Studies in Official Statistics No. 36





CSO

# The National Accounts
## A short guide

Harold Copeman

HMSO £5·50 net

A publication of the Government Statistical Service

The Government Statistical Service

A service of statistical information and advice is provided to the Government by specialist staffs employed in the statistics divisions of individual Departments. Statistics are made generally available through their publications and further information and advice on them can be obtained from the Departments concerned.

Enquiries about this publication should be made to the Central Statistical Office, Great George Street, London SW1P 3AQ. Telephone 01-233 6135/6193.

Enquiries about orders should be made either to the publisher, Her Majesty's Stationery Office, PO Box 569, London SE1 9NH. Telephone 01-928 1321.

or to

Open University Education Enterprises Ltd., 12 Cofferidge Close, Stony Stratford, Milton Keynes, MK11 1BY. Telephone Milton Keynes (0908) 566 744.

**CENTRAL STATISTICAL OFFICE**

# The National Accounts

## A short guide

HAROLD COPEMAN

London: Her Majesty's Stationery Office

**The national accounts – A short guide**
The following amendments should be made to this publication:

| Page | Description |
|---|---|
| 2-3 | Table 2A, top half, insert 2 under 7 in line with TFO |
| 4-6 | Section 15, paragraph 2, line 2, delete 1-1 insert I-1 |
| 5-3 | Heading 1.4 delete appreciation insert appropriation |
| 5-7 | Table 5C, Steps No 1 and 2, amend third column to read: "Balance from current or appropriation account" and "+ DivR+TR" respectively |
| 5-22 | Insert "/" between Forestry Commission and Forestry Enterprises |



ISBN 0 11 620000 6

# Preface

This Handbook is designed as a guide for all users of national accounts statistics, with an emphasis on the statistics published in the annual National Income and Expenditure Blue Books. The table numbers and statistics quoted in the Handbook relate to the 1980 Edition of the Blue Book.

The Central Statistical Office invite comments on the content of the Handbook and suggestions for further explanatory and illustrative material which can be taken into account in preparing possible future editions.

This Handbook was compiled for the Central Statistical Office by Harold Copeman, presently a Visiting Fellow at the University of Warwick. Harold Copeman is a former Under-Secretary in the Treasury where he had wide experience in the use of government and overseas financial statistics.

Central Statistical Office
Great George Street
London
SW1P 3AQ

May 1981

# Contents





# Introduction

This guide gives a general description of national income accounting and statistics, and a detailed commentary on the structure of the annual Blue Book on *National Income and Expenditure* (HMSO, 1980†, £10.50 net). It is written both for those who want to make a foothold in the subject and for those who intend to operate with the tables.

The full guide*, generally referred to as *Sources and Methods*, is in need of revision, and the Short Guide supplements it and the notes updating it in the Blue Book.

Chapter 1, The Family of Accounts and Statistics, explains briefly what the system of national accounts is, and how it relates to public and private accounting.

Chapter 2, The Concepts in the National Accounts — an introduction, explains from first principles the main quantities, using 1979 figures to indicate both their order of magnitude and the way they relate to each other, to important financial aggregates and to items in the overseas balance.

Chapter 3, Chalk and Cheese: the Choice and Use of the Statistics, suggests some ways in which various totals can and can not be used. It summarises the complex range of possible definitions - gross domestic products (GDP), gross national product (GNP), disposable income; national, sector and personal incomes, expenditure and saving, investment; the application of factor cost and market price; current and constant prices; the importance of depreciation, stock appreciation and accruals adjustments; the significance of transfers in some of these aggregates.

Chapter 4, The Layout and Conventions of the Blue Book, summarises the types of material included in each section of the annual volume, defines the sectors of the economy and explains consolidation, imputation, the boundary of production, and the concept of capital in the national accounts.

Chapter 5, The Tables, explains the nature of each table and how it fits in with other tables, and comments on significant items (but not, in general, on the underlying movements in the economy, for which *see* the quarterly and annual articles in *Economic Trends* and monthly economic assessments published by the Treasury in *Economic Progress Report*††). The Short Guide includes a number of new tabulations which use Blue Book data but cut across the regular tables.

The index is both a summary to this Guide and a systematic index to the Blue Book itself, supplementing that in the Blue Book.

Figures quoted for illustrative purposes are from the 1980 Blue Book. The term "£billion" is used for £thousand million.

---

†ISBN 0 11 630776 5*

**National Accounts Statistics: Sources and Methods*. Studies in Official Statistics No 13, HMSO, 1968 (SBN 11 630061 2).

††Available from the Central Office of Information, Hercules Road, London SE1 7DU.

# 1 The Family of Accounts and Statistics

The statistics of national income are drawn up from many different sources, including data from the accounts compiled by private enterprises and by public enterprises and authorities. These may be on many different bases, depending on the needs of planning and control. The *system* of national accounts in the National Income and Expenditure Blue Book aims to give data which are both consistent internally and in accordance with what is known of the private and public operations in each calendar year. International standards for national income accounting are followed with few exceptions.

The Blue Book seeks to give an overall view of the economy from various angles – albeit a more distant view than that of any individual or firm. Its aims to supplement, not to replace, expert knowledge of any industry or a service, and to provide data for those concerned with public, industrial or financial policy, with commercial opportunities or with research. The October issues of *Economic Trends* contain some additional tables showing percentage relationships derived from figures contained in the Blue Books.

To be of use in forming and monitoring policy, or in studying economic or commercial trends, data must be published frequently and be right up to date. The annual Blue Book is supplemented therefore by quarterly estimates published in *Economic Trends**; a summary table is included each month and a fairly full quarterly set of tables with an interpretative article on recent developments is published each quarter.

Similarly, for some purposes a very long run of figures is required, annual and quarterly. These appear – in tabular form, not as balanced accounts – in the *Annual Supplement to Economic Trends.*

The Blue Book is concerned centrally with production, income and current and capital expenditure. It contains, however, some financial tables which show how the balances resulting from these activities have been invested, and how money financing these activities has been raised. This field is covered in greater detail by the monthly *Financial Statistics,* together with its *Explanatory handbook* (April 1981).

The Blue Book also shows in summary form the United Kingdom's overseas surplus or deficit, the relationship of this to domestic production and expenditure, and the flows of income, investment and finance between the United Kingdom and overseas. These flows themselves are set out in detail annually in the Pink Book, *United Kingdom Balance of Payments,* and quarterly in *Economic Trends.*

The relationship of *private* activities and accounts to those analysed by sector, industry etc. in the Blue Book can be seen from *Sources and Methods,* supplemented by notes in the Blue Book.

For *public corporations* and for *central and local government* the various accounts are consolidated and are adjusted to fit the common form of national income accounting in the ways explained in *Sources and Methods* and in the Blue Book. Reference should be made

*A bibliography giving references to this and other items is on pages 1-3 and 1-4.

to the article in *Economic Trends* for August 1980, 'Measuring the public sector borrowing requirement', by John Alexander and Susan Toland. The full accounts are published as follows:

*Public corporations:* Published by each corporation; some available also from Her Majesty's Stationery Office. A list is on p 116 of the Blue Book.

*Central government:* *National Loans Fund Accounts: Consolidated Fund and Appropriation Accounts.*
Plans and forecasts, particularly for public expenditure and for revenue, are given annually (for financial years), with comparable figures for past periods, in White Papers on *The Government's Expenditure Plans* and in the *Financial Statement and Budget Report.* See *Guide to Public Sector Financial Information,* 1979, especially pages 4-18.

*Local government:* Each local authority publishes its own statutory accounts, and these are summaries in *Local Government Financial Statistics* (for England and Wales), in *Local Authority Returns (Scotland)* and for Northern Ireland in *Local Authority Financial Returns;* more sources are given in *Sources and Methods* and in *Guide to Public Sector Financial Statistics,* 1979, especially pages 19-23.

*Forecasts* for the whole economy, using the latest information of the type given in the Blue Book, are published by the Treasury twice yearly in accordance with the Industry Act, 1975 (Information Division, HM Treasury, SW1).

*International* comparisons and similar statistics, forecasts and other comparisons, for individual countries and for the whole of the EC, OECD, etc. are published by the European Commission, Brussels, and by the Organisation for Economic Cooperation and Development twice a year in *Economic Outlook.*

*Publications containing National Accounts Data for other countries on a standardised definition basis (unless otherwise stated):*

Issued by — *United Nations* *Frequency:* Annual
Yearbook of National Accounts Statistics — 2 volumes
Vol I contains individual country data. The 1978 edition covers 151 countries.
Vol II contains summary and comparative tables.

Issued by — *OECD* *Frequency:* Annual
National Accounts of OECD countries — 2 volumes
Vol I Main aggregates — Summary and comparative tables
Vol II Detailed tables

*Frequency:* Quarterly
Quarterly National Accounts Bulletin (data in this publication is *not* standardised to international definitions): contains summary tables giving annual and quarterly data for 11 countries.

Issued by — *Statistical Office of the European Communities* (SOEC)
*Frequency:* Annual
National Accounts ESA — Aggregates:
contains summary and comparative tables for the '9', plus additional summary data for 3 prospective members (Spain, Greece, Portugal) and for USA and Japan.



National Accounts ESA — Detailed tables — 2 volumes
Vol I contains details of transactions in goods and services, and sector financial transactions
Vol II contains details of the sector economic accounts and distributive transactions.

Other international comparisons are described on p 46-69 of *Guide to Public Sector Financial Information.*

The definitions and classifications used in the UK national accounts are not identical with those used in the United Nations 'System of National Accounts' (SNA) and the European Communities' 'European System of Accounts' (ESA). However, in making returns to these organisations the United Kingdom adjusts figures as far as possible to international definitions and the figures contained in the annual national accounts publications of the United Nations, OECD and SOEC can be taken as being internationally comparable.

This Guide concentrates on the National Income Blue Book itself, but the text and the index gives key references to other material relevant to each part of the Blue Book.

*Bibliography of special articles.*


Central Statistical Office — "International comparisons of taxes and social security contributions". *Economic Trends,* December issues.

Alexander John & Toland Susan — "Measuring the public sector borrowing requirement". *Economic Trends* No 322, August 1980.

Carter J V — "The rebased estimates of the output-based measure of gross domestic product". *Economic Trends* No 307, May 1979.

Griffin T — "The stock of fixed assets in the United Kingdom: how to make best use of the statistics". *Economic Trends* No 276, October 1976.

Hibbert J — "Measuring changes in the nation's real income". *Economic Trends* No 255, January 1975.

Hibbert J — "International comparisons on the basis of purchasing power parities". *Economic Trends* No 265, November 1975.

Hibbert J and Walton J W S — "Developments in national accounts". *Economic Trends* No 285, July 1977.

Lomas Eric — "Employment in the public and private sectors 1974-1980". *Economic Trends* No 325, November 1980.

Macafee K M — "A glimpse of the hidden economy in the national accounts". *Economic Trends* No 316, February 1980.

Moyle J & Reid D J — "Private non-profit-making bodies serving persons". *Economic Trends* No 259, May 1975.

O'Connor Miss M — "Developments in methods of estimating manufacturers' stock changes". *Economic Trends* No 267, January 1976.

Pettigrew C W — "National and sector balance sheets for the United Kingdom". *Economic Trends* No 325, November 1980.

Rushbrook J A — "Rebasing the national accounts — why and how and the effects". *Economic Trends* No 293, March 1978.

Rushbrook J A — "The effects of rebasing the expenditure-based measure of gross domestic product". *Economic Trends* No 307, May 1979.

Stirling D C K — "The rebased estimates of the index of industrial production". *Economic Trends* No 307, May 1979.




# 2 The Concepts in the National Accounts — an introduction

This chapter builds up the ideas behind national income and expenditure accounting, and shows how the quantities fit together. As the model approaches the conditions in the real world it becomes more complex; but it contains accounting identities only, not the causal or econometric relations which are needed to simulate or to predict how an economy will develop. By demonstrating that some developments are inconsistent with others, or with assumptions about, say, real income or investment, the system gives a discipline to economic or social analysis and the formulation of policies, whether governmental or private.

Figures for the United Kingdom for 1979 from the 1980 Blue Book are shown as an illustration; the reader can substitute other years (or figures for other countries), and has the check that the figures must add up internally*.

Constructing a *system* of national accounts means that economic quantities used have to be consistent with each other. It also gives the chance of achieving consistency with other systems — with commercial accounting, income tax law, the balance of payments, and with international standards so that comparisons with other countries can be attempted. Not all these objectives can be met in practice, but clear definition of all concepts may allow reconciliation between them so that the worker in other fields can get close to what he needs to know. In particular, the system has to co-exist with various individually-tailored measures (the total of public expenditure used in government planning is one) which are relevant to studying or managing some part of the economy.

The accounts and statistics in a system usually relate to a country (United Kingdom, United States of America) but may cover, say, Scotland, London and the South East, the EC, OECD, primary producing countries, etc. In all cases it must be remembered that we are not describing the operations of a firm under a single or coherent management, which produces audited accounts, but with very many independent firms and individuals, plus public authorities, and that although accounts are used when possible, we are dealing with *statistics,* and with a considerable degree of estimation.

In producing detailed accounts, and quarterly at that, we are attempting to do for economic units collectively what few do for themselves individually.

## A closed and simple economy

First, consider a country with no overseas trade, and no variation in its stocks of goods. All the goods produced must then be used at home; and only what is produced at home can be used†. The value of the output is the cost and profit of production and distribution — in other words, the *incomes* arising from production. But as it is also equal (as we have seen) to the use of (or *expenditure* on) what is produced, we can say (over-simply):

*If Blue Book figures, in £million, are used. The figures in this chapter have been rounded in £'000m with one decimal place, to make the tables easier to read. Totals may therefore differ from sums of components. (£'000m appears as £billion.)

†Variations in the volume of stocks are an awkward complication: they are best regarded as uses of the national product. If there is no change in what is used up by being consumed or invested, a rise in the national product will go with an increase in stocks, and a fall with a decrease in stocks.

1. output = income = expenditure

Note that we are concerned with the output and expenditure that finally emerge. We are not adding all the transactions between traders, or semi-finished goods passing between manufacturers; the *intermediate sales and purchases* cancel out, and we concentrate on the *value added* at each stage to make up the *final output,* and on the *final expenditure* by consumers and investors (including here stockbuilders)†.

In such an economy *financial transactions* also cancel out — nothing is lent to nor borrowed from the outside world. Nor is any investment income received or paid.

## A simple economy with international trade

The next stage is to introduce international flows of trade and of investment income. For the world as a whole these cancel out, but each country may experience large or small inflows or outflows. The *total output* available now includes *imported* goods and services as well as the value added inside the country (the *domestic product*); and *total expenditure* on this total comes from *export* sales as well as from *domestic expenditure.* We can say, rigorously:

Blue Book tables 1.8, 1.1 top

2. Total final output (TFO) = total final expenditure (TFE) (1979 estimate 244.2 at market prices).

3. Gross domestic product (GDP) + imports = TFO = TFE
189.7 + 54.5 = 244.2

1.1 top

4. TFE = total domestic expenditure (TDE) + exports
244.2 = 189.5 + 54.7
There is no useful "income" equivalent to TFO and TFE: it would include incomes of foreign suppliers.

From 3. and 4. above,

5. GDP + imports = TDE + exports (both = TFE).

We can look at this either way round. Starting from the left, the domestic product (GDP) is used for home purposes (TDE) and overseas (exports *less* imports). In a year with an overseas surplus (1979):

6. GDP = TDE + export surplus
189.7 = 189.5 + 0.2

Starting from the right of 5, expenditure at home (TDE) is fed by domestic production and by an import surplus. In 1976,

7. TDE = GDP + import surplus
126.0 = 124.3 + 1.7

We can draw together these relationships; the references are noted against the rows and columns. Blue Book Tables 1.1 and 1.8 are relevant.

†We defer discussion about the prices at which stocks are valued, and about taxes on expenditure and subsidies.



*Table 2A* Total output and expenditure, 1976 and 1979

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1976 | | | | | | | | |
| | 3 | | | 4 | | | | |
| | Imports | 36.9 | — | Exports | 35.2 | = | Import surplus | 1.7 |
| 7 | GDP | 124.3 | | TDE | 126.0 | (= | GDP 124.3 + 1.7) | |
| 2 | TFO | 161.2 | = | TFE | 161.2 | | | |
| 1979 | | | | | | | | |
| | 4 | | | 3 | | | | |
| | Exports | 54.7 | — | Imports | 54.5 | = | Export surplus | 0.2 |
| 6 | TDE | 189.5 | | GDP | 189.7 | (= | TDE 189.5 + 0.2) | |
| 2 | TFE | 244.2 | = | TFO | 244.2 | | | |

Looking now at *incomes* from production, and still leaving aside inflationary complications on stock valuation, we can write (from 1.):

8. Total domestic income (TDI) = cost of GDP

But there is also income in the shape of profits and interest from overseas investments and loans; and income has to be paid to foreigners on their investments and loans here. The payments to overseas are treated in the national accounts as offsetting the income from abroad. Leaving out incomes which are internal transfers within the United Kingdom.

9. Total income = TDI + net property income from abroad

This total of income is called *gross national product* (GNP). We can rewrite 8. and 9. with 1979 figures:

1.1

10. GNP = GDP + net property income from abroad
190.0 = 189.7+ 0.3

From 6. we can put this in terms of what has been spent at home:

11. GNP = TDE + export surplus + net property income from abroad
190.0 = 189.5+ 0.2 + 0.3
If there are also net inward *transfers,* the total spendable income is increased:

12. GNP + net inward transfers = TDE + surplus on the current account of the balance of payments

For the United Kingdom the net transfer is outward: the way in which GNP was spent was:

13. GNP = TDE + current surplus + net current transfers abroad
190.0 = 189.5 – 1.9 + 2.3

These overseas transactions can be grouped to give the familiar figures for visible and invisible trade, and to show the inward and outward flows of income and of transfers; Table 2A connects exports and imports with total output and use of resources. Basic overseas figures are in Table 1.6 of the Blue Book; see also notes to Table 2P on page 2-11.

*Table 2B* Overseas income and expenditure, 1979

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Goods | Exports | 40.7 | — | Imports | 44.1 | = | Visible balance | −3.4 |
| Services | Credits | 14.0 | — | Debits | 10.4 | = | Balance of services | 3.6 |
| Goods and services | Exports | 54.7 | — | Imports | 54.5 | = | Balance of goods and services | 0.2[(a)] |
| Property income | From abroad | 7.1 | — | Payments abroad | 6.8 | = | Net property income from abroad | 0.3 |
| | | | | | | | Balance of goods, services and property income | 0.5[(b)] |
| Current transfers | From abroad | 1.3 | — | To abroad | 3.6 | = | Net current transfers abroad | −2.3 |
| CURRENT OVERSEAS BALANCE OF PAYMENTS | | | | | | | | −1.9[(c)] |

*Notes:*
(a) = GDP — TDE (6. above, and Table 2A).
(b) = GNP — TDE (11. above).
(c) Met from overseas assets/liabilities (Table 2P).

