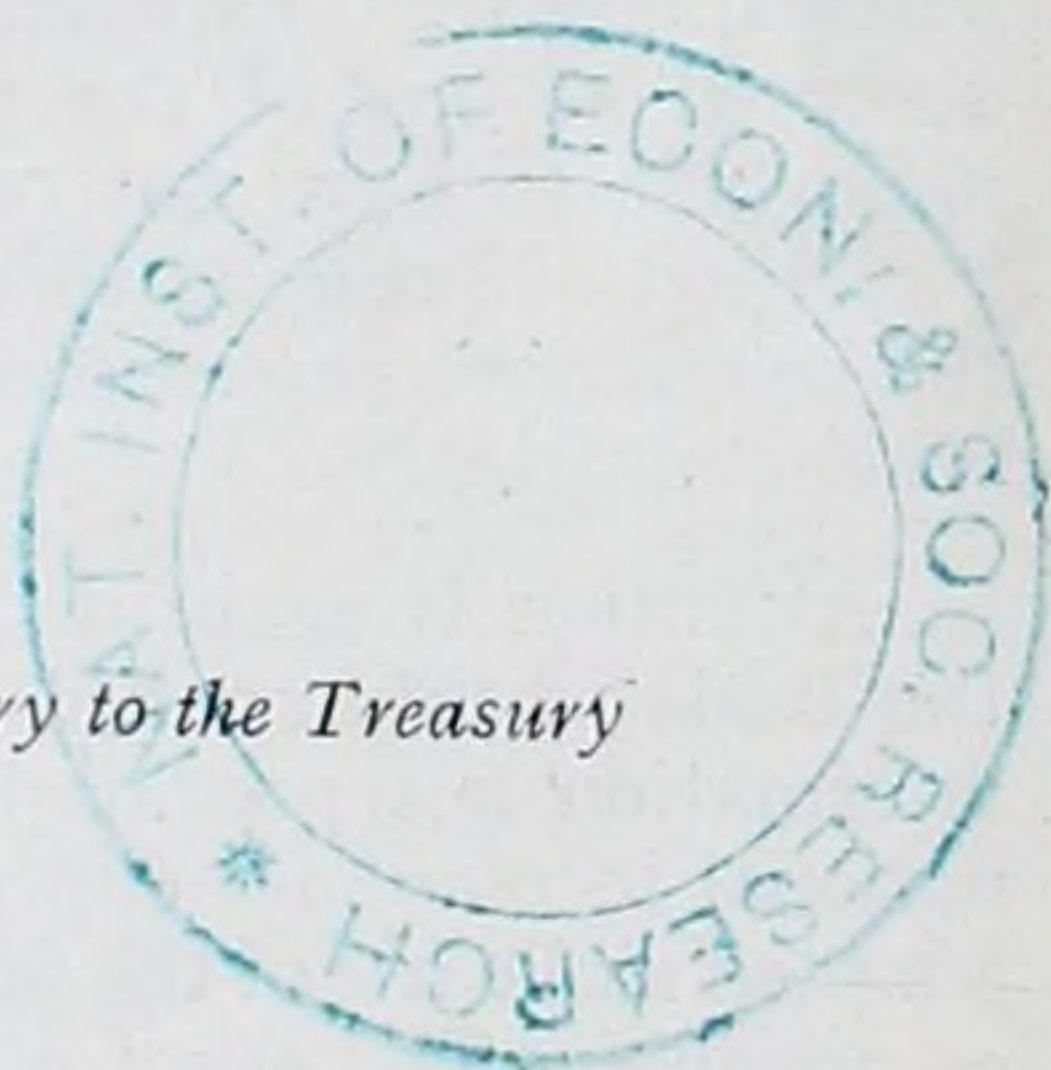




An Analysis of the Sources of War Finance and Estimates of the National Income and Expenditure in the Years 1938 to 1944

*Presented to Parliament by the Financial Secretary to the Treasury
by Command of His Majesty
April 1945*



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In previous years the primary aim of this Paper has been to make clear the sources from which the Government's war expenditure was financed and the changes in the use of resources which the continued growth in this expenditure had made necessary by setting out estimates of the expenditure, revenue and borrowing, not of the Government alone but of persons, businesses and other parts of the economic system also. The idea behind this method of exposition is by now familiar at least in its war-time application. It is generally understood that the increase in the resources at the disposal of the Government for war purposes has been made possible by bringing into play resources previously unused, by diverting resources from other uses, by allowing capital equipment to run down and by borrowing and selling assets abroad. The need for following throughout the economy the implications of any large increase in war expenditure is accepted as a corollary to this.

But there is nothing in this method which limits its application to war-time. In peace-time, too, such an approach to any large change in expenditure whether public or private, on armaments, for example, or capital equipment is both possible and, in view of the Government's employment policy, necessary. For, as is pointed out in Cmd. 6527 the problem of maintaining employment is very largely the problem of maintaining total expenditure, public and private, and in an economy where this is accepted as one of the prime aims of government policy it becomes peculiarly important to have not only statistics adequate to measure that expenditure, but a method of bringing them together and of classifying them which makes possible the necessary comparisons with the immediate past and with the present position in other countries.

Attention is again drawn to the continuing nature of the enquiries which form the basis of this analysis. 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 IV below.

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

April 1945.

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I.—INTRODUCTION

It is well known that the aggregate or national income of a country can be defined in a number of different ways, and these differences sometimes seem to form an arbitrary and even an unnecessary complication in a subject which is in any event sufficiently involved. Much of the difficulty arises because the results of *aggregating* incomes and expenditures are unfamiliar. This introduction is intended to show how such concepts as national income and expenditure are built up from other and more familiar concepts.

Aggregate *personal* income is largely free from the disadvantage of unfamiliarity for apart from one component it consists simply of the sum of the incomes of all the individuals normally resident in a country. These incomes may arise from work or from the ownership of property or they may be received from public authorities, as are old-age pensions, unemployment benefit and the interest on the national debt, without the receivers participating in current economic activity. Receipts of a capital nature are naturally not included and in the figures given here gifts between persons are excluded unless they are given to or received from persons abroad.

Personal income as here defined includes, in addition to the income received by individuals, the income accruing to charities and other non-profit-making bodies; for to separate these would involve complications, particularly in dealing with expenditure, in return for which very little advantage would be gained.

Corresponding to this concept of personal income before tax there is a concept of outlay. This is composed of personal expenditure on consumers' goods and services, personal payments of direct taxes and the balance, or saving, which forms a net addition to personal wealth.

Saving as thus defined appears as a residual figure, being what is left of personal income after deducting outlay on consumers' goods and services and direct taxes. It can also be regarded as the sum of net personal lending and personal capital formation. Looked at in this way saving appears as the sum of the cash outlays by persons on all forms of assets and financial claims including assets that have just been produced, such as new houses. This is a net sum in the sense that personal sales of such items are reckoned as negative outlay.

An account can thus be formed which shows on one side the sources from which persons get their income and on the other the way in which they spend it. This is set out for 1938 in table 1. This and the following eight tables all relate to 1938, which is chosen as an example since it is the only peace-time year in the series and the only year for which sufficient information is at present available on all aspects of the British economy. Wherever information can be provided for the war years a reference (in square brackets) is given to the number of the corresponding item in the main tables, 31 to 35. These numbers are intended solely for reference purposes and the concept referred to may appear positively in one place and negatively in the other. Throughout, the annual figures relate to the United Kingdom and to the calendar and not the financial or fiscal year except where otherwise stated.

Remittances from abroad, item 4, are here included, as is natural, in personal income before tax and are similarly included in private income before tax in table 3. The estimate is necessarily rough and it has proved impossible to make similar estimates for the more recent years. Accordingly elsewhere and particularly in tables 10 and 32, these remittances are excluded from income and to preserve the balance of the account are deducted from consumers' expenditure. An allowance for this adjustment is included in item 13 of table 21.

TABLE 1

**Personal Income and Outlay
United Kingdom 1938**

(£ million)

1. Rent, interest and profit received by persons [19] ...	1,612	6. Personal expenditure on consumers' goods and services ([7] or [27+28+29] <i>plus</i> item 4 opposite) ...	4,178
2. Wages, salaries and the pay and allowances of the Forces [20+21] ...	2,913	7. Direct taxes [30+31+32] ...	468
3. Transfer payments from public authorities other than national debt interest included in item 1 above [22 to 25] ...	279	8. Saving [33+34] ...	183
4. Remittances from abroad (deducted from outlay in [7] and [27]) ...	25		
5. Personal income before tax ([26] <i>plus</i> item 4 above) ...	4,829	9. Personal outlay ([35] <i>plus</i> item 4 above) ...	4,829

In this table personal saving (item 8) is obtained as a residue ; that is, by subtracting the sum of items 6 and 7 from item 5. As explained above, the figures could in principle be arrived at by a more direct approach, but not enough information is available on the purchase and sale of assets and claims by persons to permit anything more than a broad check of the general size and movement of the estimates obtained indirectly.

In addition to personal income there is also some other *private* income, mainly composed of the undistributed profits of companies, which is either added to business savings or used to pay taxes on business income such as National Defence Contribution, Excess Profits Tax and income tax on business saving. The sums involved in 1938 are shown in table 2.

TABLE 2

**Other Private Income and Outlay
United Kingdom 1938**

(£ million)

1. Other private income before tax [36] ...	259	3. Direct taxes [38+39] ...	77
2. Other private income before tax ...	259	4. Saving [40+41] ...	182
		5. Other private outlay ...	259

These two accounts may be added together. The resulting table shows the income accruing to the private sector of the economy (*i.e.* persons and businesses other than those operated by public authorities) and the disposition of this income between consumption, direct taxes and net additions to accumulated wealth. The bulk of these incomes is earned in productive activity ; that is, in the production of goods

and the rendering of services of one kind or another. But a part is obtained as a transfer from public authorities and another (much smaller) part as a transfer from abroad. It will be observed that if the amounts transferred to persons from public authorities, such as interest on the national debt or old age pensions, are increased, private income is correspondingly increased even though the public authorities cover their expenditure by taxes or by borrowing from the private sector.

In a similar way the greater part of outlay is spent on home production of one sort or another. But a part is spent on imported goods (including those imports, such as raw materials, which are incorporated in home production) and a part is transferred abroad in the form of remittances. Yet another part is transferred to public authorities in the form of taxes, while the balance, saving, is used to finance capital formation or the borrowing of other sectors of the economy, notably, in war time, the central government.

The result of adding together the items in tables 1 and 2 is presented in table 3. In this table some of the items are further subdivided under headings to which reference will be made later. The subdivisions in this and the following three tables are in some cases necessarily more approximate than the main totals but they serve to demonstrate the interrelations of different parts of the economic system.

TABLE 3
Private Current Account
United Kingdom 1938
(£ million)

1. Income from economic activity [6 - 56] 4,592	5. Personal expenditure on consumers' goods and services ([7] or [27+28+29] <i>plus</i> item 3 opposite)—
2. Transfers from public authorities [72]—	(a) Factor cost—
(a) National debt interest ... 192	(i) Home production—
(b) Other 279	(a) Current factor cost 2,670
3. Remittances from abroad (deducted from outlay in [7] and [27]) 25	(β) Depreciation and maintenance ... 269
	(ii) Imports 668
	(b) Indirect taxes 561
	(c) Remittances abroad ... 10
	6. Direct taxes [48] 545
	7. Saving [85+86] 365
4. Private income before tax ([43] <i>plus</i> item 3 above) ... 5,088	8. Private outlay ([44] <i>plus</i> item 3 above) 5,088

Some of the items in this table call for comment. It will be noticed that item 2, transfers from public authorities, includes national debt interest along with health and unemployment benefits, etc., comprehended under the term "other." It may be wondered why the interest received on money lent to the government in return for securities which form part of the national debt is regarded as a transfer and not as income from economic activity as is the return on commercial lending. The answer lies in the fact that with trifling exceptions the national debt has been incurred

in war-time and the money borrowed has been devoted to meeting the costs of war. As a consequence the debt has very little counterpart in the form of productive assets. Speaking generally commercial interest can be paid because the money borrowed is put to a use which yields a measurable return while if the asset purchased with the money becomes worthless or disappears, the interest payments can only be paid from some other sources available to the borrower. In the case of the national debt the money borrowed has mainly been absorbed in meeting the costs of war and almost no assets yielding a measurable return exist. Accordingly, it is thought to be less misleading to treat these interest payments as a transfer than to force the analogy with commercial interest payments.

