



# NATIONAL INCOME AND EXPENDITURE OF THE UNITED KINGDOM 1938-1945

*Presented to Parliament by the Financial Secretary to the Treasury  
by Command of His Majesty  
April 1946*

NATIONAL  
INSTITUTE  
OF  
ECONOMIC  
AND SOCIAL  
RESEARCH

LONDON  
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## PREFACE

This Paper gives estimates of national income and expenditure in a form designed to show changes in the distribution of the country's resources between different uses.

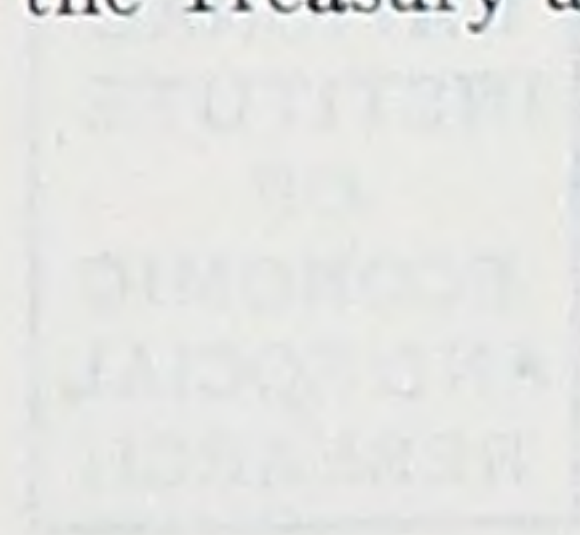
The introduction to the corresponding paper issued in April 1945, Cmd. 6623, contained a discussion of the principles of social accounting followed in this series of papers. Reference should be made to that discussion for fuller explanations of the treatment and the definitions adopted in this Paper. In those cases where the definitions differ from those in Cmd. 6623, the changes are noted and explained in Appendix II. In general, changes have been made either because more information has become available or for reasons of logical consistency.

All the statistics in this Paper unless otherwise stated are for calendar years and relate to the United Kingdom of Great Britain and Northern Ireland.

The numbers in square brackets [ ] after the titles of items in the tables in Sections I to IV refer to items in the main tables in Section V. These numbers are intended solely for reference purposes and no account is taken of the sign of the corresponding item in the main tables.

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

*April 1946*



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# NATIONAL INCOME AND EXPENDITURE OF THE UNITED KINGDOM 1938 TO 1945

## I.—INTRODUCTION

Detailed tables of income and expenditure are given in Section V. Table I sets out the main totals and shows the relationship of the various concepts of income and product to one another.

### NATIONAL INCOME AND PRODUCT

TABLE 1

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
1. Personal income before tax [29] ... ..	4,772	5,010	5,720	6,400	7,087	7,643	8,019	8,351
2. plus Other private income before tax [39]...	259	369	615	919	962	980	975	900
3. Private income before tax [45] ... ..	5,031	5,379	6,335	7,319	8,049	8,623	8,994	9,251
4. less Transfer payments from public authorities to the private sector [70] ... ..	—475	—469	—484	—522	—581	—652	—724	—891
5. Private income from current economic activity	4,556	4,910	5,851	6,797	7,468	7,971	8,270	8,360
6. plus Public income from trading, property, etc. [56] ... ..	54	50	71	89	132	147	131	123
7. National income (or net product at factor cost) [6] ... ..	4,610	4,960	5,922	6,886	7,600	8,118	8,401	8,483
8. plus Sums allowed for depreciation and maintenance [85] ... ..	475	485	505	515	520	520	520	520
9. Gross national product at factor cost... ..	5,085	5,445	6,427	7,401	8,120	8,638	8,921	9,003
10. plus Indirect taxes net of subsidies [53—65]	601	669	827	1,089	1,207	1,295	1,256	1,188
11. Gross national product at market value ...	5,686	6,114	7,254	8,490	9,327	9,933	10,177	10,191

*Personal income* before tax is the sum of incomes received by individuals, charities and non-profit making bodies from whatever source they are derived; *private income* includes, in addition, the undistributed profits of companies and thus constitutes the total income accruing to the private sector of the economy. The figures of personal and private income are of particular use in the analysis of changes in consumption, and in the discussion of tax policy. Both series, however, contain an element of duplication, in that they include both direct taxes paid to public authorities and transfer incomes (for example, unemployment assistance, old-age pensions and national debt interest) received from public authorities. To the extent that they consist of such *transfer payments*, they are affected by changes in fiscal policy or social insurance schemes.



From some points of view it is important to have a measure of the total national output of goods and services which is not affected by such changes. Except in so far as the treatment of depreciation and, hence, profits is a fiscal matter, the figures of *national income* or *net national product* shown in item 7 of table 1, satisfy this need. They show the value of the product of the United Kingdom from its resources at home and overseas. This product is in later tables measured by both the incomes received from economic activity and the expenditure which gives rise to such incomes. The figures of net national product are *net* in the sense that they exclude sums allowed for depreciation and maintenance, and are *at factor cost*—that is, they represent the remuneration of the factors of production employed in producing goods and services. They therefore include the amount of subsidies received from public authorities but exclude indirect taxes paid to those public authorities.

*Gross national product at factor cost* includes sums allowed for maintenance and depreciation, and, *at market value*, includes, in addition, the amount of indirect taxes paid to public authorities less subsidies received. The size of the gross national product at market value is, therefore, affected by changes in the division of government revenue between direct and indirect taxes.

1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	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## II.—CHANGES IN THE COMPOSITION OF THE NATIONAL PRODUCT

Although the size of the national product rose during the war both in money and in real terms, the calls on the national resources for war purposes could not be met without cutting consumption, reducing capital formation at home, disposing of external investments and increasing external liabilities. The purpose of this section is to show how the distribution of the national expenditure between war expenditure, consumption and capital formation changed during the war years.

Total expenditure on goods and services by public authorities increased more than fivefold between 1938 and 1943—from £941 million to £5,227 million. It rose slightly above this level in 1944 and in 1945 was still only about £200 million below 1943. The 1945 figure was raised in relation to those of earlier years by the inclusion of £161 million to cover the cost of the final Lend-Lease settlement with the United States. No Exchequer issue was made in respect of this item.

### EXPENDITURE ON GOODS AND SERVICES BY PUBLIC AUTHORITIES AT MARKET VALUE

TABLE 2 £ million

	1938	1939	1940	1941	1942	1943	1944	1945
1. <i>Central government</i>								
(a) War expenditure [115] ...	343	735	2,467	3,579	3,962	4,609	4,645	4,389
(b) Other current expenditure [116]...	92	105	117	131	140	139	140	155
(c) Net non-war capital formation [117]...	24	25	18	11	11	10	8	40
2. <i>Extra-budgetary funds and local authorities</i>								
(a) War expenditure ...	5	45	107	134	117	99	89	78
(b) Other current expenditure ...	376	382	382	396	409	408	416	434
(c) Net non-war capital formation [72] ...	101	70	8	—23	—34	—38	—42	—37
3. <i>Total [73+77] ...</i>	941	1,362	3,099	4,228	4,605	5,227	5,256	5,059

The series in table 2, however, do not give a consistent measure of the goods and services currently at the disposal of public authorities during the war years. In the first place, they exclude the value of goods and services received as Lend-Lease assistance and Mutual Aid before V-J day or paid for out of the Canadian contribution of 1942. In the second place, they are, with the exception noted above for 1945, figures of cash payments and these fell short of the value of work done on government account in the years 1940 to 1943 when war programmes were expanding and exceeded it in 1945 when programmes were being cut. Table 2 does not, therefore, bring out fully the year to year changes in the claims of the government on the country's resources.

In table 3 an attempt is made in line 2 to allow for the second of these factors and thus to give a measure of the total value of war work done on government account. In item 5 of the table the value of this work is shown after deduction of the indirect taxes which enter into its market value and, since they are paid to public authorities, represent merely a transfer within the public sector of the economy. Item 5 is, therefore, a measure of the factors of production taken up by the war effort and is here called the "national cost of the war".



# NATIONAL COST OF THE WAR 1940-45

TABLE 3

£ million

	1940	1941	1942	1943	1944	1945
1. War expenditure by public authorities ... ..	2,574	3,713	4,079	4,708	4,734	4,467
2. Increase in work in progress on government account held under private finance [10] ... ..	125	175	75	25	—	—225
3. Total market value of war work done on government account	2,699	3,888	4,154	4,733	4,734	4,242
4. less Net indirect taxes included in market value ... ..	—104	—171	—166	—181	—188	—95
5. National cost <sup>(1)</sup> of the war ...	2,595	3,717	3,988	4,552	4,546	4,147

<sup>(1)</sup> Expenditure at market value less indirect taxes plus subsidies.

The analysis is carried a stage further in table 4. There the cost of the factors of production taken up by the war effort is compared with the cost of the factors of production used up in providing current non-war goods and services and in adding to the country's stock of assets at home and abroad. All the figures in this table are on the same basis as those in table 3, that is, they are at the prices current in each year, adjusted for indirect taxes and subsidies. The item of government consumption consists of the cost of the ordinary peace-time services of government, such as justice, education and road maintenance. Net non-war capital formation includes work on both public and private account.

## COMPOSITION OF NET NATIONAL PRODUCT

TABLE 4

	1938	1939	1940	1941	1942	1943	1944	1945
<i>£ million</i>								
National cost <sup>(1)</sup> of :								
Consumption								
Personal [30] ... ..	3,602	3,659	3,796	3,839	4,010	4,006	4,285	4,582
Government ... ..	456	473	483	508	531	532	544	578
War ... ..	338	754	2,595	3,717	3,988	4,552	4,546	4,147
Net non-war capital formation ... ..	214	74	—952	—1,178	—929	—972	—974	—824
Net national product at factor cost (or national income) [6] ... ..	4,610	4,960	5,922	6,886	7,600	8,118	8,401	8,483
<i>Percentages</i>								
Consumption ... ..	88	83	72	63	60	56	58	61
War ... ..	7	15	44	54	52	56	54	49
Net non-war capital formation ... ..	5	2	— 16	— 17	— 12	— 12	— 12	— 10
Net national product at factor cost ... ..	100	100	100	100	100	100	100	100

<sup>(1)</sup> Expenditure at market value less indirect taxes plus subsidies.



The total national cost of personal consumption at current prices rose between 1938 and 1945 by £980 million, or 27 per cent. Consumers' expenditure in real terms, however, had by 1941 fallen 17 per cent. below the pre-war level and even in 1945 was still 14 per cent. less than in 1938. This fall is discussed in more detail in Section III.

