimates of personal expenditure on consumption and private net investment at home indicate that in 1938 (the only year for which at present an independent estimate of the latter can be made) the magnitude of these items was greater than was previously supposed. Moreover, there are indications that even now it would if anything be easier to justify a higher than a lower figure so that when expenditure estimates are taken into account a further reason is apparent for regarding the previous estimates of income as too low.

- (2) The basis of the estimates for a large section of personal expenditure on consumption, especially retail sales other than food, drink and tobacco, has been thoroughly revised in the light of additional information that has accumulated in war-time and has recently become available. It is now known that the previous figures underestimated certain items, especially a group of service items of which repair work to clothing and footwear, the making-up of customers' materials and the expenses, including profit, of dealing in second-hand goods are examples.
- (3) Personal expenditures involved in the acquisition and transfer of property and life assurance previously included in the residue, have been brought together and are shown separately in item 8 of table I. These forms of expenditure occupy a special position and it is thought to be less misleading if they are distinguished from both consumption and investment. On balance, the estimates under these headings have been considerably increased but it is probable that certain expenses which cannot readily be separated from the value of new construction are still included in private net investment.
- (4) The new estimates of private net investment at home in 1938, as set out in more detail in section D above, are also considerably higher than previously. This is particularly true in the case of new buildings.
- (5) As a consequence of the changes in the estimates of income and expenditure, there is a further decline in the balancing item in table I taken together with the new item (10 of table I) which is discussed further in the next paragraph. These changes also require a corresponding rise in saving, including allowances for accrued taxation.
- (6) An attempt has been made to put into quantitative terms the item mentioned under (a) on p. 12 of Cmd. 6438 which is now shown separately as item 10 of table I. It comprises the increase in work in progress on government account held under private finance and is shown separately since it does not form part of private net investment at home in the ordinary sense of the term. Unless separately accounted for, it necessarily appears in the balancing item since there is included in the national

income all income accruing as a result of current activity in producing goods and services on government account whereas in the national expenditure the counterpart appears as the *payments* by public authorities for goods and services which fall short of the income generated by the amount of the increase in work in progress held under private finance.

The figures given for this item represent only the approximate order of magnitude in respect of work for the main departments. It is therefore subject to revision should more precise information become available. Any error here is absorbed in item 11 of table I.

- (7) Some of the revisions of the income estimates have a counterpart in changes in the estimates of direct tax liabilities and therefore in the figures given for the excess of direct tax liabilities over payments.

Apart from revisions there is another type of adjustment which affects item 33 and inversely, as a consequence, item 34. As a result of the introduction of the "pay as you earn" scheme for Schedule E incomes, a part of these incomes earned in the calendar year 1943 does not fall due for assessment. As a consequence, tax liabilities in respect of these incomes would appear unusually low and net personal saving unusually high in 1943. In order to avoid the discontinuity which would otherwise be introduced into the figures, the excess of income tax liabilities over payments in respect of Schedule E incomes has been removed from item 33 of table II year by year as it occurred and has been transferred to item 34. In this way a large discontinuity in the figures is avoided.

The preceding paragraphs have been concerned with the absolute differences between the new series and the old. The table below sets out a comparison of the relative movements of some of the main series from which it can be seen that the relative position is affected to a very much smaller extent.

TABLE H.

	1938.	1939.	1940.	1941.	1942.	1943.
	(1938 = 100.)					
Net national income at factor cost						
[6]	100	108	129	150	165	177
as given in Cmd. 6438 ...	100	...	128	147	164	...
Personal expenditure on consumption at market prices [7] ...	100	103	106	112	119	122
as given in Cmd. 6438 ...	100	...	106	112	119	...
Private saving including allowance for accrued taxation [46+47] ...	100	159	345	419	460	498
as given in Cmd. 6438 ...	100	...	324	397	453	...

The general effects of the revisions, so far as they affect the balancing items in tables I and II are to increase the estimates of saving and to diminish those of domestic disinvestment as defined in Cmd. 6438. They therefore show the position to have been more favourable than was originally supposed.