This method of treatment has certain other advantages. For example, the measure adopted for income from economic activity on this basis is independent of the methods adopted to finance past wars. If national debt interest were included in income earned from productive activity the measure of this income in 1938, for example, would be made to depend on the extent to which the war of 1914-18 had been financed by borrowing rather than taxation even though this difference had no effect on the economic activity actually going on in 1938.

The interest on other forms of borrowing by public authorities is included in income from economic activity. It is only interest on the national debt that is excluded in view of the special circumstances described above.

The total amount which consumers spend on goods and services of all kinds is the sum of the items included in item 5. The reason for giving the particular analysis shown lies in the relationship between the transactions shown in this table and those appearing in the three tables that follow. The important point at the moment is that this classification is exhaustive.

The term "current factor cost" comprises those elements in the value of consumers' purchases which form the remuneration of all in the United Kingdom who contribute whether by labour, management, enterprise or property, *i.e.*, the factors of production, to the total value of goods and services of all kinds bought by consumers. But in addition to these charges and profits, other elements of cost must be met out of sales proceeds; namely, depreciation and maintenance, the value of imported goods and services entering into consumers' purchases and indirect taxation. These items cover the whole cost of what consumers buy from producers and distributors in this country. In addition, however, consumers import certain goods and services direct from abroad and make certain remittances abroad. These transactions appear as part of item 5 (a) (ii) and in item 5 (c).

The taxes shown in table 3 appear under two heads; indirect taxes in item 5 (b) and direct taxes in item 6. This distinction accords fairly closely with ordinary usage; direct taxes are taxes levied on income, such as income tax, surtax, and Excess Profits Tax, and on accumulated wealth, such as death duties; while indirect taxes are those levied on goods and services and chargeable as a cost against the proceeds of sale, such as customs and excise duties, purchase tax and local rates. The purpose of a distinction of this kind is to separate those taxes which directly affect relative prices from those which do not. A clear line of division cannot be attained in practice and this simple line of demarcation is adopted from practical considerations.

Table 3 covers a wide range of transactions but by no means the whole field. For example, the receipts and payments of public authorities lie largely outside this statement and appear in part and only incidentally in items 2, 5 (b) and 6. Accordingly, an account similar to table 3 is set up for public authorities in table 4.

The term "public authorities" in this context comprises the central government, certain extra-budgetary funds such as the national health insurance funds and the various war risks insurance accounts, besides a host of smaller accounts, and local

TABLE 4

**Current Account of Public Authorities
United Kingdom 1938**

(£ million)

9. Income from public property, trading, etc. [56] ...	27	13. Goods and services [76]—	
		(a) Factor cost—	
10. Direct taxes [48] ...	545	(i) Home production—	
		(a) Current factor cost ...	634
11. Indirect taxes [52]—		(β) Depreciation and maintenance ...	62
(a) Private—		(ii) Imports ...	80
(i) Current account ...	561	(b) Indirect taxes ...	28
(ii) Capital account ...	19	(c) Debt interest and other current payments abroad	10
(b) Public authority—			
(i) Current account ...	28	14. Subsidies [65] ...	15
(ii) Capital account ...	8	15. Transfers to the private sector [72] ...	471
(c) Overseas ...	22	16. Saving [80—60] or [87] ...	—90
		17. Outlay of public authorities	1,210
12. Income of public authorities	1,210		

authorities. Table 4 shows that apart from certain profits received from participation in economic activity, nearly the whole of the income of public authorities is derived from taxation; that is, from transfers mainly from the private sector of the economy. It will be seen, for example, that item 10 on the income side of table 4 may be set against item 6 on the outlay side of table 3, while items 11 (a) (i) and 5 (b) also correspond.

On the outlay side, item 13, which relates only to current goods and services and excludes goods of a capital nature, is subdivided on the same general lines as item 5 of table 3. It will be seen that a part of the cost of goods and services purchased by public authorities is indirect taxation and that accordingly item 13 (b) corresponds to item 11 (b) (i) on the opposite side of the account.

Item 14, subsidies, is peculiar to this account. The term is used here to mean a charge incurred by a public authority with the object of enabling the general public to buy a commodity or service at less than the price which would otherwise have to be paid. It does not include expenditure by public authorities in financing public services such as education or hospitals.

There are in practice four main types of public authorities' transactions. Such a transaction may be regarded either as a trading loss, or as a purchase of goods or services which are then provided free or at less than cost to the recipients, or as a subsidy in the sense in which the term has just been used, or as a transfer payment in kind.

If the transaction were a private one, the excess of the buying over the selling price would normally be regarded as a loss. The same is true in the case of a public

authority if the transaction in question is intended to be a commercial one; that is, if the authority is operating a commercial concern such as an electricity undertaking, with the object of covering its costs or making a profit, and in fact makes a loss. But with public authorities this is not the common case.

It may be, as in the second case above, that the public authority is wholly financing or helping to finance a common service. This is the case, for example, with expenditure on education since it would clearly be inappropriate to regard the excess of the cost over the receipts from fees as a loss. Such expenditure therefore is regarded simply as expenditure on goods and services by the public authority in question.

The third possibility is that in buying high and selling low the public authority is incurring a charge in order to provide a subsidy in the sense defined above. Subsidies may take the form either of a payment to producers in relief of costs or, as is more usual in war-time, of a differential in the buying and selling price of the public authority paying the subsidy.

Finally, the transaction may be regarded as a transfer payment in kind. This method of treatment has been adopted in the case of certain goods provided free of charge such as medical benefits under the national health insurance schemes.

These examples indicate the sort of problem that arises in any attempt at an economic classification of the transactions of public authorities. Border-line cases will always occur in which a particular transaction could with equal propriety be classified one way or another, but the distinctions that have just been drawn seem from experience, to form a useful basis for classification.

No more need be said of item 15, transfer payments, except to note that it corresponds to item 2 in table 3.

Item 16, saving, is equal to the net capital formation of public authorities less their net borrowing. The fact that the figure is negative means that public authorities did not cover the whole of their current expenditure out of revenue; in other words, their net borrowing was in excess of their net capital formation (mainly buildings, roads and equipment for public utilities and services). It should be noted, however, that no part of war expenditure is treated as capital formation even if it is on such things as factories and lorries. In view of the practical difficulties of deciding how far war expenditure adds to the country's capital wealth it is thought less misleading to regard all war expenditure as current and to include assets in capital formation only when they are disposed of for some peace-time purpose. This is not an important matter in 1938, but the consequences of this method of treatment should be borne in mind in interpreting war-time figures of the expenditure by public authorities on current goods and services.

Tables 3 and 4 show the current income and outlay of the two sectors, private and public authority, which together cover the whole of the British economy. Only incidentally, however, do they provide any information on capital transactions and in order to bring these into the picture it is necessary to introduce a combined capital account. This is provided in table 5.

Table 5 shows on the outlay side the gross additions to the country's capital equipment of all kinds including stocks and work in progress and the net balance of capital transactions with countries overseas. On the receipts side it shows the extent to which saving and allowances for depreciation and maintenance respectively financed the total outlay. It should be noted that the amount shown in item 19 represents all such sums wherever they may occur on the outlay side of tables 3 to 6 and not simply the sums shown in the two items on the opposite side of this account which relate solely to depreciation and maintenance incurred in the production of

TABLE 5

**Combined Capital Account
United Kingdom 1938**

(£ million)

18. Saving—		21. Domestic gross capital formation—	
(a) Private [85+86] ...	365	(a) Private [91]—	
(b) Public authority [87]...	—90	(i) Factor cost—	
		(a) Home production—	
19. Sums allowed for depreciation and maintenance [88] ...	440	(1) Current factor cost	410
		(2) Depreciation and maintenance ...	41
		(β) Imports ...	80
		(ii) Indirect taxes ...	19
		(b) Public authority [93]—	
		(i) Factor cost—	
		(a) Home production—	
		(1) Current factor cost	188
		(2) Depreciation and maintenance ...	19
		(β) Imports ...	20
		(ii) Indirect taxes ...	8
		22. Net lending to or purchase of assets and financial claims from overseas [94] ...	—70
20. Saving and sums allowed for depreciation and maintenance ...	715	23. Gross capital formation ...	715

capital equipment and works. The net addition to the capital position at home and abroad can be obtained by subtracting item 19 from item 23. The result of this calculation is, of course, equal to item 18.

Finally, it is necessary to introduce an account showing the transactions of the rest of the world with the United Kingdom. This is done in table 6 which sets out receipts by countries abroad from the United Kingdom on the left-hand side and payments to the United Kingdom on the right.

Most of the items in table 6 have already appeared in tables 3 to 5. For example, payments for imports entering into consumers' goods and services are included in item 5 of table 3 while the corresponding receipts by countries abroad appear in item 24 of table 6. Again, net interest and profits on British overseas investments appear as a payment by countries abroad in item 29 of table 6 and as a receipt by the private current account included in item 1 of table 3. The principal exception is item 28, payments for British exports of all kinds, but even here some of the components have already appeared. For example, item 28 (b) corresponds to item 11 (c). The "imports" shown in item 28 relate to the imports contained in British exports.

Between them, these four accounts (tables 3 to 6) cover the whole economy and they have been numbered consecutively to emphasise their essential unity. It

TABLE 6

Overseas Account

Transactions of the Rest of the World with the United Kingdom 1938

(£ million)

24. Receipts by countries abroad from the United Kingdom for merchandise, services and dues, including tourists' expenditure—	28. Payments to the United Kingdom by countries abroad for merchandise, services and dues, including tourists' expenditure—
(a) Private—	(a) Factor cost—
(i) Current 668	(i) Home production—
(ii) Capital 80	(a) Current factor cost 497
(b) Public authority—	(β) Depreciation and maintenance ... 49
(i) Current 80	(ii) Imports 100
(ii) Capital 20	(b) Indirect taxes 22
(c) Overseas 100	
25. Receipts by countries abroad from the United Kingdom government in respect of debt interest and other current payments 10	29. Interest and profits on United Kingdom overseas investments, <i>less</i> commercial interest and profits received by countries abroad from the United Kingdom 205
26. Remittances received from the United Kingdom 10	30. Remittances to the United Kingdom 25
	31. Net lending to or purchase of assets and financial claims from the United Kingdom [94] 70
27. Receipts by countries abroad from the United Kingdom 968	32. Payments to the United Kingdom by countries abroad ... 968

would, of course, be possible to subdivide some of the accounts so as to show the interactions of receipts and payments in greater detail. It would also be possible to extend the system so as to take account of transactions which are not as it were on the surface but take place within the business and financial system. Information for these extensions is not available, but even so the present set of accounts makes it possible to compile most of the more important national income, product and expenditure tables and to show how these are related to the simpler accounts from which they are built up.

Broadly, there are three national income or product concepts that need to be considered. They may be called the net national income (or product at factor cost), the net national product at market value and the gross national product. The first is set out in table 7.

The numbers in round brackets refer to the items in tables 3 to 6 from which this table is derived.

TABLE 7

Net National Income (or Product at Factor Cost) and Expenditure United Kingdom 1938

(£ million)

1. Income from domestic activity—		4. Domestic expenditure on United Kingdom goods and services at current factor cost—		7. Personal expenditure on consumers' goods and services at market prices (5)	4,178
(a) Private (1-29) ...	4,387	(a) Current—		8. <i>less</i> Remittances from abroad (3) ...	-25
(b) Public authority (9) ...	27	(i) Private (5aia) ...	2,670	9. Expenditure by public authorities on current goods and services at market prices (13)	814
2. Interest and profits on United Kingdom overseas investments <i>less</i> commercial interest and profits received abroad from the United Kingdom (29) ...	205	(ii) Public authority (13aia + 14) ...	649	10. Domestic gross capital formation (21) ...	785
		(b) Capital (gross)—		11. <i>less</i> Sums allowed for depreciation and maintenance (19) ...	-440
		(i) Private (21aia) ...	410	12. Net lending to or purchase of assets and financial claims from overseas (22) ...	-70
		(ii) Public authority (21bia) ...	188	13. Subsidies (14) ...	15
		5. Expenditure by the rest of the world—		14. <i>less</i> Indirect taxes (11) ...	-638
		(a) On United Kingdom goods and services at current factor cost (28aia) ...	497	15. Net national expenditure at factor cost	4,619
		(b) Interest and profits on United Kingdom overseas investments <i>less</i> commercial interest and profits received by countries abroad from the United Kingdom (29) ...	205		
3. Net national income (or product at factor cost) ...	4,619	6. Income - generating expenditure ...	4,619		

The first and third columns of this table build up to the net national income and expenditure totals on the basis used in table 31 of section V for the years 1938-44. The income column does not distinguish between income from different sources such as wages, profits, etc., only because in order not to overload tables 3 to 6 with unnecessary detail these distinctions were not made there. The middle column is a variant of the final one which from certain points of view is the more useful, since it shows the extent to which current resources are used up in meeting different types of need.