## Indirect taxation and subsidies

In describing the 'simple economy' we valued output according to the costs of the 'factors of production' (labour, capital and land, in the classical definition). But governments may affect the market price of output through indirect taxes and by subsidies. For convenience this change is denoted as:

1.1 14. Factor cost adjustment (FCA) = indirect taxes − subsidies
26.1 = 30.4 − 4.3

1.1 15. Market prices = *factor cost* + FCA. In Table 1.1, the market prices at the top of the page are linked to factor costs at the bottom by FCA in the centre.

## Expenditure at market prices

The output of goods and services is sold, at home or abroad, at *market prices,* and statistics of expenditure and trade arise in this form. It is therefore often convenient (as in 2. to 7. above) to value output at market prices rather than at factor cost. From 15.,

1.1 16. GDP at market prices = GDP at factor cost + FCA
189.7 = 163.6 + 26.1

Other quantities (TDE, TFE, TFO) may also be valued on either basis: see Chapter 3.

## Incomes and inflation, stock appreciation

Price inflation increases the valuation of a constant stock of goods. This *stock appreciation* is conventionally included in company accounts as part of profits, and profits are an element in income. To find the cost of this year's production* at historic costs one must therefore deduct stock appreciation from total costs; since, from 8., we know that the cost of GDP is measured by the total of incomes from production (TDI), we can write:

17. TDI − stock appreciation = GDP at factor cost.
173.6− 8.5 = 165.1

*The dearer goods in the end-year stock increase the cost of next year's GDP. And the money laid out on them reduces the company's financial assets shown at the end of the year–Table 2K below.



## Statistical discrepancies

In 8., GDP was related to *incomes,* and GDP(I) (165.1) is derived from statistics of earnings, etc. In 3. to 7. GDP was related to expenditure; a variety of sources such as retail sales inquiries, family spending surveys, capital expenditure inquiries and imports/exports data give GDP(E) as 163.6 (Tables 1.1 and 1.2, ref no. 14). A discrepancy *(residual error* of -1.4 in Table 1.2, ref no 28) always occurs, and an *average estimate* is sometimes employed when an index of changes is worked out (Table 1.11, ref no 60).

Applying the residual error to GDP and GNP we get the relationships in Table 2C:

*Table 2C* Incomes, GDP and GNP, 1979

| | From domestic production | Net property income | From all sources | |
|---|---|---|---|---|
| *Incomes* | | | | |
| 1 Total domestic income (TDI) | 173.6 | + 0.3 | = Total incomes | 173.9 |
| 2 *less* Stock appreciation | − 8.5 | | | − 8.5 |
| *Resources accruing* (cost) | | | | |
| 3 GDP (I) | 165.1 | | | |
| 4 Residual error | − 1.4 | | | − 1.4 |
| 5 GNP at factor cost | | | | 163.9[(a)] |
| 6 Factor cost adjustment | 26.1 | | | 26.1 |
| *Resources used* | | | | |
| 7 GDP (E) at market prices | 189.7[(b)] | + 0.3 | = GNP at market prices | 190.0 |

(a) GNP based on expenditure, as in Blue Book 1.1. GNP based on income is the sum of lines 1 and 2 above: see p3–3 below for discussion.
(b) Table 2A showed how this, supplemented by imports, was divided between domestic expenditure and exports.

## Breaking down the broad totals

Much of the Blue Book is concerned with analysing GDP in different ways–according to the type of *income* or position of the earner; by the industry which produces the *output,* or the type of goods being produced; or by the nature or purpose of the *expenditure* on this output.

Most of the quantities so far mentioned are very broad totals. For the accounts to be of practical use, the significant components of the various totals must appear. We can, in particular, show the ways in which domestic expenditure is made up; the main industrial groups contributing to output; the ways in which incomes arise; and the ways in which incomes are used for expenditure and other purposes.

## Total domestic expenditure (TDE)

We saw in 6. that GDP is spent, or used up, at home (TDE) and that the balance is exported or imported. TDE is a central concept in understanding national income statistics. It can be broken down in various ways, to meet the needs of different users or of different computations. Table 1.1 shows its broad economic character, which we can further summarise:

18. TDE = consumption + gross investment
189.5 = 153.1 + 36.4

We can also separate general government (GG) expenditure on goods and services (using Table 9.2) from non-governmental, which consists of gross investment by individuals, firms or public corporations, and personal consumption.

19. TDE = GG expenditure + non-governmental
189.5 = 43.4 + 146.1

Or, split both ways,

*Table 2D* Types of expenditure, 1979

| | GG | Non-governmental | Total |
|---|---|---|---|
| Consumption | 38.3 | 114.8 | 153.1 |
| Physical investment | 5.1 | 31.3 | 36.4 |
| Domestic expenditure | 43.4 | 146.1 | 189.5 |

Note that this expenditure does not include transfers, just as these are not part of TDI (incomes from production, 8). Public expenditure, in particular, is a wider total (see Chapter 5, notes to Table 9.1).

The Blue Book tables break down consumption and investment further, according to:

the nature of the product used (4.6 for personal consumption; fixed investment and stocks in certain tables in Section 10 and 12 of the Blue Book);
the industry which invests (Sections 10 and 12);
the sector of the economy that includes the investor (summaries in 1.7).

The Index to the Blue Book (see page I-1 of this Guide) shows what details can be found.

## Output

The Blue Book shows (1.9) for groups of industries which contribute to GDP, the *value added* (not the total sales by the group); this is based on statistics of incomes (earnings, profits *less* stock appreciation, and rents). Summarising, we get:

*Table 2E* Output, 1979

| | |
|---|---|
| Industry: | |
| Manufacturing | 45.6 |
| North Sea oil and gas | 5.1 |
| Other (a) | 31.5 |
| Agriculture,etc | 3.8 |
| Services | |
| Distribution | 17.1 |
| Social and administrative | 22.8 |
| Other | 39.3 |
| GDP(I)(FC) | 165.1 |
| Residual error | – 1.4 |
| GDP(E)(FC) | 163.6 |

What is included in UK domestic output, and thus in *GDP*, is partly a matter of statistical convention. A UK-owned firm operating overseas is not included, though its profits enter *GNP*: this becomes tricky when shipping is considered, and in dealing with North Sea oil. The latter is in fact included with domestic production; when considering the trend on GDP one therefore has to look at the sharply different trends of oil and non-oil output. (Estimates of industrial production and output excluding North Sea oil are given in footnotes to Tables 2.3 and 2.4.)

The output so far considered includes no allowance for the wearing out or obsolescence of capital goods and buildings. Estimates of *capital consumption* (CC), or *depreciation*, are made from knowledge of the working lives of different types of capital (11.9), though not for *depletion* of natural resources – coal, oil, or agricultural land used for building. When capital consumption is deducted from GNP(FC) the *net national product* is known as *national income*.

20. GNP(FC) – capital consumption = NNP (national income)
163.9 – 22.2 = 141.8



Similarly, *gross domestic fixed capital formation* (GDFCF) includes a large element of replacement of worn-out or outdated capital; deducting capital consumption we get *net* DFCF (see, for instance, Blue Book 11.9 and 11.10).

21. GDFCF – CC = NDFCF
33.6 – 22.1 = 11.5

These gross and net aggregates are discussed in Chapter 3. Depreciation is at replacement cost, and thus may differ from that in commercial accounts by a large margin, and from tax "depreciation"; see Chapter 5, notes to Section 11.

## Value-added, and intermediate output

The cost of the output from the whole economy is the cost of imports and of the value added by UK domestic production (3. above). The cost to the final purchaser of goods, etc. from an individual firm is likewise the cost of imports and of the value added by each firm which has been part of the production chain.

The purchaser pays for: a. the cost of direct imports by the seller of the goods etc; b. for the value that firm has added; and c. for the UK goods, etc. bought in and used, with further imports, in the earlier stages of production – "intermediate expenditure" by the purchasing firm and intermediate output and sales by the next firm back. In looking at the whole economy, intermediate transactions cancel out, but these flows are important in studying the structure and development of industry. Data are assembled in published Input-Output tables (see Business Monitor reference PA 1004, HMSO, 1981).

## Incomes

Production – the output of goods and services – generates "domestic income", both as pay of employees, etc. and as trading profit. Together these make up the "value added" discussed above, and *total domestic income* leads to the 'income' measure of GDP (8. and 17. above); TDI – SA = GDP(I). Figures are in Table 5A below, which can be further summarised:

*Table 2F* Domestic income by type and sector, 1979

| | | | Personal | Corporate | GG | Total |
|---|---|---|---|---|---|---|
| (1.2) | 1 | Income from employment and self-employment | 129.2 | – | – | 129.2 |
| (1.10) | 2 | Gross profits, rent, etc. | 7.5 | 32.9 | 4.0 | 44.4 |
| | 3 | *TDI* | 136.7 | 32.9 | 4.0 | 173.6 |

Line 1 includes the pay of employees in private and public undertakings (including income-in-kind), together with employers' contributions to national insurance and pensions schemes. In line 2 profits are struck before deducting stock appreciation (SA), and also before deducting depreciation; and notional rents on owner-occupation and on public property are included. Details are in the Blue Book (1.3, 4.1, 4.4 for the personal sector, 1.4 and Sections 5 and 6 for companies and public corporations, and 9.1 for general government).

The Blue Book tables show sector income from all sources though they do not distinguish these:

a. domestic income;

b. income from abroad; and

c. internal transfers.

For the whole economy internal transfers (for instance) net out, so the total of sector income is much greater than national income and similarly with expenditure.

Total incomes of each sector are:

*Table 2G* Total incomes by type and sector, 1979

| | | | Personal | Corporate | GG | Total |
|---|---|---|---|---|---|---|
| | 1 | TDI (2F above) | 136.7 | 32.9 | 4.0 | 173.6 |
| | 2 | Interest and dividends[(a)] | 8.7 net | 17.1 | 3.3 | 29.1 |
| 1.3, 9.1 | 3 | Benefits and grants | 21.0 | – | – | 21.0 |
| (9.1) | 4 | Taxes received | – | – | 67.0[(b)] | 67.0[(b)] |
| | 5 | Total income | 166.5 | 50.0 | 74.3 | 290.7 |

(a) Blue Book 1.3, 1.4, 1.5 (*less* rent, 1.10).
(b) Including national insurance etc contributions.

*Expenditure,* similarly, includes "domestic expenditure" on goods and services for consumption or investment, and also transfers to other sectors and abroad–interest, dividends, taxes, etc. Using Table 5A below we can expand Table 2D:

*Table 2H* Total expenditure, by type and sector, 1979

| | | | Personal | Corporate | GG | Total |
|---|---|---|---|---|---|---|
| 1.1 | 1 | Consumption | 114.8 | – | 38.3 | 153.1 |
| | 2 | Investment (physical)[(a)] | 6.6 | 24.7 | 5.1 | 36.4 |
| | 3 | *TDE* | 121.4 | 24.7 | 43.4 | 189.5 |
| (1.4), 1.5 | 4 | Interest and dividends | (–) | 18.6 | 8.8 | 27.4 |
| 1.3, 1.4 | 5 | Taxes paid on income | 33.1[(b)] | 5.0 | – | 38.1[(c)] |
| (1.5) | 6 | Benefits and grants paid | – | – | 21.0 | 21.0 |
| 1.5 | 7 | Subsidies paid[(d)] | – | – | 4.3 | 4.3 |
| 1.3, 1.5, (1.6) | 8 | Transfers abroad (net) | 0.3 | – | 2.1 | 2.3 |
| | 9 | Total expenditure | 154.8 | 48.3 | 79.6 | 282.7 |

(a) Blue Book 1.7 (GDFCF from left-hand page, stocks from right-hand page).
(b) Including national insurance, etc. contributions.
(c) Tax credits of 1.4 are counted both in the personal and corporate sectors. The remaining 36.7 and taxes on expenditure of 30.4 (included in lines 1–3, which are at market prices) make up the 67.0 of taxes due (Table 2G, 4): see, however, Chapter 5, note j on Table 1.4.
(d) Reducing the market prices in lines 1–3.

Starting with total income, we can move to three important balances:

i. *Disposable income* is what is left after charges such as interest and dividends and taxes (and, conventionally, also net overseas transfers) have been met:

*Table 2I* Disposable income, 1979

| | | Personal | Corporate | GG | Total |
|---|---|---|---|---|---|
| 1 | Total income (Table 2G, 5) | 166.5 | 50.0 | 74.3 | 290.7 |
| 2 | *less* charges (2H 4, 5, 8) | – 33.4 | – 23.6 | (– 10.9) | – 67.8 |
| 3 | *Disposable income* | 133.1 | 26.4 | (63.4) | 222.9 |

In the last line, 133.1 is personal disposable income, 26.4 is corporate undistributed income after tax, or saving (as corporations do not consume).

Disposable income is discussed more fully in Chapter 3 below.



ii. *Saving* (or the current surplus) is what is left after *current* expenditure has been deducted:

*Table 2J* Saving, 1979

| | | Personal | Corporate | GG | Total |
|---|---|---|---|---|---|
| 1 | Total income (Table 2G, 5) | 166.5 | 50.0 | 74.3 | 290.7 |
| 2 | *less* Current expenditure (2H 1, 4 to 8) | – 148.2 | – 23.6 | – 74.5 | – 246.3 |
| 3 | Saving | 18.3 | 26.4 | – 0.2 | 44.5 |

iii. The *financial balance*, or net acquisition of financial assets (NAFA)* (Blue Book, 1.7, 13.1), is what is left after paying for current expenditure and for the whole value of domestic investment (capital formation and stocks, including now stock appreciation), and after capital transfers:

*Table 2K* Financial balances, 1979

| | | Personal | Corporate | GG | Total |
|---|---|---|---|---|---|
| 1 | Total income (Table 2G, 5) | 166.5 | 50.0 | 74.3 | 290.7 |
| 2 | *less* Total expenditure (2H, 9) | –154.8 | –48.3 | –79.6 | –282.7 |
| 3 | *less* Stock appreciation | – 0.9 | – 7.6 | – 0.1 | – 8.5 |
| 4 | Capital transfers | 0.2 | 0.6 | – 0.8 | — |
| 5 | Financial balance/NAFA | 11.0 | – 5.3 | – 6.2 | – 1.9[(a)] |

(a) Includes –1.4 residual error (see text to Table 2C, above).

Line 5 shows the net acquisition of financial assets by each sector. The -1.9 for the whole of the United Kingdom is the *overseas deficit* (Table 2B above), financed by net borrowing: alternatively it can be regarded as the surplus of the "overseas sector". But see note 4 to Table 5A, and Annex D.

NAFA* is useful because it is a concept which is standard for all sectors and for individuals and firms, and for the whole economy. But it may not be the financial quantity best suited to the management of firms, etc., nor necessarily illuminate the problems found in the various sectors' accounts. It can however be used by the reader or researcher to build up quantities which are designed for his particular purpose.

For instance, NAFA for the *personal sector* in 1979 was 11.0 (£11050 million, near the top of the first column of Blue Book 13.2). Of this, 9.3 (9320, towards the foot of the page) was paid, mainly under regular contract into life assurance and superannuation schemes; and -6.4 (-6368) was received as loans for house purchase. We can get a better idea of changes in day-to-day surpluses or shortage of funds if we remove these longer-term commitments (11.0 - 9.3 + 6.4 = 8.1). The way in which people invested this sum (or raised money, if the total is negative) can be seen from the figures in that column for National Savings, deposits in banks and building societies, *less* bank borrowing; and there are minor items and an unidentified residual (-3075, an inflow of funds).

*Blue Books, etc. from 1981 will be ceasing to use this description, but it is used for convenience in this exposition.

From Blue Book 13.3 a run of years can be compiled, with significant results – for instance:

*Table 2L* Lending by personal sector, 1972, 1976, 1979

| | | 1972 | 1976 | 1979 |
|---|---|---|---|---|
| 1 | NAFA | 1.3 | 5.7 | 11.0 |
| 2 | *less* Life assurance and superannuation | – 3.0 | – 5.6 | – 9.3 |
| 3 | Loans for house purchase (item removed) | 2.8 | 3.9 | 6.4 |
| 4 | Funds for other lending | 1.1 | 4.0 | 8.1 |

For *companies* the problems are different. If one wishes to find, for instance, what their *borrowing requirement* has been, NAFA must be adjusted (in the case of industrial and commercial companies (ICCs)) to exclude certain items such as the reinvestment of profits of overseas subsidiaries (see text to Table 5A below). If one needs to see movements in liquidity, items in 13.4 can be grouped – perhaps the shorter-term or more liquid assets down to "bank lending", giving:

*Table 2M* Liquidity, ICCs, 1972, 1976, 1979

| | 1972 | 1976 | 1979 |
|---|---|---|---|
| ICCs: changes in liquid assets and bank lending | – 0.6 | – 0.5 | – 4.1 |

For *PCs, CG and LAs* the borrowing requirement is an important statistic. Financial accounts in the 1980 Blue Book link this with NAFA; 6.4, 7.4, 8.4, 9.1 and 13.9 can be summarised for 1979 as follows:

*Table 2N* Borrowing requirements, by sector, 1979

| | | CG | LAs | GG | PCs | Public sector |
|---|---|---|---|---|---|---|
| 1 | Financial deficit (= NAFA) | 4.0 | 2.2 | 6.2 | 2.1 | 8.3 |
| 2 | Net lending, etc. | 6.4 | – 0.5 | 5.9 | – 1.7 | 4.3 |
| 3 | Borrowing requirement of each sector | 10.4 | 1.7 | 12.1 | 0.4 | 12.6 |

This is explained in more detail in Chapter 5 (notes to 13.9), together with the "contributions" of the sectors to the public sector borrowing requirement (PSBR).

Unlike NAFA, these specially tailored measures, for borrowing alone, cannot be balanced against each other or added to give a UK total. The whole of the lending, borrowing, etc. does indeed in principle balance out, when an "overseas sector" is included; Blue Book 13.2 shows this for 1979, and indicates the unidentified element in the balance.

We have not summarised the operations of financial institutions (13.5, 13.6) through which this balancing mainly takes place. The detailed working of this financial balance between sectors is shown regularly in *Financial Statistics* and is discussed in the *Explanatory handbook 1980* (HMSO).