TABLE

Estimates of net national income

£ million

	1938.	1939.	1940.	1941.	1942.	1943.
1. Rent of land and buildings	380	388	388	385	384	384
2. Interest and profits, including farming profits and professional earnings ...	1,317	1,486	1,846	2,126	2,321	2,427
3. Salaries	1,099	1,141	1,216	1,309	1,337	1,366
4. Wages	1,728	1,826	2,107	2,412	2,701	2,909
5. Pay and allowances (in cash and kind) of members of H.M. Forces and Auxiliary Services	80	127	388	653	861	1,086
6. Net national income ...	4,604	4,968	5,945	6,885	7,604	8,172

For notes on the items of this table see pp. 26 to 28.

I

and expenditure, 1938-1943

£ million

	1938.	1939.	1940.	1941.	1942.	1943.
7. Personal expenditure on consumption at market prices	4,072	4,178	4,310	4,557	4,857	4,981
8. Personal expenditure involved in the acquisition and transfer of property and life assurance	66	66	66	67	68	68
9. Expenditure at home and abroad, by public authorities, on goods and services at market prices	837	1,279	3,061	4,203	4,594	5,187
10. Increase in work in progress on government account held under private finance	305	(362)	200	100	100	75
11. Private net investment at home and other war losses made good			(-91)	(-182)	(-240)	(-250)
12. Expenditure incurred in making good war damage to buildings... ..	—	—	—	29	61	49
13. Private and government net investment abroad ...	-55	-230	-756	-797	-635	-655
14. Subsidies less	15	20	70	140	175	190
15. Indirect taxes and rates specifically on consumption	-439	-489	-588	-777	-939	-1,073
16. Other indirect taxes, rates, etc.	-197	-204	-203	-216	-238	-248
17. War risks insurance premiums	—	- 14	-124	-239	-199	-152
18. Net national expenditure	4,604	4,968	5,945	6,885	7,604	8,172

TABLE

Estimates of private income

£ million

Personal

	1938.	1939.	1940.	1941.	1942.	1943.
19. Rent of land and buildings, interest (including National Debt interest and interest accrued on National Savings Certificates) and profits received by persons	1,594	1,668	1,784	1,763	1,926	2,059
20. Wages and salaries	2,827	2,967	3,323	3,721	4,038	4,275
21. Pay and allowances (in cash and kind) of members of H.M. Forces and Auxiliary Services	80	127	388	653	861	1,086
22. Pension payments	131	133	151	178	201	221
23. Payments in respect of unemployment and the relief of poverty	113	97	64	30	20	17
24. Health payments	34	35	35	33	40	44
25. Other transfer payments	—	6	15	29	11	6
26. Personal income before tax	4,779	5,033	5,760	6,407	7,097	7,708

Impersonal

36. Impersonal income before tax	259	369	615	919	962	995
37. Impersonal income before tax	259	369	615	919	962	995

Private

43. Private income before tax (sum of items 26 and 37)	5,038	5,402	6,375	7,326	8,059	8,703
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For notes on the items of this table see pp. 28 and 29.

II

and outlay, 1938-1943

Income	£ million					
	1938.	1939.	1940.	1941.	1942.	1943.
27. Personal expenditure on consumption adjusted for subsidies and specific indirect taxes, rates, etc.	3,648	3,709	3,792	3,920	4,093	4,098
28. Personal expenditure involved in the acquisition and transfer of property and life assurance	66	66	66	67	68	68
29. Excess of indirect taxes and rates specifically on consumption over subsidies	424	469	518	637	764	883
30. Direct tax payments including War Damage Act contributions and premiums met out of personal income but excluding income tax payments due for repayment after the war and death duties, etc.	382	409	526	692	678	895
31. Income tax payments due for repayment after the war... ..	—	—	—	10	125	170
32. Death duties and stamps on the transfer of property	90	87	85	94	100	104
33. Excess of direct tax liabilities on personal income over payments	11	32	46	37	196	83
34. Net personal saving after setting aside the excess of direct tax liabilities over payments	(158)	(261)	(727)	(950)	(1,073)	(1,407)
35. Personal outlay	4,779	5,033	5,760	6,407	7,097	7,708
Income						
38. National Defence Contribution and Excess Profits Tax payments	15	28	68	231	348	483
39. Other direct tax payments including War Damage Act contributions and premiums met out of impersonal income	62	75	110	203	269	253
40. Excess of direct tax liabilities on impersonal income over payments	12	86	247	290	145	49
41. Net impersonal saving after setting aside the excess of direct tax liabilities over payments	170	180	190	195	200	210
42. Impersonal outlay	259	369	615	919	962	995
Income						
44. Private outlay (sum of items 35 and 42)	5,038	5,402	6,375	7,326	8,059	8,703