## NATIONAL COST <sup>(1)</sup> OF PERSONAL CONSUMPTION AT CURRENT AND AT 1938 PRICES

TABLE 5

		1938	1939	1940	1941	1942	1943	1944	1945
<i>£ million</i>									
At current prices [30]	...	3,602	3,659	3,796	3,839	4,010	4,006	4,285	4,582
At 1938 prices	... ..	3,602	3,603	3,241	3,001	2,963	2,844	2,974	3,115
<i>Index numbers (1938=100)</i>									
At current prices	... ..	100	102	105	107	111	111	119	127
At 1938 prices	... ..	100	100	90	83	82	79	83	86

<sup>(1)</sup> Expenditure at market value less indirect taxes plus subsidies.

Consumption could not have been maintained at this level if capital had been maintained intact. In fact, net capital formation was negative in each of the years 1940-45. Some analysis of this loss of wealth is given below. It is, however, especially important to bear in mind the technical limitations of the figures presented:

Firstly, it has not been possible during the war to make a direct estimate of private domestic capital formation, which has had to be obtained as a residue by subtracting all the other elements in the net national product from an independent estimate of the total. It is, therefore, peculiarly subject to error.

Secondly, the allowances for depreciation used in calculating income and net capital formation are, except in the case of agriculture, based on Inland Revenue practice: that is, they are calculated on the original and not on the replacement cost of assets. In a period during which costs are rising, these sums will in fact fall short of replacement costs, and the figures in line 3 of table 6 should accordingly not be used as a measure of what it would cost the country to replace all its lost wealth.

Thirdly, while no deduction has been made for loss or damage due to enemy action, the making good of these losses so far as it has occurred is included in capital formation.

Fourthly, the estimates given of net capital formation make no allowance for under-maintenance of plant and equipment.

All these factors work in the same direction. On the other hand, government expenditure of a capital nature for war purposes has been entirely excluded from the figures of capital formation given in this paper although some part of it will have a peace-time use.



# NON-WAR CAPITAL FORMATION

TABLE 6

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
1. Gross non-war capital formation at home and war losses made good [88+90] ...	780	826	364	170	283	251	211	534
2. less Sums allowed for depreciation and maintenance [85] ...	-475	-485	-505	-515	-520	-520	-520	-520
3. Net capital formation at home and war losses made good [9 + 11 + 12] ...	305	341	-141	-345	-237	-269	-309	14
4. Net lending abroad and purchase of assets and financial claims from overseas [91] ...	- 70	-250	-804	-816	-663	-680	-659	-819
5. Net capital formation at home and abroad [9 + 11 + 12 + 13]...	235	91	-945	-1,161	-900	-949	-968	-805
6. less Net indirect taxes falling on gross capital formation at home ...	- 21	- 17	- 7	- 17	- 29	- 23	- 6	- 19
7. National cost of net non-war capital formation at home and abroad (1)	214	74	-952	-1,178	-929	-972	-974	-824

(1) Net non-war capital formation at home at market value *less* indirect taxes *plus* subsidies' *plus* increase in net lending abroad and purchase of assets and financial claims from overseas.

Of the total recorded disinvestment during the years 1940-45, however, only about one-fifth was accounted for by failure to maintain equipment and stocks in this country. The balance of £4,628 million represented a loss of external assets or a piling-up of external liabilities. It should be noted that the figure of £819 million for 1945 given in line 4 includes £161 million (\$650 million) as indebtedness to the United States Government arising out of the Lend-Lease settlement.



### III.—CHANGES IN THE COMPOSITION OF PRIVATE OUTLAY

The changes in the composition of the national product discussed in the last section have been reflected in changes in the composition of private outlay. Table 7 shows the distribution of private income between expenditure on consumption, direct tax payments and saving.

#### DISPOSAL OF PRIVATE INCOME

TABLE 7

	1938	1939	1940	1941	1942	1943	1944	1945
<i>£ million</i>								
Consumers' expenditure at market value [30 + 31] ... ..	4,160	4,271	4,496	4,721	5,004	5,082	5,335	5,645
Direct taxes [32 + 33 + 34 + 40 + 41]	545	595	786	1,230	1,513	1,902	2,107	2,148
Private saving (including undistributed profits) [35 + 36 + 42 + 43]	326	513	1,053	1,368	1,532	1,639	1,552	1,458
Private outlay [46] ... ..	5,031	5,379	6,335	7,319	8,049	8,623	8,994	9,251
<i>Percentages</i>								
Consumers' expenditure at market value ... ..	83	80	71	65	62	59	59	61
Direct taxes ... ..	11	11	12	17	19	22	24	23
Private saving (including undistributed profits) ... ..	6	9	17	18	19	19	17	16
Private outlay ... ..	100	100	100	100	100	100	100	100

#### A. CONSUMERS' EXPENDITURE

Table 8 shows the distribution of consumers' expenditure on goods and services at current market prices.

More detailed figures, together with definitions of the items are given in Appendix III. Revisions in detail have led to several changes compared with the figures previously given, the most substantial of these being in the estimates of expenditure on food and alcoholic drink. In interpreting the figures and those in tables 9 and 10, the following definitions should be noted :

(1) 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 of 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 18 of the table.

(2) Expenditure on consumers' goods and services by business 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, ' food ' ; the rent of the building in



item 4, 'rent, rates and water charges'; the chinaware and cooking utensils purchased in item 6, 'hardware' and an allowance for the purely service and managerial element of expense in item 14, 'other services'.

(3) The figures represent the expenditure of consumers in the above sense on goods and services of all kinds whether these are provided out of

# PERSONAL EXPENDITURE ON CONSUMERS' GOODS AND SERVICES AT CURRENT MARKET VALUE

TABLE 8

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
1. Food ... ..	1,221	1,262	1,309	1,323	1,369	1,330	1,396	1,414
2. Alcoholic beverages—								
Beer ... ..	195	211	273	346	420	470	529	550
Other ... ..	90	99	103	118	122	138	133	135
3. Tobacco—								
Cigarettes ... ..	144	168	215	264	343	412	428	469
Other ... ..	32	36	47	55	72	79	79	79
4. Rent, rates and water charges	491	510	519	515	509	510	512	517
5. Fuel and light ... ..	195	198	223	236	240	236	248	265
6. Durable household goods—								
Furniture and furnishings ...	152	146	139	128	114	83	68	92
Hardware ... ..	82	77	73	69	60	56	56	75
7. Other household goods ...	51	53	56	55	50	49	52	53
8. Clothing—								
Footwear ... ..	73	78	90	91	97	87	90	93
Other clothing								
Men's and boys' wear ...	127	131	137	116	123	101	125	130
Women's, girls' and infants' wear ... ..	246	249	269	245	267	241	279	293
9. Reading matter ... ..	61	61	66	67	73	77	84	88
10. Privately-owned motor vehicles and their running expenses	114	101	34	27	14	7	7	26
11. Travel ... ..	159	152	138	165	198	207	210	238
12. Communication services ...	29	29	32	37	39	48	54	51
13. Entertainments ... ..	60	56	57	83	113	133	142	153
14. Services not included above ...	452	450	449	453	422	404	404	441
15. Other goods ... ..	176	180	186	188	183	189	200	228
16. Income in kind of Armed Forces	17	29	81	135	146	185	199	205
17. Total of above items ... ..	4,167	4,276	4,496	4,716	4,974	5,042	5,295	5,584
18. Adjustment <sup>(1)</sup> ... ..	— 7	— 5	—	5	30	40	40	50
19. Total [7] ... ..	4,160	4,271	4,496	4,721	5,004	5,082	5,335	5,634

<sup>(1)</sup> It is necessary to make a specific adjustment in order to convert the total in line 17 to a total of purchases out of British income.



new production or from stock. Second-hand goods are not included, but an allowance is made in item 14, 'other services', for the costs, including profit, of handling and reconditioning them.

In table 9 estimates are given of the value of the various components of consumers' expenditure in terms of constant prices.

## PERSONAL EXPENDITURE ON CONSUMERS' GOODS AND SERVICES CORRECTED FOR PRICE CHANGES

TABLE 9

£ million at 1938 prices

	1938	1939	1940	1941	1942	1943	1944	1945
1. Food ... ..	1,221	1,231	1,075	983	1,022	980	1,027	1,034
2. Alcoholic beverages—								
Beer ... ..	195	203	202	230	233	236	249	259
Other ... ..	90	95	82	84	68	64	59	60
3. Tobacco—								
Cigarettes ... ..	144	150	149	166	174	176	177	194
Other ... ..	32	32	30	32	32	29	28	27
4. Rent, rates and water charges ...	491	504	507	502	496	497	499	501
5. Fuel and light ... ..	195	196	200	201	196	185	186	192
6. Durable household goods—								
Furniture and furnishings ...	152	144	105	70	48	36	30	42
Hardware ... ..	82	75	59	45	33	29	29	38
7. Other household goods ...	51	53	51	47	42	40	40	40
8. Clothing—								
Footwear ... ..	73	76	68	58	56	53	53	54
Other clothing								
Men's and boys' wear ...	127	127	103	70	69	57	69	70
Women's, girls' and infants' wear ... ..	246	241	201	147	148	137	153	155
9. Reading matter ... ..	61	61	57	59	60	63	68	72
10. Privately-owned motor vehicles and their running expenses ...	114	100	29	22	11	6	6	21
11. Travel ... ..	159	152	128	144	169	181	184	207
12. Communication services ...	29	28	26	26	28	32	35	35
13. Entertainments ... ..	60	56	48	70	82	83	83	88
14. Services not included above ...	452	448	402	377	330	304	293	313
15. Other goods ... ..	176	176	159	125	103	105	110	117

During the war most groups of consumers' expenditure showed a decline in real terms, but the extent of the curtailment varied appreciably between different groups. The greatest decline was in the categories of durable goods and personal services. Purchases of new motor-cars by private individuals ceased entirely for five years, purchases of furniture were by 1944 down to only one-fifth and purchases of clothing not much above half of their 1938 level. In both these last two categories expenditure rose slightly in 1945. In contrast, there was during the war a rise in expenditure on drink, tobacco and entertainments, all items subject to exceptionally heavy indirect taxation.



It is important to bear in mind certain qualifications to which all the categories in table 9 are subject to some extent :

(1) The figures relate to the expenditure of the total population of the United Kingdom, which, because of the movement of troops between this country and overseas, did not remain constant either in size or composition.