In terms of the sector financial balances (NAFA), the flows inside the United Kingdom were:

*Table 2O* Flows of funds, 1979

| | | Personal | Corporate | GG | Total |
|---|---|---|---|---|---|
| 1 | *NAFA* | 11.0 | – 5.3 | – 6.2 | – 0.5 |
| 2 | Residual error | | | | – 1.4 |
| 3 | UK current overseas balance (= net overseas investment) | | | | – 1.9 |

In the management of UK *overseas finances* the borrowing requirement is also important, and at times of critical importance for the home economy. The borrowing results from an excess of overseas investment by firms, commercial movements of finance and government lending over the current surplus which has been earned. Details are in the Pink Book, *United Kingdom Balance of Payments 1980* (HMSO) and are summarised in *Financial Statistics* (11.1, etc). For 1979:

*Table 2P* Overseas finances, 1979

| | | |
|---|---|---|
| 1 | UK current balance | – 1.9 |
| 2 | Investment and other capital transactions | + 1.2 |
| 3 | Balancing item (in overseas accounts) | + 2.4 |
| 4 | *Balance for official financing* | + 1.7 |
| 5 | Official overseas borrowing | – 0.7 |
| 6 | Change in gold and foreign currency reserves (increase +) | + 1.1 |

In the overseas context line 4 is the borrowing requirement, and details are published monthly as Treasury Press Notices. In 1979 the balance of 1.7 was supplemented by 0.2 of Special Drawing Rights from the IMF, making a total of 1.9 for repayment of debt and increase in reserves (note that this is not the -1.9 of the current balance, which is a deficit leading to disinvestment). This table is expanded in Table 2U below to show the connections with domestic official financing.

## The Financing of the PSBR

The public sector borrowing requirement (PSBR) (Table 2Q) is the quantity of money which has to be raised directly or indirectly on government credit; the implications for the financial system are briefly mentioned below.

Public authorities concerned with the PSBR raise finance in several ways:

a. By selling long-term marketable securities ("gilts", etc.) and National Savings to the public (other than banks). This mops up the extra money the authorities have spent, at the expense of some pressure on interest rates. This is the main method of non-inflationary financing.

b. By borrowing overseas, or in foreign currency from UK banks (who will attract the corresponding deposits from overseas). This may be a major operation undertaken because of the state of the overseas balance and of the gold and currency reserves, including borrowing by LAs and PCs under governmental exchange guarantees, or less formal market borrowing. The extra public expenditure remains in the system, and this is allowed for if limits are set for domestic credit expansion (DCE).

c. By issuing additional notes and coin. Again this does not mop up the spending, though people will in practice wish to hold rather more money in cash as their incomes and bank balances, etc. rise. (If a government "printed money" beyond what people were ready to hold, this would be strongly inflationary: but the main element in money supply is bank deposits – 43 compared with 9 of notes and coin – and the latter are issued on demand, against payment from bank accounts.)

d. By borrowing in sterling from the banks LAs and PCs borrow what are in this context minor and fluctuating sums, in competition with other borrowers. But borrowing by the government itself is a different matter. It is mainly effected by the issue of Treasury Bills (TBs) to the banks (Blue Book 13.10), which directly expands the money supply when the government expenditure takes place (because the payees hold more bank deposits, etc.) and also expands the banks' credit base (because TBs are regarded as equivalent to cash reserves). In the absence of special measures to restrain lending, the banks will therefore seek to lend more, further increasing the money supply. CG financing of this kind is therefore avoided whenever possible, as being inflationary. Table 2Q shows the financing of the PSBR (13.10; FS 2.6).

*Table 2Q* The PSBR and its financing, 1979

| | | | |
|---|---|---|---|
| 1 | | *PSBR* (Table 2N, 3) | 12.6 |
| 2 | | Financed as follows: | |
| | a | Sales of debt | 10.9 |
| | b | Official external financing | – 0.6 |
| | c | Notes and coin | 0.8 |
| | d | Bank lending to public sector in sterling | 1.5 |
| | e | *Total financing of PSBR* (= line 1) | 12.6 |

*Note:* From FS 2.6, but Bank of England Issue Department commercial bills excluded from a and included in d, as in FS 7.3.

## Money supply

Table 2R shows the composition of the increase in sterling M3 (£M3). The first and minor element is *notes and coin* (1c in Table 2Q). The major component is the increase in residents' sterling *deposits* with UK banks (FS 7.2). This, however, is directly related to (and, from the point of view of the government and the economy, activated by) domestic sterling *lending* by banks, including that to the government. This lending, *plus* adjustment for certain other items discussed below, equals the increase in resident deposits; one can rearrange the banks' balance sheets to show that:

Sterling deposits by residents = total sterling lending *less* net foreign currency deposits, sterling deposits by non-residents, and non-deposit liabilities (NDLs): *FS Explanatory handbook,* 1981, p 33, gives a full treatment. (NDLs are retained profits of banks and proceeds of capital issues, *less* physical investments.) Broadly this means that £M3 is

*Table 2R* Money supply, 1979

| Reference | | Changes in | Liabilities route | | Assets route |
|---|---|---|---|---|---|
| FS 7.2, 7.3 | 1 | Notes and coin | 0.8 | | 0.8 |
| FS 7.2 | 2 | Sterling deposits by residents | 5.8 | | |
| | 3 | Bank lending in sterling: | | | |
| 1d of Table 2Q | | a To government | | 1.5 | |
| | | b Other domestic | | 8.6 | |
| | | c Overseas | | – 0.0 | |
| | | d Total | | | 10.1 |
| | 4 | *less* Switching into: | | | |
| | | a Net domestic bank deposits in foreign currencies | | – 0.5 | |
| | | b Overseas sterling deposits | | – 3.0 | |
| | | c Total into sterling | | | – 3.5 |
| | 5 | NDLs | | | – 0.9 |
| FS 7.2, 7.3 | 6 | £M3 | 6.6 | | 6.6 |



affected by all sterling lending (including that to the government in 2d of Table 2Q), abated by any switch into sterling on the part of foreigners and the banks themselves and by NDLs. Table 2R shows this relationship in the first and second columns. (Figures in tables continue to be for 1979 in £billion.)

## Domestic credit expansion (DCE)

DCE is a statistic which aims to measure the total of credit taken by the economy from the banks and from overseas, for use as an indicator of the overall tightness or ease of domestic monetary conditions, or of the potential purchasing power overhanging the flow of output. It is not affected by whether the balance of payments is in deficit or in surplus, nor by whether the government's financial deficit is met by borrowing abroad or in such a way as to increase money supply at home. (It is, however, concerned with how much of the financial deficit has been met by sales of debt, which prevent a direct effect on the money supply.) DCE has been used as a target (and as an indicator) especially when too much purchasing power is considered to be going abroad, leading to difficulties in providing finance to meet the deficit. A DCE target then means that the greater the overseas deficit the less the money supply has to be allowed to expand.

(When, on the other hand, funds are flowing strongly into the United Kingdom, these reinforce, perhaps uncontrollably and certainly unpredictably, the action of DCE in expanding the money supply. Attention may then be concentrated largely on £M3 or some other indicator of money supply itself*.) We set out below various accounting relationships.

*Table 2S* Components of DCE, 1979

| | | | | |
|---|---|---|---|---|
| 1 | | PSBR (*less* sales of debt): | | |
| | a. | Official external financing | – 0.6 | |
| | b. | Notes and coin | 0.8 | |
| | c. | Bank lending to public sector in sterling | 1.5 | |
| | d. | Contribution of PSBR to DCE | | 1.7 |
| 2 | | Other bank lending: | | |
| | a. | Domestic | 8.6 | |
| | b. | Overseas | – 0.0 | |
| | c. | Contribution of bank lending to DCE | | 8.6 |
| 3 | | *DCE* | | 10.3 |

DCE can also be derived from the PSBR, subtracting sales of debt and adding bank lending as above:

*Table 2T* PSBR, debt sales and credit creation, 1979

| Reference | | | |
|---|---|---|---|
| 2Q | 1 | PSBR | 12.6 |
| 2Q(2a) | 2 | *less* sales of debt to UK non-banks | – 10.9 |
| 2S(1d) | 3 | Contribution of PSBR to DCE | 1.7 |
| 2R, 3 b+c | 4 | Bank lending in sterling to private and overseas sectors | 8.6 |
| FS 7.3 | 5 | *DCE* | 10.3 |

This table shows that DCE is not directly affected by the balance of payments or by short-term capital movements or switches into or out of sterling.

*This difficult subject is examined in various published articles, particularly: *Economic Trends,* May 1969; *The Banker* January 1975 and February 1977, *Midland Bank Review,* February 1977; *The Times* (Economic Notebook), 18 May 1978; *Economic Progress Report* (HM Treasury), July 1980, available from Central Office of Information, Hercules Road, London SE1 7DV.

The link between £M3 and DCE can also be established:

*Table 2U* Money supply and DCE, 1979

| Reference | | | |
|---|---|---|---|
| 2S, 2T | 1 | DCE | 10.3 |
| | 2 | *less* External and foreign currency finance [a] | |
| 2S(1a) | | a. Public sector (net repayment) | 0.6 |
| 2R(4c) | | b. Switching into sterling | – 3.5 |
| 2R(5) | 3 | *less* NDLs | – 0.9 |
| FS 7.3 | 4 | *£M3* | 6.6 |

(a) Note that this refers to the whole economy, not the public sector alone.

The broad effect of the *difference between DCE and £M3* is that, for a given amount of credit expansion by the government and the banks, the increase in money supply will be lower if part of the credit comes from borrowing overseas through financial or governmental channels to finance a deficit on current and non-bank capital account. This relative reduction will match the reduced domestic production of goods and services following the increase in imports/decrease in exports.

Line 2 of the table above deducts the external finance supplied directly to the public sector and through the banks (the latter largely through short-term movements of private funds for financial reasons). Line 2 equals also the whole of the rest of the balance of payments (see FS 7.4, from July 1980 onwards) – the current and non-bank capital account, bank lending in sterling overseas, and balancing item and residual (summarised in Table 2V). This suggests two possible ways of looking at the relation in Table 2U between DCE and £M3 (but there will be other ways if for instance, as an individual banker may, deposits are regarded as prior to lending):

a. DCE (credit given to economy by the banks and the overseas sector) *less* credit from overseas = credit given in sterling by banks at home; this results in a change in £M3 and in NDLs.

b. The expansion of credit from DCE creates money (deducting NDLs) which either goes abroad to pay for purchases and investments (indeed credit expansion encourages such a deficit), or to increase domestic money supply, £M3. If international credit conditions are unstable with (for instance) large inflows into the United Kingdom, some of the inflow may not be absorbed by the official reserves but may come in as sterling lending to commercial firms (particularly since the lifting of Exchange control), thus increasing the domestic money supply. Either a DCE or a monetary control may then be difficult to establish, though both indicators may need to be watched.

In Table 2P the UK's current overseas balance was linked with the official financing and reserve movements. It is perhaps useful to examine in more detail the links with domestic financial totals. Table 2V (expanding Table 2P) traces the path from the current overseas account (line 1; Table 2C) via capital and financial items, to the total need for 'official financing', the volatile quantity in Table 2U, line 2a. The finance meeting this need (line 7, sign now reversed) covering much of the balance of payments, comes in part from money raised by the authorities in financing the PSBR. They raise funds overseas not because this matches overseas expenditure but because this best meets the needs of domestic and (especially) foreign exchange management. The total they have to raise is affected by private financial movements (which may in turn be influenced by actions or expected actions by the authorities), line 8. Line 9 shows finance raised for the PSBR; but any net sales of gilts, etc. by non-residents (line 10) increases the total balance for official



financing (line 11), the sum of all requirements in the balance of payments, analysed fully in FS and in the Pink Book. Figures for the four most recent years available are shown. It will be noted that:

a. Current deficits may be powerfully reinforced by capital and private financial flows (especially 1976, 1979), partly in those years offset by substantial unidentified flows (Table 2P line 3, the main part of line 5. below).

b. In 1977, a year of falling inflation and interest rates, financial and unidentified flows reinforced a near-balance on current account; this led to massive rebuilding of reserves (pending repayment of borrowings from earlier crises).

c. The external financing of the PSBR (line 9) is one of the means by which the whole balance of payments (line 11) is officially financed. The application of external finance to the PSBR in this way has monetary advantages explained on p 2-11 above.

d. The *net* external finance raised for the PSBR (line 9) may conceal contrary movements. For instance, in 1979 foreigners bought gilts (-1.1 in line 10), and this was partly balanced by repayments to overseas (-0.6, line 12) by the UK authorities.

*Table 2V* Requirement for external and foreign currency financing

| Reference | | | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|
| FS 7.4 column | | | | | | |
| 2 | 1. | Current account | – 1.1 | –0.3 | 0.6 | – 1.9 |
| 3+10+12+13 | 2. | Non-bank capital account (net) [a] | – 1.6 | 1.4 | – 1.6 | – 3.6 |
| 11 | 3. | Bank lending (–) in sterling overseas | – 0.6 | – 0.4 | – 1.1 | 0.0 |
| | 4. | Identified financing requirements (–) | – 3.3 | 0.7 | – 2.1 | – 5.5 |
| 9+14 | 5. | Balancing item and residual | 0.5 | 2.7 | 1.6 | 2.6 |
| | 6. | Total need for financing | – 2.8 | 3.4 | – 0.4 | – 2.8 |
| 1 | 7. | External and foreign currency financing | 2.8 | – 3.4 | 0.4 | 2.8 |
| FS 7.3 column | | | | | | |
| 15,18 | 8. | Net outward private capital movements | 0.3 | – 2.0 | 0.6 | – 3.5 |
| 13,14 | 9. | External finance of PSBR | 3.0 | – 5.4 | 1.0 | – 0.6 |
| | 10. | Government securities, etc: net sales by non-residents | 0.6 | – 1.9 | 0.2 | – 1.1 |
| FS 11.1 | 11. | Balance for official financing | – 3.6 | 7.4 | – 1.1 | 1.7 |
| FS 11.1, 11.3 | 12. | Official borrowing, etc. | 2.8 | 2.2 | – 1.2 | – 0.6 |
| FS 11.3 [b] | 13. | Change in reserves | – 0.9 | 9.6 | – 2.3 | 1.1 |

(a) Including domestic non-bank transactions in foreign currency with UK banks.
(b) FS and balance of payments use a different sign convention.

**Cause and effect-monetary and real flows**

The connection between money supply and GNP/GDP is the subject of much current contention and some misunderstanding. The following remarks are exceedingly elementary and apply whether or not a "monetarist" policy is pursued. The accounting relationship in the "quantity theory of money" may be written MV=PT, where M is some measure of the money supply, V (velocity of circulation, or the proportion of incomes held as money) is $\frac{GNP}{M}$, P is a general price level and T is the trading volume. Both MV and PT equal GNP and the equality must hold – it is a tautology – so long as the definitions are internally consistent.

It also follows that the proportionate changes in these quantities are related in the same way. To choose easy imaginary figures, over a period of years the relationship might be

M V P T

1.44 x 1.00 = 1.20 x 1.20: a 44% increase in M and a constant V were associated with 20% increases in P and T. But equally

1.44 x 1.00 = 0.72 x 2.00, *or* 2.00 x 0.72 – a 28% fall in price and a 100% rise in volume, *or* vice versa: *or* (if velocity varies)

1.44 x 0.75 = 0.90 x 1.20, *or* 1.20 x 0.90.

Which results appear is a matter of immense importance: but it is not a matter of logic but of economic behaviour, distilled (if any forecast or plan is to be made) into complex statistical relationships, so that how a given change in M affects V, P and T requires knowledge of financial, social and economic habits and some skills in analysis. Nor can one know *a priori* whether the effect of M on the other variables is as strong as the effect of incomes (GNP) on M itself.



# 3 Chalk and Cheese: the Choice and Use of the Statistics

We have referred in Chapter 2 to various measures of national product – GNP, NNP, and GDP(I) or (E), and to the pricing at factor cost or at market prices. The multiplicity is confusing; if none were ignored we should have to handle gross and net national and domestic products, each of these four at FC and MP, at both current and constant prices (making 16 variants); all of them derivable from income statistics, from the output variant of this, from expenditure, and from an average of these. This makes 64 possible aggregates, which again can be in index form as well as in absolute figures.

There are also closely connected measures of income – total domestic income, gross national disposable income, personal disposable income and important variants at constant prices of these last two measures. Net national disposable income is used in United Nations publications. All these quantities are possibly useful in the right context. This chapter aims to make their particular meanings clearer, and to assist in the choice of quantities which will fit into the structure of the argument or the statistics that the reader may wish to develop in his own work.

For convenience the Blue Book does not quote all the possible aggregates. For instance, in the main tables 1.1 uses expenditure-based measures; 1.2 starts with incomes and moves to GDP based on income statistics and priced at factor cost (ref no. 27; this can be abbreviated as GDP(I)FC). But a link is then provided with GDP(E)FC (ref no. 14in 1.2 and also in 1.1), and it is this measure which is used in 1.9, 1.10 and 3.1 despite the fact that these tables are really concerned with analysing incomes from production: see comment on conversion of aggregates, below. It is again this measure which is used in 1.1 and 1.2 to build up GNP and NNP (national income), although these are 'income' concepts. The tendency is to quote in the Blue Book the expenditure-based totals rather than the income-based.

*Conversions.* The user may well decide that (for instance) in using 1.10 to work out percentages of GDP received as income by employees in various sectors, the denominator should be GDP(I), quoted in 1.2, instead of GDP(E) at the foot of 1.10. This means subtracting the 'residual error' shown in 1.2, which is treated as being unidentified income; note that the residual error in 1979 was itself negative (-1435), so that care with signs is necessary. Others of the 64 possible aggregates – which each have their own possible application – can be worked out by applying the necessary adjustments, with the right signs. These are explained in Chapter 2 and are summarised in the notes to 1.1 and 1.2 on p 5.1 and 5.2; and see section below on fitting together national income quantities.

**Meaning of the various totals**

The *definitions* of most of the relevant totals are in the Glossary in the Blue Book, starting on p 100. Chapter 2 above and the *Financial Statistics Explanatory handbook,* 1981, p 3-9, build up the concepts in different ways from first principles. In the descriptions that follow, we supplement these sources by suggesting some characteristics of each total which distinguish it from others; this may help in selecting the statistic appropriate for the reader's purpose, and in detecting the inappropriate.

The whole of the real resources of goods and services produced and used in any period can be divided in two ways – by the source of the output and by the way it is used. Output is produced at home or imported; and it is used at home (including here any variations in stock) or is exported. *Total final output* divides into *gross domestic product* (GDP) and *imports;* the same quantity, labelled *total final expenditure,* divides into *total domestic expenditure* (TDE) and *exports.* These relationships are shown in Table 2A above.

*GDP* is the sum of *value added* in all industries; intermediate sales and purchases cancel out in aggregating to GDP: see p 2-7 above.

GDP is the whole value of domestic output; its value is measured either as the cost of the labour, land and capital used in production (*factor cost*) or as the cost to the final buyer *(market prices*), which includes any taxes on expenditure and subsidies.

*GDP(FC)* is a sum of *costs*–wages and salaries, rents and profits (net of stock appreciation). If SA is included in profits instead of being deducted, this total of cost is *total domestic income* (TDI), and the costs are the *incomes* of the producers (the employees and the firms themselves). It is these *incomes from production,* together with other money incomes, which appear in the accounts of the various sectors of the economy shown in the Blue Book and are summarised in Table 1.10.

Thus, whether we look at the cost or the quantity of output, or at earnings or profits, GDP(FC) and TDI are important aggregates.