TABLE
Central Government expenditure and the sources

£ million

	1938.	1939.	1940.	1941.	1942.	1943.
45. Central government revenue... ..	883	975	1,258	1,836	2,344	2,876
46. Net private saving after setting aside the excess of direct tax liabilities over payments	328	441	917	1,145	1,273	1,617
47. Excess of direct tax liabilities on private income over payments	23	118	293	327	341	132
48. Surplus on extra-budgetary funds ...	22	54	148	154	152	120
49. Local authority surplus... ..	7	18	41	66	71	71
50. Compensation received in respect of claims under the marine and commodities war risks insurance schemes and the War Damage Act, Part II	—	—	36	219	154	136
<i>less</i>						
51. Increase in work in progress on govern- ment account held under private finance...	-305	-362	-200	-100	-100	-75
52. Private net investment (or <i>plus</i> dis- investment) at home and other war losses made good			91	182	240	250
53. Private and government net investment (or <i>plus</i> disinvestment) abroad	55	230	756	797	635	655
54. Central government deficit	130	499	2,082	2,790	2,766	2,906
55. Central government expenditure ...	1,013	1,474	3,340	4,626	5,110	5,782

For notes on the items of this table see pp. 29 and 30.

III

from which it was financed, 1938-1943

£ million

	1938.	1939.	1940.	1941.	1942.	1943.
56. Central government revenue	883	975	1,258	1,836	2,344	2,876
57. Unemployment Fund	-1	7	24	64	74	74
58. National Health Funds	—	—	9	8	12	9
59. Local Loans Fund	-2	1	5	9	10	10
60. Other extra-budgetary receipts including war risks insurance and certain War Damage Act receipts, Exchange Equalisation Account and reduction in Exchequer balance	257	186	516	72	-58	-155
61. Reconstruction Finance Corporation loan	—	—	—	87	4	-7
62. Canadian Government interest-free loan	—	—	—	—	157	-4
63. Receipts from capital transactions included in miscellaneous revenue, and appropriations in aid arising from capital transactions	5	9	12	12	15	16
<i>less</i>						
64. Sinking funds	-11	-14	-12	-17	-13	-15
65. Other expenditure (net)	4	-21	-8	13	-1	15
66. Finance through government agencies	252	168	546	248	200	-57
67. Post Office and Trustee Savings Banks	1	19	119	214	234	301
68. National Savings Certificates including increase in accrued interest	3	21	167	214	232	297
69. Defence Bonds	—	22	180	174	134	121
70. Other public issues (net)	53	-11	553	1,020	1,037	1,050
71. Increase in fiduciary issue	10	-30	50	150	170	150
72. Increase in Treasury bills held outside government departments and Bank Ways and Means	-189	310	129	279	151	433
73. Treasury deposit receipts	—	—	338	474	155	434
74. Tax reserve certificates	—	—	—	17	453	177
75. Public borrowing at home	-122	331	1,536	2,542	2,566	2,963
76. Central government expenditure ...	1,013	1,474	3,340	4,626	5,110	5,782