Thus, for example, in 1943 and 1944 large numbers of Allied and Dominion troops were stationed in this country, whose expenditure was distributed very differently from that of the average British civilian. Their expenditure on rent was smaller, but their expenditure on drink and entertainments was larger, than the average.

It is not, therefore, to be expected that the movement of these aggregate of expenditure will reflect at all exactly the changes experienced by any particular class or individual.

(2) It has not been possible with the data available to adopt a uniform basis in compiling the series of expenditures at constant prices. Two main methods have been used. In the case of rents, durable household goods, clothing, books, travel and entertainments the values at current prices have been deflated by dividing the estimates for each year by an index reflecting changes in the prices of those goods actually sold in the year in question in relation to 1938. In the case of the other groups of expenditure the physical quantities purchased of the various items in a category have been multiplied by their respective average prices in the base-year.

Owing to the lack of a uniform method of compilation the extent to which quality changes are reflected in the figures varies from category to category. In none of the service items has any allowance been made for this factor. The figures in table 9 are unaffected by changes in the extent of overcrowding of trains, the delay in postal and telephone services or the state of repair of houses. Nor has any account been taken of changes in the amount of services provided by sellers of goods, for example, delivery services and use of wrapping material. In the case of most groups of merchandise, however, some allowance has been made for changes in the quality of goods. A series of clothing sales based on the number of garments sold would show a greater fall during the war than do the figures in table 9, because the latter reflect the movement of consumption from cheaper to more expensive garments since rationing started.

In the case of food it has not been possible to allow consistently for quality changes. Thus, dried milk and liquid milk, for example, are treated as two distinct commodities and a shift from one to the other is reflected in the series of expenditure at constant prices. On the other hand, an increase in the proportion of inferior cuts of meat and a disappearance of the more expensive blends of coffee have not affected the series, since the basic figures are in terms of undifferentiated weight. There can be no doubt, therefore, that the war-time changes in the series of food expenditure at 1938 prices underestimate the loss of satisfaction that has occurred through declines in quality.

(3) The "weights" used to combine the different items in composite groups such as food and fuel are prices and not, as would for other purposes be more appropriate, technical factors such as food values or thermal units.

A series of food purchases designed to measure changes in the nutritional value of the diet would fall by less during the war. Conversely, an index of purchases of fuel weighted by their thermal content would show a smaller rise than the series in table 9.

(4) None of the figures makes any allowance for the loss of satisfaction caused by restrictions on consumers' freedom of choice.



It was mentioned above that consumers' expenditure includes a large element of indirect taxation entering into the market price of the goods. To this extent consumers' expenditure exceeds the receipts of the producers of the goods. On the other hand producers in some cases receive subsidies from the government in addition to their sales proceeds. Table 10 shows estimates of the amount producers of consumers' goods and services actually receive, whether from consumers or from public authorities. It is these items that enter into the national cost of consumption shown in table 5 above.

# NATIONAL COST <sup>(1)</sup> OF CONSUMERS' GOODS AND SERVICES

TABLE 10

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
1. Food ... ..	1,155	1,186	1,255	1,280	1,362	1,345	1,451	1,527
2. Alcoholic beverages—								
Beer ... ..	125	130	139	178	206	206	240	247
Other ... ..	46	52	51	57	57	62	60	62
3. Tobacco ... ..	85	92	96	110	118	121	123	127
4. Rent, rates and water charges	334	344	350	344	342	344	350	352
5. Fuel and light ... ..	188	190	211	224	229	228	243	258
6. Durable household goods—								
Furniture and furnishings ...	145	139	133	103	89	65	53	76
Hardware ... ..	78	74	69	57	47	44	45	62
7. Other household goods ...	46	47	49	46	42	42	44	46
8. Clothing—								
Footwear ... ..	70	74	85	79	85	80	84	87
Other clothing ... ..	352	359	386	306	334	306	372	390
9. Reading matter ... ..	59	59	63	64	70	74	82	86
10. Privately-owned motor vehicles and their running expenses ...	92	81	28	21	11	7	7	23
11. Travel ... ..	141	135	124	147	180	190	195	222
12. Communication services ...	28	28	31	35	37	46	52	50
13. Entertainments ... ..	49	46	47	65	82	89	94	101
14. Services not included above ...	433	430	428	428	401	386	391	429
15. Other goods ... ..	167	171	176	161	149	151	162	183
16. Income in kind of the Armed Forces ... ..	16	27	75	129	139	180	197	204
17. Adjustment <sup>(2)</sup> ... ..	— 7	— 5	—	5	30	40	40	50
18. Total [30] ... ..	3,602	3,659	3,796	3,839	4,010	4,006	4,285	4,582

<sup>(1)</sup> Expenditure at market value less indirect taxes plus subsidies.

<sup>(2)</sup> It is necessary to make a specific adjustment in order to convert the total in line 17 to a total of purchases out of British income.

The difference between the entries in table 10 and the corresponding entry or group of entries in table 8 represents the indirect taxation less subsidies estimated to have fallen on particular classes of consumers' goods and services. A comparison of these two tables, therefore, shows the extent to which different categories of consumers' expenditure are subject to net indirect taxation.



## B. TAXATION IN RELATION TO INCOME

Table 7 showed the disposal of private income between its immediate uses : personal expenditure, direct tax payments and saving. Table 11 below collects together all the taxes, both direct and indirect, which fall on private income.

### TOTAL PRIVATE INCOME AND THE PROPORTION REQUIRED TO MEET TAXATION

TABLE 11 £ million

	1938	1939	1940	1941	1942	1943	1944	1945
1. Private income [45] ... ..	5,031	5,379	6,335	7,319	8,049	8,623	8,994	9,251
2. Direct taxes, social insurance contributions of employees, war damage contributions and premiums, etc., met out of private income [49] ... ..	545	595	786	1,230	1,513	1,902	2,107	2,148
3. Indirect taxes, rates and war risks insurance premiums less subsidies met out of private income ... ..	571	622	706	902	1,022	1,097	1,054	1,074
4. Excess of tax liabilities over payments [83] ... ..	16	120	286	329	343	133	72	-22
5. Total tax liabilities in respect of private income ... ..	1,132	1,337	1,778	2,461	2,878	3,132	3,233	3,200
6. Tax liabilities as a percentage of private income ... ..	23	25	28	34	36	36	36	34

The figures in line 3 are estimates of that part of the excess of indirect taxes over subsidies which is met out of private income : that is, which does not appear in the value of goods and services bought by public authorities. Indirect taxes entering into the value of government purchases clearly represent a transfer entirely within the public authority sector.

Though it is not feasible here to attempt to distribute the whole of this taxation over different ranges of income it is possible to continue the estimates published in previous years of the extent to which direct taxes fall on different incomes. Table 12 gives the estimated distribution of incomes before and after tax in the calendar years 1938 and 1944. It is clear from more recent information that the figures for 1942 given in Cmd. 6623 need revision ; they should, therefore, be compared with the figures given in the table below for 1944 which are themselves provisional.



# DISTRIBUTION OF PRIVATE INCOME BY RANGES OF INCOMES

TABLE 12

Range of income before tax	Number of incomes  000's	Total income before tax  £ million	Total income after income tax and surtax <sup>(1)</sup> at		Proportion of income before tax retained after deduction of taxes at	
			1938-39 rates <sup>(3)</sup>	1944-45 rates	1938-39 rates	1944-45 rates
			£ million		Per cent.	
<b>Private Income in 1938</b>						
Private income at the disposal of individuals <sup>(2)</sup> which can be allocated to different ranges :—						
Under £250 <sup>(3)</sup> ... ..	...	2,681	2,676	2,616	99.8	97.6
£250-500 ... ..	1,745	595	578	499	97.1	83.9
£500-1,000 ... ..	500	350	311	244	88.9	69.7
£1,000-2,000 ... ..	195	270	224	160	83.0	59.3
£2,000-10,000 ... ..	97	360	256	170	71.1	47.2
£10,000 and over ... ..	8	170	84	35	49.4	20.6
Unallocated private income ...	—	605 <sup>(4)</sup>	499	...	82.5	...
Total private income ... ..	—	5,031 <sup>(4)</sup>	4,628	...	92.0	...
<b>Private Income in 1944</b>						
Private income at the disposal of individuals <sup>(2)</sup> which can be allocated to different ranges :—						
Under £250 <sup>(3)</sup> ... ..	...	3,569	3,560	3,479	99.7	97.5
£250-500 ... ..	5,200	1,830	1,785	1,590	97.5	86.9
£500-1,000 ... ..	1,400	995	896	730	90.1	73.4
£1,000-2,000 ... ..	520	729	606	454	83.1	62.3
£2,000-10,000 ... ..	117	415	294	195	70.8	47.0
£10,000 and over ... ..	8	155	80	30	51.6	19.4
Unallocated private income ...	—	1,301 <sup>(4)</sup>	...	573	...	44.0
Total private income ... ..	—	8,994 <sup>(4)</sup>	...	7,051	...	78.4

<sup>(1)</sup> The estimates of income in this table relate to calendar years; the tax-rates used are those that were current in the fiscal years 1938-39 and 1944-45.

<sup>(2)</sup> A married couple is for income tax purposes counted as one individual.

<sup>(3)</sup> All transfer payments, other than interest on the national debt, have been included in the incomes below £250.

<sup>(4)</sup> Including all liabilities for National Defence Contribution and Excess Profits Tax, which are deducted together with income tax in arriving at retained income.

This table relates to income received in 1938 and 1944 and shows 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 39 of table 21 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 table 12 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.



In the tables relating to 1944 the total net income at 1944-45 rates is the amount which would have resulted if all taxpayers had during that year paid tax at 1944-45 rates on the income received by them in that year. The figures in the corresponding column for 1938-39 do not relate to the income of that year, but to the income that would have remained after tax in 1944 if the taxation of 1938-39 had been in force in that year.

The change in the distribution of incomes brought about by change in taxation can be shown 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. This is shown for the financial years 1938-39 and 1944-45 in table 13 which relates solely to income assessed to income tax.

## NUMBER OF INDIVIDUALS <sup>(1)</sup> IN DIFFERENT RANGES OF NET-INCOME ASSESSED IN 1938-39 AND 1944-45

TABLE 13

Range of income after tax	1938-39	1944-45
£150-250	4,500,000	7,400,000
£250-500	1,820,000	5,050,000
£500-1,000	450,000	830,000
£1,000-2,000	155,000	186,000
£2,000-4,000	56,000	33,050
£4,000-6,000	12,000	890
£6,000 and over	7,000	60
Total ... ..	7,000,000	13,500,000

(<sup>1</sup>) A married couple is for income tax purposes counted as one individual.