When looking at how earnings, other incomes and perhaps savings are spent, *GDP(MP)* and *TDE* are relevant. They differ (Table 2A) by the overseas balance of goods and services: if GDP is insufficient to meet TDE, there is an import surplus; if GDP exceeds TDE there is an export surplus. Or if we know or expect that there will for extraneous reasons be an overseas surplus, we know that GDP will have to exceed TDE; and if there is a limit to the deterioration in our overseas balance of goods and services, the growth of domestic expenditure will only be able to exceed the growth of GDP by this margin–and so on.

If one wishes to relate elements of *expenditure* by consumers or investors to the total resources available, it may be appropriate to use GDP(MP) (the market price of current output) or *GNP(MP)* (which includes income from overseas investments, mainly resulting from past output, and deducts such income due overseas from the United Kingdom). For the United Kingdom these two differ only slightly (Blue Book 1.1, reference nos 9 and 11): but they will differ strongly where there are large net overseas investments and loans, either outward (USA, Germany and the oil producers), or inward (most developing countries such as India).

This is relevant when considering the percentage of GDP/GNP devoted (say) to defence or to health; published series are not always logical on this point, and expenditure at MP is sometimes divided by GDP/GNP (FC), leading to an inflated ratio. Most other countries make comparisons at market prices; for international comparisons of expenditure or of personal real income, market prices (and thus the purchasing power parity) are helpful. But it must be noted that such comparisons can be changed at a stroke by a change in taxation policies. Between 1978 and 1979 GDP(E) at current factor cost rose by 13.3 per cent. GDP(E) at current market prices rose by 15.6 per cent, the difference being largely due to the increase in taxes on expenditure (mainly VAT) in the 1979 Budget. The GDP deflator at factor cost (Table 2.6) went up from 141.7 to 159.6, an increase of 12.6 per cent, but the corresponding deflator at market prices (not included in Blue Book) rose by 14.6 per cent. Even in constant price (real) terms GDP at factor cost and market prices can move differently but not often dramatically so (1.1). See Table 3A.

Ratios of expenditure are dangerous (though not necessarily without value when carefully used) if *transfers* are included as well as the final expenditure of goods and services. To take an instance where there have been important misapprehensions, in 1979 total expenditure by general government was roughly 45 per cent of GDP(MP), 22 per cent



being transfers and 23 per cent final expenditure. This does not mean that 100–45 = 55 per cent is all that is left for private use. In fact, 100–23 = 77 per cent is so left, but what is true is that 22 per cent of this has been subject to redistribution (as benefits, debt interest etc); and that 55 per cent is what is not channelled through the government. (For taxes, etc related to GNP, see Supplementary table 10, ET October 1980.)

*Table 3A* Real GDP and factor cost adjustments

| | 1978 | 1979 | Percentage increase |
|---|---|---|---|
| Average estimate of index | | | |
| for: GDP (constant FC) | 109.0 | 110.8 | 1.7 |
| GDP (constant MP) | 109.1 | 111.7 | 2.4 |

In examining the implications for *taxation* (part of which falls on incomes and part on the factor cost of expenditure) one must, however, relate total expenditure to GDP(FC).

GDP(MP) is of practical use in relation to capital expenditure from the viewpoint of the investor, who has to pay market prices (in 1979, including 2.7 of taxes less subsidies: Blue Book 9.5). This affects not only his calculations of profitability but his *financial balance* at the end of the year. But the economist looking at the *national* use of resources, or the fiscal official considering policy on tax or subsidisation of certain uses of resources, will need to use factor costs. (This is shown in the bottom half of Table 1.1.) The Blue Book tables (Section 10, 1.7, 13.1) are at market prices because it is this which is known in detail.

*GNP(FC)* shows the total income of UK residents, at home or abroad, by labour or capital. It excludes gifts from or to overseas, which are treated as a way of *disposing of* GNP. Conventionally the measure of GDP based on expenditure statistics is used to arrive at GNP, rather than the income measure which would conceptually be more appropriate. *GNP(MP),* though a somewhat artificial concept, indicates how much can be spent at home (TDE), or given away, without worsening the current account of the balance of payments. This emerges from relationship 13 in Chapter 2, or one can use symbols. Let A be the overseas surplus in goods and services, B the net income from abroad, C the net outward current transfers, and S the current account surplus:

$$S = A + B - C;\ A + B = C + S.\ \ GNP = GDP + B = TDE + A + B = TDE + C + S.$$

**Fitting together national income quantities**

The explanations in Chapter 2 and in this chapter about the nature and definition of the different aggregates in principle imply how they combine when the user wishes to tabulate or modify them. But in practice this is a field where it is possible easily to make mistakes. Often there will be reconciliation which will not work out correctly; in that case time has been wasted. Sometimes there will be an error in the final figure the user produces. It is therefore both time-saving and important for reliability to see how checks can be made, and this means knowing the chain which will take one by a different route into one of the published tables, and also applying common-sense checks on likely magnitudes, especially if working both in £ million and £ billion. It should be borne in mind that the Blue Book tables are designed to be consistent with each other in the same volume (and with *Financial Statistics* for September, and with the Pink Book *United Kingdom Balance of Payments*). Two useful chains are shown in Tables 3B and 3C. They illustrate relationships of net and gross figures (which concerns depreciation) and between the two pricing bases (involving the factor cost adjustment). Other perilous corners are profits/output/ incomes/costs, where the place of stock appreciation is vital (Chapter 2), and profits/undistributed income/saving, where tax, dividend and interest reserves may be in or out (Chapter 5, Section 5). Other points covered in Chapter 5 are the distinction between persons and households (4.4) companies and corporations (1.4), central and general government and the public sector, the different bases for public expenditure (9.1), the volume and the value of stocks (Section 12). The reader will accumulate his own list of cautions.

It is not only in adding and subtracting quantities that one needs to think exactly about the components of a given total, and the meaning of the total. This applies in taking percentages, as mentioned above in connection with incomes, and in relation to quantities at FC and at MP. It also applies to totals including and excluding depreciation (capital consumption). Often it will be right for both quantities compared to be either gross or net, though it might sometimes be useful to look at the percentage of *gross* domestic product that went on depreciation and that which went on *net* investment; and rather

*Table 3B* Totals and components of national expenditure

| Chapters of Guide | | Route 1 | Route 2 | Blue Book Tables |
|---|---|---|---|---|
| | *Domestic capital formation* *Fixed* | | | |
| 5 (Section 10) | 1 GDFCF(MP) | 33.6 | 33.6 | 1.1, 1.7 left, Section 10 |
| 5 (Section 11) | 2 *less* capital consumption (depreciation) | | – 22.2 | 1.1, 1.7, 11.3 |
| 5 (Section 11) | 3 NDFCF(MP) | | 11.5 | 1.7 right, 11.7 |
| 5 (Section 12) | *Stocks* | | | |
| | 4 Physical increase | 2.8 | 2.8 | 1.1, 1.7 right, 12.2 |
| | *All domestic investment* | | | |
| | 5 Gross domestic capital formation (MP) | (36.4) | | |
| | 6 Net domestic capital formation (MP) | | (14.3) | |
| | *Consumption* (including capital consumption) | | | |
| | 7 Personal and public current expenditure (MP) | (153.1) | (153.1) | 1.1 |
| 2, 3 | *Domestic expenditure on goods and services* | | | |
| 2 | 8 TDE(MP) | 189.5 | | |
| | 9 Overseas surplus of goods and services | (0.2) | (0.2) | 1.1, 1.6 |
| | *Total use of goods and services produced* | | | |
| 3 | 10 GDP(E)MP | 189.7 | | 1.1 |
| | 11 NDP(E)MP | | (167.5) | |
| 2 | 12 Net property income from abroad | 0.3 | 0.3 | 1.1, (1.6) |
| | *Total national income/product* | | | |
| 2, 3 | 13 GNP(MP) | 190.0 | | 1.1 |
| 2, 3 | 14 NNP(MP) | | (167.8) | |
| | 15 *less* Factor cost allowance | | – 26.1 | 1.1, 9.5 |
| 2 | 16 NNP(FC) = National Income | | 141.8 | 1.1, 1.2 |



similarly for profits before and after stock appreciation is allowed for. (In this connection see the note on consolidation and capital consumption on p4-10.)

Table 3B works through various expenditure measures at market prices. Route 1 shows gross measures, and Route 2 net measures, finishing with (net) National Income (at factor cost). Table 3C starts from the expenditure measure of GDP at market prices and shows the link with the income measure at factor cost.

*Table 3C* Income measures of GDP, and residual error

| Chapters of Guide | | | Blue Book Tables |
|---|---|---|---|
| 3 | 1 GDP(E)MP (10 of 3B) | 189.7 | 1.1 |
| 2 | 2 *less* FCA (15 of 3B) | – 26.1 | 1.1, 9.5 |
| 3 | 3 GDP(E)FC | 163.6 | 1.1, 1.2 |
| 3 | 4 GDP(I)FC | 165.1 | 1.2 |
| 2, 3 | 5 Residual error (3 – 4) | – 1.4 | 1.2 |

**Current or constant prices**

Like any other statistics, national accounts statistics are used for making comparisons; one figure on its own has no meaning. These comparisons may be over time or in space (sometimes known as 'snapshots').

Comparisons over time, comparing what has happened in one period with what happened in another period, can be made in terms of either current prices or constant prices. Current price figures used on their own for measuring period-to-period changes have limited value since such changes are the product of price changes and volume changes; and without further information it is not known how important a contribution the price and volume components have made. This is where the constant price series, together with the associated price index numbers, come into their own. For example, between 1978 and 1979 GDP (expenditure-based) at current factor cost rose by 13.3 per cent (Table 1.1 or 1.11). But Table 2.1 (or 1.11) shows that the volume increase was only 0.6 per cent, and Table 2.6 shows that prices or costs (the index of total home costs) rose by 12.6 per cent. In practice when commentators refer to growth in GDP, consumers' expenditure, etc. they are usually talking in volume or constant-price terms.

It should be noted that it is not possible to measure directly changes in *income* in volume terms. Incomes can only be deflated by reference to the changes in price of the goods and services on which the income was spent. Thus GDP(I) at current prices has to be converted to constant prices by the deflator derived from GDP(E); and real personal disposable income is derived by dividing personal disposable income at current prices by the implied consumers' expenditure deflator. Where expenditure on goods and services out of a form of income cannot be identified in a satisfactory way it is not possible to give a volume equivalent of changes in that income. For this reason no regular estimates are published, for example, of changes in company profits at constant prices, though users may sometimes use a selected price index such as the implied GDP deflator to gain a broad impression of the way in which company profits have moved in 'real' terms.

Comparisons in space may take the form of comparing the UK's GDP, etc. with the corresponding aggregates of other countries or comparisons within the UK national accounts. For example one may want to calculate the percentages of GDP in a given period spent on consumption or investment; or the proportion of consumers' expenditure devoted to food. For these types of comparisons it is almost always appropriate to use current price figures. In fact it is difficult to perceive what such comparisons in terms of constant prices would mean. For example, if figures at 1975 prices are used to calculate consumers' expenditure as a proportion of total final expenditure in 1979 what does the answer mean? It certainly does not show what would have happened if 1975 prices really had prevailed in 1979; in that situation the pattern of demand in 1979 might have been very different.

See also Chapter 5 below, Section 2, and Annex A on index numbers.

We now turn to the various concepts of *disposable income*, which has been touched on in Chapter 2 (Table 2I). This is an important field (which has developed since *Sources and Methods* was published), and one where there is not much reference material: see p 106 of the Blue Book for the basis of the constant-price series.

**Disposable income of sectors**

*Personal disposable income* appears and is defined in Table 4.1 of the Blue Book. It is there used to compare with *personal saving*, and a constant-price series also appears, real personal disposable income (RPDI), an important indicator of personal affluence. Broadly, it represents personal spending power, after taxes and overseas transfers. *See Economic Trends* p 10, *Economic Trends Annual Supplement*, p 20-24 (figures annually from 1948, quarterly from 1955), and Supplementary table 14 (ET, October 1980) for rates of change *per capita*.

*Undistributed income* can be regarded as the comparable figures for corporations. Table 2I quotes the figure including reserves held for tax and dividend purposes, and before deduction of depreciation and stock appreciation. When considering corporate accounts in relation to the Blue Book, care is needed in selecting the appropriate aggregate. For companies the various definitions of income in 5.3 are useful here; these can be supplemented by figures for PCs from 6.3; the balances and totals of saving in 1.7 are also useful.

Disposable incomes of all sectors (including comparable figures for government (Table 2I) add to *gross national disposable income* (GNDI), which requires extended discussion.

**National Disposable Income†**

National disposable income is income available for consumption or investment, domestic or overseas. It arises not only from domestic output (GDP) but from net property income from abroad (which, with GDP, makes up GNP) and from net transfers from abroad: all these add to the means at one's disposal.

GNP + net inward transfers = GNDI; or, looking at product and investment both net of capital consumption,
NNP + net inward transfers = NNDI.
If outward transfers exceed inward, we can write
GNP – net outward transfers = GNDI; similarly for NNDI.

Care is needed here because a common-sense usage is that income is being 'disposed of' when an immigrant sends money to his relatives, or when the Government gives overseas aid. The concept of a 'charge on income', a deduction from the total rather than an item of expenditure out of the total, is familiar in tax and other contexts, and indeed some transfers (eg EC subscriptions) have this character–see Cmnd. 8175, p 34-38–but others are a voluntary use of income, or have a strong element of obligation, like overseas aid. Note also that in the sector accounts transfers do appear as expenditure (eg social security benefits in the government accounts – 7.2, etc); note also the net treatment, in the

†For a full exposition see *Economic Trends*, January 1975 – J Hibbert, 'Measuring changes in the nation's real income'.



summary accounts and in the above relationships, of both overseas property income and transfers which allows accounts to add up internationally.

By the definition at the start of this section,

GNDI = consumption + investment
= (consumption + gross domestic investment) + net overseas investment
= TDE + overseas surplus on current account.

Or, if private and public expenditure exceed disposable income, GNDI + overseas deficit/borrowing = TDE.

Whether the overseas balance starts in surplus or deficit, increases in GNDI show the limit of the increase in TDE which is possible without worsening the current overseas account; this may have strong policy overtones if such a worsening is undesirable at the time in question.

**Real national disposable income, and prices of domestic and overseas produce**

At constant prices these relationships still hold, but another factor may come in if home or overseas prices move so that, for instance, more exports (by volume) have to be traded in order to balance the cost of an order to pay for the imports at their new prices. If, in terms of export prices, net investment income and transfers remain unchanged,
Growth in GDP/GNP – effect of change in terms of overseas trade = growth in real GNDI = change in TDE possible if no change in balance of payments. ('Terms of trade' relate to changes in export prices divided by import prices.)

Thus it is real national disposable income (RNDI) which indicates the limitations on consumers' expenditure + government consumption + domestic investment, if the balance of payments is to stay unchanged. RNDI may be quoted net or gross; the UK usage is to use gross figures, but United Nations tables show net figures. The figures are to be found in Blue Book 1.11, quarterly in *Economic Trends*, p6, and from 1948 annually (1963 quarterly) in *Economic Trends Annual Supplement*, p5-9. They are at 1975 market prices, in index form only.

RNDI is thus a powerful analytical tool for interpreting the past. In economic forecasting and in determining future policy it is even more important, since it suggests practical or political limits to the possible changes in consumption and investment for a given rate of economic growth. *Example from recent years.* From 1972 to 1976 (before North Sea oil was an important factor) there was a very steep relative rise in the price of oil and therefore of UK imports. For various reasons there was not a large enough shift in resources to pay for imports; financial crisis emerged, and domestic expenditure was moderated. But between 1976 and 1979 sales of North Sea oil became large enough to improve the terms of trade through an appreciation of the exchange rate for sterling, despite further rises in the price of the UK's remaining oil imports. The results are given on p 106 of the Blue Book, and the following table shows the changes in those periods (of 4 and 3 years respectively); lines 1 and 2 are from Table 2.6. (Table 3D, p 3-8.)

What do the percentages in line 7 mean, and how do they illuminate the scale of the economic problems of the last few years? In following this through we may also use it as an example of how the Blue Book figures can be applied to current questions about the effects of world conditions and of domestic policies, and of some of the statistical points made earlier in this chapter. Those points are made, for convenience, as footnotes.

*Table 3D* External influences on disposable income, 1972 to 1979 — Units: see note.

| | | 1972 | 1976 | 1972 to 1976 | 1979 | 1976 to 1979 |
|---|---|---|---|---|---|---|
| 1 | Exports of goods and services (price deflator) | 59 | 119 | *2.0* | 166 | *1.35* |
| 2 | Imports of goods and services (price deflator) | 50 | 122 | *2.4* | 155 | *1.27* |
| 3 | Implied terms of trade for goods and services | 118 | 97 | −21 points | 107 | +10 points |
| 4 | Terms-of-trade effect on GDP | *4.4* | *− 0.5* | *(− 4.9)* | *2.6* | *(+3.1)* |
| 5 | Net property income | *0.4* | *0.3* | *(− 0.1)* | *− 0.7* | *(− 1.0)* |
| 6 | Transfers | — | *− 0.1* | *(− 0.1)* | *− 1.0* | *(− 0.9)* |
| 7 | Total adjustment from GDP to RNDI | *4.8* | *− 0.3* | *(− 5.1)* | *0.9* | *(+1.2)* |

*Note:* Figures in roman type are index numbers (1975 = 100). Figures in italics are per cent of GDP at 1975 prices. (Figures for items quoted in a. to e. below are in £ million.)

a. In 1972 there was a small current overseas surplus (176, Table 1.6). What line 7 says is that changes in the terms of trade, transfers and investment income up to 1976 meant that 5.1 per cent of GDP(MP) would have had to be transferred from domestic expenditure to overseas use, for the current balance to be maintained.[1,6]
This transfer of resources is around 5000 a year at 1975 prices–say 3250 at prices current in 1972–quite enormous sums.

b. A very large overseas deficit developed (1674 in 1975 and 1116 in 1976). This was despite the even larger flow of resources which had in fact been transferred to the overseas balance (line 3 of Table 3E):

*Table 3E* Goods and services transferred overseas[2] — £billion at 1975 market prices

| | | 1972 | 1976 | 1972 to 1976 | 1979 | 1976 to 1979 |
|---|---|---|---|---|---|---|
| 1 | Exports | 23.2 | 29.5 | | 32.9 | |
| 2 | Imports | 27.7 | 30.2 | | 35.3 | |
| 3 | Balance | − 4.5 | − 0.7 | + 3.8 | − 2.4 | − 1.6 |

c. The change from 1972 to 1976 was that an extra annual 3800 of resources (at 1975 prices) out of the 5000 in a. above was in fact put towards the improvement of the overseas current balance. This flow was either extra production or came out of what would have been consumption and investment at home.[3,6] Note that the remaining deterioration in the current balance was comparatively small–at current prices 176 + 1116, or say 1300–but could not be stemmed by policy measures then acceptable, and had severe political and economic effects.

d. In late 1976 severe internal measures were taken, and the external deficit declined, then became a surplus in 1978 when North Sea oil became a significant import-saver. By 1979 oil production and also prices rose further, sterling appreciated, and terms of trade improved: but an overseas deficit (1863) reappeared.

e. Lines 5-7 of 3D show that part of the improvement in terms of trade from 1976 to 1979 went in increased overseas transfers (EC, etc.) and in a less favourable balance of investment income (payments for official borrowings and oil investment); the remaining 1.2 per cent in line 7 contributed to higher domestic expenditure and/or depressed GDP[5]. This effect was increased by the growth in the overseas current deficit (747 at current



prices).[4] As a result of both these effects there was by 1979 a net *inward* annual transfer of resources of 1600 (Table 3E), despite the effect of the 1976 measures. This was 1½ per cent of 1979 GDP, and was not far short of half the *outward* transfer achieved in 1972-1976.[6]

**Notes on statistical points arising above**

1 See Blue Book, p 106 below table, and Chapter 3 above; and (for 1972) note the warning in Note 1 to Table 2.1.

2 Blue Book 2.1, rounded: the totals therefore do not always equal the sum of components.

3 Only broadly true. The relative prices of the various imports and exports are those in 1975 but the prices at which resources were transferred at other dates will have differed; this is important because of changes in the relative price of oil: see Annex A. We cannot arrive at a more accurate statement either on present data or on a future price base - though we can be confident that those figures will show a different pattern. See notes on current and constant prices earlier in this chapter.