The net national income column, *i.e.*, the first of table 7, is obtained by picking out from tables 3 to 6 those items which form part of the income from economic activity accruing to any sector of the British economy. Clearly, such income cannot appear on the receipts side of a capital or overseas account and will be confined therefore to the first two of the four main accounts. From the left-hand side of table 3 only item 1, income from economic activity, is selected since the remaining items arise not from any participation in economic activity but simply as transfers from public authorities and overseas respectively. Similarly, in table 4 only item 9, income from public property, trading, etc., is required since all the remaining items are transfers of one kind or another and do not accrue to public authorities from their participation in economic activity.

In a similar way the items in the second column in table 7 are obtained by picking out those items in the right-hand side of tables 3 to 6 which give rise to British incomes from economic activity. Such items arise on each of the four accounts. In table 3 there is only one, namely, the current factor cost of home-produced goods and services, which appears in item 5, since all the remaining items are transfers to other accounts. In table 4 not only the current factor cost of home-produced goods and services, which appears in item 13, but also subsidies, item 14, come into this category since subsidies are here regarded as charges incurred to enable the general public to make certain purchases at less than the cost to the producer. In tables 5 and 6 three items composed of the current factor cost of home-produced goods and services which appear in items 21 (a), 21 (b) and 28 are required along with the net interest and profit on British overseas investments which appears in item 29 of table 6.

The third column is obtained by a rearrangement of the items of the basic tables and corresponds to the form of presentation previously adopted and shown for each year since 1938 in section V, table 31. The general procedure can be seen from the case of consumers' expenditure. This item is put down in its entirety, that is item 7 of table 7 corresponds to the sum of the elements of item 5 in table 3. But depreciation and maintenance are deducted in item 12, imports and remittances abroad in item 13 and indirect taxes in item 15. A similar line of argument applied to the other elements of the table demonstrates that the components of items 6 and 15 of table 7 are derived from different arrangements of exactly the same elements.

From many points of view the net national income (or product at factor cost) and expenditure are the most important of all these aggregates. They record the value of the product of British labour and capital at home and overseas, as measured by the incomes received from economic activity or by the expenditures which give rise to these incomes. It is this total that is divided year by year between consumption, whether by consumers or public authorities, and additions to capital wealth, whether at home or abroad. If it is necessary to increase one item of expenditure, say, government expenditure on goods and services, which has increased very greatly since 1938 even after allowance for the rise in prices, then either the total value of the product must be raised, for example, by employing resources more fully, or other forms of expenditure must be reduced, for example, by the direct restriction of certain types of output and imports.

Looked at from a longer term point of view it is this same sum which, when adjusted for changes in the value of money, measures the net value of the production of goods and services of all kinds and therefore the amount of the product in terms of the common denominator money which is available either for raising the material standard of living or for increasing the country's capital wealth.

The income (or product) and expenditure totals of table 7 are qualified by the term "net". In the first column this means that the rent and profit components of income are reckoned after deduction of sums allowed for depreciation and maintenance. In the third column the same amount is deducted (in item 11 of table 7) from the sum of current expenditure and gross capital formation, since otherwise it would appear twice, once in sales proceeds and again in gross capital formation. In the second column the whole of gross capital formation duly appears, as it should, as part of income-generating expenditure irrespective of how it is financed.

The expenditure total shown in item 15 of table 7 is said to be "at factor cost". This means that from the total actually spent indirect taxes are deducted since this amount of the sales proceeds is taken by the taxing authority and is treated as a business cost and not as a part of income, while subsidies are added on since they represent a source of income available to producers in addition to the proceeds of sale. The resultant, or "factor cost", represents what producers and distributors, their employees, landlords and creditors, in a word the factors of production, receive for the sale of their products and services after duplication has been removed. An example will make this clear. Out of the price of 2s. 4d. paid for twenty cigarettes

approximately 1s. 9d. goes to the Exchequer in the form of tobacco duty, and other minor levies which are here treated as indirect taxes, such as rates on business premises and employers' national insurance contributions, have also to be deducted from the remainder. Thus out of the original 2s. 4d. rather less than 7d. is the factor cost left over to be paid in wages, salaries, interest and rent or retained as gross profit by the makers and distributors of the cigarettes and the materials and services which enter into them.

It is convenient at this point to describe the treatment of lend-lease and mutual aid which become of great importance in the war years. In general, assistance of this kind received by this country is excluded altogether, being regarded as part of the product of the giving rather than the receiving country. In the case of warlike stores which are retained by the government for war purposes no difficulty arises since the figures are simply omitted from all elements of the national expenditure. Where the goods received are sold to the public, as in the case of foodstuffs, the position is more difficult. The value of foodstuffs sold naturally appears in consumers' expenditures but apart from the distributors' margin, no corresponding income is generated in this country as a result of the sale. Accordingly, it is necessary to deduct an amount equal to the government's proceeds from the sale of lend-lease goods from government expenditure on goods and services. The interpretation of this deduction is that to the extent of the sales proceeds British government expenditure is met indirectly from lend-lease sources and not out of taxation or borrowing.

Conversely, the value of goods and services provided by the United Kingdom to Allies under mutual aid is included in government expenditure on goods and services since it forms part of the product of this country's resources.

The other concepts relating to national income, product and expenditure may readily be derived from the tables so far presented. To obtain the second concept, namely, the net national product at market value, it is necessary to add indirect taxes to, and to deduct subsidies from, the net national income (or product) shown in item 3 of table 7. Correspondingly, on the expenditure side it is necessary to include items 7 to 12 of table 7 and omit items 13 and 14. The result is that the net national product at market value tends to increase when indirect taxation replaces direct taxation, and *vice versa*, since the former affects market values in a way in which the latter does not. Thus to some extent both the indirect taxation and also the expenditure it finances enters into the final result. These changes lead to the following table :—

TABLE 8

Net National Product at Market Value, United Kingdom 1938
(£ million)

1. Net national product at factor cost [6] ...	4,619	5. Personal expenditure on consumers' goods and services less remittances from abroad [7]...	4,153
2. Indirect taxes [52] ...	638	6. Expenditure by public authorities on current goods and services [8] ...	814
3. less Subsidies [65] ...	—15	7. Domestic net capital formation [9+10] ...	345
		8. Net lending to or purchase of assets and financial claims from overseas [13] ...	—70
4. Net national product at market value ...	<u>5,242</u>	9. Net national expenditure ...	<u>5,242</u>

The third concept, namely, the gross national product is obtained by adding sums allowed for depreciation and maintenance to the net national product at market value

while on the expenditure side domestic gross capital formation is substituted for the net figure shown in table 8. As the second column of table 7 shows, the expenditure on renewals and replacements actually carried out is already included in the net national product. Thus the gross national product includes both the financial provision for depreciation and maintenance and also the cost of work done out of this provision. These changes lead to the following table:—

TABLE 9

Gross National Product at Market Value, United Kingdom 1938
(£ million)

1. Net national product at market value 5,242	4. Personal expenditure on consumers' goods and services, less remittances from abroad [7] 4,153
2. Sums allowed for depreciation and maintenance [88] 440	5. Expenditure by public authorities on current goods and services [8] 814
	6. Domestic gross capital formation [91+93] 785
	7. Net lending to or purchase of assets and financial claims from overseas [94] -70
3. Gross national product at market value 5,682	8. Gross national expenditure... 5,682

It can thus be seen that all the main national income, product and expenditure totals can be extracted from the preceding tables 3 to 6. Table 10 shows as briefly as possible the relationship between the main income and product totals introduced in the foregoing tables. Figures are given for each of the seven years 1938-44.

TABLE 10

Main Income and Product Totals, United Kingdom 1938-44
(£ million)

	1938	1939	1940	1941	1942	1943	1944
1. Personal income before tax [26]	4,804	5,042	5,744	6,436	7,088	7,684	8,043
2. <i>plus</i> Other private income before tax [37] ...	259	369	615	919	962	980	975
3. Private income before tax [43]	5,063	5,411	6,359	7,355	8,050	8,664	9,018
4. <i>plus</i> Income of public authorities from public property, trading, etc. [56]	27	23	30	45	84	69	47
5. <i>less</i> Transfer payments from public authorities to the private sector [72]	-471	-464	-476	-523	-580	-654	-731
6. Net national income (or product at factor cost) [6]	4,619	4,970	5,913	6,877	7,554	8,079	8,334
7. <i>plus</i> Indirect taxes and similar levies net of subsidies [52-65] ...	623	687	846	1,097	1,208	1,286	1,260
8. Net national product at market value	5,242	5,657	6,759	7,974	8,762	9,365	9,594
9. <i>plus</i> Sums allowed for depreciation and maintenance [88]	440	450	465	475	475	475	475
10. Gross national product at market value ...	5,682	6,107	7,224	8,449	9,237	9,840	10,069

These different totals are useful for different purposes. Thus in any problem relating to the demand for different commodities by all consumers in the country it would be natural to start with personal income (item 1 of table 10) and perhaps deduct direct tax payments since these represent an unavoidable commitment. The same would be true if it were necessary to estimate how personal saving would vary if "income" varied by a given amount. On the other hand if a comparison is made (as in section III(B) below) of the total of taxes with the "income" out of which it is paid it is clearly right to take private income before tax (item 3 of table 10).

Again, any problem turning on the availability or use of resources is best handled in terms of the net national income (or product) (item 6 of table 10) and the associated measure of expenditure. It will be noticed that in table 7 in which a further analysis is given of expenditure in this sense, the component items follow substantially the same lines as were adopted in the White Paper on Employment Policy (Cmd. 6527 of May 1944).

The remaining two totals (items 8 and 10 of table 10) may be useful for certain purposes and have the advantage of being broadly comparable with figures frequently quoted in other countries in discussions of national income and product.

II.—CENTRAL GOVERNMENT EXPENDITURE AND THE NATIONAL ECONOMY

The magnitude of the economic and financial problem of directing a large proportion of the country's resources to war purposes can be seen by comparing expenditure on goods and services by public authorities with an appropriately defined national product as set out in section I.

Table 11 shows the expenditure of all public authorities on goods and services of all kinds. After adjustment for indirect taxes and subsidies this total is compared with the net national income (or product), item 3 of table 7.

TABLE 11
Expenditure on Goods and Services by Public Authorities
United Kingdom 1938-44
(£ million)

	1938	1939	1940	1941	1942	1943	1944
1. Central government							
(a) War [122]	353	743	2,471	3,571	3,944	4,552	4,591
(b) Other [123+124] ...	116	130	135	142	151	149	148
2. Extra-budgetary funds and local authorities							
(a) War	5	52	104	129	118	95	87
(b) Other	465	435	371	362	364	355	353
3. Total at market value [76+80]	939	1,360	3,081	4,204	4,577	5,151	5,179
4. less Net indirect taxes included in market value	-36	-54	-136	-220	-234	-238	-235
5. Total adjusted for net indirect taxes	903	1,306	2,945	3,984	4,343	4,913	4,944
6. Net national income (or product at factor cost) [6]	4,619	4,970	5,913	6,877	7,554	8,079	8,334
7. (5) as a percentage of (6)	20	26	50	58	57	61	59

This expansion in the expenditure of public authorities on goods and services is partly due to the war-time rise in prices, which has also affected the value of the net national product. The expansion has, however, been large even when allowance is made for this fact, and has in part been made possible by an increase in the country's output of goods and services. This has in turn been due to a rise in employment and in average hours of work and also to shifts in industrial structure and the increases in output per manhour which have taken place in certain industries. The following table shows the level of employment in Great Britain in all occupations, except private domestic service, including the armed forces and whole-time civil defence services. Women doing part-time work, who at the middle of 1944 amounted to some 900,000, are each counted as a half in this table.

TABLE 12

**Numbers Employed at Midyear including Members of the Armed Forces and Whole Time Civil Defence
Great Britain**

(Million)

	1938	1939	1941	1942	1943	1944
Males aged 14-64	13.2	13.6	15.1	15.1	15.0	14.9
Females aged 14-59	4.6	4.8	6.0	6.9	7.2	7.1
Total of above	17.8	18.4	21.1	22.0	22.2	22.0

Average hours of work have risen since before the war and in the industries covered by the Ministry of Labour earnings enquiries have changed as follows since 1938 :—

TABLE 13

**Average Weekly Hours Worked in the Principal Industries
United Kingdom**

	October 1938	July 1943	January 1944	July 1944
Males	47½	52¼	51¼	50½
Females	43¾	45¾	45¼	44½
Total	46½	50	49¼	48½

The factor of output per manhour cannot be measured satisfactorily even within an industry in view of the changes that have taken place in the character of different products. In certain industries large increases are known to have taken place

whilst in others war-time difficulties of one sort or another such as changes in the type of labour available appear to have prevented any rise and in some cases even to have led to a fall. On the average it seems probable that some rise has taken place. But there seems little doubt that the main sources of increased output per manhour are to be found in the shift of employment from industries with a relatively low to those with a relatively high output per head and in the economies that have arisen through the greatly increased scale of war industries.