The preceding tables showed the effect of income tax and surtax on personal incomes in different income ranges, but gave no indication of the extent to which direct taxation falls on different types of income or property. An attempt is made to provide this information below. It will be understood that in the case of mixed incomes the allocation of tax can only be arbitrary. Thus, if, for example, income is derived partly from wages and partly from interest-bearing securities, the tax payable in respect of the total income depends partly on the size of the tax-free allowances and these are calculated with reference to the total of income and not with reference to its separate component parts.



# DIRECT TAXATION PAID IN RESPECT OF DIFFERENT TYPES OF INCOME AND PROPERTY

TABLE 14

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
<b>On income :—</b>								
Rent of land and buildings—								
Income tax ... ..	59	65	84	105	120	125	126	132
Surtax ... ..	7	7	8	8	8	8	8	8
Interest and profits—					( <sup>1</sup> )			
Income tax ... ..	208	224	305	401	397	534	602	632
Surtax ... ..	43	48	59	57	53	54	54	53
N.D.C., E.P.T., etc. ...	16	28	69	234	345	486	517	474
Salaries—								
Income tax ... ..	42	53	75	119	198	242	287	320
Surtax ... ..	9	10	12	12	12	12	12	12
Employees' contributions	4	4	5	7	7	7	7	7
Wages—								
Income tax ... ..	2	3	5	28	112	185	238	241
Surtax ... ..	—	—	—	—	—	—	—	—
Employees' contributions	51	53	56	61	65	64	63	62
Pay of Armed Forces—								
Income tax ... ..	1	1	4	11	21	24	26	28
<b>On property :—</b>								
Land and buildings—								
Death duties, corporation duty and land tax	10	10	10	11	11	12	13	16
War damage contributions	—	—	—	32	40	40	40	38
Interest-bearing securities( <sup>2</sup> )								
Estate duties and corporation duty	22	22	23	28	30	31	36	43
Other stocks and shares—								
Estate duties and corporation duty	37	37	37	40	43	43	47	48
Other forms of property—								
Estate duties ... ..	9	9	9	10	11	11	12	13
War damage contributions	—	—	—	43	26	14	9	—
<b>Unallocated</b>	25	21	25	23	14	10	16	21
<b>Total direct taxes [49]</b> ... ..	545	595	786	1,230	1,513	1,902	2,107	2,148

(<sup>1</sup>) The introduction of Tax Reserve Certificates absorbed payments previously made in advance.

(<sup>2</sup>) Government and municipal stocks, bonds, mortgages and debentures.



# C. PRIVATE SAVING

The table below brings together the information on private saving, personal and other, contained in table 2I.

## PRIVATE SAVING

TABLE 15

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
<b>Personal Saving</b>								
1. Gross personal saving, including allowance for accrued taxation [34 + 35 + 36] ... ..	234	334	700	979	1,283	1,504	1,450	1,396
2. less Death duties, etc. [34] ... ..	— 90	— 87	— 84	— 93	—100	—106	—115	—133
3. Gross personal saving after allowance for death duties, etc. [35 + 36] ... ..	144	247	616	886	1,183	1,398	1,335	1,263
4. less Increase in allowance to meet accrued taxation [35] ... ..	— 4	— 34	— 39	— 42	—194	— 97	— 60	7
5. Net personal saving after allowance for accrued taxation [36]	140	213	577	844	989	1,301	1,275	1,270
<b>Other Private Saving</b>								
6. Other gross private saving, including allowance for accrued taxation [42 + 43] ... ..	182	266	437	482	349	241	217	195
7. less Increase in allowance to meet accrued taxation [42] ... ..	— 12	— 86	—247	—287	—149	— 36	— 12	15
8. Other net private saving after allowance for accrued taxation [43] ... ..	170	180	190	195	200	205	205	210
<b>Total Private Saving</b>								
9. Net personal saving after allowance for accrued taxation [36]	140	213	577	844	989	1,301	1,275	1,270
10. Other net private saving after allowance for accrued taxation [43] ... ..	170	180	190	195	200	205	205	210
11. Total net private saving after allowance for accrued taxation [82] ... ..	310	393	767	1,039	1,189	1,506	1,480	1,480

The allowance to meet accrued taxation in each year is the excess of tax liabilities accrued during the year, on the assumption that there will be no change from the latest rate of tax announced, 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 1945 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 the sum of the figures for the years 1938-45, (=£463 million) *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 increase in allowances to meet accrued taxation on other private income which is shown in item 7.



## IV.—CENTRAL GOVERNMENT EXPENDITURE AND ITS FINANCE

This section deals with the finance of central government expenditure. Table 16 shows the relation between total expenditure by the central government and expenditure of all public authorities on goods and services.

### EXPENDITURE OF THE CENTRAL GOVERNMENT AND OF ALL PUBLIC AUTHORITIES

TABLE 16

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
1. Expenditure of all public authorities on goods and services at market prices [73+77] ...	941	1,362	3,099	4,228	4,605	5,227	5,256	5,059
2. less Expenditure by extra-budgetary funds and local authorities on goods and services [72+75+76] ...	-482	-497	-497	-507	-492	-469	-463	-475
3. Central government expenditure on goods and services [71+74]	459	865	2,602	3,721	4,113	4,758	4,793	4,584
4. plus Central government subsidies and transfer payments [65+67] ...	343	352	429	550	637	715	826	1,024
5. plus Net transfers from central government to other public authorities [125] ...	231	273	334	382	379	358	352	359
6. Total central government expenditure [61] ...	1,033	1,490	3,365	4,653	5,129	5,831	5,971	5,967

Central government expenditure was met partly by revenue and partly by borrowing. The proportion covered by revenue has increased steadily since 1940.

### THE METHODS OF CENTRAL GOVERNMENT FINANCE

TABLE 17

	1938	1939	1940	1941	1942	1943	1944	1945
<i>£ million</i>								
1. Revenue [47+50+54]	885	977	1,275	1,857	2,366	2,926	3,218	3,268
2. Net borrowing [57] ...	148	513	2,090	2,796	2,763	2,905	2,753	2,699
3. Expenditure [61] ...	1,033	1,490	3,365	4,653	5,129	5,831	5,971	5,967
<i>Percentages</i>								
4. Revenue ...	86	66	38	40	46	50	54	55
5. Net borrowing ...	14	34	62	60	54	50	46	45
6. Expenditure ...	100	100	100	100	100	100	100	100



The composition of central government revenue is shown below :

## CENTRAL GOVERNMENT REVENUE

TABLE 18

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
Income tax ... ..	312	346	473	664	848	1,110	1,279	1,353
Surtax ... ..	59	65	79	77	73	74	74	73
National Defence Contribution ... ..	15	28	24	23	27	33	35	34
Excess Profits Tax... ..	—	—	44	211	317	453	481	440
Death duties ... ..	78	77	79	88	94	97	107	119
Customs and excise duties on drink... ..	107	116	175	218	267	337	360	375
Customs and excise duties on tobacco ... ..	84	108	159	208	306	371	385	409
Purchase tax ... ..	—	—	—	97	113	93	95	109
Entertainments duty ... ..	8	8	8	15	27	40	46	50
Other customs and excise duties <sup>(1)</sup> ... ..	138	150	132	138	139	151	202	150
Motor vehicle duties ... ..	35	34	37	38	32	28	28	35
Stamp duties ... ..	21	19	14	14	15	17	17	23
Post Office surplus <sup>(2)</sup> ... ..	10	8	19	25	31	36	39	42
Receipts under the railway agreement ... ..	—	—	—	10	66	54	49	32
Other revenue ... ..	18	18	32	31	23	20	21	24
Central government revenue [47 + 50 + 54]	885	977	1,275	1,857	2,366	2,926	3,218	3,268

<sup>(1)</sup> The reduction in this item in 1945 was due largely to a reduction of imports of petroleum products on government account.

<sup>(2)</sup> Surplus shown in the commercial accounts of the Post Office.

The channels through which government borrowings reached the Exchequer are set out in one of the main tables in Section V (table 24). Table 19 shows the ultimate sources of these borrowings, namely, private saving, surpluses of extra-budgetary funds and of local authorities, sums arising from the running down of domestic capital and sums received from overseas as a result of borrowing and the sale of overseas assets.

Sums set aside to replace equipment become available for an alternative purpose if the replacement is postponed. The same is true of money obtained by the sale of stocks without replacement and of compensation received in respect of war risks and other insurance 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.

This total, therefore, is provided from the following sources :—

- (i) Additions to depreciation, obsolescence and similar funds held by firms, institutions and persons ;
- (ii) 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 ;
- (iii) Sums repaid to lenders and transferred to sinking funds by local authorities ;
- (iv) Receipts from the sale to the central government of fixed capital assets such as sites and buildings ;



- (v) Compensation received in respect of war risks claims ;
- (vi) *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 20 ;
- (vii) *less* Gross capital formation of local authorities.

## THE SOURCES OF CENTRAL GOVERNMENT NET BORROWING

TABLE 19

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
1. Saving—								
(a) Private [82 + 83] ... ..	326	513	1,053	1,368	1,532	1,639	1,552	1,458
(b) Extra-budgetary funds and local authorities [72—58—59]	33	66	163	183	181	145	114	8
2. Sums released by running down domestic capital equipment and stocks <sup>(1)</sup>								
(a) Private [86—10—11—12]...	—180	—246	78	406	353	403	386	377
(b) Local authorities [72] ...	—101	—70	—8	23	34	38	42	37
3. Net sale of assets and increase in liabilities to countries abroad [91]	70	250	804	816	663	680	659	819
4. Central government net borrowing (deficit) [57] ... ..	148	513	2,090	2,796	2,763	2,905	2,753	2,699

<sup>(1)</sup> Including any unspent compensation in respect of war risks and insurance claims.

Attention is drawn to the statement under (ii) 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. The information available does not permit measurement of the value of the quantitative change in stocks. There can be no doubt, however, that in the early years of the war, particularly 1940 and 1941, when stocks were falling, the value of the decrease was greater than the fall in value implied in the calculation of profits. An adjustment to bring the figures on to the former basis would, therefore, reduce the estimate of net capital formation in those years.

If this adjustment were possible, profits, and hence private savings, would be lower to exactly the extent that item 2(a) would be increased. The distribution of sums between items 1(a) and 2(a) of the above table is, therefore, arbitrary to the extent that it depends on the adoption of a particular convention for the assessment of profits. Each of these items, moreover, consists in part of the residual items in tables 20 and 21, for which no independent estimate has, except in 1938, so far been possible. Each of them is, therefore, peculiarly subject to error, although their sum is not.