TABLE
The Income, Deficit and Expenditure

£ million

	1938.	1939.	1940.	1941.	1942.	1943.
<i>Direct taxes, War Damage Act Contributions, etc.</i>						
77. Central government ...	494	544	729	1,088	1,383	1,781
78. Extra-budgetary funds...	55	55	60	142	137	124
79. Local authorities ...	—	—	—	—	—	—
80. Total ...	549	599	789	1,230	1,520	1,905
<i>Indirect taxes, rates, war risks insurance premiums, etc.</i>						
81. Central government ...	371	415	505	707	885	1,026
82. Extra-budgetary funds...	54	69	182	304	271	224
83. Local authorities ...	211	223	228	221	220	223
84. Total ...	636	707	915	1,232	1,376	1,473
<i>Miscellaneous income from public property, trading, etc.</i>						
85. Central government ...	18	16	24	41	76	69
86. Extra-budgetary funds...	—	—	—	—	—	—
87. Local authorities ...	26	25	25	27	28	28
88. Total ...	44	41	49	68	104	97
<i>Deficit.</i>						
89. Central government ...	130	499	2,082	2,790	2,766	2,906
90. Extra-budgetary funds...	— 22	— 54	— 148	— 154	— 152	— 120
91. Local authorities ...	— 7	— 18	— 41	— 66	— 71	— 71
92. Total ...	101	427	1,893	2,570	2,543	2,715
<i>Income plus deficit.</i>						
93. Central government ...	1,013	1,474	3,340	4,626	5,110	5,782
94. Extra-budgetary funds...	87	70	94	292	256	228
95. Local authorities ...	230	230	212	182	177	180
96. Total ...	1,330	1,774	3,646	5,100	5,543	6,190

For notes on the items of this table see pp. 30 and 31.

IV
of Public Authorities, 1938-1943

£ million

	1938.	1939.	1940.	1941.	1942.	1943.
<i>Subsidies.</i>						
97. Central government ...	15	20	70	140	175	190
98. Extra-budgetary funds...	—	—	—	—	—	—
99. Local authorities ...	—	—	—	—	—	—
100. Total ...	15	20	70	140	175	190
<i>Payments in respect of claims under the marine and commodities war risks insurance schemes and the War Damage Act.</i>						
101. Central government ...	—	—	—	—	—	—
102. Extra-budgetary funds...	—	—	36	248	215	185
103. Local authorities ...	—	—	—	—	—	—
104. Total ...	—	—	36	248	215	185
<i>Transfer payments.</i>						
105. Central government ...	319	325	343	394	442	509
106. Extra-budgetary funds...	136	127	117	101	105	108
107. Local authorities ...	23	23	19	14	12	11
108. Total ...	478	475	479	509	559	628
<i>Expenditure on goods and services.</i>						
109. Central government ...	447	861	2,601	3,742	4,140	4,735
110. Extra-budgetary funds...	14	14	13	13	14	13
111. Local authorities ...	376	404	447	448	440	439
112. Total ...	837	1,279	3,061	4,203	4,594	5,187
<i>Total expenditure, excluding transfers to other authorities but including payments out of transfers from other authorities.</i>						
113. Central government ...	781	1,206	3,014	4,276	4,757	5,434
114. Extra-budgetary funds .	150	141	166	362	334	306
115. Local authorities ...	399	427	466	462	452	450
116. Total ...	1,330	1,774	3,646	5,100	5,543	6,190

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 profit and interest not brought into assessment, including income in kind and the amounts received by persons below the income tax exemption limit or by non-profit-making bodies, and also incomes whether below the income tax exemption limit or not accruing to persons working on their own account. The description of this item in the table has been made fuller than in Cmd. 6438 solely in the interests of clarity and not because of any change of definition.

3. Aggregate salaries include: (a) the whole of the earnings of shop assistants, (b) small salaries below the income tax exemption limit, (c) allowances of salary-earners not brought under assessment to income tax.

4. This item includes an allowance for the income in kind (food, lodging, etc.) of, *e.g.*, domestic servants. The estimate of personal expenditure on consumption at market prices (item 7) includes a similar allowance.

5. This item includes the pay and cash allowances of, and the value of issues in kind to, members of H.M. Forces and Auxiliary Services and the pensions and retired pay of former members of the armed forces other than pensions awarded for death or disability attributable to war service. These appear as a transfer payment in item 22 of table II. An amount equal to the value of issues in kind (food, clothing, etc.) is included in the estimate of personal expenditure on consumption at market prices (item 7).

6. This item is the sum of items 1 to 5 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 them, 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 and stocks) which is currently worn out or used up.

7. 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 those indirect taxes, rates, etc., and war risks insurance premiums that 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.