It would not have been sufficient simply to rely on a rise in employment, hours of work and productivity to provide or release resources for direct war purposes. It has also been necessary to curtail current consumption as far as possible and to live on accumulated wealth by failing to maintain buildings, equipment and stocks not essential for war purposes and by selling assets and financial claims abroad.

It can be seen from table 11 that even before account is taken of the rise in prices there was a decline in the expenditure on goods and services other than for war purposes by public authorities. Consumers' expenditure, which is dealt with in greater detail in the following section, rose in money terms but fell when account is taken of the rise in prices. This change is brought out in table 14 which shows the market value of consumers' expenditure adjusted for indirect taxes and subsidies at current and constant prices.

TABLE 14

**Consumers' Expenditure Adjusted for Indirect Taxes and Subsidies
United Kingdom 1938-44**

	1938	1939	1940	1941	1942	1943	1944
Consumers' expenditure adjusted for indirect taxes and subsidies							
(a) At current prices (£ million) [27 + 28] ...	3,607	3,672	3,762	3,813	3,953	3,972	4,183
(b) At 1938 prices (£ million) ...	3,607	3,612	3,176	2,920	2,894	2,798	2,898
(c) Index of (a) : 1938=100	100	102	104	106	110	110	116
(d) Index of (b) : 1938=100	100	100	88	81	80	78	80

It has not been possible during the war to measure directly the extent to which the country has lived on domestic capital but an indirect measure can be obtained. The estimates of private domestic net capital formation (included in item 3 of table 15) are obtained as a residue (except in 1938) after all the other elements in the net national income (or product) and expenditure have been taken into account. These figures and the net change in the overseas position are brought together in table 15.

TABLE 15

Net Changes in Capital Wealth
United Kingdom 1938-44
 (£ million)

	1938	1939	1940	1941	1942	1943	1944
1. Gross capital formation at home [91+92+93] ...	785	827	541	394	397	352	287
2. <i>less</i> Sums allowed for depreciation and maintenance [88] ...	-440	-450	-465	-475	-475	-475	-475
3. Net capital formation at home and war losses made good [9+10+11+12]	345	377	76	-81	-78	-123	-188
4. Net lending abroad and purchase of assets and financial claims from overseas [94]	-70	-250	-796	-795	-666	-684	-655
5. Total (sum of items (3) and (4))	275	127	-720	-876	-744	-807	-843

In this table no deduction is made for loss or damage due to enemy action. Thus the sums shown for depreciation and maintenance are simply the normal allowances. On the other hand, as stated in section I, page 9, no government capital expenditure for war purposes is included in capital formation.

Thus, apart from receipts under lend-lease and mutual aid, real resources are made available for war purposes either by increased production, by other parts of the economy "doing without", by living on accumulated wealth, or by borrowing from abroad. But this is only one way of looking at the problem. From a financial point of view an increase in production does not by itself put more resources at the disposal of the government: what happens in financial terms is that total income is raised, so that with given rates of taxation more revenue will accrue to public authorities and with a given tendency to save more will be saved. At the same time, the financial counterpart to the economic transfer of resources is seen in increased revenue from taxes, due to higher incomes and to higher rates of taxation, and increased borrowing by public authorities either out of increased saving, the disposition to which has been greatly stimulated, or out of the sums released by running down equipment and stocks or by selling assets and borrowing from abroad.

The financial approach to the problem is essentially the one adopted in table A of Cmd. 6520 which set out the sources of the finance of central government expendi-

ture. The relation between the expenditure of all public authorities on goods and services as shown in item 3 of table 11 and total central government expenditure is shown in the following table :—

TABLE 16

Relation between the Expenditure of all Public Authorities on Goods and Services and Total Central Government Expenditure

United Kingdom, 1940-44

(£ million)

	1940	1941	1942	1943	1944
1. Expenditure of all public authorities on goods and services at market prices [76+80]	3,081	4,204	4,577	5,151	5,179
2. <i>less</i> Expenditure by extra-budgetary funds and local authorities on goods and services [74+75+78+79]	—475	—491	—482	—450	—440
3. <i>plus</i> Expenditure other than on goods and services by the central government including transfers to other public authorities [65+69+125]	738	914	1,011	1,080	1,175
4. Total central government expenditure [61] ...	3,344	4,627	5,106	5,781	5,914

Of the total in item 4, the following amounts were raised from revenue and from net borrowing respectively :—

TABLE 17

The Sources of Central Government Finance

United Kingdom, 1940-44

(£ million)

	1940	1941	1942	1943	1944
1. Revenue [45+49+53] ...	1,254	1,831	2,343	2,881	3,154
2. Net borrowing by the central government [57]...	2,090	2,796	2,763	2,900	2,760
3. Central government expenditure [61]	3,344	4,627	5,106	5,781	5,914

The composition of central government revenue is shown below :—

TABLE 18
The Composition of Central Government Revenue
United Kingdom, 1940-44
 (£ million)

	1940	1941	1942	1943	1944
1. Income tax	469	664	850	1,114	1,265
2. Surtax	78	77	72	74	74
3. National Defence Contribution and Excess Profits Tax	68	231	348	483	519
4. Death duties	79	88	94	96	107
5. Customs and excise duties on drink and tobacco	334	426	573	708	745
6. Purchase tax	—	97	113	93	95
7. Entertainments duty	8	15	27	40	46
8. Other customs and excise duties ...	128	135	138	149	201
9. Motor vehicle duties	37	38	32	27	28
10. Receipts under the railway agreement	—	10	54	66	49
11. Other revenue	53	50	42	31	25
12. Central government revenue [45+ 49+53]	1,254	1,831	2,343	2,881	3,154

The ultimate sources of central government net borrowing are shown in table 19.

TABLE 19
The Sources of Central Government Net Borrowing
United Kingdom, 1940-44
 (£ million)

	1940	1941	1942	1943	1944
1. Saving—					
(a) Private (including allowance for accrued taxation) [85+86] ...	1,149	1,491	1,619	1,765	1,698
(b) Extra-budgetary funds and local authorities [78+79-58-59] ...	167	170	175	131	100
2. Sums released by running down domestic capital equipment and stocks including any unspent com- pensation in respect of war risks claims—					
(a) Private [66-10-11-12] ...	-15	316	272	276	257
(b) Local authorities [79] ...	-7	24	31	44	50
3. Net sale of assets and increase in liabilities to countries abroad [94] ...	796	795	666	684	655
4. Central government net borrowing (deficit) [57]	2,090	2,796	2,763	2,900	2,760

The excess of direct tax liabilities on private income over payment is included in item 1 (a) because it forms part of saving in the short run. These sums represent the amount of tax liability which accrues in the period but remains unpaid. In the long run such sums will find their way to the tax collector, but in the short run they appear in additions to past savings.

Item 2 also requires explanation. If sums are set aside to replace equipment, but for one reason or another the replacement has to be postponed until a later period, then these sums are available for some alternative purpose. The same is true of money obtained by the sale of stocks without replacement and of compensation received in respect of war risks claims which is not spent in the period. When allowance has been made for other calls on these sums the total described in the heading to item 2 is reached. Put more precisely, the sums in question have been provided from the following sources :—

- (a) Additions to depreciation, obsolescence and similar funds held by firms, institutions and persons ;
- (b) Depletion of stocks and work in progress held under private finance measured by the reduction in their value as reckoned in the calculation of profits ;
- (c) Sums repaid to lenders and transferred to sinking funds by local authorities ;
- (d) Receipts from the sale of fixed capital assets such as sites and buildings to the central government ;
- (e) Compensation received in respect of war risks claims ;
- (f) *less* Private gross capital formation including replacement of war losses and the increase in work in progress on government contracts which, being ultimately recoverable from the Exchequer, is shown separately in item 10 of table 31.
- (g) *less* Gross capital formation of local authorities.

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 approximates more closely to the change in the value of stocks than to the value of the quantitative change and to some extent therefore the basis of valuation of stocks differs from the one adopted for other forms of capital assets. 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. Similarly, on the other side of the table 31 this adjustment would require an equivalent downward adjustment to the figures of profits and therefore, also, of income.

Since part of item 2 of table 19 is obtained by difference in table 31, it absorbs the errors in all the other items of that table 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 will enable 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 31 and 32 (items 11 and 34) is comparatively stable. The reason is that 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.

Table 19 shows the ultimate sources of central government net borrowing. These sums can also be classified according to the channels through which they reached the Exchequer :

TABLE 20
The Channels of Central Government Net Borrowing
United Kingdom, 1940-44
 (£ million)

	1940	1941	1942	1943	1944
1. Finance through government agencies [106]	540	243	187	— 73	— 34
2. Post Office and Trustee Savings Banks	119	214	234	301	325
3. National Savings Certificates including increase in accrued interest	167	214	232	297	265
4. Defence Bonds	180	174	134	121	112
5. Other public issues (net) ...	567	1,031	1,047	1,060	898
6. Increase in fiduciary issue ...	50	150	170	150	150
7. Increase in Treasury bills outside government departments and Bank Ways and Means ...	129	279	151	433	537
8. Treasury deposit receipts ...	338	474	155	434	394
9. Tax reserve certificates ...	—	17	453	177	113
10. Central government borrowing [106+115]	2,090	2,796	2,763	2,900	2,760

It is not possible by looking at these tables in isolation to judge how far the situation is satisfactory. There can be no heading in any of them called “inflationary” sources because accounting knows nothing of such matters. A very high figure of personal saving may arise because consumers have foregone a great deal of consumption, because by increased effort they have raised their total income or because a general increase in prices has resulted in a rise in saving and everything else expressed in terms of money. To see the position more clearly other considerations must be taken into account.

It has been the practice in previous years to point to the “residue” of expenditure not covered by revenue, saving, borrowing from or sales of assets to other countries and some other minor sources. This residue was derived principally from the running down and using up of domestic capital equipment. The extent to which the use of such resources is necessary for war purposes may indicate an inflationary position but, on the other hand, it may simply represent the using up of stocks held against emergencies. A better test, perhaps, is the extent to which the pressure on resources has driven up prices, rates of remuneration and incomes and in this way provided the source of the higher money saving.

III.—CHANGES IN THE COMPOSITION OF PRIVATE OUTLAY

It is clear from the preceding section that increased tax payments and saving out of private income have provided the greater part of the finance of the expenditure of public authorities. These increases have come about, partly as a result of changes in rates of tax and partly because money expenditure on goods and services by consumers has not kept pace with the rise in their income. Further, it is only in current money terms that consumption has risen; when measured at constant prices it is seen to have fallen by approximately 20 per cent. between 1938 and 1944.

Private outlay comprises consumption, taxation and saving; each of these components is treated separately in the following paragraphs.