4 One cannot turn into 1975 prices the changes in this *balance* of large and assorted sums, all at their various current prices. Hence the virtue of the method (references in note 1 above) of working out real national disposable income in relation to a constant zero change in the balance of payments.

5 The figures from the Blue Book table on p 106 have in our calculations been combined for a group of years. The figures however relate to GDP (at constant prices) in each single year. This changes, so the percentages in the calculation should in principle be related to a rather complex average GDP. Since however the change is slow, the percentages can be applied with only minor inaccuracy to the GDP in an individual year. (The changes in GDP at current prices are not shown, and the method could not be applied to them.)

6 These comparisons can also be approached from the actual changes in domestic expenditure compared with GDP, combined with a rough correction for movements in the current overseas balance.

*Table 3F* External influences — reconciliation — £billion at 1975 market prices

| | | 1972 | 1976 | 1972 to 1976 | 1979 | 1976 to 1979 |
|---|---|---|---|---|---|---|
| 1 | GDP | 99.0 | 108.8 | 9.8 | 114.9 | 6.1 |
| 2 | TDE | 103.6 | 109.5 | 6.0 | 117.3 | 7.7 |
| 3 | Overseas balance of goods and services (1–2; as in Table 3E) | − 4.5 | − 0.7 | +3.8 | − 2.4 | − 1.6 |
| 4 | Current balance as per cent of GDP | − 4.5 | − 0.6 | +3.9 | − 2.1 | − 1.5 |
| 5 | Current balance at current MP as per cent of GDP(MP) (1.1) (1.6) | 0.3 | − 0.9 | − 1.2 | − 1.0 | − 0.1 |
| 6 | Call on domestic resources if current balance had been maintained (3–5). | | | 5.0 | | − 1.4 |
| 7 | Line 7 of Table 3D with sign changed | | | (5.1) | | (− 1.2) |

# 4 The Layout and Convention of the Blue Book

**Periods covered, and timing**

The Blue Book shows *annual* figures which revise the provisional figures published in *Economic Trends* earlier in the year. Figures are subject to revision, often for several years ahead. It appears in the September of the year following the latest year in the tables. Certain summary tables give a 22-year run; in most tables 11 years are shown. For many series a very long run is published (about a year after the latest year shown) in the *Economic Trends Annual Supplement;* this also gives quarterly figures and some per capita data. More up-to-date quarterly figures, and revisions, are given for the main variables each month in *Economic Trends,* where an article with fairly full tables is published also in the fourth month after the end of each quarter; certain fuller annual data, including percentage changes and distributions, RPDI per capita figures, and GDP/GNP for financial years, are given in "additional tables" in the October issues. Up-to-date figures for sector accounts at current prices appear in *Financial Statistics,* covering income and current and capital expenditure, as well as purely financial transactions. Special articles appear from time to time; some recent articles are listed in Chapter 1.

**Form of tables**

These are in many cases *balanced accounts,* interlinked with each other; there are detailed tables which supplement these accounts, and certain indices. The accounts take four forms.

(i) *Production accounts* (or *operating accounts*) showing details of sales and expenditure, leading to *trading profits.* These are, however, not at present possible for the private sector and are produced only for public corporations.

(ii) *Income and expenditure accounts* (or current accounts, or appropriation accounts in the case of private firms and public corporations). These lead on to *saving* or current surpluses, or undistributed income.

(iii) *Capital accounts,* which lead from savings, via capital expenditure and transfers, to the financial surplus/deficit (or the net acquisition of financial assets (NAFA)–see footnote on p 2-9).

(iv) *Financial accounts,* which show in detail the changes in various financial assets and liabilities that make up NAFA.

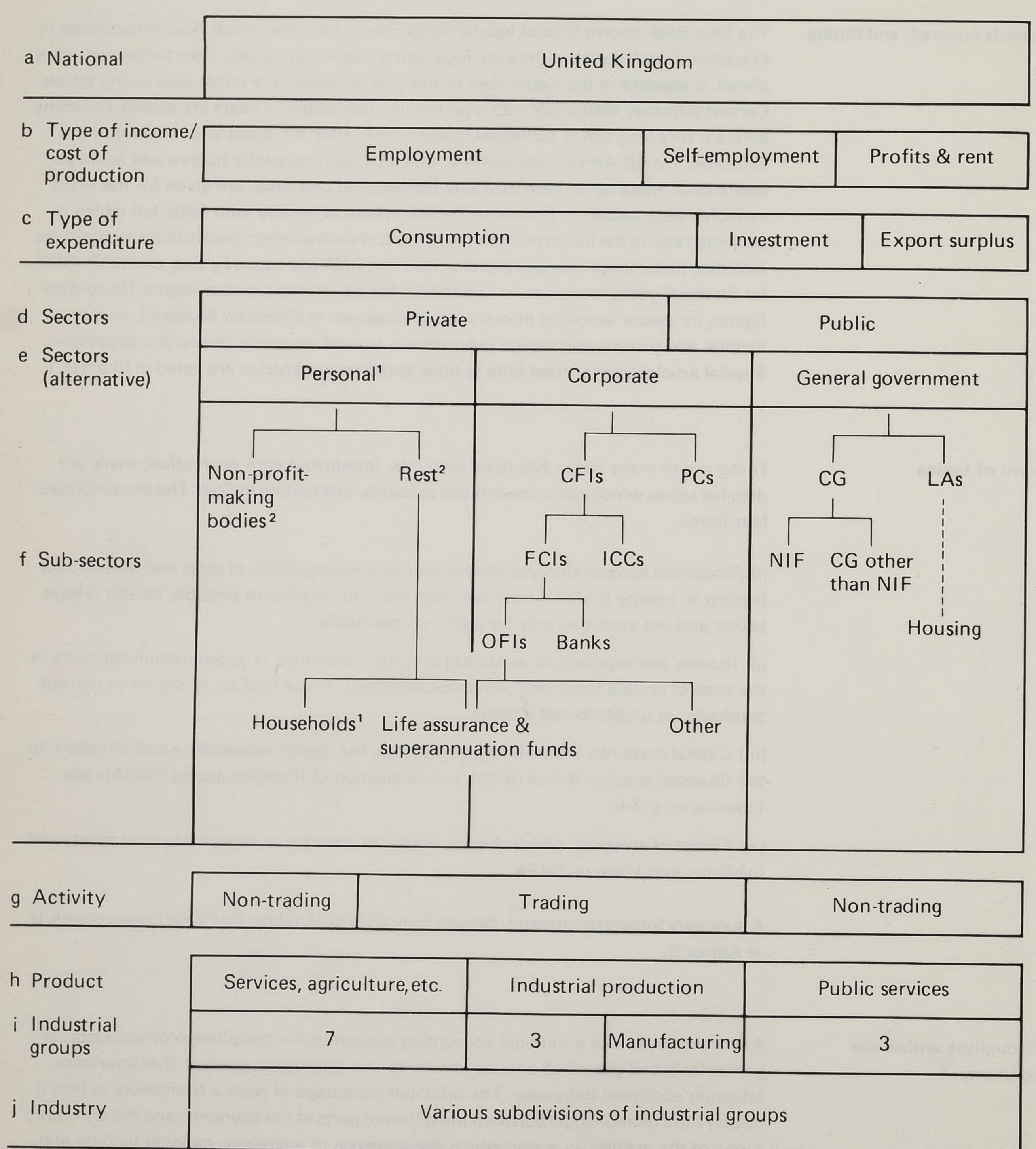
A summary integrated account, derived from Blue Book tables for Public Corporations, is at Annex B.

**Groupings within the economy**

A primary feature of a national accounting system is the compilation of accounts for particular broad groups of entities similar to one another in general characteristics affecting economic behaviour. The principal advantage of such a framework is that it displays the relationships between the different parts of the economy, and the different forms of the activity, in a way which the statistics of aggregate national income and expenditure alone cannot do. Moreover, transfer payments appear in the accounts for the individual sectors in the economy and not in the national income and expenditure aggregates.

Different types of account are established for the various sectors, each corresponding to a particular kind of economic activity. Production accounts record transactions involved in the production and supply of goods and services. The consumption account (or income and expenditure account) records the current expenditure out of the income generated in production or received by transfers. An account for adding to wealth (or capital account) records the use of the savings derived from an income and expenditure account.

Figure 4a **Divisions of economy**




[1] These groups include unincorporated businesses.

[2] Not now shown separately in Blue Book.



The sector classification can also be used in analysis of the distribution of manpower. For the purpose of analysing financial flows sufficient detail is provided in the classification to distinguish the activities of financial intermediaries and those providing financial services from the activities of other productive enterprises.

The sector classification is not intended as the main instrument for the analysis of production; for this purpose the Standard Industrial Classification is more appropriate.

There are indeed several useful ways of dividing up the total of UK economic activity, so that the figures become useful for different purposes. These categories cut across each other, partly or completely. This is illustrated in Figure 4a and in the text which follows.

a. The main group is the *United Kingdom* (England, Wales, Scotland and Northern Ireland); the net flows of goods, services and finance to and from sectors of the UK equal (apart from a statistical balancing item) the flows from and to the *overseas sector.* A more exact definition is given on p 4-6 below.

b. Division of the *cost* of the gross domestic product gives the *incomes* of various types from current production.

c. The same product may be divided by the purpose of *expenditure* (by residents of the United Kingdom and overseas: for convenience Figure 4a (line c) shows the case where there is a net surplus of exports).

d. Transactions of the *private sector* may be separated from those of the *public sector;* in fact it is more common to use subdivisions of both of those.

e. The main division used is between the *personal* sector, the *corporate* sector (and especially the subdivisions mentioned below) and *general government* (central and local).

f. Each of these groupings is further divided into sub-sectors.

(i) Personal–into whether or not part of a private household in the ordinary sense, *households* (ie individuals), life assurance and superannuation funds, and non-profit-making bodies (not shown separately in this year's Blue Book).

(ii) Corporate–into *companies and financial institutions* (CFIs) and *public corporations* (PCs); CFIs are sub-divided into *industrial and commercial companies* (ICCs) and financial companies and institutions (FCIs); FCIs may be further divided between *banks* and other *financial institutions* (OFIs). Within the latter group the investment of life assurance and superannuation funds (on behalf of the personal sector) is shown separately.

(iii) General government-into *central government* (with and without the national insurance fund) and *local authorities,* including a *housing account.*

g. *Activities may be broadly classed as trading/non-trading* (the latter including most activities of government and those of private non-profit-making bodies).

h. The productive process may be *industrial,* or relate to *primary production* (agriculture etc), or to *services* (transport, communication, public utilities, and commercial, personal and public services).

i. Producers are divided into 14 *industry groups,* using 'industry' in a wide sense.

j. *Manufacturing industry* and *public services* are each divided into a large number of "industries", and other industry groups are fragmented to some degree.

The tables of the Blue Book reflect this manifold division; sometimes more than one cross-cut will appear in a single table. A broad guide to the tables in which each type of division is used is in Figure 4b; more detailed information appears in the Index below.

*Figure 4b* Divisions of economy in Blue Book

| Grouping or sector | Balanced accounts | | | | Other tables (selected) |
|---|---|---|---|---|---|
| | Production | Income and expenditure (or appropriation) | Capital | Financial | |
| a. United Kingdom | (1.1 + 1.2) | 1.6 | 1.7 | 13.2, 13.8 | |
| Overseas sector | | 1.6 | 1.7 | 13.2, 13.8 | |
| b. Type of income | | | | | 1.2 |
| c. Type of expenditure | | | | | 1.1, 2.1 |
| d. Public sector | | | | 13.7, 13.9 | 13.10 |
| Private sector | | | | | 10.1, 10.2 |
| e,f. All sectors: | | | | 1.8 | 1.11, 13.1 |
| *Personal* | | 1.3, 4.1 | 4.2 | 13.3 | |
| Households | | 4.4 | | | |
| Life assurance and superannuation | | 4.5 | | | 13.2 |
| *Corporate* | | 1.4 | | | |
| CFIs | | 5.1, 5.3 | 5.2 | | |
| ICCs | | 5.4 | 5.4 | 13.4 | |
| FCIs | | 5.5 | 5.5 | | |
| Banks | | | | 13.5 | |
| OFIs | | | | 13.6 | |
| Life assurance and superannuation | | 4.5 | | | 13.2 |
| Other | | | | | 13.2 |
| PCs | 6.1 | 6.2 | 6.3 | 6.4 | |
| *General government* | | 1.5, 9.1 | 9.1 | 9.1 | |
| CG | | 7.2 | 7.3 | 7.4 | Summary 7.1 |
| NIF | | 7.6 | | | |
| Other than NIF | | 7.5 | | | |
| LAs | | 8.2 | 8.3 | 8.4 | Summary 8.1 |
| Housing | 8.5 | | | | |
| g. Trading/non-trading (no specific tables) | | | | | |
| h. Industrial production | | | | | 2.3, 2.4, 2.5 |
| i. Industry groups | | | | | 1.9, 2.3, 3.1, 10.6, 10.7, 11.1–8, 12.1 |
| j. Manufacturing industries | | | | | 2.3, 3.2, 3.3, 5.8, 10.8, 11.12, 11.14, 12.1–3. |

## SECTIONS OF THE BLUE BOOK

### Section 1

Section 1 contains summary tables. Quantities are measured at *market prices* (ie at prices current in the year to which the data refer), or at *factor cost* (ie at those current prices but after removal of taxes on expenditure and addition of subsidies). The tables show the types of expenditure for which GDP/GNP is used, the types of incomes (or costs) making up the total; income and expenditure of the personal and corporate sectors and of general government (central government plus local authorities); a summary of international transactions; a capital account, by sector; the composition of final output; and analyses of GDP by industry and by sector/type of income, population and employment by sector and by industries, index numbers of GDP at current and constant prices, and of gross national disposable income at constant market prices.

### Section 2

Section 2 gives summary expenditure data and GDP/GNP at *constant prices;* index numbers of output, by industry groups and by each manufacturing industry, showing the proportionate weight of each industry and the type of consumers' goods or investment goods being produced; and derived cost/price indices (or 'deflators').



### Section 3

Section 3 analyses *industrial input* (by type of income, but not showing the type or total of non-wages costs), and shows total net *output* for each industry (or public services). GDP and wages and salaries are given for each manufacturing industry (at Order level in the Standard Industrial Classification). Fuller input-output analysis appears in *Input-output tables for the United Kingdom, 1974* (Business Monitor PA 1004, HMSO, 1981).

### Section 4

Section 4 gives a variety of accounts for the *personal sector,* including the type of income, saving, and (in detail) consumers' expenditure at current and at constant prices and taxes and subsidies relating to it. Data for a recent year on the distribution of income is added. Household expenditure appears in addition to income for the first time.

### Section 5

Section 5 shows appropriation and capital accounts for *companies and financial institutions,* and for ICCs and FCIs separately, including income, profits and saving on various bases, and gross and net profits by each industry.

### Section 6

Section 6 contains aggregated accounts, including an operating account, for *public corporations.*

### Section 7

Section 7 gives detailed accounts for the *central government* (CG) and for the National Insurance Fund (NIF).

### Section 8

Section 8 shows accounts for *local authorities* (LAs), including an operating account for *housing.*

### Section 9

Section 9 gives consolidated accounts for *general government* (GG = CG + LAs), expenditure on goods and services at current and at constant prices, and detailed analyses of expenditure and of wages and salaries, etc., according to the purpose of the service. Other tables show the incidence of taxes on expenditure and on income, and on capital assets (death duties, etc).

### Section 10

Section 10 analyses *gross domestic fixed capital formation* (GDFCF) by sector, by type of asset and by industry group, at current and constant prices.

### Section 11

Section 11 analyses the *stock of fixed capital* for each industry group, showing retirements of capital, capital consumption (depreciation) and net fixed capital formation, at current and constant prices, with some detail on sector and on type of asset. Net capital stock is shown by sector and type, and gross capital stock at 1975 replacement cost, by industry and type, with detail for manufacturing industries.

### Section 12

Section 12 shows, by industry group, the increase in the book value of *stocks and work in progress,* the value of the physical increase, and the stock level at the end of the most recent year, with some detail on type of stocks; and stock increases and stock appreciation, by sector.

### Section 13

Section 13 gives a number of *financial accounts,* by sector, to supplement the current and capital accounts in Sections 4-9. Saving is linked to the net acquisition of financial assets, and transactions in assets and liabilities are analysed in some detail; the financing of the public sector borrowing requirement is also shown. The main medium for presenting the statistics in Section 13 is, however, *Financial Statistics**.

**Section 14**

Section 14 gives a *glossary* and certain definitions.

**Section 15**

Section 15 provides *notes* which up-date the detailed explanations of sources and methods and definitions given in *Sources and Methods.* Certain additional tables are given (and are noted in the Index, below). *Revisions* to the principal estimates since the last Blue Book are shown at the end of the volume.

The alphabetical index is included for the first time. It is supplemented by a fuller, systematic, index on page I-1 of this Guide.

Chapters 2 and 3 of the Guide give an explanation of the system of national income and expenditure accounting. But certain points on boundaries and classification may usefully be amplified at this point.

## DEFINITIONS OF UNITS FOR WHICH THE ACCOUNTS ARE COMPILED

**United Kingdom**

England, Scotland, Wales, Northern Ireland and the continental shelf (for oil and gas). The Channel Islands and Isle of Man are included implicitly in the accounts but no special estimates are made for them.

**Domestic economic activity**

Is that by UK residents and others within the above boundaries, and that on ships and aircraft owned in the United Kingdom. The income of firms operating partly overseas is divided between the domestic product of the UK activities and the investment income from activities overseas.