8. Expenditure out of personal income on the factors of production taken up in providing life assurance and facilitating the acquisition and transfer of property. In Cmd. 6438 this expenditure was not shown separately but was contained in the residual figure of private net investment at home.

9. 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 expenditure is included in net investment at home (item 11), (b) personal expenditure on postal services appears in personal expenditure on consumption (item 7) 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 7 to 12.

Lend-Lease assistance and, in 1942, 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.

10. In Cmd. 6438 this item was not shown separately but was subsumed in the figure of private net investment at home. The figures given here represent orders of magnitude and are described in section H (6) above.

11. 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, with the exception of the sums shown separately in item 12 below) 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, *less* (b) maintenance and depreciation allowances which have been set aside in the calculation of rent and profits in items 1 and 2, *less* (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, *less* (f) the increase in work in progress on government account held under private finance, now shown separately in item 10.

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 7 to 10 and 12 to 17 from item 6 and are therefore dependent on the accuracy of these estimates.

12. Equal to the amount of compensation paid under Part I of the War Damage Act, substantially all of which arises only where actual work is put in hand. This work includes a small amount of equipment other than buildings.

13. 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. This balance represents the excess of payments over receipts on current account and is required here since receipts for exports and similar services which give rise to income in this country do not appear elsewhere in expenditure, whilst payments for imports and similar services which do not give rise to such income appear in items 7 to 12 and have, therefore, to be deducted. 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 9 above.

14. 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 fertilisers, grassland ploughing and field drainage, (ii) acreage payments, (iii) losses incurred on the commercial accounts of the Ministry of Food and the Ministry of War Transport, (iv) subsidies in respect of coal paid by the Ministry of Fuel and Power, and (v) certain subsidies, *e.g.*, in respect of clothing and fertilisers, met by the Ministry of Supply. This item is included here since it represents payments in respect of costs not appearing in the market value of goods and services.

15. This and the two items following require to be deducted from the sum of items 7 to 13 (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 6. The item includes (i) certain customs and excise duties and (ii) local rates on dwelling houses, etc.

16. 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 15 above.

17. 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.

18. This item is the sum of items 7 to 17 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 6.

TABLE II.

19. 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 (item 37) *less* miscellaneous income from public property, etc. (item 88 of table IV).

20. The sum of items 3 and 4 of table I.

21. The same as item 5 of table I.

22. 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.

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

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

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

The sum of items 22 to 25 *plus* that part of the National Debt interest and interest accrued on National Savings Certificates which is included in item 19 above is equal to the total of transfer payments shown in item 108 of table IV.

26. This item is the sum of items 19 to 25 and shows the total of disposable income received by persons (including non-profit-making bodies).

27. This item is equal to item 7 of table I *less* item 29 of table II.

28. The same as item 8 of table I.

29. Numerically equal to item 15 of table I *less* item 14 of table I.

30. This item includes payments of (i) income tax in respect of private income (other than that paid by businesses in respect of business savings, which appears in item 39, and the sums due for repayment after the war which are shown in the immediately succeeding item), (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.

31. The amount of income tax payments for which post-war credits are due.

32. Together with items 30 and 31 makes up the total of direct tax, etc., payments met out of personal income.

33. This item shows the excess of the liability for the direct taxes included in items 30 to 32 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. The reduction in these figures compared with the corresponding ones in Cmd. 6438 is mainly due to the removal of income tax accruals in respect of income assessed under Schedule E for reasons explained in section H (7). The figures in item 34 are correspondingly increased.

34. This item represents the excess of personal 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 27 to 33 from item 26; it therefore depends on the accuracy of these items.

35. This item is the sum of items 27 to 34, which show the various ways in which personal income is disposed of. Current income may be either (a) spent on consumption, etc., (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 26.

36. This item is equal to that part of the net national income before tax (item 6 of table I above) which is neither paid out to persons (in which case it enters, together with transfer payments, into item 26) nor accrues to public authorities as miscellaneous income from public property, trading, etc., item 88 of table IV.

37. See preceding note.

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

39. 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 30, 31, 32 and 38, it is equal to item 80 of table IV.