(A) Consumers' Expenditure

The following table, 21, shows the composition of personal expenditure on consumers' goods and services at current market prices:—

TABLE 21

Personal Expenditure on Consumers' Goods and Services at Current Market Prices, United Kingdom 1938-44
(£ million)

	1938	1939	1940	1941	1942	1943	1944
1. Food—							
(a) Household expenditure—							
(i) Bread and cereals, etc.	165	1,168	220	244	246	225	232
(ii) Meat, bacon, etc. ...	275		256	241	275	273	305
(iii) Fish, fresh and canned	43		39	46	36	35	41
(iv) Oils and fats ...	98		65	59	57	57	59
(v) Sugar, preserves and confectionery ...	108		128	112	110	105	101
(vi) Dairy products ...	189		183	194	213	203	202
(vii) Fruit, fresh, canned and dried ...	79		62	32	41	35	43
(viii) Potatoes and vegetables	84		85	119	125	126	134
(ix) Beverages not included below ...	54		52	51	50	46	48
(x) Other manufactured food ...	33		57	51	44	37	42
(b) Other personal expenditure	77	78	90	109	121	119	135
2. Alcoholic beverages—							
(a) Beer, etc. ...	180	195	253	319	374	428	457
(b) Other ...	88	94	100	116	121	138	130
3. Tobacco—							
(a) Cigarettes ...	144	168	215	264	343	412	427
(b) Other ...	32	36	47	55	72	79	79
4. Rents, rates and water charges	491	510	520	515	510	508	508
5. Fuel and light—							
(a) Coal ...	105	104	117	126	122	116	118
(b) Electricity ...	33	35	38	40	42	40	43
(c) Gas ...	39	40	46	48	52	55	59
(d) Other ...	15	17	19	20	21	21	24
6. Durable household goods—							
(a) Furniture and furnishings...	152	146	139	128	114	83	68
(b) Hardware ...	82	77	73	69	60	56	56
7. Clothing—							
(a) Footwear ...	73	78	90	91	97	87	90
(b) All other clothing—							
(i) Men's and boys' wear...	127	131	137	116	123	101	125
(ii) Women's, girls' and infants' wear ...	246	249	269	245	267	241	279
8. Travel, including the purchase of privately-owned vehicles and their running expenses ...	284	263	181	200	214	222	223
9. Services not included above—							
(a) Entertainments ...	68	64	61	83	111	131	140
(b) Postal, telephone and telegraph services ...	29	29	32	37	40	48	54
(c) Acquisition and transfer of property and life assurance	66	66	66	67	68	68	68
(d) Other ...	404	406	405	389	364	346	352
10. Other goods ...	280	286	297	307	300	311	325
11. Income in kind of the armed forces ...	17	29	81	135	146	185	199
12. Total of above items ...	4,160	4,269	4,423	4,628	4,879	4,937	5,166
13. Adjustment ...	—7	—5	—	5	30	50	50
14. Total [7] ...	4,153	4,264	4,423	4,633	4,909	4,987	5,216

Numerous revisions in detail have led to small changes compared with the figures previously given in Cmd. 6520 (table B, p. 5). In interpreting these figures and those of tables 22 and 23 the following definitions should be borne in mind.

First, the figures relate as far as possible to expenditure met out of personal income including that of charities and other non-profit-making bodies as well as individuals. The figures for individual categories relate to purchases in this country even when made by tourists or Dominion and Allied troops. On the other hand they do not include consumers' expenditure abroad out of British personal income. A rough adjustment for these factors is included in item 13 of the table.

Second, 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 item 1 (b), food; the rent of the building in item 4, rent, rates and water charges; the chinaware and cooking utensils purchased in item 6 (b), hardware, and an allowance for the purely service and managerial element of expense in item 9 (c), other services.

Third, 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. Secondhand goods are not included, but an allowance is made in item 9 (c), other services, for the costs, including profit, of handling and reconditioning exclusive of the sums paid to the original owners.

The composition of the sub-groups is set out below :—

- (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) Alcoholic beverages :—
 - (a) Beer, ale, stout and porter.
 - (b) Wines, spirits and other alcoholic drink.
- (3) Tobacco :—
 - (a) Home-produced cigarettes.
 - (b) Home-produced pipe tobacco, cigars, snuff, etc., and all imports of finished tobacco products.
- (4) 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.
- (5) Fuel and light :—
 - (a) Coke, paraffin, firewood, etc.
- (6) Durable household goods :—
 - (a) Furniture, furnishings, household textiles, floor coverings and musical instruments (including wireless sets, gramophones and accessories).
 - (b) Pottery and glassware, ironmongers' goods, electrical goods, heating and cooking appliances, sewing machines and refrigerators.
- (7) Clothing :—
 - (a) Footwear covers all new boots, shoes, slippers, etc., but not socks and stockings, repairs or repair materials.
 - (b) All other clothing covers all kinds of garments, dress materials, millinery, haberdashery, etc. The expense of making-up customers' materials is included, but not alterations or repairs. All dress materials are allocated to (b) (i), and so are such things as knitting wool and general haberdashery. Infants for this purpose are children under about four years of age.
- (8) Travel—includes all travel paid for out of personal income, and therefore the travel of members of the armed forces when at their own expense, in

all public conveyances, together with the purchase of vehicles by persons and running expenses incidental to their use.

(9) Services not included above :—

(a) Entertainments—includes theatres, cinemas, music halls, concerts, sporting events and all forms of recreation and amusement.

(c) This item was previously shown separately and not included in consumers' expenditure.

(d) Includes, for example, the services of doctors, nurses, undertakers, domestic servants, hairdressers, etc., hotel and restaurant services, repairs (except house repairs), dealers' margins on secondhand goods, and the hire of domestic heating and cooking equipment.

(10) Other goods—includes chemists' wares, stationery, books and newspapers, fancy goods, jewellery, etc., travel goods, toys and sports goods, soap, polishes, candles and matches, etc.

(11) This item relates to food and clothing only.

(13) Adjustment—the figures in all the previous categories include expenditure in the United Kingdom by tourists from overseas and Allied troops temporarily resident in this country and exclude expenditure abroad by British tourists and members of the armed forces. An adjustment is needed to convert the total to a total of purchases out of British income. The adjustment given here also includes a rough allowance for the excess of remittances abroad from this country over remittances received in this country from overseas.

In previous years figures have been given of aggregate consumers' expenditure in terms of constant prices. It is now possible to provide this information in greater detail. The changes that have taken place in the more important series are given in the following table :—

TABLE 22

Personal Expenditure on Consumers' Goods and Services corrected for Price Changes
United Kingdom 1938-44
(£ million at 1938 values)

	1938	1939	1940	1941	1942	1943	1944
1. Food	1,205	1,216	1,030	941	994	939	998
2. Alcoholic beverages—							
(a) Beer, etc.	180	187	186	213	215	219	228
(b) Other	88	91	82	83	67	66	60
3. Tobacco—							
(a) Cigarettes	144	150	149	165	174	174	175
(b) Other	32	32	30	32	32	29	28
4. Rent, rates and water charges	491	505	508	503	497	496	495
5. Fuel and light	192	194	197	198	194	183	183
6. Durable household goods—							
(a) Furniture and furnishings	152	144	105	70	48	36	30
(b) Hardware	82	75	59	45	33	29	29
7. Clothing—							
(a) Footwear	73	76	68	58	56	53	53
(b) All other clothing							
(i) Men's and boys' wear	127	127	103	70	69	57	69
(ii) Women's, girls' and infants' wear	246	241	201	147	148	137	153
8. Travel, including the purchase of privately-owned vehicles and their running expenses	284	262	164	168	180	186	187
9. Services not included above	567	563	492	450	423	403	403
10. Other goods	280	282	261	225	196	198	205

Table 22 shows that the steepest reductions during the war have been in durable household goods, to which should be added the durable component of the travel category ; i.e., the purchase of new vehicles. This way of freeing productive resources for the war effort has the advantage that the public can, for a time, "make do" with their old furniture and vacuum cleaners without suffering anything like the hardships that would be involved if current production of less durable goods were similarly curtailed.

Durability is not, however, the only criterion. The supply of goods or services which do not meet an essential need has been drastically curtailed, even though the public have no old model in their possession to give some sort of service. The fall in certain services illustrates this point ; for some services such as beauty treatment, hotels and domestic service, are largely non-essential, however desirable, and the public's consumption of these has simply been reduced.

By way of contrast there are several categories which have been reduced very little, or have even shown increases, notably beer, cigarettes, entertainment, rent, etc., and fuel and light. The first three of these can conveniently be considered together. From the consumers' point of view the increased purchases represent a relief from the rigours of war-time life ; on the production side the diversion of resources from the war effort, though not negligible, was small compared with the money sums involved—mainly because so much of the expenditure (even in 1938) represented indirect taxation ; from the general economic standpoint they absorbed a great deal of surplus purchasing power. It is worth noting that in table 22 the rise in beer consumption reflects the *volume* consumed. In terms of alcohol content the rise has been much less, and on this basis the figure for 1944 at 1938 prices is £194 million instead of £228 million.

The category "fuel and light" consists of perishables which mainly serve an essential purpose, so that a large drop was not to be expected. Expenditure on rent and rates reflects the occupation of houses which already exist, and therefore requires very little by way of current resources.

Food and clothing are the principal constituents of the intermediate group. Food as a whole obviously serves an essential need and is highly perishable, but it is possible in war-time to provide an adequate diet at a reduced cost in terms of real resources. Foods with little nutritive value in proportion to their cost can be replaced by simpler types which call for less expenditure of resources ; in general, the diet can be made plainer without sacrificing essential nourishment. Rationing has served to limit the claims of the wealthier classes and to ensure a fair distribution of the limited supplies.

Clothing on the pre-war scale obviously contained a non-essential component, especially as much of it is relatively durable, so that the life of each garment could be prolonged. Rationing has enforced a general reduction in purchases, though this is small in the case of children. The present ration provides adults with about half their pre-war consumption, reckoned by quantity. Under rationing the sale of the cheapest types has been greatly reduced, and this shift up the quality scale accounts for the smallness of the falls shown for 1943, when the number of coupons available to the public was much reduced ; the rises in 1944 mainly reflect the fact that it was a "normal" year in relation to coupon releases, whereas 1943 happened to be a very depressed one.

The following qualifications should be borne in mind in interpreting this table.

First, as far as possible and in nearly all cases of merchandise sales, the value of expenditure at 1938 prices takes account of the changed quality of the goods sold, but not of the services rendered in selling them (*e.g.*, wrapping and delivery, and the provision of a range of choice). In the case of services it has been impossible to allow for quality changes ; railway transport provides an illustration of the importance of this factor.

Second, the "weights" used to combine the different items in the composite groups such as food are essentially prices and this fact is reflected in the series. Thus, to take food as an example, an index of the nutritional value of food consumed

It is possible to show the extent to which certain direct taxes fall on different ranges of income. The table below is a revision of the one given in Cmd. 6520 on p. 14. This table has not been brought up to date since the introduction of the "pay as you earn" scheme has rendered the basic material for 1943 more uncertain than it would otherwise be. It is anticipated that at a later date the scheme will provide more accurate estimates of the distribution of certain incomes than have hitherto been available.

TABLE 25

**Distribution of Private Income by Ranges of Income showing the
Effect of Changes in Income Tax and Surtax, 1938-1942
United Kingdom, 1938**

Range of income before tax £	Number of incomes 000's	Aggregate income before tax 1938 £m	Aggregate income after income tax and surtax at		Proportion of income before tax retained after deduction of taxes at	
			1938-39 rates ⁽¹⁾ £m	1942-43 rates £m	1938-39 rates %	1942-43 rates %
Private income at the disposal of individuals which can be allocated to different ranges :—						
Under 250	...	2,706	2,701	2,641	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
Unallocated private income	—	612 ⁽²⁾	506	...	82.7	...
Total private income ...	—	5,063	4,660	...	92.0	...

United Kingdom, 1942

Range of income before tax £	Number of incomes 000's	Aggregate income before tax 1942 £m	Aggregate income after income tax and surtax at		Proportion of income before tax retained after deduction of taxes at	
			1938-39 rates ⁽¹⁾ £m	1942-43 rates £m	1938-39 rates %	1942-43 rates %
Private income at the disposal of individuals which can be allocated to different ranges :—						
Under 250	...	3,347	3,339	3,245	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
Unallocated private income	—	1,160 ⁽²⁾	...	508	...	43.8
Total private income ...	—	8,050	...	6,334	...	78.7

⁽¹⁾ All rates used in this table are the rates current in the fiscal years 1938-39 and 1942-43.

⁽²⁾ 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 unallocated private income is not the same as other private income shown in item 37 of table 32 since while the undistributed profits of companies and all liabilities for National Defence Contribution and Excess Profits Tax are common to both, the figures in this table contain 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, other private income includes, while unallocated 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 tables 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 32 fall short of the full liability in the present sense since tax accruals in respect of Schedule E are omitted from item 33 of that table for the reason given in the note on p. 50.

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

The change in the distribution of income brought about by changes in taxation can be seen in another way by classifying individuals by ranges of income after tax, *i.e.*, aggregate income as assessed to tax *less* the income tax and surtax payable thereon. This is shown for the fiscal years 1938-39 and 1942-43 in the following table which relates solely to incomes assessed to income tax:—

TABLE 26

Number of Individuals in Different Ranges of Net Income Assessed in 1938-39 and 1942-43

Range of income after tax £	1938-39	1942-43
150-250	4,500,000	7,000,000
250-500	1,820,000	5,300,000
500-1,000	450,000	550,000
1,000-2,000	155,000	117,000*
2,000-4,000	56,000	31,750
4,000-6,000	12,000	1,170
6,000 and over	7,000	80
Total of above	7,000,000	13,000,000

As in table 25, each married couple is regarded as one individual.