**Residence**

Discussed in *Sources and Methods,* pp 15 and 436-8, where comparisons are made between treatments of visitors, emigrants, etc. in these accounts and in tax law and in the balance of payments.

**Overseas sector**

Given the above definition of the United Kingdom, the rest of the world is regarded as a sector in the UK accounts.

**Personal Sector**

The personal sector is made up firstly and mainly of individuals resident in the United Kingdom; secondly it includes all unincorporated private businesses, sole traders, and partnerships and thirdly, private trusts, and non-profit-making bodies serving persons.

Little need be said about the first component except that it covers individuals living in households and in institutions, and residents include members of the armed forces and government officials stationed abroad and exclude the corresponding foreigners living here.

---

**Financial Statistics,* monthly, HMSO; and see particularly *Financial Statistics Explanatory handbook,* April 1981, HMSO.



Unincorporated businesses do not have a separate legal existence, and sometimes their activities cannot be distinguished from the private activities of their proprietors. Thus they are part of the personal sector and cannot satisfactorily be separated from it. These businesses are largely engaged in distribution, the construction trades, agriculture or services (including the medical and legal professions). For statistical reasons the current and capital transactions of agricultural companies (which probably contribute a minority of total agricultural value added) are included in the personal sector although their financial transactions, which are not distinguishable from those of other companies, are included in the company sector financial account. Lloyds underwriters, stockbrokers and jobbers are also treated as unincorporated businesses even when, as in some cases, they have adopted limited liability.

Private non-profit-making bodies serving persons comprise universities and non-profit-making schools and colleges, churches, charities, clubs and societies, trade unions, friendly societies (other than registered collecting friendly societies — treated as insurance companies) and private housing associations. A number of these bodies are incorporated under the Companies Acts but they are included in the personal sector if they are recognised as charitable for tax purposes and if their principal object is to provide services or benefits to individuals or other bodies in the personal sector.

Private trusts, other than for charitable purposes, are set up by individuals usually for named beneficiaries.

The treatment of life assurance and superannuation schemes and their relationship with the personal sector are described in Chapter 5 (Section 4).

**Industrial and commercial companies**

The coverage of the I and C company sector has changed substantially over time because of nationalisation and denationalisation, transfers of activities from the central government to private companies, reclassification of some companies to the banking sector, liquidations, additions of newly-incorporated companies and acquisitions of unincorporated businesses. Most notably, the sector was enlarged through the denationalisation of the steel industry in July 1953 and made smaller by its re-nationalisation in July 1967.

Because of these drawbacks to using directly-obtained series of statistics for national accounts purposes, only a few series from these direct sources are used in those accounts, when no satisfactory alternative source is available. Other series for I and C companies are estimated by a variety of indirect methods (for example, by subtracting figures for financial companies and institutions from estimates covering the whole company sector).

**Financial companies and Institutions**

Financial companies and institutions are defined as institutions which obtain, convert (for instance by borrowing short in small amounts and lending long in large amounts) and distribute available funds as their main activity. They are separately distinguished from industrial and commercial companies in the national income accounts and, because of their central position in the economy of channelling funds from lenders to borrowers and from one sector to another, they are sub-divided in the financial accounts between the *banking sector* and *other financial institutions* (OFIs). The banking sector comprises the UK offices of all banks which have agreed to observe a common reserve ratio and other credit control arrangements. Financial transactions of the National Girobank and the Banking Department of the Bank of England are included. Also included in the sector are certain specialised institutions that make up the discount market.

**Public corporations**

Public corporations are corporate bodies, including subsidiaries, which are both owned and controlled by government on a basis that is intended to be permanent. Ownership may be either of the entire corporation, as, for example, in the case of the nationalised industries established by Act of Parliament, or take the form of a majority shareholding. Control in this context means more than the kind of control which stems from general regulatory powers. Government control is over broad aspects of policy, not day-to-day management: nevertheless it should be clearly seen as an active form of control, and not merely as a passive reserve power to be exercised only in time of crisis. A body is deemed to be under Government control if that control extends to the Corporation policies regarding capital investment and borrowing and the prices at which it sells its products (or, in the case of a financial corporation, policies regarding interest rates, the acquisition of assets and the incurrence of liabilities). A public corporation is free to manage its own affairs without detailed control of its operations by government: it is this which distinguishes it from those trading bodies included in the central government and local authority sectors which obtain all their finance and surrender their surpluses to the parent body, for example the Forestry Commission. Bodies established as trading funds under the Government Trading Funds Act 1973 are treated as public corporations since they have the power to borrow and to maintain reserves.

List of bodies included in the public corporations sector at 31 December 1979

A list of the bodies comprising the public corporations sector is given below. In the financial accounts the Banking Department of the Bank of England and the Post Office Giro are treated as part of the banking sector with the Issue Department of the Bank of England included in the central government sector. This treatment causes a slight inconsistency with the appropriation and capital accounts for public corporations, which include the whole of the Bank of England and the Post Office.

1. *Nationalised industries* (most of the corporations under this heading have subsidiary companies which are treated as forming part of the corporation).

British Aerospace (vested as a Companies Act company on 1 January1981 and reclassified to the private sector 4 February 1981).

British Airports Authority

British Airways Board

British Gas Corporation

British National Oil Corporation

British Railways Board

British Shipbuilders

British Steel Corporation

British Transport Docks Board

British Waterways Board

Electricity Council (together with the Central Electricity Generating Board and Area Electricity Boards in England and Wales).

National Bus Company

National Coal Board

National Freight Corporation (National Freight Company Ltd from 1 October 1980)

North of Scotland Hydro-Electric Board

Post Office (Telecommunications; Posts and Giro[1])

Scottish Transport Group

South of Scotland Electricity Board

1 Excluding financial transactions of National Girobank.



2. (A) *Other public corporations* whose finance by the government is included in public expenditure.

British Broadcasting Corporation (Home)

Cable and Wireless Ltd

Civil Aviation Authority

Covent Garden Market Authority

Independent Broadcasting Authority

National Dock Labour Board

National Enterprise Board (subsidiary companies are treated as part of the companies sector in the national accounts).

National Film Finance Corporation

National Research Development Corporation

Northern Ireland Electricity Service

Northern Ireland Development Agency

Northern Ireland Transport Holding Company

Scottish Development Agency

Welsh Development Agency

Government Trading Funds:
- Property Services Agency Supplies
- Royal Ordnance Factories
- Royal Mint

(B) *Certain public corporations whose capital expenditure is included in public expenditure, while government grants and loans to them are excluded.*

Bank of England

Commonwealth Development Corporation

Development Board for Rural Wales (new town activities)

Housing Corporation

Land Authority for Wales[1]

National Ports Council

National Water Council, Regional Water Authorities and Welsh National Water Development Authority[2]

New Town Development Corporations and the Commission for the New Towns

Northern Ireland Housing Executive

Passenger Transport Executive and London Transport Executive[1]

Public Trust Ports[3]

Scottish Special Housing Association

1 Included with local authorities in public expenditure White Papers.
2 Established on 1 April 1974; their functions were previously undertaken by local authorities.
3 Reclassified from local authorities on 1 April 1974.

The following additions to public corporations are known:

Crown Agents, and Crown Agents Holding and Realisation Board, at 1 January 1980 (List A)

Her Majesty's Stationery Office, at 1 April 1980 (List A)

Urban Development Corporations (List A: see Cmnd 8175, p 87).

**Central government**

The central government sector embraces all bodies for whose activities a Minister of the Crown, or other responsible person, is accountable to Parliament. One of the marks of this accountability is that such bodies submit to Parliament detailed statements of their revenue and expenditure.

The central government comprises government departments, bodies not administered as part of government departments but subject to varying degrees of ministerial or departmental control, and extra-budgetary funds and accounts controlled by departments.

Government departments include all bodies, boards, committees and commissions under their aegis and whose accounting arrangements are identical with those of government departments, that is the expenditure is directly chargeable to supply Votes, eg the Monopolies and Mergers Commission.

The bodies included in the central government sector which are not administered as part of government departments but are subject to ministerial or departmental control are those which in particular are subject to detailed financial control. In most cases they draw a substantial part of their income from governmental grants. Important examples are the Regional and Area Health Authorities and the Atomic Energy Authority. Details of the revenue and expenditure of these bodies are generally appended in the Estimates and Appropriation Accounts or appear as separate House of Commons papers, or sometimes as Command papers.

The Issue Department of the Bank of England is regarded as an agent of the central government and its transactions on behalf of the central government are treated as though they were transactions of the central government itself (but see under Public Corporations, above).

Bodies in receipt of government grant, but not subject to detailed financial control and generally having also other appreciable means of financial support, for example the universities, are treated as belonging to the company sector or to the personal sector.

**Local authorities**

Local authorities are defined in the national and financial accounts as those authorities obliged to make annual returns of income and expenditure under S168 of the Local Government Act of 1972, S118 of the Local Government (Scotland) Act of 1973 and S77 of the Local Government (Northern Ireland) Act of 1972. Before 1 April 1974 the local authority sector included bodies in England and Wales with special functions, such as water boards, river and drainage authorities and harbour boards. Under the local Government Act of 1972 these are no longer within the scope of the local authorities sector and have been excluded from 1 April 1974. From the same date statutory harbour authorities (public trust ports) in Scotland and Northern Ireland have also been excluded. All these functions are now in the public corporations sector.

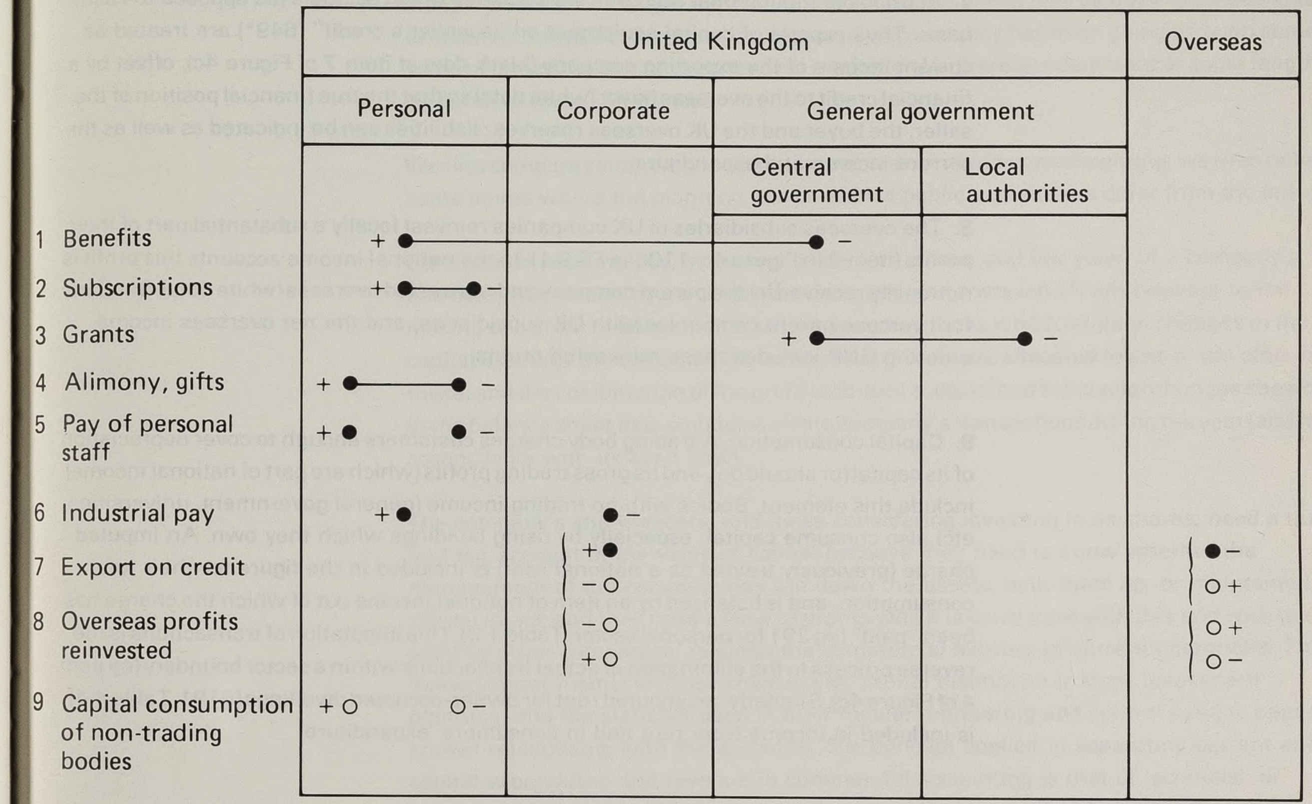
**Consolidation**

When a table is prepared for any unit, whether the whole of groups of sectors such as general government, or for a sector or sub-sector, those transactions which are not an element in national income or expenditure and which are internal to that unit are eliminated, so that the account shows the consolidated activities of the unit *as a whole*. It is often necessary to look at the parts rather than the whole, and to derive information



from tables for smaller groups. For instance, benefits and taxes are not shown in the summary tables 1.1 and 1.2 because they are inter-sector transfers within the United Kingdom, but they show in the tables for the personal, corporate and government sectors. Examples of transactions included and excluded are given below. Where transactions are netted out when sectors are merged, the dots in the diagram have been joined together. The other transactions (eg line 6, industrial pay) are included in both sides of the consolidated account. The white dots are financial transactions sometimes imputed. (Notes, below, to lines 7-9.)

Figure 4c **Examples of consolidation**




Item 1. Benefits (20968, Table 1.3) are personal income and (Table 1.5, sum of 2 items) government expenditure: *national* income and expenditure from these transfers nil.

2. Personal subscriptions to charity are nil for the whole personal sector.

3. Grants by CG to LAs (11415, Table 7.1) are CG expenditure and (Table 8.1) LA receipts, but nil for general government as a whole (Table 1.5).

4. Alimony paid by Mr A to Mrs A (if a UK resident) does not affect the balance of the personal account, nor add to production, and does not appear at all; similarly for gifts between individuals in the United Kingdom.

5. The pay of those working for individuals or unincorporated businesses (farmers, solicitors, GPs) is (productive) income, and forms part of national income as well as that of the personal sector. These payments and incomes are therefore netted out but are included on both sides of the account.

6. Wages and salaries paid by industry as part of the expenses of production (eg by public corporations, 12956, Table 6.1) are part of personal income. But in analysing the national product by sector this factor income is conventionally (Table 1-10) allocated according to

sector of employment, not to the personal sector (unless the employer is part of that sector).

**Imputation**

The cases discussed above have all involved actual transactions (of types which would stand up in court), with current payment. In other cases a transaction has to be broken into two parts, current and capital (or perhaps financial); and sometimes a transaction is invented (or "imputed") when there is an economic process which is considered to need recording but no actual commercial transaction accrues. Instances follow.

7. In principle the national accounts are compiled on an accruals (as opposed to cash) basis. Thus exports of capital equipment on "supplier's credit" (649*) are treated as current income of the exporting company (black dots at item 7 of Figure 4c), offset by a financial credit to the overseas buyer (white dots) so that the true financial position of the seller, the buyer and the UK overseas reserves/liabilities can be indicated as well as the current income and expenditure.

8. The overseas subsidiaries of UK companies reinvest locally a substantial part of their profits (item 8 in Figure 4c; 1109 in FS 9.1). In the national income accounts this profit is notionally received by the parent company and reinvested overseas (white dots). Similarly for overseas parent companies with UK subsidiaries; and the net overseas income entering GNP includes these reinvested profits.

9. Capital consumption. A trading body charges customers enough to cover depreciation of its capital (or should do), and its gross trading profits (which are part of national income) include this element. Bodies with no trading income (general government, universities, etc) also consume capital, especially by using buildings which they own. An imputed charge (previously treated as a notional rent) is included in the figure for their total consumption, and is balanced by an item of notional income out of which the charge has been "paid" (eg 291 for personal sector, Table 1.3). This imputation of transactions is the reverse process to the elimination of actual transactions within a sector boundary (eg item 4 of Figure 4c). Similarly, an imputed rent for owner-occupied dwellings (6191, Table 4.4) is included in income from rent and in consumers' expenditure.

**The boundary of production**

The national income statistician has to decide how far the imputation process should go. Should one impute an income to the partner in a marriage who does the housework or the gardening, and a purchase of services by the other partner? A trend towards the production of home vegetables, and home decorating and repairs, would then affect not only sector accounts but the level and rate of growth of national income and GNP. This could be significant as social habits, working hours, retirement ages and unemployment change. The UK and international practice is to confine production mainly to goods and services which are in fact exchanged for money, and to impute transactions which are closely similar to those where money passes (*Sources and Methods,* p7-8, discusses other cases).
The boundary of what is treated as *domestic* production is also affected by decisions on the treatment of off-shore oil and gas, ships, and partly-owned foreign investments.

**The concept of capital**

Expenditure on capital formation (as distinct from financial investment) is divided into *fixed capital formation* and the (physical) increase in *stocks and work-in-progress.* The former represents additions to physical productive assets that yield a continuous service beyond the period of account in which they are purchased. This is discussed in *Sources and Methods,* p 11 and 360-3; see also Chapter 5 below, Sections 10 and 11. The latter is described in detail in *Sources and Methods,* Chapter XII; see also Chapter 5 below, Section 12.

*Balance of Payments Pink Book, 8.7.



It is not always easy to know exactly what is meant by 'capital' in different contexts. Different operational problems, private and public, require different analyses and conventions, and different approaches are found in national income accountancy and macro-economic analysis, commercial accountancy for trading enterprises, and the planning and control of public expenditure. Conventions may also differ because of the shape of the data which can be assembled at the time they need to be used. They may differ through being developed in different professional traditions and with various statutory backgrounds, and the concepts of other disciplines may be misunderstood and even under-rated. Furthermore, professional accountancy has been going through some years of criticising and revising its own methods. We therefore comment at some length on some of these differences.

We first compare commercial accounting with national income accounting; we then note some points where the planning and control of public expenditure differ from the latter.

Commercial accountancy, in aiming to present a 'true and fair view' of a company's business, has to distinguish between revenues and costs which are relevant to the making of a profit or a loss in the current year, and those which relate to changes in the capital assets of the company. All revenues and costs are allocated to one or the other of these, and the combination of the profit-and-loss account and the capital changes shown in the balance sheet thus embodies all the company's transactions during the year (and is reconcilable with its cash flow).

The company's shareholders, and those considering investing in its shares, need a true and fair account of the value of capital because they need to know whether the management of the company has run down the assets, built them up, or maintained capital intact; and they need a view of profits which is consistent with this and with that used by other companies, to judge the commercial success of current operations. The management themselves use the current/capital distinction in their investment planning, and the statistics used in their regular monitoring and control need to bear a known relationship with the accounts. The concept applied in separating current and capital expenditure and revenue in commercial accounting is that of 'accruals', or 'matching', under which revenue and costs should be matched with one another (so far as their relationship can be established or justifiably assumed) and dealt with in the profit-and-loss account of the period to which they relate. So far as expenditure of capital is concerned, the benefit is spread over a number of years. The accruals/matching concept means that the expenditure is treated likewise, and current income is therefore debited with a charge for depreciation. This appears in the balance sheet also, as a cumulative deduction from the gross value of fixed assets.