## ESTIMATES OF NATIONAL INCOME

TABLE 20

	1938	1939	1940	1941	1942	1943	1944	1945
1. Rent of land and buildings ...	380	388	386	385	384	384	384	385
2. Interest and profits, including farming profits and professional earnings ...	1,317	1,472	1,829	2,128	2,342	2,460	2,487	2,445
3. Salaries ...	1,100	1,141	1,206	1,332	1,381	1,430	1,473	1,585
4. Wages ...	1,735	1,835	2,115	2,419	2,688	2,845	2,890	2,840
5. Pay and allowances (in cash and kind) of serving members of the Armed Forces ...	78	124	386	622	805	999	1,167	1,228
6. National income (or net national product at factor cost)	4,610	4,960	5,922	6,886	7,600	8,118	8,401	8,483

For notes on the items of this table see pp. 32 to 35.



# TABLES

## AND EXPENDITURE

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
7. Personal expenditure on consumers' goods and services at market prices ... ..	4,160	4,271	4,496	4,721	5,004	5,082	5,335	5,645
8. Current expenditure by public authorities on goods and services ... ..	816	1,267	3,073	4,240	4,628	5,255	5,290	5,056
9. Net non-war capital formation of public authorities ... ..	125	95	26	-12	-23	-28	-34	3
10. Increase in work in progress on government account held under private finance ... ..	180	(246)	125	175	75	25	—	-225
11. Private net capital formation at home and war losses made good not included below ...			(-167)	(-362)	(-275)	(-290)	(-331)	(-109)
12. Expenditure incurred in making good war damage to buildings ... ..	—	—	—	29	61	49	56	120
13. Net lending abroad and purchase of assets and financial claims from overseas ... ..	-70	-250	-804	-816	-663	-680	-659	-819
14. Subsidies ... ..	15	20	70	130	160	170	215	250
15. less Indirect taxes and rates	-562	-620	-715	-915	-1,095	-1,241	-1,342	-1,354
16. less Employers' national insurance contributions	-54	-55	-58	-65	-73	-72	-70	-69
17. less War risks insurance premiums ... ..	—	-14	-124	-239	-199	-152	-59	-15
18. Net national expenditure ...	4,610	4,960	5,922	6,886	7,600	8,118	8,401	8,483



## ESTIMATES OF PRIVATE INCOME

*Personal*

TABLE 21

	1938	1939	1940	1941	1942	1943	1944	1945
19. Rent, interest and profits received by persons ...	1,589	1,649	1,746	1,744	1,919	2,052	2,144	2,230
20. Wages and salaries paid by government non-trading undertakings ...	250	320	380	475	540	580	590	615
21. All other wages and salaries ...	2,585	2,656	2,941	3,276	3,529	3,695	3,773	3,810
22. Pay and allowances of serving members of the Armed Forces ...	78	124	386	622	805	999	1,167	1,228
23. Pay and allowances of members of the Armed Forces on release leave ...	—	—	—	—	—	—	—	45
24. War gratuities and post-war pay credits of members of the Armed Forces ...	—	—	—	—	—	—	—	80
25. Pension payments ...	132	134	153	181	204	225	250	257
26. Payments in respect of unemployment and the relief of poverty ...	114	98	67	31	19	17	18	25
27. Sickness benefit ...	23	23	23	21	27	31	32	31
28. Other transfer payments ...	1	6	24	50	44	44	45	30
29. Personal income before tax ...	4,772	5,010	5,720	6,400	7,087	7,643	8,019	8,351

*Other Private*

38. Other private income before tax ...	259	369	615	919	962	980	975	900
39. Other private income before tax ...	259	369	615	919	962	980	975	900

*Private*

45. Private income before tax (sum of items 29 and 39) ...	5,031	5,379	6,335	7,319	8,049	8,623	8,994	9,251
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For notes on the items of this table see pp. 35 to 37.



# AND OUTLAY

## Income

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
30. National cost of personal consumption ... ..	3,602	3,659	3,796	3,839	4,010	4,006	4,285	4,582
31. Indirect taxes, rates, etc. less subsidies on consumers' goods and services ... ..	558	612	700	882	994	1,076	1,050	1,063
32. Direct tax payments not included below ... ..	378	405	524	690	675	887	1,029	1,085
33. Income tax payments due for repayment after the war ...	—	—	—	10	125	170	205	225
34. Death duties and stamps on the transfer of property ... ..	90	87	84	93	100	106	115	133
35. Excess of direct tax liabilities over payments ... ..	4	34	39	42	194	97	60	-7
36. Net personal saving after setting aside the excess of direct tax liabilities over payments ...	(140)	(213)	(577)	(844)	(989)	(1,301)	(1,275)	(1,270)
37. Personal outlay ... ..	4,772	5,010	5,720	6,400	7,087	7,643	8,019	8,351

## Income

40. National Defence Contribution and Excess Profits Tax payments	15	28	68	234	344	486	516	474
41. Other direct tax payments ...	62	75	110	203	269	253	242	231
42. Excess of direct tax liabilities over payments ... ..	12	86	247	287	149	36	12	-15
43. Other private net saving after setting aside the excess of direct tax liabilities over payments ...	170	180	190	195	200	205	205	210
44. Other private outlay... ..	259	369	615	919	962	980	975	900

## Income

46. Private outlay (sum of items 37 and 44) ... ..	5,031	5,379	6,335	7,319	8,049	8,623	8,994	9,251
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## THE INCOME, DEFICIT AND

TABLE 22

	1938	1939	1940	1941	1942	1943	1944	1945
<i>Direct taxes</i>								
47. Central government ...	490	538	725	1,087	1,375	1,777	1,988	2,041
48. Extra-budgetary funds ...	55	57	61	143	138	125	119	107
49. Total ...	545	595	786	1,230	1,513	1,902	2,107	2,148
<i>Indirect taxes</i>								
50. Central Government ...	351	397	487	690	871	1,014	1,112	1,119
51. Extra-budgetary funds ...	54	69	182	304	272	224	129	84
52. Local authorities ...	211	223	228	225	224	227	230	235
53. Total ...	616	689	897	1,219	1,367	1,465	1,471	1,438
<i>Income from property</i>								
54. Central government ...	44	42	63	80	120	135	118	108
55. Local authorities ...	10	8	8	9	12	12	13	15
56. Total ...	54	50	71	89	132	147	131	123
<i>Deficit</i>								
57. Central government ...	148	513	2,090	2,796	2,763	2,905	2,753	2,699
58. Extra-budgetary funds ...	-22	-54	-146	-149	-153	-123	-97	16
59. Local authorities ...	90	58	-9	-57	-62	-60	-59	-61
60. Total ...	216	517	1,935	2,590	2,548	2,722	2,597	2,654
<i>Income plus deficit</i>								
61. Central government ...	1,033	1,490	3,365	4,653	5,129	5,831	5,971	5,967
62. Extra-budgetary funds ...	87	72	97	298	257	226	151	207
63. Local authorities ...	311	289	227	177	174	179	184	189
64. Total ...	1,431	1,851	3,689	5,128	5,560	6,236	6,306	6,363

For notes on the items of this table see pp. 37 to 39.



## EXPENDITURE OF PUBLIC AUTHORITIES

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
<i>Subsidies</i>								
65. Central government ...	15	20	70	130	160	170	215	250
<i>Payments in respect of war damage claims</i>								
66. Extra-budgetary funds	—	—	36	248	214	187	111	163
<i>Transfer payments</i>								
67. Central government ...	328	332	359	420	477	545	611	774
68. Extra-budgetary funds	124	114	105	89	92	95	101	104
69. Local authorities	23	23	20	13	12	12	12	13
70. Total ...	475	469	484	522	581	652	724	891
<i>Net non-war capital formation</i>								
71. Central government ...	24	25	18	11	11	10	8	40
72. Local authorities	101	70	8	-23	-34	-38	-42	-37
73. Total ...	125	95	26	-12	-23	-28	-34	3
<i>Current expenditure on goods and services</i>								
74. Central government ...	435	840	2,584	3,710	4,102	4,748	4,785	4,544
75. Extra-budgetary funds	26	27	25	27	27	26	28	28
76. Local authorities	355	400	464	503	499	481	477	484
77. Total ...	816	1,267	3,073	4,240	4,628	5,255	5,290	5,056
<i>Total expenditure, excluding transfers to other authorities but including payments out of transfers from other authorities</i>								
78. Central government ...	802	1,217	3,031	4,271	4,750	5,473	5,619	5,608
79. Extra-budgetary funds	150	141	166	364	333	308	240	295
80. Local authorities	479	493	492	493	477	455	447	460
81. Total ...	1,431	1,851	3,689	5,128	5,560	6,236	6,306	6,363



TABLE 23

	1938	1939	1940	1941	1942	1943	1944	1945
82. Net private saving after setting aside the excess of direct tax liabilities over payments ...	310	393	767	1,039	1,189	1,506	1,480	1,480
83. Excess of direct tax liabilities on private income over payments	16	120	286	329	343	133	72	-22
84. Net saving of public authorities	-91	-422	-1,909	-2,602	-2,571	-2,750	-2,631	-2,651
85. Sums allowed for depreciation and maintenance ...	475	485	505	515	520	520	520	520
86. Compensation received in respect of war damage claims ...	—	—	36	248	214	187	111	163
87. Saving and other sums set aside	710	576	-315	-471	-305	-404	-448	-510

For notes on the items of this table, see p. 40.