The preceding tables show the effect of income tax and surtax on personal incomes in different income ranges, but give no indication of the extent to which direct taxation falls on different types of income or property. An attempt has been made to provide this information in the following table:—

TABLE 27

Direct Taxation Paid in each Year in respect of the Possession of Different Types of Income or the Ownership of Different Types of Property

United Kingdom, 1938-44

(£ million)

	1938	1939	1940	1941	1942	1943	1944
1. Arising out of the possession of income:—							
(a) Rent of land and buildings—							
(i) Income tax	58	65	83	105	120	125	125
(ii) Surtax	7	7	8	8	8	8	8
(b) Interest and profits—							
(i) Income tax	205	222	302	401	399 ⁽³⁾	537	595
(ii) Surtax	43	48	58	57	53	54	54
(iii) N.D.C., E.P.T., etc.	15	28	68	231	348	483	519
(c) Salaries—							
(i) Income tax	43	54	79	130	219	267	310
(ii) Surtax	9	10	12	12	11	12	12
(iii) Employees' contributions	4	4	5	7	7	7	7
(d) Wages—							
(i) Income tax	2	3	5	28	112	185	235
(ii) Surtax	—	—	—	—	—	—	—
(iii) Employees' contributions	51	53	56	61	65	64	64
2. Arising out of the ownership of property or claims thereto:—							
(a) Land and buildings—							
(i) Estate duties (estate legacy and succession duties), corporation duty and land tax	10	10	10	11	11	12	13
(ii) War Damage Act contributions (Part I)	—	—	—	32	40	40	40
(b) Interest bearing securities, viz.: Government and municipal stocks, bonds, mortgages, debentures—							
Estate duties and corporation duty	22	22	23	27	29	30	35
(c) Stocks, shares, etc. (excluding debentures, mortgages, etc.) in all forms of productive, commercial, financial, etc., enterprise—							
Estate duties and corporation duty	37	37	37	40	43	43	47
(d) Other forms of property—							
Estate duties	9	9	9	10	11	11	12
3. Incapable of being allocated between the above headings:—							
(i) Other direct taxes, etc., paid to the central government	30	25	32	18	20	20	19
(ii) Direct taxes paid to extra-budgetary funds not specified above	—	—	—	43	26	14	9
4. Total direct taxes [48]	545	597	787	1,231	1,522	1,912	2,104

⁽³⁾ The introduction of Tax Reserve Certificates absorbed payments previously made in advance.

It will readily be understood that in the case of mixed incomes the allocation is to some extent arbitrary. Thus, for example, if income is derived from wages and interest-bearing securities, the assessments under these two headings are known separately but the allocation of allowances between them can only be done on an arbitrary basis.

(C) Private Saving

The table below brings together the information on private saving, personal and other, contained in table 32.

TABLE 28
Personal and Other Private Saving
United Kingdom, 1938-44
Personal Saving
(£ million)

	1938	1939	1940	1941	1942	1943	1944
1. Gross personal saving, including allowance for accrued taxation [32+33+34]	273	371	797	1,100	1,374	1,625	1,597
2. <i>less</i> Death duties, etc. [32]	-90	-87	-85	-94	-100	-104	-113
3. Gross personal saving after allowance for death duties, etc. [33+34] ...	183	284	712	1,006	1,274	1,521	1,484
4. <i>less</i> Increase in allowance to meet accrued taxation ⁽⁴⁾ [33]	-11	-31	-37	-37	-198	-108	-93
5. Net personal saving after allowance for accrued taxation [34]	172	253	675	969	1,076	1,413	1,391

Other Private Saving

(£ million)

	1938	1939	1940	1941	1942	1943	1944
6. Other gross private saving, including allowance for accrued taxation [40+41]	182	266	437	485	345	244	214
7. <i>less</i> Increase in allowance, to meet accrued taxation ⁽⁴⁾ [40]	-12	-86	-247	-290	-145	-39	-9
8. Other net private saving after allowance for accrued taxation [41] ...	170	180	190	195	200	205	205

⁽⁴⁾ 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.

Net Private Saving (Personal and Other)
(£ million)

	1938	1939	1940	1941	1942	1943	1944
9. Net personal saving after allowance for accrued taxation [34] ...	172	253	675	969	1,076	1,413	1,391
10. Net impersonal saving after allowance for accrued taxation [41] ...	170	180	190	195	200	205	205
11. Aggregate net private saving after allowance for accrued taxation [85]	342	433	865	1,164	1,276	1,618	1,596

The allowance to meet accrued taxation, *e.g.*, 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 1944 to meet the taxation accrued and unpaid, though not necessarily due, at that date on personal income, the figures in item 4 must be added together; that is to say, the aggregate at that date was 515 (=11+. . . +93) *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 other private income shown in item 7.

The series in item 11, *i.e.* the sum of items 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. Other private 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. Great precision cannot be achieved in the estimation of the last-mentioned kinds of private 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 other private saving would require an equal and opposite change in the estimate of personal saving.

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 29
Deposits held by Clearing Banks
(£ million)

	Dec. 31 1942	June 30 1943	Dec. 31 1943	June 30 1944	Dec. 31 1944
1. Total deposits held by Clearing Banks ...	3,629	3,630	4,032	4,100	4,545
2. <i>less</i> Advances to customers and other accounts ...	— 773	— 744	— 743	— 770	— 754
3. Total deposits (net) ...	2,856	2,886	3,289	3,330	3,791
4. Personal deposits (net) ...	820	859	972	1,032	1,158
5. Other deposits (net) ...	2,036	2,027	2,317	2,298	2,633

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

IV.—A COMPARISON WITH Cmd. 6520

The differences between the figures given in this paper and those which appeared a year ago in Cmd. 6520 arise from two sources: changes in definition and treatment on the one hand and revisions and the use of new sources of information on the other.

The principal changes of definition arise this year in connection with the treatment of public authorities and, in particular, of their capital expenditure. Last year the capital formation of public authorities was divided between expenditure on goods and services by public authorities and private net investment at home (items 9 and 11 of table I of Cmd. 6520), the capital expenditure of the Post Office and the housing and trading services of local authorities being placed in the latter category. This procedure made it impossible to observe the movement either of the *current* expenditure of public authorities or of *private* net capital formation. Accordingly, the net non-war capital formation of public authorities has been taken out of the two items in which it was previously hidden and is now shown separately in item 9 of table 31. As explained in discussing table 4 above (*see p. 9*) it is thought less misleading to regard all war expenditure, for the time being, as current expenditure.

Thus the estimates of expenditure on goods and services by the central government (item 73 of table 33 below) are hardly changed from those given last year in the earlier part of the period. In the more recent years, however, certain sums previously wrongly classified, have been transferred from this item to transfer payments (item 69 of table 33). In the case of local authorities, the estimates of expenditure on goods and services (item 75 of table 33) are more radically affected by the exclusion of net capital expenditure.

On the receipts side of table 33, the item most affected by this change is item 59, local authority net borrowing (deficit). The reason is that the whole of the capital expenditure of local authorities is now included (in item 79) so that the deficit now covers all the net borrowing of local authorities and not simply that part connected with rate fund services other than housing. The miscellaneous income of local authorities has been revised downwards mainly because in the past no allowance was made for the depreciation of the capital equipment of local authority trading services.

In the case of the income in kind of members of the armed forces, extensive revisions of the figures have been made. In the first place, the scope of the item has been narrowed so as to include only food and clothing; in the second, the whole basis of the calculation has been changed so as to ensure that only issues to members of the United Kingdom forces are included: the previous method of calculation, being based on figures of government expenditure, had the effect of including certain issues supplied under mutual aid as if they had been made to United Kingdom troops.

The other changes in the elements of the net national income are principally due to revisions and in particular, in the cases of profits and salaries, to more recent estimates of income assessed to tax.

In the case of personal expenditure on consumers' goods and services (item 7 of table 31) numerous small revisions have been made, the effect of which has been, on balance, to increase a number of the components. On the other hand, the downward revisions to the figures for the issues in kind to the armed forces are reflected in this item. Attention is drawn here to the fact that the new adjustment item (see item 13 of table 21 and the note on p. 26 above) represents only an order of magnitude and will be revised as more information becomes available.

The estimates for the increase in work in progress on government account have been revised in the light of later information. The main changes are a switch of £50 million between 1940 and 1941 and a reduction in the figures for later years.

The figures for the balance of payments with countries abroad (item 13 of table 31) have been revised throughout the period and in most years show a slightly less favourable position than was shown by the estimates they replace. In 1938 and the early part of 1939 this is largely due to a change in the treatment of silver bullion and equipment such as secondhand ships, the sale of which is here regarded as a transaction on capital account. In the war years the changes are due to additional information particularly on the sale of securities.

Estimates of the sums allowed for depreciation and maintenance are given for the years after 1938 in item 88 of table 34. Attention is drawn to the fact that these estimates represent no more than orders of magnitude. This is due partly to the lack of comprehensive information and partly to the difficulty of arriving at a satisfactory concept of depreciation for which to try to obtain estimates. The figures given here are considerably higher than those given in section D of Cmd. 6520 owing in part to the inclusion of expenditure on the maintenance of highways and bridges (£50 million in 1938), in part to the previous exclusion, which was incorrect, of any proper allowance for the depreciation of assets owned by public authorities and in part to a slight upward revision of the figures given last year.

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 30
Relative Movements of Some of the Main Series
United Kingdom, 1938-44
(1938 = 100)

	1938	1939	1940	1941	1942	1943	1944
Net national income (or product at factor cost) [6] ...	100	108	128	149	164	175	180
as given in Cmd. 6520 .	100	108	129	150	165	177	...
Personal expenditure on consumers' goods and services [7] ...	100	102	107	112	118	120	126
as given in Cmd. 6520 .	100	103	106	112	119	122	...
Private saving including allowance for accrued taxation [85+86] ...	100	151	315	408	444	484	465
as given in Cmd. 6520 .	100	159	345	419	460	498	...

V.—THE MAIN TABLES

As in the earlier years the following tables show the movement and composition of various national aggregates of income, expenditure and outlay since 1938. Apart from comparatively minor changes set out in the preceding section, tables 31 and 32 are similar to the corresponding tables in Cmd. 6520. Table 33 shows the income, deficit and expenditure of public authorities. The non-war net capital formation of public authorities is now shown separately and, as explained in the preceding section, the scope of this concept has been enlarged. The general arrangement of table 33 differs from that of table 4 above in that the lefthand side shows income *plus* deficit (or net borrowing) while the righthand side shows net non-war capital formation (all expenditure on war goods and services being treated as current) in place of saving. This arrangement is solely one of convenience and simply involves the transfer of net borrowing from one side of the account to the other.

The information contained in the third main table of Cmd. 6520 has been distributed over two tables, 34 and 35. The first of these, table 34, shows the sources and uses of capital funds and, on the outlay side, reaches the same total as table 5, namely gross capital formation. Essentially similar information was previously provided on the lefthand side of the third of the main tables of Cmd. 6520. The simpler arrangement now adopted seems appropriate in view of the fact that the particular rearrangement of these figures necessary to show the sources of finance of the central government deficit has already been undertaken in section II and particularly in table 19.

Table 35 provides some additional information on the composition of central government expenditure and shows how far this expenditure was financed from revenue and net borrowing. The means by which this net borrowing (or deficit) was financed are shown in detail, as in the third main table on p. 23 of Cmd. 6520.

In table 31 item 11 (private net capital formation at home) is the balancing figure obtained by difference, and not (except in 1938) by direct estimation. In table 32 item 34 (net personal saving) is the balancing figure. Tables 33 and 35 are mainly based on actual figures taken from the Public Accounts, etc.

Notes on particular items appear at the end of the tables.

TABLE

Estimates of Net National Income (or

£ million

	1938	1939	1940	1941	1942	1943	1944
Rent of land and buildings ...	380	388	388	385	384	384	384
Interest and profits, including farming profits and profession- al earnings	1,326	1,482	1,818	2,119	2,276	2,346	2,376
Salaries	1,100	1,141	1,206	1,332	1,381	1,434	1,473
Wages	1,735	1,835	2,115	2,419	2,708	2,916	2,930
Pay and allowances (in cash and kind) of members of H.M. Forces and Auxiliary Services	78	124	386	622	805	999	1,171
Net national income (or product)	4,619	4,970	5,913	6,877	7,554	8,079	8,334

For notes on the items of this table, see pp. 48 to 50.