Thus, by separately identifying capital expenditure and depreciating it over the useful lives of the assets concerned, commercial entities are able to obtain a fair measure of their annual costs including the consumption of assets year by year, and hence of their annual profits or losses. The distinction between capital and current expenditure also enables the total amount of fixed and working capital employed in the business, and the rates of return on that capital, to be computed, offering another measure of the general profitability and commercial wellbeing of the enterprise.

There are some important qualifications to the idealised description of this process. In particular, i. The amounts set aside for depreciation may be heavily influenced by considerations of "prudence" which leads to depreciation in the firm's accounts before the economically useful life of working assets has been completed. ii. The cost of capital charged to each year's accounts has been the historic cost, which may be far below the current replacement cost. Historic cost accounting has proved inadequate for a period of inflation, and has been exhaustively examined in a search for a satisfactory alternative. Under arrangements announced on 31 March 1980 the accounts of the larger companies will have to consist of either full historic-cost supplemented by summary accounts correcting historic cost for the effects of the relevant price changes, or else full current cost accounts embodying replacement costs for all assets: see SSAP 16, prepared by the Accounting Standards Committee (available from Institute of Chartered Accountants in England and Wales, Moorgate Place, EC2). iii. The distinction between current and capital expenditure is not always clear cut. The salaries of those engaged in research and development, training or market research yield benefits over a number of years, but it is normal to find the cost written off in the accounts as it is incurred. This is an even larger area when we come to the government's expenditure (defence, education, health, etc., all arguably investment but mainly treated as current).

To some extent a similar view of capital is useful or necessary in the public sector. How far this should be taken is open to argument, but certainly trading enterprises, whether public corporations or parts of Departments, have to prepare accounts broadly on commercial lines. For the bulk of central and local expenditure, the costs are not linked with a revenue income – taxes and local rates are not akin to sales of a product – but it is useful for some purposes to assess how far capital has been built up or depleted (either as a whole or for an operational unit). The accounts of non-trading services (eg the NHS) do not make allowance for depreciation; the national income accounts do show depreciation (capital consumption) for broad groups of services, and changes in net capital stock (Blue Book, Tables 11.9-11.11). This is done in a manner generally consistent with commercial accounting and avoiding the distortions at i. and ii. above.

The commercial firm has a further reason for distinguishing between current and capital expenditure, and between different forms of capital. It has to achieve a financing structure which is appropriate to both its short-term, and to its longer-term, assets and liabilities. Longer-term assets will be of a capital nature. Shorter-term assets (and liabilities) tend to be associated with current expenditure. Long-term assets are less likely to be available to service short-term borrowing, which has to be planned accordingly.

For the central government the financing problem is quite different: it is linked with the management of the currency and the banking system. The borrowing rests on Government credit and market expectations of movements in interest rates, and not at all on the quasi-commercial outcome of expenditure. Consequently the current/capital distinction receives much less emphasis in the planning and control of expenditure, though White Papers and Budget documents do provide analyses into various current and capital economic categories, and the concept of capital expenditure employed corresponds quite closely with the (idealised) concept of commercial accountancy. In the application of cash limits to the expenditure of Departments certain major capital programmes are controlled separately, but it is not found necessary to make precise distinctions in many cases. Rather similarly, a commercial firm may pay considerable attention to its cash flow and its short-term borrowing or investment, irrespective of whether the underlying expenditure is current or capital.



# Chapter 5: The Tables

## SECTION 1: SUMMARY TABLES

### 1.1 GNP by category of expenditure

This is in two (horizontal) parts – at market prices (MP) and at factor cost (FC) (both current, not constant), linked by the factor cost adjustment. The relationships of the various totals reached are:

(i) consumption (private and governmental) + fixed capital formation + stockbuilding = *total domestic expenditure* (TDE);

(ii) TDE + exports of goods and services = *total final expenditure* (TFE);

(iii) TFE – imports of goods and services = *gross domestic product* (GDP) at market prices;

(iv) Taxes on expenditure – subsidies = *factor cost adjustment* (FCA);

(v) GDP (MP) – FCA = GDP (FC);

(vi) GDP + net property income from abroad = gross national product (GNP) whether GDP/GNP is at MP or FC;

(vii) GNP (FC) – capital consumption = *net national product,* or *national income.*

*Connecting tables:*

1.2 (incomes/costs)
2.1 (at constant prices)
4.6 (consumers' expenditure)
9.2/9.4 (GG consumption)
Section 10 (GDFCF)
Section 12 (stocks)
1.6 (exports and imports and net property income)
11.3 (capital consumption)
1.10, 3.1 (GDP, by industry)
*Economic Trends** Jan, Apr, July, Oct, p5.
*Economic Trends Annual Supplement* 1981,* p5-19, and additional tables in ET (October issues).

*Reference numbers* in the first column relate to the alphabetical glossary in Section 14: similarly for some other tables in Section 1.

*Notes:*

(a) GDP in 1.1 is GDP(E), based on statistics of *expenditure (Sources and Methods,* p 34-6); refer also to 1.2 where GDP(I) and GDP(E) both appear, and see Chapter 3.

(b) Stockbuilding is the value of the physical increase, not the increase in the value (see 1.7 and Section 12 below).

*Abbreviated below as ET and ETAS respectively.

**1.2 GNP by category of income**

The two horizontal parts both add to the same row of figures – GDP(I). The top part uses the traditional accounting definition of profits; the lower part deducts from each relevant item the element of stock appreciation (which in the top part is subtracted after arriving at total domestic income). Relationships:

(viii) Income from employment and self-employment + gross trading profits and surpluses + rent (and an imputed rent or charge for the use of non-trading capital = *total domestic income* (TDI).

(ix) TDI – stock appreciation (SA) = GDP(I).

(x) GDP(I) + residual error = GDP(E) (1.1).

(xi) Income from employment + gross trading incomes/surpluses/self-employment income = SA + rent + imputed charge = GDP(I) (see viii and ix).

(vi) and (vii) above are repeated.

GNP and its uses are discussed in Chapter 3.

*Connecting tables:*

1.1 (expenditure)
1.8 (total final output)
3.1 (incomes and profits by industry)
4.1 (incomes, by type)
Section 5 (company profits)
6.2 (PCs)
1.5, 9.1 (GG)
1.6 (net property income)
11.3 (capital consumption)
4.1, 9.1 (imputed charge)
ET p6, ETAS p 5-8, 38-44, additional tables (ET, October issues).

**1.3 Personal income and expenditure**

Those incomes arising from current production *(factor incomes)* in 1.2 which relate to persons are here combined with investment and transfer incomes, and balanced against consumption, taxes and saving.

*Note:*

(a) *Self-employment* contains a profit element with income; the figures are gross of depreciation and stock appreciation (we abbreviate this as +D+SA).

(b) *Rent* is the factor income from rent (shown by sector in 1.10).

(c) *Tax reserves* are a notional item relating to self-employment which adjusts tax from a payments basis to the amount due (or "accruing") in the year.

(d) *The imputed charge* (defined on p 101) relates to the capital consumption (or depreciation) of charities, etc., of which universities are the most significant in this context.

(e) *National insurance contributions,* as part of income from employment, include those paid by employers (although the employee does not receive the money and is not necessarily aware of the amount). This is because the payments result from the worker's employment and are made for his benefit (giving a 'claim' on the National Insurance Fund). These contributions are of course also an element in the *cost* of employment, and therefore in the total cost (and price) of national output.

(f) *Saving,* or the current balance, is struck after debiting taxes due, and all current expenditure including interest payments on mortgages, and the purchase of cars and other



durable goods treated as current consumption (*Sources and Methods,* p 360). The capital element in house and land purchase is dealt with in the capital account (4.2).

(g) Payments of *life assurance* and of *superannuation* contributions, *less* the maturities and pensions received, are treated as being still financial assets of the personal sector, lent for investment to financial companies and institutions (4.5, 13.2). The payments are thus regarded as being made out of personal saving, as are repayments of loans for house purchase. The point is expanded in notes to 4.1 below. (For the amount of pensions and life assurance benefits, etc., see 4.4.)

(i) The 'personal sector' is made up of *'households'* (in effect, all purely personal income and expenditure – 4.4, 4.6), *self-employment* and unincorporated business such as partnerships (which produce saleable output which is part of GDP), and *non-profit-making bodies* (NPBs), whose income (apart from (d) above) is treated as a transfer from persons, companies and government, and whose current costs are regarded as direct consumption by the persons whom they serve.

*Connecting tables:*

1.2 (incomes)
Section 4 (personal sector)
1.6 (overseas transfers)
7.2 (National Insurance benefits and contributions)
1.7 (savings ± D ± SA)
ET p 10, ETAS p 20-24

**1.4 Corporate income ~~appreciation~~ account**
appropriation

This table consolidates the activities of companies and public corporations. (Figure 4a of Chapter 4 shows how "corporations" fit in to the whole economy.) Apart from the relatively very small production of government trading bodies, the whole of the saleable output is produced by the self-employed and corporations.

*Note:*

(a) *The income* shown is the total income of corporations, from trading or not, and from activities in the United Kingdom or overseas. The table shows the make-up of the income and the use made of it for *current* purposes; a balance is struck which is applied (5.4, 5.5, 6.3, 6.4) to capital or financial purposes. This balance (*undistributed income after taxation*) can also be described as the *current balance* (1.7). After addition of dividend, interest and tax reserves it is described as *saving* which (on the second page of 1.7) may be before or after deducting depreciation and stock appreciation.

(b) Only parts of *corporate income* (as of personal income) are elements of national income; others are transfers. The income in the top line of the table is part of GDP/GNP - that is, gross trading profits with stock appreciation (SA) removed (since it is not an element in real production) – and one part of the price at which output is sold; similarly for rent (see below). Income from abroad (for all sectors) and GDP make up GNP.

(c) *Total income,* at the foot of the top part of the table, is shown before deducting depreciation – that is, the trading profits are "gross".

(d) *Profits* are shown (i) in total before deducting SA, which is the conventional accounting method of including any inflationary increase in stock values, and (ii) after deducting SA; this gives results nearer to modern conventions in accounting and to the profit which is at present subject to tax.

(e) *Rent* (an element in the national output) is combined in this table with domestic non-trading income (largely interest receipts by banks, building societies, etc); see *Sources and Methods,* p 208, for the treatment of these transfers.

(f) *Income from abroad* includes profits from subsidiaries and branches overseas whether remitted to the United Kingdom or reinvested.

(g) *Dividends* are treated as transfers, not as an element in the cost of output (and thus of national product and income) (*Sources and Methods,* p 1-2). The total of dividends and interest *due* to be paid is shown in the form of actual payments and allocations to a notional 'reserve'. This treatment differs from that for companies in 1.7, 5.4 and 5.5.

(h) *Transfers to charities* balance the income entry in 1.3.

(i) *Profits due abroad* (including those reinvested in the United Kingdom) relate to branches and subsidiaries of overseas companies; dividends paid abroad are part of "dividends and interest".

(j) *Taxes* include those on profits due abroad. The total of the "payments" and the (notional) additions to tax reserves equals the *accruals* of taxes payable by companies (5.4 and 5.5) and the payments and additions to reserves by public corporations (6.2). Note, however:

i The "accruals" include tax reserves which the corporation has itself decided to allow for (5.1, 5.4, 5.5, 6.2).

ii The tax due during the year is described in the tables as "payments".

iii This differs from the cash paid to the Inland Revenue by the amounts of accruals adjustments (total for all income tax, mainly corporate, is in 7.4); total adjustments for each sector, of which for corporation tax forms only a part, are in 6.4, 13.4 and 13.6.

iv Tax credits for advance corporation tax paid on dividends (5.1 for CFIs; PCs not separately shown) also form part of taxes paid by personal sector (1.3, 4.1); for reconciliation see 9.7, second line.

*Connecting tables:* Sections 5 and 6; Tables 5A and 5B below.

**1.5 Current account of GG including NIF**

This is a consolidated account of CG and LAs.

The imputed charge (defined on p 101 of the Blue Book) relates to the consumption of capital (depreciation) in using offices, computers and certain other non-trading capital equipment.

*Connecting tables:* Section 7-9; 1.7 and 13.1 (showing CG and LAs separately); 13.9.

**1.6 International transactions**

This summary account is intended to show the connection between national income categories and the balance of payments, not to illuminate the problems of overseas finance. The rest of the world outside the United Kingdom is treated (eg in 13.8 and 13.2) as one of the sectors into which UK activities are divided.

*Connecting tables:* 13.8, 13.2; *United Kingdom Balance of Payments* (Pink Book); ETAS from p 124.

***Summary of the divisions by sector***

We can now trace through the *incomes* generated in each sector and the demands of each sector for *expenditure*, both current and capital. Tables 1.1 and 1.2 have been concerned with the production of goods and services in the United Kingdom (and with the overseas trade that complements it). Tables 1.3–1.5 have shown not only incomes from production but also transfers such as benefits, grants, interest and dividends, etc; and not only the use (or expenditure) of goods and services but payments of taxes, interest and dividends and the making of gifts. The balances of 1.3–1.5 relate to *total* income and expenditure of each sector. They go beyond the elements of *national* income and expenditure contributed by that sector, and are closely related (in 1.7) to *saving* and the provision of *finance* for investment.

Tables 5A and 5B draw together figures from the Blue Book to show the chain from economic activity to the finance of consumption and of investment at home and overseas. They take, for simplicity, the latest year in the Blue Book. Part I of Table 5A divides factor



incomes (or elements in the cost price of the domestic product) between the personal, corporate and general government sectors. Part II similarly spreads out the main types of domestic expenditure.

*Table 5A* Income, expenditure, saving and investment, by broad sector, 1979 — £ million

| | | | Personal | Corporate | General government | Total UK |
|---|---|---|---|---|---|---|
| Blue Book Tables | | | 1.3 | 1.4 | 9.1 | 1.2, 1.1 |
| | *I* | *INCOME* | | | | |
| | 1 | From employment | 113927 [1] | – | – | 113927 |
| | 2 | From self-employment | 15274 | – | – | 15274 |
| | 3 | Gross trading profits/surpluses (+SA) | – | 31563 | 131 | 31694 |
| 1.10 | 4 | Rent | 7229 [2] | (1351) | 2498 | 11078 |
| | 5 | Non-trading capital consumption | 291 | – | 1360 | 1651 |
| | 6 | TOTAL DOMESTIC INCOME | (136721) | (32914) | (3989) | 173624 |
| | *II* | *EXPENDITURE at market prices* | | | | |
| | 7 | Consumption | 114805 | – | 38316 | 153121 |
| 1.7 left | 8 | GDFCF | 6153 | (22390) | 5103 | 33646 |
| 1.7 right | 9 | Stocks: physical increase | 460 | (2270) | (30) | 2760 |
| | 10 | TOTAL DOMESTIC EXPENDITURE | (121418) | (24660) | (43449) | 189527 |
| | *III* | *SAVING; DISPOSABLE INCOME* | | | | |
| | 11 | TDI (6 above) | 136721 | 32914 | 3989 | 173624 |
| | 12 | Dividends and net interest,etc. | (7322) [3] | (–1536) | (–5497) | 289 |
| | 13 | Taxes on income and other current internal transfers | –10637 [3] | –5008 | 15645 | – |
| | 14 | Transfers abroad (net) | –253 | – | –2074 | –2327 |
| 4.1n | 15 | PERSONAL DISPOSABLE INCOME | 133153 | | | |
| | 16 | *Less* Consumption (7 above) | –114805 | – | –38316 | –153121 |
| | 17 | Taxes on expenditure *less* subsidies | * | * | 26055 | 26055 |
| 1.7 top left | 18 | SAVING (+TR+Div R+D+SA) | 18348 | 26370 | –198 | 44520 |
| 1.7 | 19 | Capital transfers (net) | 167 | 623 | –790 | – |
| 1.7 left | 20 | *Funds available for investment* | (18515) | (26993) | (–988) | 43085 [4] |
| | *IV* | *INVESTMENT* | | | | |
| | 21 | GDFCF (8 above) | 6153 | 22390 | 5103 | 33646 |
| 1.7 left | 22 | Stocks (increase in value) | 1312 | (9854) | 136 | (11302) |
| 1.7 right | 23 | Net acquisition of financial assets | 11050 | (–5251) | –6227 | –1863 [4] |
| | 24 | *Use of funds for investment* (= 20 above) | (18515) | (26993) | (–988) | (43085) |

*Notes:* Figures not in brackets are in tables shown in top or left margins. Those in brackets are deduced by grouping Blue Book figures.

* 26055 is the net increase in the market price of consumption (18534 + 2461, from Table 9.5), GDFCF (2726) and exports (2334) over the factor cost. Item 17 is thus balanced by parts of 16, 21 and 23 (where the last column is the balance of exports, etc. – imports, etc.

1. Most of the employment takes place in the corporate or GG sectors: *see* 1.10 for employment earnings *in* the personal sector.
2. Including imputed rent on owner-occupation.
3. Deducting 1410 of dividends and tax payments under tax credits, including in corporate sector figures.
4. Including – 1435 residual error (1.2). But note also that *identified* UK net investment overseas is (+) 540 (reverse of Overseas Sector, 13.2), leading to an overseas balancing item of – 2403. See Annex D.

Part III summarises the connection between income, current expenditure and saving, and the funds available for investment. Table 1.2 showed how the cost of GDP relates to the factor incomes of those who produce it (total domestic income – stock appreciation = GDP).

Starting with TDI we now add net interest, etc. and net taxes, benefits, etc. and transfers abroad. For the personal sector, the sum of these is *personal disposable income* (Chapter 3). Subtracting the cost of private and public *consumption* (including capital consumption or depreciation), and adding in line 17 the factor cost adjustment as government income (see footnote to table) we get figures for *saving* which appear at the top left of 1.7. Together with the unidentified national income in the "residual error" and capital transfers we arrive at the funds with which each sector starts when spending on capital goods and in accumulating financial assets (or when it is borrowing for any purpose).

Part IV balances Part III. Expenditure on fixed capital and stocks (this time including the whole increase in cost of stocks, not just the physical increase used in line 9), and on financial assets/liabilities adds up to the use of funds made available for investment.

***Activities of individual sectors*** The summary capital account in 1.7, and most of the following tables in the Blue Book, divide corporate activities into those of industrial and commercial companies (ICCs), financial companies and institutions (FCIs) and public corporations (PCs). Certain tables combine ICCs and FCIs into "companies and financial institutions" (CFIs). Table 5B traces the corporate activities in Table 5A through to the three corporate sectors.