## ACCOUNT

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
88. Private gross capital formation at home and war losses made good ... ..	545	621	231	76	205	174	140	424
89. Increase in work in progress on government account held under private finance ... ..			125	175	75	25	—	-225
90. Gross capital formation of public authorities ... ..	235	205	133	94	89	77	71	110
91. Net lending abroad and purchase of assets and financial claims from overseas ... ..	-70	-250	-804	-816	-663	-680	-659	-819
92. Gross capital formation ...	710	576	-315	-471	-305	-404	-448	-510



## CENTRAL GOVERNMENT EXPENDITURE AND THE

TABLE 24

	1938	1939	1940	1941	1942	1943	1944	1945
93. Central government revenue...	885	977	1,275	1,857	2,366	2,926	3,218	3,268
94. Unemployment Fund ...	-1	7	24	64	74	74	72	69
95. National Health Funds ...	—	—	9	8	12	9	5	3
96. Local Loans Fund ...	-2	1	5	9	10	10	10	6
97. Other extra-budgetary receipts	258	186	516	72	-58	-155	-107	63
98. Reconstruction Finance Corporation loan ...	—	—	—	87	4	-7	-11	-10
99. Canadian Government interest-free loan ...	—	—	—	—	157	-4	-13	-14
100. Credit granted by United States Government in connection with Lend-Lease settlement	—	—	—	—	—	—	—	161
101. Capital receipts included in miscellaneous revenue, appropriations in aid, etc. ...	2	2	6	7	2	5	5	5
102. less Sinking funds ...	-11	-14	-12	-17	-13	-15	-16	-16
103. less Other expenditure (net)	4	-21	-8	13	-1	15	16	-10
104. Finance through government agencies ...	250	161	540	243	187	-68	-39	257
105. Post Office and Trustee Savings Banks ...	1	19	119	214	234	301	325	355
106. National Savings Certificates including increase in accrued interest ...	3	21	167	214	232	297	265	159
107. Defence Bonds ...	—	22	180	174	134	121	112	154
108. Other public issues (net) ...	73	10	567	1,031	1,047	1,060	896	1,176
109. Increase in fiduciary issue ...	10	-30	50	150	170	150	150	150
110. Increase in Treasury Bills held outside government departments and in Bank Ways and Means ...	-189	310	129	279	151	433	537	565
111. Treasury deposit receipts ...	—	—	338	474	155	434	394	-158
112. Tax reserve certificates ...	—	—	—	17	453	177	113	41
113. Public borrowing at home ...	-102	352	1,550	2,553	2,576	2,973	2,792	2,442
114. Central government revenue plus deficit ...	1,033	1,490	3,365	4,653	5,129	5,831	5,971	5,967

For notes on the items of this table see pp. 41 and 42.



## CHANNELS THROUGH WHICH IT WAS FINANCED

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
115. Expenditure on goods and services connected with the war	343	735	2,467	3,579	3,962	4,609	4,645	4,389
116. Current expenditure on non-war goods and services ...	92	105	117	131	140	139	140	155
117. Net non-war capital formation ... ..	24	25	18	11	11	10	8	40
118. Subsidies ... ..	15	20	70	130	160	170	215	250
119. National debt interest paid to the private sector of the economy and increase in accrued interest on National Savings Certificates ... ..	205	208	217	239	287	335	379	423
120. War gratuities, post-war pay credits and pay and allowances of members of the Armed Forces on release leave ...	—	—	—	—	—	—	—	125
121. Billeting allowances ...	—	6	12	19	9	5	8	3
122. Non-contributory pensions, and payments in respect of war pensions and service grants ...	86	86	100	122	144	164	185	194
123. Unemployment and training allowances ... ..	37	32	21	16	13	13	10	7
124. Other transfer payments ...	—	—	9	24	24	28	29	22
125. Net transfers to other public authorities ... ..	231	273	334	382	379	358	352	359
126. Central government expenditure ... ..	1,033	1,490	3,365	4,653	5,129	5,831	5,971	5,967



# APPENDIX I

## NOTES ON THE MAIN TABLES

Table 20

1. This item represents the income from the ownership of lands, houses, etc., as assessed for income tax under Schedule A, 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. Rents paid by occupiers in excess of Schedule A values are excluded from this item, since they attract income tax under Schedule D.

2. Aggregate profits here are net, after current business losses have been deducted. This item excludes interest on the national debt and also income due to foreigners after deduction of income tax, but includes miscellaneous government income such as trading profits, receipts under the railway agreement, certain receipts from abroad and central government taxes paid by foreigners. 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. In addition to profits and interest this item includes rents paid in excess of Schedule A values.

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, miners and farm workers. The estimate of personal expenditure on consumption at market prices (item 7) includes a similar allowance.

5. This item includes : (a) the pay and cash allowances of, and the value of issues of food and clothing to, members of H.M. Forces and Auxiliary Services, other than those on release leave, and (b) the pensions and retired pay of former members of the Armed Forces other than pensions awarded for death pension or disability attributable to war service. War pensions appear as a transfer payment in item 26 ; payments and issues of civilian clothing to members of the Armed Forces on release leave are shown as a separate transfer payment in item 23 of table 21.

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 insurance premiums which 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. The market value of personal expenditure on insurance is measured by the cost of the factors of production taken up in providing the insurance, that is, an estimate of the share of premiums which is paid out in expenses of management, commissions and dividends or retained in free reserves.

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.

With the exception noted below, Lend-Lease assistance and, in 1942, expenditure equivalent to the Canadian contribution are excluded from this item. Thus, in so far as goods have been received under Lend-Lease and Mutual Aid 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.

The 1945 figure includes an amount of £161 million (\$650 million) to cover the following items mentioned in the joint statement regarding settlement for Lend-Lease, Reciprocal Aid, surplus war property and other claims issued by the Governments of the United Kingdom and the United States on 6th December 1945 (*see* Cmd. 6708) :

(a) a net sum of \$118 million representing the difference between the amount of the services and supplies furnished or to be furnished by each Government to the other Government after V-J day through Lend-Lease and Reciprocal Aid channels, *less* the net sum due to the United Kingdom under the claims settlement, and

(b) a net sum of \$532 million for all other Lend-Lease and Reciprocal Aid items, and for surplus property, and the United States interest in installations, located in the United Kingdom and owned by the United States Government.

The exact amount for the items mentioned in (a) above, other than claims, will be ascertained by accounting in due course but is not likely to differ greatly from the amount provisionally taken as a working total.

Since no cash payment has been made this expenditure is not included in Exchequer issues.

9. This item excludes entirely expenditure on goods and services connected with the war even though it was of a capital nature. It is mainly composed of Post Office loan expenditure, central government expenditure on the manufacture of pre-fabricated houses (in 1945 only) and the capital formation of 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 the national income includes all income accruing as a result of current activity in producing goods and services on government account whereas items 8 and 9 include only payments actually made by public authorities.

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 expenditure and depreciation allowances deducted from gross revenue in arriving at the figures of net rent and profits shown in items 1 and 2, less (c) increases in assurance reserves to meet claims by business insurers, less (d) receipts in respect of business insurance claims for damage (other than war damage) to fixed capital less (e) receipts from the sale to public authorities of existing privately-owned capital assets, such as land and buildings, plus (f) the increase in stocks (including replacements of war losses) as valued for the calculation of profits in item 2, less (g) the increase in work in progress on government account held under private finance shown separately in item 10.

The necessity for the deductions in (c) and (d), which were not previously made, is explained in Appendix II.

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 recorded increase (or, when negative, decrease) in the external assets of the United Kingdom. The amounts shown for the war years are known to understate the extent to which the country's international position has deteriorated.

If records were complete this item would be 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.

Lend-Lease affects this item, as also item 8, in only one year: the 1945 figure includes the liability of £161 million to the Government of the United States to cover the net sum due for the settlement of Lend-Lease and Reciprocal aid, etc. mentioned in the note to item 8.

14. This item is included here since it represents payments in respect of costs not appearing in the market value of goods and services. It 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, (v) subsidies in respect of utility cloth and (vi) certain subsidies in respect of raw materials and fertilizers met by the Ministry of Supply.

The corresponding item in Cmd. 6623 included the Ministry of Food's contributions towards the cost of food and vitamin products supplied under the National Milk Scheme and the milk-in-schools and vitamin schemes, which are in this Paper treated as transfer payments and therefore enter into consumers' expenditure on goods and services (item 7).

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) 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. An estimate of the amount of taxes paid by foreigners has been deducted since these taxes are now treated as a part of the national income.

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 as 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 21

19. This item is composed of items 1 and 2 of table 20 *plus* national debt interest received by the private sector of the economy and the increase in interest accrued on National Savings Certificates (item 119 of table 24) *less* private income not accruing to persons (item 38) *less* miscellaneous income from public property, etc. (item 56 of table 22).

20. An estimate of that part of items 3 and 4 of table 20 which is paid by government non-trading undertakings, *i.e.* by central government departments other than the Post Office, by extra-budgetary funds and by local authorities on rate fund account.

21. Items 3 and 4 of table 20, *less* item 20.

22. The same as item 5 of table 20.

23. This item includes, in addition to the pay and cash allowances of members of the armed forces on release leave, the cost of the civilian clothing issued to them on their release.

24. The post-war pay credits included in this item are the amounts paid out in respect of service in the Armed Forces. They are not post-war credits of income tax.

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



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

27. Cash benefits under the national health insurance scheme. In previous years the corresponding item included, in addition, the cost of medical benefit, which is now treated as expenditure by public authorities on goods and services and not as a transfer payment. A corresponding deduction has been made from personal expenditure on medical services and drugs included in item 30 on the other side of the account.

28. This item previously consisted of billeting allowances, fireguards' subsistence allowances, travelling and lodging allowances of transferred workers, trainees' wages and lodging allowances, State scholarships and maintenance allowances to students. It now includes, in addition, that part of the cost of vitamin products and milk sold under the National Milk and milk-in-schools schemes, which is met by the Ministry of Food. This cost, previously treated as a subsidy, has this year been treated as a transfer income. A corresponding addition has been made to item 30 on the other side of the account.

The sum of items 23 to 28, *plus* that part of the national debt interest and increase in interest accrued on National Savings Certificates which is included in private income (item 119 of table 24), is equal to the total of transfer payments shown in item 70 of table 22.

29. This item is the sum of items 19 to 28 and shows the total of disposable income received by persons (including non-profit-making bodies).

30. This item is equal to item 7 of table 20 *less* item 31.

31. That part of the excess of indirect taxes, etc. (items 15, 16 and 17 of table 20) over subsidies (item 14 of table 20) which falls on consumers' expenditure.

32. 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 41, and the sums due for repayment after the war which are shown in item 33), (ii) surtax, (iii) employees' contributions to national insurance, (iv) war damage contributions and premiums met out of personal income and (v) motor vehicle duties on vehicles owned by persons.

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

34. Together with items 32 and 33 this item makes up the total of direct tax, etc. payments met out of personal income.

35. This item shows the excess of the liability for the direct taxes included in items 32 to 34 accruing on current income 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. 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.

Tax liabilities have been calculated at current rates of taxation, except in 1945 when account has been taken of the reduction in tax-rates, to take effect in April, 1946, which was announced in the autumn Budget of 1945.

36. This item represents the excess of personal income over outgoings on consumers' goods and services and liability for taxes and compulsory contributions. It has been obtained throughout by subtracting the sum of items 30 to 35 from item 29 and therefore depends on the accuracy of those items.