Product) and Expenditure, 1938-1944

£ million

	1938	1939	1940	1941	1942	1943	1944
7. Personal expenditure on consumers' goods and services including sums involved in the acquisition and transfer of property and life assurance at market prices	4,153	4,264	4,423	4,633	4,909	4,987	5,216
8. Expenditure at home and abroad by public authorities on all goods and services other than those included in net non-war capital formation	814	1,266	3,056	4,217	4,597	5,185	5,221
9. Net non-war capital formation of public authorities ...	125	94	25	-13	-20	-34	-42
10. Increase in work in progress on government account held under private finance ...	220	(283)	150	150	75	50	—
11. Private net capital formation at home and war losses made good not included below ...			(-99)	(-247)	(-194)	(-188)	(-202)
12. Expenditure incurred in making good war damage to buildings	—	—	—	29	61	49	56
13. Net lending abroad and purchase of assets and financial claims from overseas	-70	-250	-796	-795	-666	-684	-655
14. Subsidies	15	20	70	140	175	190	220
15. less Indirect taxes and rates	-584	-638	-734	-933	-1,111	-1,252	-1,341
16. less Employers' national insurance contributions	-54	-55	-58	-65	-73	-72	-72
17. less War risks insurance premiums	—	-14	-124	-239	-199	-152	-59
18. Net national expenditure ...	4,619	4,970	5,913	6,877	7,554	8,079	8,334

TABLE
Estimates of Private Income
Personal

£ million

	1938	1939	1940	1941	1942	1943	1944
19. Rent, interest (including National Debt interest and interest accrued on National Savings Certificates) and profits received by persons ...	1,612	1,671	1,769	1,784	1,907	2,025	2,132
20. Wages and salaries ...	2,835	2,976	3,321	3,751	4,089	4,350	4,403
21. Pay and allowances (in cash and kind) of members of H.M. Forces and Auxiliary Services	78	124	386	622	805	999	1,171
22. Pension payments ...	131	133	151	178	202	222	244
23. Payments in respect of unemployment and the relief of poverty ...	112	97	64	30	18	17	18
24. Health payments ...	35	35	35	33	40	45	51
25. Other transfer payments ...	1	6	18	38	27	26	24
26. Personal income before tax ...	4,804	5,042	5,744	6,436	7,088	7,684	8,043
Other Private							
36. Other private income before tax ...	259	369	615	919	962	980	975
37. Other private income before tax ...	259	369	615	919	962	980	975
Private							
3. Private income before tax (sum of items 26 and 37) ...	5,063	5,411	6,359	7,355	8,050	8,664	9,018

For notes on the items of this table see pp. 50 and 51.

and Outlay, 1938-1944

Income

£ million

	1938	1939	1940	1941	1942	1943	1944
27. Personal expenditure on consumers' goods and services, other than those included in the following item, adjusted for subsidies and indirect taxes, rates, etc.	3,541	3,606	3,696	3,746	3,885	3,904	4,115
28. Personal expenditure involved in the acquisition and transfer of property and life assurance	66	66	66	67	68	68	68
29. Indirect taxes, rates, etc., less subsidies on consumers' goods and services	546	592	661	820	956	1,015	1,033
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.	378	407	524	693	680	902	1,025
31. Income tax payments due for repayment after the war ...	—	—	—	10	125	170	205
32. Death duties and stamps on the transfer of property ...	90	87	85	94	100	104	113
33. Excess of direct tax liabilities on personal income over payments	11	31	37	37	198	108	93
34. Net personal saving after setting aside the excess of direct tax liabilities over payments	(172)	(253)	(675)	(969)	(1,076)	(1,413)	(1,391)
35. Personal outlay	4,804	5,042	5,744	6,436	7,088	7,684	8,043

Income

38. National Defence Contribution and Excess Profits Tax payments	15	28	68	231	348	483	519
39. Other direct tax payments including War Damage Act contributions and premiums met out of other private income	62	75	110	203	269	253	242
40. Excess of direct tax liabilities on other private income over payments	12	86	247	290	145	39	9
41. Other private net saving after setting aside the excess of direct tax liabilities over payments	170	180	190	195	200	205	205
42. Other private outlay	259	369	615	919	962	980	975

Income

44. Private outlay (sum of items 35 and 42)	5,063	5,411	6,359	7,355	8,050	8,664	9,018
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TABLE

The Income, Deficit and Expenditure

£ million

	1938	1939	1940	1941	1942	1943	1944
<i>Direct taxes, War Damage Act contributions, etc.</i>							
45. Central government ...	490	540	726	1,088	1,384	1,787	1,984
46. Extra-budgetary funds ...	55	57	61	143	138	125	120
47. Local authorities ...	—	—	—	—	—	—	—
48. Total ...	545	597	787	1,231	1,522	1,912	2,104
<i>Indirect taxes, rates, war risks insurance premiums, etc.</i>							
49. Central government ...	373	416	506	708	886	1,028	1,123
50. Extra-budgetary funds ...	54	69	182	304	272	224	131
51. Local authorities ...	211	222	228	225	225	224	226
52. Total ...	638	707	916	1,237	1,383	1,476	1,480
<i>Miscellaneous income from public property, trading, etc.</i>							
53. Central government ...	17	15	22	35	73	66	47
54. Extra-budgetary funds ...	—	—	—	—	—	—	—
55. Local authorities ...	10	8	8	10	11	3	—
56. Total ...	27	23	30	45	84	69	47
<i>Deficit</i>							
57. Central government ...	147	513	2,090	2,796	2,763	2,900	2,760
58. Extra-budgetary funds ...	—22	—54	—146	—149	—153	—123	—100
59. Local authorities ...	90	58	—14	—45	—53	—52	—50
60. Total ...	215	517	1,930	2,602	2,557	2,725	2,610
<i>Income plus deficit</i>							
61. Central government ...	1,027	1,484	3,344	4,627	5,106	5,781	5,914
62. Extra-budgetary funds ...	87	72	97	298	257	226	151
63. Local authorities ...	311	288	222	190	183	175	176
64. Total ...	1,425	1,844	3,663	5,115	5,546	6,182	6,241

For notes on the items of this table see pp. 51 to 53.

of Public Authorities, 1938-1944

£ million

	1938	1939	1940	1941	1942	1943	1944
<i>Subsidies, and payments in respect of claims under the marine and commodities war risks insurance schemes and the War Damage Act</i>							
65. Central government ...	15	20	70	140	175	190	220
66. Extra-budgetary funds ...	—	—	36	248	214	187	111
67. Local authorities ...	—	—	—	—	—	—	—
68. Total ...	15	20	106	388	389	377	331
<i>Transfer payments</i>							
69. Central government ...	312	314	340	408	464	533	603
70. Extra-budgetary funds ...	136	127	117	101	105	109	116
71. Local authorities ...	23	23	19	14	11	12	12
72. Total ...	471	464	476	523	580	654	731
<i>Expenditure on all war and current non-war goods and services</i>							
73. Central Government ...	445	848	2,588	3,702	4,084	4,691	4,731
74. Extra-budgetary funds ...	14	14	13	15	14	12	13
75. Local authorities ...	355	404	455	500	499	482	477
76. Total ...	814	1,266	3,056	4,217	4,597	5,185	5,221
<i>Net non-war capital formation</i>							
77. Central government ...	24	25	18	11	11	10	8
78. Extra-budgetary funds ...	—	—	—	—	—	—	—
79. Local authorities ...	101	69	7	—24	—31	—44	—50
80. Total ...	125	94	25	—13	—20	—34	—42
<i>Total expenditure, excluding transfers to other authorities but including payments out of transfers from other authorities</i>							
81. Central government ...	796	1,207	3,016	4,261	4,734	5,424	5,562
82. Extra-budgetary funds ...	150	141	166	364	333	308	240
83. Local authorities ...	479	496	481	490	479	450	439
84. Total ...	1,425	1,844	3,663	5,115	5,546	6,182	6,241

TABLE

Combined Capital

£ million

	1938	1939	1940	1941	1942	1943	1944
85. Net private saving after setting aside the excess of direct tax liabilities over payments	342	433	865	1,164	1,276	1,618	1,596
86. Excess of direct tax liabilities on private income over payments	23	117	284	327	343	147	102
87. Net saving of public authorities	-90	-423	-1,905	-2,615	-2,577	-2,759	-2,652
88. Sums allowed for depreciation and maintenance	440	450	465	475	475	475	475
89. Compensation received in respect of claims under the marine and commodities war risks insurance schemes and the War Damage Act ...	—	—	36	248	214	187	111
90. Saving and other sums set aside	715	577	-255	-401	-269	-332	-368

For notes on the items of this table see pp. 53 and 54.

34

Account, 1938-44

£ million

	1938	1939	1940	1941	1942	1943	1944
91. Private domestic gross capital formation at home and war losses made good ...	550	622	258	150	236	231	224
92. Increase in work in progress on government account held under private finance ...			150	150	75	50	—
93. Gross capital formation of public authorities ...	235	205	133	94	86	71	63
94. Net lending abroad and purchase of assets and financial claims from overseas ...	— 70	— 250	— 796	— 795	— 666	— 684	— 655
95. Gross capital formation ...	715	577	— 255	— 401	— 269	— 332	— 368

TABLE

Central Government Expenditure and the Channels

£ million

	1938	1939	1940	1941	1942	1943	1944
96. Central government revenue	880	971	1,254	1,831	2,343	2,881	3,154
97. Unemployment Fund ...	— 1	7	24	64	74	74	72
98. National Health Funds ...	—	—	9	8	12	9	5
99. Local Loans Fund ...	— 2	1	5	9	10	10	10
100. Other extra-budgetary re- receipts including war risks insurance and certain War Damage Act receipts, Ex- change Equalisation Account and reduction in Exchequer Balance ...	257	186	516	72	—58	—160	—102
101. Reconstruction Finance Corporation ...	—	—	—	87	4	—7	—11
102. Canadian Government in- terest-free loan ...	—	—	—	—	157	—4	—13
103. Receipts from capital trans- actions included in miscel- laneous revenue, and appro- priations in aid arising from capital transactions, etc. ...	2	2	6	7	2	5	5
104. <i>less</i> Sinking funds ...	—11	—14	—12	—17	—13	—15	—16
105. <i>less</i> Other expenditure (net)	4	—21	—8	13	—1	15	16
106. Finance through government agencies ...	249	161	540	243	187	—73	—34
107. Post Office and Trustee Sav- ings Banks ...	1	19	119	214	234	301	325
108. National Savings Certificates including increase in accrued interest ...	3	21	167	214	232	297	265
109. Defence Bonds ...	—	22	180	174	134	121	112
110. Other public issues (net) ...	73	10	567	1,031	1,047	1,060	898
111. Increase in fiduciary issue ...	10	—30	50	150	170	150	150
112. Increase in Treasury Bills held outside government de- partments and Bank Ways and Means ...	—189	310	129	279	151	433	537
113. Treasury deposit receipts ...	—	—	338	474	155	434	394
114. Tax reserve certificates ...	—	—	—	17	453	177	113
115. Public borrowing at home ...	—102	352	1,550	2,553	2,576	2,973	2,794
116. Central government revenue <i>plus</i> deficit ...	1,027	1,484	3,344	4,627	5,106	5,781	5,914

For notes on the items of this table see pp. 54 and 55.

through which it was Financed, 1938-1944

£ million

	1938	1939	1940	1941	1942	1943	1944
117. Subsidies	15	20	70	140	175	190	220
118. National debt interest and interest accrued on National Saving Certificates paid to the private sector of the economy	192	193	208	244	293	344	394
119. Non-contributory pensions, and payments in respect of war pensions and service grants... ..	84	85	98	120	142	161	182
120. Unemployment and training allowances	36	30	19	15	13	13	11
121. Other transfer payments ...	—	6	15	29	16	15	16
122. Expenditure on goods and services connected with the war	353	743	2,471	3,571	3,944	4,552	4,591
123. Expenditure on other current goods and services ...	92	105	117	131	140	139	140
124. Net non-war capital formation	24	25	18	11	11	10	8
125. Net transfers to other public authorities	231	277	328	366	372	357	352
126. Central government expenditure	1,027	1,484	3,344	4,627	5,106	5,781	5,914

NOTES ON PARTICULAR ITEMS IN THE MAIN TABLES

TABLE 31

1. This item represents the income from the ownership of lands, houses, etc., as valued for tax purposes, after allowance has been made for maintenance and repair. Incomes from these sources below the effective income tax exemption limit are included, as also are those received by non-profit-making bodies, *e.g.*, charities, colleges, etc. Premises occupied by their owners are treated on the same basis as rented premises.

2. Aggregate profits here are net, *i.e.*, after current business losses have been deducted. 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. It also 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 incomes, whether or not below the income tax exemption limit, accruing to persons working on their own account.

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 of food and clothing 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. The latter appear as a transfer payment in item 22 of table 32. An amount equal to the value of issues in kind 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 allowed in the calculation for tax purposes of net rent and profit in respect of 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.