40. This item shows the excess of the liability for the direct taxes included in items 38 and 39 accruing on current income at current rates of taxation over the current payments of these taxes. As explained in the note to item 33, accruals of this kind are 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.

41. An estimate of impersonal private saving; intended to include not only the net undistributed profits of companies but also the saving arising in the business accounts of traders, farmers and other individuals.

42. The sum of items 38 to 41 and by definition equal to item 37.

43. The sum of items 26 and 37; equal to item 6 of table I *plus* item 108 of table IV *less* item 88 of table IV.

44. The sum of items 35 and 42.

TABLE III.

45. This item, the sum of items 77, 81 and 85 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 9 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.

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

47. The sum of items 33 and 40 of table II.

48. Item 90 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.

49. Item 91 of table IV with its sign changed. See note to item 48 above.

50. The whole of the compensation received by claimants under the war risks insurance schemes and the War Damage Act, Part II appears here as available to finance the deficit, since allowance is made for outgoings on making good war losses of this type in item 52 below. Claims under Part I of the War Damage Act are excluded, since substantially all of them are paid only when work is actually put in hand and expenditure on making good this war damage (item 12 of table I) is excluded from item 52 below.

51, 52 and 53. Items 10, 11 and 13 respectively of table I.

54. The sum of items 46 to 53, which show the *economic* sources from which the central government deficit is financed, and the same as item 89 of table IV.

55. The sum of items 45 and 54 of this table and the same as item 93 of table IV.

57, 58 and 59. Net increase in these funds available for loan to the Exchequer.

60. 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.

63. These items appear here since they are not included in revenue.

65. 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.

66. The sum of items 57 to 65; 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.

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

68 and 69. The net receipts after deduction of repayments.

70. 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.

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

73. Receipts *less* repayments.

75. The sum of items 67 to 74 showing the amount of public borrowing at home. The sum of item 66 and this item shows the *financial* sources from which the central government deficit is financed and is equal to item 54.

76. The sum of items 56, 66 and 75; equal to item 55.

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, similar contributions to extra-budgetary funds and payments by public authorities of direct taxes and local rates, 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. In addition, in contrast to the treatment adopted in Cmd. 6438, expenditure incurred by local authorities and reimbursed by the central government is here shown as expenditure of 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.

77. Includes income tax, after deduction of the small amount paid by public authorities in respect of their income from property, surtax, National Defence Contribution, Excess Profits Tax and other Inland Revenue duties with the exception of those stamp duties included in item 81. 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.

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

80. The sum of items 77 to 79; equal to the sum of items 30, 31, 32, 38 and 39 of table II.

81. Composed of customs and excise duties, motor vehicle duties not included in item 77 above, stamp duties other than those on the transfer of property and appropriations-in-aid corresponding to indirect taxes.

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

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

84. The sum of items 81 to 83; numerically equal to the sum of items 15 to 17 of table I.

85. Post Office net receipt *less* Post Office Vote of Credit expenditure, receipts 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.

87. 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 accounts are included.

89. The excess of central government expenditure over revenue; the same as item 54 of table III. The sources from which this deficit is financed are set out in table III.

90. 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.

91. In ascertaining this item, capital expenditure on housing and trading services, which appears in private net investment (item 11 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.

93. The sum of items 77, 81, 85 and 89; items 94 and 95 are obtained similarly.

97. This item has been fully described in the note to item 14 of table I.

102. The value of all claims paid under the commodities and marine war risks insurance schemes and the War Damage Act, Parts I and II. Equal to the sum of item 12 of table I and item 50 of table III.

105. 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.

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

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

108. The sum of items 105 to 107; equal to the sum of items 22 to 25 of table II *plus* that part of National Debt interest and interest accrued on National Savings Certificates which is included in item 19 of table II.

109. This item differs from the corresponding item in Cmd. 6438 by the exclusion of reimbursements to local authorities for expenditure incurred by them. A corresponding addition has been made to item 111.

110. 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.

111. See note to item 109.

112. The same as item 9 of table I.

113. 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 114 and 115. It therefore differs from item 93 (which also appears as items 55 and 76 and item (1) of section A above) which includes such transfers.