37. This item is the sum of items 30 to 36, which show the various ways in which personal income is disposed of. Current income may be either (a) spent on consumers' goods and services, (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 29.

38. This item is equal to that part of the national income (item 6 of table 20) which is neither paid out to persons (in which case it enters, together with transfer payments, into item 29) nor accrues to public authorities as miscellaneous income from public property, trading, etc. (item 56 of table 22).

39. See preceding note.

40. The total payments of National Defence Contribution and Excess Profits Tax.

41. This item is composed of other direct taxes such as income tax and war damage contributions and premiums met out of other private income. Together with items 32, 33, 34 and 40, it is equal to item 49 of table 22.

42. This item shows the excess of the liability for the direct taxes included in items 38 and 39 accruing on current income over the current payments of these taxes. As explained in the note to item 35, 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. Tax liabilities were calculated as explained in the note to item 35.

43. An estimate of other private net saving, the net undistributed profits of companies.

44. The sum of items 40 to 43 and by definition equal to item 39.

45. The sum of items 29 and 39; equal to item 6 of table 20 *plus* item 70 of table 22 *less* item 56 of table 22.

46. The sum of items 37 and 44.

## Table 22

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.

47. Includes income tax, after deduction of the small amount paid by foreigners and 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 50. Certain appropriations-in-aid and receipts appearing in miscellaneous revenue which can be regarded as gifts (*e.g.* sundry contributions towards the cost of the war) or direct taxes are also included. Receipts from wireless licences are here treated as direct taxes, as also are motor vehicle duties on vehicles owned by persons.



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

49. The sum of items 47 and 48 : equal to the sum of items 32, 33, 34, 40 and 41 of table 21.

50. Customs and excise duties, motor vehicle duties not included in item 47 above, stamp duties other than those on the transfer of property and appropriations-in-aid corresponding to indirect taxes. A deduction has been made to cover indirect taxes estimated to enter into the value of exports and therefore to fall on foreigners. These have been treated as central government income from trading, property, etc., and included in item 54.

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

52. 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.

53. The sum of items 50 to 52 ; numerically equal to the sum of items 15 to 17 of table 20.

54. As in previous years, this item includes 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 continues to be excluded. The Post Office income from trading, previously measured by the Post Office net receipt *less* Post Office expenditure out of Vote of Credit, is here measured by the surplus shown in the Post Office commercial accounts. The item now includes, in addition, the direct and indirect taxes estimated to fall on foreigners.

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.

57. The excess of central government expenditure over revenue. Sums received through the Currency Deposit Account, amounting in 1944 and 1945 to £90 million and £38 million respectively, are omitted from this item and corresponding amounts are omitted from expenditure.

58. This item shows the excess (or, in 1945, shortfall) 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 the item is headed "deficit", a surplus 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.

61. The sum of items 47, 50, 54 and 57.

62. The sum of items 48, 51 and 58.

63. The sum of items 52, 55 and 59.

65. This item is identical with item 14 of table 20 ; it is fully described in the note to that item.

66. Payments in respect of claims under the commodities and marine war risks insurance schemes and the War Damage Act.



67. As in previous years this item includes (i) national debt interest paid to persons and businesses, (ii) increase in 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) fire-guards' subsistence allowances, (ix) travelling and lodging allowances of transferred workers, and (x) trainees' wages and lodging allowances. It also includes, for the first time, the Ministry of Food's contributions to the cost of milk provided under the National Milk and milk-in-schools schemes, and of orange-juice, cod-liver oil and vitamin tablets provided under the vitamin schemes. These were previously treated as subsidies and so appeared in item 65.

68. Unemployment benefit, cash benefits under the national health insurance scheme and contributory pensions. In previous years this item included also the cost of medical benefit, which now forms part of item 75.

69. Public assistance (out-relief) in cash and kind.

70. The sum of items 67 to 69; equal to the sum of items 23 to 28 of table 21 *plus* that part of national debt interest and the increase in interest accrued on National Savings Certificates which is included in private income (item 119 of table 24).

71. This item is mainly composed of Post Office loan expenditure, Road Fund expenditure on improvements and new construction and, in 1945, expenditure on the manufacture of pre-fabricated houses. A small allowance is made to cover normal additions to government buildings. It excludes altogether expenditure connected with the war even though this was of a capital nature.

72. This item includes the net capital formation of local authorities' trading services as well as of all rate fund services except war emergency services. Net capital formation is equal to capital expenditure on works *less* receipts from the sale of assets and sums repaid to lenders or transferred to sinking funds. As explained in the note to item 9 of table 20, this last deduction is made in lieu of allowances for depreciation.

73. The same as item 9 of table 20.

74. This item comprises the whole of central government expenditure on goods and services except the net capital formation shown in item 71.

75. This item is composed of fees and commissions paid to agents under the war risks insurance schemes, (which are included in war expenditure in item 2(a) of table 2), the administration costs of the national insurance schemes and expenditure on medical benefit by the national health insurance funds. This last component was previously treated as a transfer payment and therefore appeared in the item corresponding to item 68.

76. 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 on war emergency services, even that of a capital nature, is included in war expenditure in item 2(a) of table 2.

77. The same as item 8 of table 20.

78. 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 79 and 80. It therefore differs from item 61 (which also appears as item 6 of table 16, item 3 of table 17 and item 126 of table 24), which includes such transfers.



## Table 23

82. The sum of items 36 and 43 of table 21.

83. The sum of items 35 and 42 of table 21.

84. Net non-war capital formation of public authorities (item 73 of table 22) less the net borrowing (deficit) of public authorities (item 60 of table 22). The fact that throughout the period this figure was negative means that public authorities were borrowing to finance current expenditure.

85. 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 fact, when assessment under Schedules A and D are taken together it becomes clear that the Schedule A allowances are non-operative and the deduction allowed for repairs before tax is chargeable is the actual amount spent, which is known to have varied from year to year more than the statutory allowances. Because gross capital formation has, except in 1938, been estimated by adding the sums allowed for depreciation and maintenance to the figure of net capital formation obtained as a residual in table 20, the conventional treatment of Schedule A allowances adopted in this Paper has affected private gross capital formation (item 88) to exactly the same extent as this item; a change in practice would alter this item and item 88 but would leave item 11, private net capital formation, unchanged.

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 figure (items 88 and 90) would be increased to the same extent as the allowances.

An addition has this year been made to cover the amount received by business insurers in respect of claims for damage (other than war damage) to fixed capital goods and the increase in assurance reserves to meet business claims of all kinds. Expenditure on making good such damage appears in gross capital formation; by the practice here adopted provision for insurable loss is treated identically with provision to meet normal wear and tear. This point is further discussed in Appendix II.

86. The same as item 66 of table 22.

88. 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 85 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.

89. The same as item 10 of table 20.

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

91. The same as item 13 of table 20.



Table 24

93. This item, the sum of items 47, 50 and 54 of table 22, 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 of classes which may be appropriated in aid of Votes which correspond 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) *plus* the surplus shown in the commercial accounts of the Post Office, *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 those receipts of classes which may be appropriated in aid of Votes which correspond to gifts, taxes and income from property.

94, 95 and 96. The net increase in these funds available for loan to the Exchequer.

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

100. The net sum due from the United Kingdom to the United States for the settlement of Lend-Lease and Reciprocal Aid, for the acquisition of surplus property, and the United States interest in installations, located in the United Kingdom, and for the settlement of claims. An identical amount has been included in item 115, central government expenditure on goods and services connected with the war.

101. These items appear here since they are not included in item 93.

103. 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.

104. The sum of items 94 to 103; 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.

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

106 and 107. Receipts *less* repayments.

108. 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.

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

111. Receipts *less* repayments.

112. The increase in the amount of certificates outstanding.

113. The sum of items 105 to 112, showing the amount of public borrowing at home. The sum of item 104 and this item is equal to item 57 of table 22.

114. The sum of items 93, 104 and 113; the same as item 61 of table 22.



2. The proceeds of certain insurance claims are treated as a current receipt by the Inland Revenue and so attract tax. While the individual seller who is insured may not sacrifice income if his goods are destroyed, the community as a whole clearly suffers loss and it is unrealistic to measure the national income as if it were a matter of indifference whether goods are sold or destroyed. A deduction has therefore been made from profits to cover the estimated amount of claims brought into the assessment of income. No corresponding change was necessary in the case of net capital formation in 1938 since replacements of lost goods were not counted as increases in inventories, and so were never treated as part of net capital formation.

3. Taxes falling on foreigners both direct and indirect have this year been treated as central government income from property and hence included in the national income. It has been possible to make only a rough estimate of the amount involved.

4. Hitherto the whole of the pay and allowances of the Armed Forces (in cash and kind) has been treated as a part of net national product. In 1945 that part of it paid to men and women on release leave has, like war gratuities, been treated as a transfer payment, *i.e.* it enters into personal income but not into the national income. The amount involved is shown separately in item 23 of table 21.

5. Ministry of Food contributions to the cost of vitamin products and milk issued to certain classes of the community have hitherto been treated as a subsidy. This year they have been treated as a transfer payment and the full value of these products is therefore included in personal expenditure at market prices in table 20. This change was made in order to make the treatment of subsidies approximate more closely to the definition suggested in Cmd. 6623.

6. Medical benefit, hitherto treated as a transfer payment in kind and so entering into personal expenditure, has been treated as a direct purchase of medical attendance and drugs by the national health insurance funds. This brings the treatment of public health into line with that already adopted for public education.

### **Changes in estimates**

1. More reliable estimates have become available of the amount of national debt interest not paid to the private sector of the economy. This improvement has affected, in particular, the computation of the profit component of the national income and private income.

2. The contribution of the Post Office to government income from trading and property has been differently measured this year. Previously, the Post Office net receipt shown in the Exchequer returns was used, abated by the Post Office expenditure out of Vote of Credit. Owing to the suspension of inter-departmental payments during the war this resulted in a lack of year to year comparability and, since the proportion of work done by the Post Office for other Departments without reimbursement increased greatly, in an underestimation of both the income and expenditure of the central government. The surplus shown in the Post Office commercial accounts has, therefore, been substituted. Government war expenditure has been increased by the same amount as government income from property.

3. In the case of central government taxes figures of net receipts by revenue departments have been used this year instead of payments into the Exchequer. The differences are very slight.