The estimates of labour income given in items 3, 4 and 5 do not include employers' contributions to national insurance (unemployment, health and pensions). These payments are, however, included in the income figures for some countries and are therefore shown separately in item 16 of this table.

7. This item shows the money value of all consumers' 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, employers' contributions to national insurance and war risks insurance premiums that appear in the market value of these goods and services. They exclude costs which, being met by government subsidies, do not enter into market values. Expenditure out of personal income on the factors of production taken up in providing life assurance and facilitating the acquisition and transfer of property is included here but shown separately in item 28 of table 32.

8. 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., by the central government. Loan repayments and payments to sinking funds, by local authorities on rate fund account are included in lieu of depreciation allowances as part of the current

cost of providing the services. Subsidies, which are shown in item 14 below, are excluded and so are operating expenses incurred in the provision of services such as postal services and local authority trading services, which are sold to persons and businesses.

Net non-war capital expenditure is excluded from this item and appears separately in item 9. In previous years only a part of this expenditure was excluded, namely the net capital expenditure of the Post Office and of the housing and trading services of local authorities.

Lend-lease assistance and, in 1942, expenditure equivalent to the Canadian contribution are excluded from this item. Thus, insofar 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 resources obtained by borrowing from or sale of assets and financial claims to countries abroad, but not those obtained under lend-lease provisions or as a result of the Canadian contribution.

9. This item is new, its elements having appeared previously either in the expenditure on goods and services by public authorities or in private net investment at home. It is restricted to net non-war capital expenditure and is mainly composed of Post Office capital expenditure charged to loan account, and the net capital expenditure undertaken by local authorities (other than that on war emergency services which is included in the preceding item). The latter is measured by taking capital expenditure on works *less* receipts from the sale of assets and sums repaid to lenders and transferred to sinking funds. This last deduction is made in lieu of allowances for depreciation since there is a reasonable correspondence between the life of the assets and the period over which the borrowing used to finance them is repaid.

10. This item is shown separately since it is convenient to keep it distinct from other forms of private net capital formation at home. Unless separately accounted for it necessarily appears in the balancing item (item 11 in the war years) 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 only payments actually made are included in items 8 and 9.

11. This item relates only to capital formation of the private sector of the economy. It is composed of (a) gross expenditure on fixed capital and its upkeep, *i.e.* new additions, replacements and repairs (whether normal or resulting from war damage, with the exception of the sums shown separately in item 12 below), *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 and buildings, *plus* (d) the increase in stocks (including replacements of war losses) as valued for the calculation of profits in item 2, *less* (e) the increase in work in progress on government account held under private finance 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 those 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 8 above.

14. This item is restricted to the following classes of payments made by the central government towards the cost 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) 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 fertilizers, 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 is the net national expenditure at market value) since they appear in market prices but do not appear in any of items 1 to 6. The item includes (i) all customs and excise duties, (ii) motor vehicle duties on vehicles owned by businesses, (iii) stamp duties other than those on the transfer of property and (iv) local rates.

16. Compulsory contributions of employers to the national health and unemployment insurance and contributory pensions schemes.

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 32

19. This item is composed of items 1 and 2 of table 31 *plus* national debt interest received by the private sector of the economy and accrued interest on National Savings Certificates *less* private income not accruing to persons (item 37) *less* miscellaneous income from public property, etc. (item 56 of table 33).

20. The sum of items 3 and 4 of table 31.

21. The same as item 5 of table 31.

22. Non-contributory and contributory old age pensions, other contributory pensions, supplementary pensions and cash payments in respect of war pensions and service grants.

23. Unemployment insurance benefits, unemployment allowances and outdoor relief paid by local authorities.

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

25. Billeting allowances, fireguards' subsistence allowances, travelling and lodging allowances of transferred workers, trainees' wages and lodging allowances, etc.

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 private income is equal to the total of transfer payments shown in item 72 of table 33.

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 31 *less* items 28 and 29 of table 32.

28. Expenditure out of personal income on the factors of production taken up in providing life assurance and facilitating the acquisition and transfer of property.

29. That part of the excess of indirect taxes, etc. (items 15, 16 and 17 of table 31) over subsidies (item 14 of table 31) which falls on consumers' expenditure.

30. This item includes payments of (i) income tax in respect of private income (other than that paid by businesses in respect of business saving, which is included 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 national 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 on interest and profits and to 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. Following the procedure adopted last year, income tax accruals in respect of income assessed under Schedule E (wages and salaries) have been omitted throughout the period. This has been done to avoid the discontinuity which would otherwise have been introduced into the figures as a result of the introduction of the "pay as you earn" scheme in 1944.

34. This item represents the excess of personal income over outgoings on consumers' goods and services 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, and therefore depends on the accuracy of those 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 consumers' goods and services, 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 (item 6 of table 31 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 56 of table 33).

37. See preceding note.

38. 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 other private income. Together with items 30, 31, 32 and 38, it is equal to item 48 of table 33.

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 other private net 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 31 *plus* item 72 of table 33 *less* item 56 of table 33.

44. The sum of items 35 and 42.

TABLE 33

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 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.

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 net capital formation at home.

45. 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 49. Certain appropriations-in-aid and 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.

46. Employees' contributions to national insurance and War Damage Act contributions and premiums.

48. The sum of items 45 to 47: equal to the sum of items 30, 31, 32, 38 and 39 of table 32.

49. Customs and excise duties, motor vehicle duties not included in item 45 above, stamp duties other than those on the transfer of property and appropriations-in-aid corresponding to indirect taxes.

50. Employers' contributions to national insurance and premium payments under the commodities and marine war risks insurance schemes.

51. Composed of local rates and central government contributions in lieu of rates with the exception of water rates, which are treated as current receipts from a trading service.

52. The sum of items 49 to 51: numerically equal to the sum of items 15 to 17 of table 31.

53. 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.

55. An estimate of the profits from trading services and corporation estates treated in such a way that contributions to rate fund accounts are included while transfers from rate fund accounts in aid of deficiencies are not. In contrast to the treatment in Cmd. 6520 central government grants are not included.

57. The excess of central government expenditure over revenue; this figure differs from that given in previous years since it includes borrowing to finance Post Office loan expenditure which appears in net non-war capital formation of the central government (item 77). Sums received through the Currency Deposit Account amounting, in 1944, to £84 million are omitted from this item and a corresponding amount is omitted from expenditure.

58. This item shows the excess of receipts over payments of the war risks insurance schemes, the Unemployment and National Health Insurance Funds and various accounts managed by the National Debt Commissioners. Since this item is headed "deficit", a surplus naturally requires a negative sign.

59. This item shows the net borrowing of local authorities. It is composed of total borrowing *less* repayments, transfers to sinking funds and additions to balances. As explained in section IV above, it differs from the corresponding figures given in item 91 of Cmd. 6520, since borrowing to finance capital expenditure on housing and trading services is no longer excluded.

61. The sum of items 45, 49, 53 and 57; items 62 and 63 are obtained similarly.

65. This item is composed wholly of subsidies and has been fully described in the note to item 14 of table 31.

66. This item is composed wholly of payments in respect of claims under the commodities and marine war risks insurance schemes and the War Damage Act.

69. 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, (viii) fireguards' subsistence allowances, (ix) travelling and lodging allowances of transferred workers, (x) trainees' wages and lodging allowances. Equal to the sum of items 118 to 121.

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

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

72. The sum of items 69 to 71; equal to the sum of items 22 to 25 of table 32 *plus* that part of national debt interest and interest accrued on National Savings Certificates which is included in private income.

73. This item comprises the whole of central government expenditure on goods and services except the net capital formation shown in item 77.

74. This item is composed of fees paid to agents under the war risks insurance schemes and War Damage Act (which are included in war expenditure in item 2 (a) of table 11) and of contributions towards administration costs made by the Unemployment and National Health Insurance Funds, etc.

75. This item comprises all local authorities' expenditure on revenue account other than that recouped from the private sector of the economy in the form of fees, rents, etc. *plus* capital expenditure on war emergency services. Loan repayments and payments to sinking funds are included as an operating expense in lieu of depreciation allowances. All expenditure (current and capital) on war emergency services is included in war expenditure in item 2 (a) of table 11.

76. The same as item 8 of table 31.

77. This item is mainly composed of Post Office loan expenditure and Road Fund expenditure on improvements and new construction. A small allowance is made to cover normal additions to government buildings. In previous years Post Office loan expenditure was included in private net investment at home (item 11 of table I, Cmd. 6520) and other central government capital formation in expenditure by public authorities on goods and services (item 9 of table I, Cmd. 6520).

79. Capital expenditure on works *less* receipts from the sale of assets and sums repaid to lenders and transferred to sinking funds. As explained in the note to item 9, this last deduction is made in lieu of allowances for depreciation. In Cmd. 6520 net capital expenditure on housing and trading services was included in item 11 of table I, private net investment at home, and the remainder in expenditure by public authorities on goods and services (item 9 of table I). As implied in the note to item 75 no expenditure on war emergency services is included here.

80. The same as item 9 of table 31.

81. 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 82 and 83. It therefore differs from item 61 (which also appears as item 4 of table 16, item 3 of table 17 and item 126 of table 35) which includes such transfers.

TABLE 34

85. The sum of items 34 and 41 of table 32.

86. The sum of items 33 and 40 of table 32.

87. Net non-war capital formation of public authorities (item 80 of table 33) *less* the net borrowing (deficit) of public authorities (item 60 of table 33). The fact that throughout the period this figure was negative means that public authorities were borrowing to finance current expenditure.

88. These estimates are, so far as the private sector is concerned, mainly based on the allowances, as computed for income tax purposes, which were due each year, *viz.* allowances for repairs, etc., under Schedule A and wear and tear and obsolescence allowances under Schedule D. In the case of local authorities sums repaid to lenders and transferred to sinking funds are treated as the equivalent of depreciation allowances as explained in the note to item 9. Expenditure by public authorities on maintaining highways and bridges is included, as is also Post Office capital expenditure charged to Vote. It will thus be seen that these allowances are treated here in a narrow sense in that they exclude, except in the case of buildings, highways and bridges, the greater part of outlays for current repair work. A wider treatment of these allowances would, of course, leave the figures for net capital formation unaffected since the gross figures (items 91 and 93) would be increased to the same extent as the allowances.

89. The same as item 66 of table 33.

91. Composed of total expenditure on fixed capital, works, etc., by the private sector of the economy, together with the change in the value of stocks and work in progress as implied in the calculation of profits. As explained in the note to item 88 this item is treated here in a narrow sense since except in the case of buildings the greater part of private outlays on repair work is excluded.

92. The same as item 10 of table 31.

93. Capital expenditure on works *less* receipts from the sale of assets *plus* maintenance of highways and bridges.

94. The same as item 13 of table 31.

TABLE 35

96. This item, the sum of items 45, 49 and 53 of table 33, 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 the income of 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 receipts from the Vote of Credit (which represent a transfer within the central government sector), *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.

97, 98 and 99. The net increase in these funds available for loan to the Exchequer.

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

103. These items appear here since they are not included in item 96.

105. 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.

106. The sum of items 97 to 105; 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.

107. The increase in investments from the net deposits in the Post Office and Trustee Savings Banks.

108 and 109. Receipts *less* repayments.

110. 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. In contrast to the figures given in Cmd. 6520 this item now includes sums required to finance Post Office Loan expenditure.

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

113. Receipts *less* repayments.

115. The sum of items 107 to 114 showing the amount of public borrowing at home. The sum of item 106 and this item is equal to item 57 of table 33.

116. The sum of items 96, 106 and 115; equal to item 61 of table 33.

117. The same as item 14 of table 31 and item 65 of table 33.

118. This item forms part of items 19 and 36 of table 32.

119. This item forms part of item 22 of table 32.

120. This item forms part of items 23 and 25 of table 32.

121. This item forms part of item 25 of table 32. The sum of items 118 to 121 is equal to item 69 of table 33.

122. Expenditure on goods and services out of Vote of Credit and Defence Votes and under the Defence Loans Acts. All subsidies, transfer payments and sums transferred to other public authorities are excluded from this item.

123. The sum of this and the preceding item is equal to item 73 of table 33.

124. The same as item 77 of table 33. It should be noted that all war expenditure of a capital nature is excluded from this item and included, together with current expenditure, in item 122.

125. Equal to item 61 of table 33 *less* item 81 of table 33.

126. This item differs from item 81 of table 33 by the inclusion of the net transfers to other public authorities shown in item 125 and is therefore equal to item 116, the sum of central government revenue and deficit.

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