4. Numerous improvements have been made in the estimates of consumers' expenditure. The most substantial of these occur in the case of food and alcoholic drink. The value of food produced and consumed on farms was previously erroneously omitted from personal expenditure on food, although it was included in income. Additional information has led to a considerable upward revision of the previous estimates of expenditure on meat from 1940 onwards.

The changes in the estimates of expenditure on alcoholic drink are due to a revision of the series of average prices used. The prices previously used are believed to have been too low because they took little or no account of the difference between the prices charged in public bars and those charged elsewhere.

5. The estimates of the overseas balance of payments have been revised for the years from 1938 onwards. In almost every case the effect of the revisions has been to make the figures show a less favourable position than those they replace. The estimates still cover only recorded disinvestment, and must be regarded as underestimates of the true deterioration of the country's international position.

6. It is believed that the allocation of indirect taxes and subsidies over the various components of national expenditure at market value has been improved. Items of expenditure were first adjusted for taxes and subsidies known to be specific to them; components of expenditure known to contain no general taxes (*e.g.* expenditure on domestic service, government expenditure on the wages and salaries of civil servants and the Armed Forces) were then deducted and the general taxes and subsidies spread *pro rata* over the remaining parts of gross national expenditure. Net taxes attributable to exports were added to the national income; the others were deducted in order to arrive at the estimates of the national cost of particular items shown in table 4.

### III. The Effect of the Changes

The absolute change in the balancing figures of private saving and capital formation resulting from these changes of definition and estimation has been considerable. The relative movements shown by the main series in the successive annual estimates have changed considerably less, as can be seen from table 25.

RELATIVE MOVEMENTS OF SOME OF THE MAIN SERIES  
(1938 = 100)

TABLE 25

	1938	1939	1940	1941	1942	1943	1944	1945
National income ... ..	100	108	128	149	165	176	182	184
as given in Cmd. 6623 ... ..	100	108	128	149	164	175	180	—
as given in Cmd. 6520 ... ..	100	108	129	150	165	177	—	—
Consumers' expenditure on goods and services ... ..	100	103	108	113	120	122	128	136
as given in Cmd. 6623 ... ..	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 ... ..	100	157	323	420	470	503	476	447
as given in Cmd. 6623 ... ..	100	151	315	408	444	484	465	—
as given in Cmd. 6520 ... ..	100	159	345	419	460	498	—	—



## APPENDIX III

### CONSUMERS' EXPENDITURE

Table 26 shows the composition of the personal expenditure on consumer goods and services at current market prices in greater detail than was given in table 8.

#### PERSONAL EXPENDITURE ON CONSUMERS' GOODS AND SERVICES AT CURRENT MARKET PRICES

TABLE 26

£ million

	1938	1939	1940	1941	1942	1943	1944	1945
1. Food—								
(a) Household expenditure								
Bread and cereals, etc.	165	1,184	220	244	246	229	229	228
Meat, bacon, etc. ...	276		309	274	300	293	327	293
Fish, fresh and canned	43		39	46	36	35	42	56
Oils and fat ...	98		65	60	56	58	60	59
Sugar, preserves and confectionery ...	108		128	112	110	106	100	93
Dairy products ...	204		193	220	237	231	234	244
Fruit, fresh, canned and dried ...	79		62	32	41	36	43	59
Potatoes and vegetables	84		85	119	126	129	133	138
Beverages not included below ...	54		52	51	50	47	49	55
Other manufactured food ...	33		57	51	45	39	41	47
(b) Other personal expenditure ...	77	78	99	114	122	127	138	142
2. Alcoholic beverages—								
(a) Beer ...	195	211	273	346	420	470	529	550
(b) Other ...	90	99	103	118	122	138	133	135
3. Tobacco—								
(a) Cigarettes ...	144	168	215	264	343	412	428	469
(b) Other ...	32	36	47	55	72	79	79	79
4. Rent, rates and water charges	491	510	519	515	509	510	512	517
5. Fuel and light—								
(a) Coal ...	108	107	120	129	126	120	121	120
(b) Electricity ...	33	36	39	40	42	40	43	54
(c) Gas ...	38	39	45	47	51	54	59	63
(d) Other ...	16	16	19	20	21	22	25	28
6. Durable household goods—								
(a) Furniture and furnishings	152	146	139	128	114	83	68	92
(b) Hardware ...	82	77	73	69	60	56	56	75
7. Other household goods—								
(a) Matches ...	10	12	12	11	10	10	10	9
(b) Soap ...	30	30	31	32	28	28	29	29
(c) Other ...	11	11	13	12	12	11	13	15
8. Clothing—								
(a) Footwear ...	73	78	90	91	97	87	90	93
(b) Other clothing								
(i) Men's and boys' wear	127	131	137	116	123	101	125	130
(ii) Women's, girls' and infants' wear ...	246	249	269	245	267	241	279	293
9. Reading matter—								
(a) Books ...	10	9	8	13	17	20	21	23
(b) Newspapers and magazines ...	51	52	58	54	56	57	63	65



TABLE 26—cont.

	1938	1939	1940	1941	1942	1943	1944	1945
10. Privately-owned motor vehicles and their running expenses...	114	101	34	27	14	7	7	26
11. Travel—								
(a) Railway travel ... ..	55	52	48	59	74	86	90	102
(b) Other travel ... ..	104	100	90	106	124	121	120	136
12. Communication services—								
(a) Postal services ... ..	18	17	20	24	26	32	36	32
(b) Telephone and telegraph services ... ..	11	12	12	13	13	16	18	19
13. Entertainments ... ..	60	56	57	83	113	133	142	153
14. Services not included above—								
(a) Cost of assurance and transfer of property ... ..	66	66	66	67	68	68	68	68
(b) Other ... ..	386	384	383	386	354	336	336	373
15. Other goods ... ..	176	180	186	188	183	189	200	228
16. Income in kind of the Armed Forces ... ..	17	29	81	135	146	185	199	205
17. Total of above items ... ..	4,167	4,276	4,496	4,716	4,974	5,042	5,295	5,595
18. Adjustment ... ..	—7	—5	—	5	30	40	40	50
19. Total ... ..	4,160	4,271	4,496	4,721	5,004	5,082	5,335	5,645

The items included in each group are set out below :

(1) Food—comprises purchases of food, including non-alcoholic beverages, by households, together with the value at farm prices of farm produce consumed on farms and the cost to the establishment of food used in canteens, restaurants and hotels. It should be noted that the estimates this year include the full value of milk provided under the National Milk and milk-in-schools schemes and vitamin products provided under the vitamin schemes. Previously, personal expenditure included only their cost to the consumer and the balance was treated as a subsidy. This change was discussed in Appendix II.

2. Alcoholic beverages—

(a) Beer, ale, stout and porter

(b) Imported wines, British wines, spirits, cider and perry.

3. Tobacco—

comprises purchases in the United Kingdom, including gifts to troops overseas. An allowance has been made for the concession introduced in 1942, by which members of the armed forces were able to buy a limited quantity of tobacco at N.A.A.F.I. canteens at reduced prices.

(a) Home-produced cigarettes

(b) Home-produced pipe tobacco, cigars, snuff and all imports of finished tobacco products.



4. Rent, rates and water charges—

includes an allowance for buildings occupied by non-profit-making bodies and for hotels, boarding houses, etc., in addition to private dwelling houses.

5. Fuel and light—

includes the value of the fuel and power only. The cost of the hire of equipment is included in item 14(b).

(a) Coal—includes miners' coal valued at pithead prices

(b) Electricity

(c) Gas

(d) Coke, paraffin and firewood

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. Other household goods—

(a) Matches

(b) Toilet, shaving and household soap, scourers, etc.

(c) Polishes, candles and nightlights, miscellaneous cleaning materials, etc.

8. Clothing—

(a) Footwear covers all new boots, shoes, slippers, etc., but not socks and stockings, repairs or repair materials.

(b) 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) (ii), and so are such things as knitting wool and general haberdashery. Infants for this purpose are children under about four years of age.

9. Reading matter—

(a) Books

(b) Newspapers and magazines

10. Privately-owned motor vehicles and their running expenses—

comprises an estimate of the purchases by persons of motor-cars, motor-cycles and motor accessories and the running expenses incidental to their use, together with an allowance for dealers' margins on second-hand vehicles.

11. Travel—

includes all travel in public conveyances paid for out of personal income and therefore the travel of members of the Armed Forces when at their own expense.

(a) Main line, joint line and London Passenger Transport Board railways.

(b) Buses, coaches, trams, trolley-vehicles, taxis, etc.

12. Communication services—

(a) Postage on letters, parcels, etc. and the poundage on postal and money orders.

(b) Telephone rentals, local and trunk calls and telegrams.



13. Entertainments—

includes admissions to cinemas, theatres, concert-halls, music-halls, sporting events, dance-halls, skating rinks and all other places of public amusement.

14. Services not included above—

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

(b) Medical services not provided under the national health insurance scheme, undertaking, hairdressing, hotel and restaurant services, domestic service, repairs to furniture, clothing, footwear, watches, etc., dealers' margins on second-hand goods (other than motor vehicles) and the hire of domestic heating and cooking equipment. Expenditure on medical services provided under the national health insurance scheme is now treated as expenditure by public authorities.

15. Other goods—

includes stationery, fancy goods, jewellery, bicycles, travel goods, toys and sports goods, chemists' wares other than drugs and medicines provided under the national health insurance scheme (expenditure on which is included in expenditure on goods and services by public authorities), flowers, garden seeds, food for domestic pets, etc.

16. Income in kind of Armed Forces—

cost of providing members of H.M. Forces and Auxiliary Services with food and clothing, including civilian clothing issued on release from the services.

17. 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 personal remittances abroad from this country over remittances received in this country from overseas. This is because remittances sent abroad appear in British income but not in British expenditure whereas remittances received from overseas are not treated as income although they finance British expenditure.



# APPENDIX IV

## BANK DEPOSITS

The estimates of the distribution of bank deposits provided in previous years by courtesy of the Clearing Banks are continued in the following table :

### DEPOSITS HELD BY CLEARING BANKS

TABLE 27

£ million

	Dec. 31 1943	June 30 1944	Dec. 31 1944	June 30 1945	Dec. 31 1945
1. Total deposits held by Clearing Banks	4,032	4,100	4,545	4,751	4,850
2. less Advances to cus- tomers and other accounts ... ..	743	770	754	761	815
3. Total deposits (net)	3,289	3,330	3,791	3,990	4,035
4. Personal deposits (net) ... ..	972	1,032	1,158	1,260	1,339
5. Other deposits (net)	2,317	2,298	2,633	2,730	2,696

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.

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