*Table 5B* Corporate income, saving and investment, 1979 — £ million

| Blue Book Tables | | Table 5A items | ICCs | FCIs | Total CFIs | PCs | Total Corporate |
|---|---|---|---|---|---|---|---|
| | | | 5.4 | 5.5 | 5.1 | 6.2, 6.3 | 1.4 |
| | *I* | *INCOME* | | | | | |
| | 3. | Gross trading profits/surpluses (+SA) | 28658 | −2680[1] | 25978 | 5585 | 31563 |
| 1.10 | 4. | Rent | 893 | 107 | (1000) | 351 | (1351) |
| | 6. | TOTAL DOMESTIC INCOME[2] | 29551 | −2573 | (26978) | (5936) | (32914) |
| | *II* | *EXPENDITURE at market prices* | | | | | |
| 1.7 left | 8. | GDFCF | 13139 | 3681 | 16820 | 5570 | 22390 |
| 1.7 right | 9. | Stocks: physical increase | 2231 | −27 | 2204 | 66 | 2270 |
| | 10. | TOTAL DOMESTIC EXPENDITURE[2] | 15370 | 3654 | 19024 | 5636 | 24660 |
| | *III* | *SAVING* | | | | | |
| | 11. | TDI (6 above) | 29551 | −2573 | 26978 | 5936 | 32914 |
| | 12. | Dividends and net interest etc | (−7013) | (7638) | (625) | (−2161) | (−1536) |
| | 13. | Taxes on income and other current internal transfers | (−3955) | (−985) | (−4940) | −68 | (−5008) |
| 1.7 top left | 18. | SAVING (+TR+Div R+D+SA) | 18583 | 4080 | (22663) | (3707) | (26370) |
| 1.7 | 19. | Capital transfers (net) | 323 | −193 | 130 | 493 | 623 |
| | 20. | *Funds available for investment* | (18906) | (3887) | (22793) | (4200) | (26993) |
| | *IV* | | | | | | |
| | 21. | GDFCF (8 above) | 13139 | 3681 | 16820 | 5570 | 22390 |
| 1.7 left | 22. | Stocks (increase in value) | 9134 | −27 | (9107) | 747 | (9854) |
| 1.7 right | 23. | Net acquisition of financial assets | −3367 | 233 | (−3134) | −2117 | (−5251) |
| | 24. | *Use of funds for investment* (=20 above) | (18906) | (3887) | (22793) | (4200) | (26993) |

1. This result arises because interest receipts are treated not as factor incomes but as transfers. The corresponding figure if interest were treated as income is 5129; that for other sectors would be correspondingly smaller. The adjustment is that shown for financial services in 1.9.
2. Corporate element.



It should be noted that line 23 (NAFA) is not a measure of liquidity, especially when a company's income derives partly from the profits of an overseas subsidiary which are reinvested for the purposes of the overseas company. It is possible to work out a more useful measure of ICCs' borrowing requirement (CW Pettigrew, 'Financial balances of industrial and commercial companies', *Economic Trends* December 1978); see notes on 5.3 below, and on Table 2M above.

**1.7 Summary capital account** This is a pair of tables which leads, for each sector, from the current balance, via saving and capital expenditure and transfers, to the financial balance, or net acquisition of financial assets (NAFA). The steps in the tables on page 10 and page 11 are set out below, with the latest year's figures for ICCs as an illustration. Abbreviations are used as follows:

D – depreciation
Div R – dividend and interest reserves
GDFCF – gross domestic fixed capital formation
NDFCF – net domestic fixed capital formation
SA – stock appreciation
TR – tax reserves

Saving (+D +SA) means saving before deduction of D and SA; saving (-D -SA) is *after* deduction.

*Table 5C* Two forms of summary capital account

ICCs – 1979 — £ million

| Step no. | Left-hand page | | Item in Table 1.7 | | Right-hand page |
|---|---|---|---|---|---|
| 1 | 17453 | | Balance from current or appropriation account | | |
| 2 | 1130 | | ~~account~~ + Div R + TR | | |
| 3 | 18583 | | Saving (+ Div R + TR + D + SA) | | 18583 |
| 4 | | | −SA | | − 6903 |
| 5 | | | −D | | − 9155 |
| 6 | | | Saving (+ Div R + TR − D − SA) | | 2525 |
| 7 | 323 | | Capital transfers (net) | | 323 |
| 8 | − 13139 | | *less:* GDFCF | −13139 | |
| 9 | | | *add back* D | 9155 | |
| 10 | | | NDFCF | | − 3984 |
| 11 | | − 2231 | Value of physical increase in stocks etc | | − 2231 |
| 12 | | − 6903 | SA | | |
| 13 | − 9134 | | Increase in book value of stocks etc | | |
| 14 | (− 3367) | | NAFA | | − 3367 |

The general concept of the left-hand page of 1.7 is that in the *current balance* (line 1 above) one sets aside (as savings *pro tem*) the amounts (line 2) which will have to be *paid* in a later year in respect of dividends, interest and taxes in respect of this year's operations. The total *saving* (3) has to finance not only new investment but also depreciation (or capital consumption and renewal) and the inflationary increase in stock values. *Capital transfers* (7) add to (or subtract from) the financial resources available for investment. The *fixed investment* paid for out of this total is the *gross* capital formation (8) (including D, which has been provided for in line 1). The investment in *stocks* is divided into *stock appreciation*, the replacement of stock by more expensive, or cheaper, stock (of a similar kind) (12), and the physical increase in *stocks* (11): the total of these two is the difference (13) between the book (or historic) value of the stock at the beginning and the end of the year – the change in the value of stocks. What remains after this domestic investment in capital formation is the amount (printed at the foot of the right-hand page) used for acquisition of *financial assets* (14)–short-term balances, longer-term portfolio and trade investments, and overseas investment by companies, etc.

This overseas investment by companies, etc, besides being the application of the funds they have available, is also an application of the UK's overseas surplus. It is thus a part of the "net investment abroad" (-1863, ie net disinvestment, in 1979) at the bottom of these two tables. The companies' investment *applies* part of that overseas surplus: there is thus less for debt repayment, rebuilding of reserves, etc: if the UK current account is in deficit, company overseas investment increases the need for private financial inflows or for official overseas financing.

On the right-hand page Table 1.7 starts with the total saving in hand (line 3 above), removes the amount (D) due for replacement of capital, and that applied to financing inflation in stock prices (SA) (5,4) and then charges the cost of the *net* investment in fixed capital (10), and the physical increase in stocks (11). The amount remaining is again NAFA (14).

The internal logic of the two tables compares as follows: (a) Both deduct SA (on which money has in fact been spent) – the right-hand page explicitly at step 4 (in the list above) and the left-hand page implicitly (see steps 11-13). (b) Both deduct D (on which again, money is statistically estimated to have been spent; this is not a financial depreciation *reserve*) – right-hand page explicitly (5), and left-hand page implicitly as part of GDFCF (which charges against savings both D and net capital formation).

The analysis on the left-hand page uses concepts familar from orthodox commercial accounting; the "alternative presentation" on the right uses the items of capital expenditure as they appear in 1.1, and may be found more useful for economic analysis.

In the middle of both pages of 1.7 is the *residual error* (-1435), already encountered in 1.2 as the unexplained difference between income and expenditure – negative (income exceeding expenditure) in 1979. (The error could equally well be put on the expenditure side, or shared between the two sides.) In the present context the logic is:

*Table 5D* Financial balances and residual errors, 1979

| | |
|---|---|
| Sum of NAFA for all UK sectors | – 428 |
| Residual error (unexplained income) | – 1435 |
| UK overseas surplus = net investment abroad, including overseas balancing item (– 2403): see Annex D. | – 1863 |

*Connecting tables:*

| | | |
|---|---|---|
| For each sector: | Current account | 1.3/4.1, 5.4, 5.5, 6.2, 7.2, 8.2 |
| | Capital account | 4.2, 5.4, 5.5, 6.3, 7.3, 8.3 |
| | Financial assets acquired or forms of borrowing | 13. 2–6, 7.4, 8.4 |
| | Capital formation: | fixed, Section 10 |
| | | stocks etc, Section 12 |
| | Stock of capital: | fixed, Section 11 |
| | | stocks etc, 12.4n |
| | Quarterly, and long runs | ET p58, ETAS p 156–165. |

**1.8 The composition of final output**

*Total final output* (TFO) is the market value of domestic production and imports – all output becoming available to meet final demands. It is equal to *total final expenditure* (TFE) which is incurred either at home (total domestic expenditure, TDE, 1.1) or for export. The figures for income and GDP in 1.2 and for GDP/TFE in 1.1 relate to 1.8 as follows:



*Table 5E* Final output and final expenditure, 1979

| 1.1 | 1.2 | | | 1.8 |
|---|---|---|---|---|
| | 113927 | Income from employment | | 113927 |
| | (59697) | Gross profits and other income (+ SA) | (59697) | |
| | 173624 | Total domestic income | | |
| | – 8542 | –SA | – 8542 | |
| | | Gross profits and other income (–SA) | | 51155 |
| | 165082 | GDP (at factor cost) | | |
| | – 1435 | Residual error | | – 1435 |
| 163647 | | GDP (E) (at factor cost) | | |
| 26055 | | Factor cost adjustment | | 26055 |
| 189702 | | GDP (E) (at market prices) | | |
| 54501 | | Imports of goods and services | | 54501 |
| 244203 | | TFE (MP) = TFO (MP) | | 244203 |

*Connecting tables:* Input/output tables for the United Kingdom, 1974 (Business Monitor ref PA 1004, 1981); Additional table 2 (ET October 1980).

**1.9 GDP by industry**

Each industry group contributes to the total of domestic output the added values shown. These are estimated from incomes (that is, costs) in each industry.

Interest on capital employed is treated not as a cost (reducing gross profits) but as a transfer. (*Sources and Methods,* p 1-2). But in this table the income of financial companies, etc. includes interest income, net of interest paid. The total of incomes/costs therefore has to be decreased by an interest adjustment. (In 5.5 and other sector tables, receipts of interest are excluded from profits.)

*Connecting tables:* 1.10, 3.1.

**1.10 GDP by sector and type of income and employment by sector**

The same total of GDP in 1.9 is now split by *sector of employment.* The personal sector includes self-employment and employment by unincorporated enterprises (eg general practitioners and solicitors), charities, etc. The income of persons from employment is allocated here to the sectors in which they work, in order to arrive at GDP arising from activity in each sector. The general notes on incomes apply (1.2 above).

*Connecting tables:* 1.10, 3.1.

**1.11 Index of GDP and gross national disposable income (GNDI)**

This table, and others listed below, gives indices and not absolute values or volumes of income/expenditure. They correspond to figures in the following tables (Figure 5a).

Changes in GNDI indicate how far changes in TDE (1.1) can be met out of disposable income without a change in the overseas balance; the GNDI index takes account of changes in the external terms of trade and in overseas investment income and transfers: see note in Blue Book, p106. GNDI is considered further on p 3-6 to 3-9.

*Connecting tables* (other indices): Section 2.2 to 2.6. ET, ETAS, additional tables (ET, October issues).

*Figure 5a* Indices and absolute figures in Blue Book

| | Index | Absolute figures | Further detail |
|---|---|---|---|
| *At factor cost* | | | |
| GDP(E) | 1.11 | 1.1 bottom | 1.1 bottom |
| GDP(I) | 1.11 | 1.2 | 1.9, 1.10 etc |
| *At constant factor cost* | | | |
| GDP(E) | 1.11, 2.2 | 2.1 | 2.1 |
| GDP(I) | 1.11 | nil | |
| GDP(O) | 1.11 | nil | 2.3 |
| GDP (average estimate) | 1.11 | nil | |
| GNP | 2.2 | 2.1 | |
| NNP | 2.2 | 2.1 | |
| *At constant market prices* | | | |
| GDP(E) | 1.11, 2.2 | 2.1 | 2.1 |
| GDP (average estimate) | 1.11 | nil | |
| GNP | 2.2 | 2.1 | |
| GNDI | 1.11 | | |

**1.12 Population and employment-mid-year estimates**

Numbers are shown for the total population, working population (ie those registered for employment), unemployment and thus the employed labour force, which is analysed by sector. Deduction of self-employed gives the number of employees in employment, which is analysed by industry.

*See* ET p14, 34-36, ETAS p45-47, 97-105 (including output *per capita* and per person employed).

## SECTION 2: EXPENDITURE AND OUTPUT AT CONSTANT PRICES

**Current and constant prices**

The first eleven tables in the Blue Book have recorded transactions at the price at which they took place. These tables are important in understanding the problems of corporations, individuals and public authorities in balancing, financing and planning their activities. If there were no inflation, these tables would be the only basis for analysing national income and expenditure. But for many economic and administrative purposes, with inflation not only significant but also variable (2.6), one needs to know not only the *value* of national production, consumption, etc., but also the *volume* and the *price* which together make up this value. Tables 2.1-4 give various indications of volume.

Some of these show the absolute amounts of production, etc., *revalued at a constant prices;* others are *indices* based on these absolute amounts. In the present Blue Book the revaluations are at 1975 prices (either market prices or factor cost); and the indices take the 1975 amounts as 100.

As an illustration we may take figures for GDP since 1973, a peak year in the economic cycle (Table 5F).

The tables in Section 2 of the Blue Book are concerned with prices paid *at home* (for domestic production and for imports), and with the corresponding volumes of goods and services. They do not show the volume of imports earned by a certain volume of exports: this is the "terms of trade", and it is affected by variations in foreign exchange rates and by price movements in international trade. For a country highly dependent on buying and



*Table 5F* Growth of GDP and volume and price changes, 1973–1979

| | *1973* | *1975* | *1979* |
|---|---|---|---|
| (a) GDP at factor cost (at current prices) In money terms, GDP has more than doubled (2.55 times as high – an increase of 155 per cent). | 64258 | 93954 | 163647 |
| (b) The index (based on 1975 but still at current prices) is: | 68.4 | 100 | 174.2 |
| (c) What we find in Table 2.1, *at factor cost,* is: | 95506 | 93954 (as above) | 102563 |
| (d) In 2.2 we find the movement of the index for series (c): | 101.7 | 100 | 109.2 |
| The rise in GDP (some 7 per cent in six years) is a completely different story from the +155 per cent in series (a) above. | | | |
| (e) The rise in *prices* is shown in Table 2.6. The first line gives the index of the price of GDP at factor cost: | 67.3 | 100 | 159.6 |
| The price index has, as indeed would be expected from (a) and (d) above, more than doubled from 1973 to 1979 (2.37 times as high – a rise of 137 per cent). | | | |

Note that the increase of 155 per cent in money terms does *not* equal 7 per cent (volume) +137 per cent (price). But 2.55 (the *proprtion* of 1979 to 1973 in money terms) does equal 1.074 (the volume proportion) x 2.37 (the price proportion). As a short cut the percentage increases can be added when they are *small.* But anything larger than 7 per cent +7 per cent will give a wrong result to the nearest 1 per cent; and anything over 2.2 per cent +2.2 per cent gives a wrong answer to the nearest 0.1 per cent. It may also be noted that to subtract a decrease of anything over 7 per cent from a total which has increased by the same percentage figure will lead to a wrong result–for instance, a 20 per cent decrease on 120 leads to 96, not to 100.

selling overseas, changes in the terms of trade are important for the real income, and the level of consumption that can be sustained over the years. Temporary changes can be financed, and indeed masked, by changes in reserves and liabilities. For a given rate of growth of GDP and a given overseas balance, an adverse movement in the terms of trade means that more of the national product goes overseas and less goes into real income at home. This may be welcome, if what has happended is that new export opportunities have been taken at the lower relative prices; it may be unwelcome, for instance if the adverse price movement has occurred in essential imports, or if export growth is held back by poor industrial performance. An improvement in the balance of trade (whether or not resulting from adverse terms of trade) means that less of GDP is consumed or invested at home: but if GDP itself follows exports in expanding, consumption and investment may rise rather than fall. See Chapter 3, on disposable income.

The terms of trade which are relevant here can be derived from 2.6 by dividing the export index (for goods and services) by the import index. (This differs in various ways from the index for the terms of visible trade published monthly in Economic Trends.) See references below.

The notes and table on p 106 of the Blue Book show the reasons for the differences between GDP and real national disposable income since 1969–that is, between production and the resources which can be used without a change in the overseas balance. Chapter 3 examines this more fully.

**2.1 Expenditure and output at 1975 prices**

*At 1975 market prices*

The top half of this table corresponds with the top half of 1.1 (which is at *current* market prices). Overseas trade in goods and in services is shown in addition.

*At 1975 factor cost*

The bottom half of 2.1 omits the analysis in 1.1 (expenditure at factor cost, consumption, capital, etc.).

*Index numbers* appear for GDP(E)FC (as in 1.11), for GNP(FC) and for national income (net national product at factor cost), all corresponding to absolute figures in 2.1 and (at current factor cost) in 1.1 bottom.
When using figures *before 1973*, refer to note on p 107 of the Blue Book.

*Connecting tables:*

ET p 6, ETAS p 5-8, 14-19.

**2.2 Index numbers of expenditure at 1975 prices**

A long run of figures is given for GDP and GNP at market prices and at factor cost. At market prices total final expenditure and its principal components are given, and also imports; at cost, capital consumption and NNP (national income) appear. See references above for 2.1.

**2.3 Index numbers of output at constant factor cost**

These indices show changes in the output of each industry group in real terms–or changes in value-added at constant costs and prices. The contributions to GDP are set out at *current* prices in 1.10 and 3.1. The indices, when weighted by the figures in the central column, add to the *'output' measure of GDP* in 1.12. (When using figures before 1973, refer to the note on p 107 of the Blue Book; this gives 1970 as well as 1975 weights.) Annex A below contains an elementary discussion of problems of weighting index numbers.

Tables 2.3-2.5 quote the "weights per 1000" which each industry has in total production (which may be either GDP or industrial production). *Weighting* is necessary in any index, in the same way as bread or meat prices are given more weight in the retail price index than the price of matches or soap. If the amounts bought (or sold, or produced) remain fairly constant over the years, weighting is a simple matter. Difficulties begin (see Annex A) where there are sharp changes in volume in some products and where new products come in (detergents, calculators, colour television) and old ones decline (candles, telegrams), and at the same time there are changes in *relative* prices.

Indices for the *combined* production, etc. of all goods will vary according to the weighting of the growing and declining products. The differences are less great when the expanding products become comparatively cheap (which for many years tended to be the case): when they also become relatively dearer the differences are strongly marked. This is explained in Annex A.
See ET p 26 and 28, ETAS p 80-86.

**2.4 Index numbers of industrial production at constant factor cost**

Table 2.3 gave broad figures for industrial production within GDP and in comparison with other production. Table 2.4 breaks down industrial production into individual manufacturing industries and others. (The total figures differ from 2.3 for the reason given in 2.4.) The weights of industries relate this time to the total of industrial production, not to GDP as in 2.3.



**2.5 Index numbers of industrial production at constant factor cost: Analysis by type of market**

Changes in three types of industry are distinguished–those producing for *consumption*, for *investment*, and *intermediate* goods. The industrial effects of change in the main types of expenditure shown in 2.1 can be seen; changes in investment expenditure affect not only investment goods industries but also *construction* (2.3). Changes in consumption and investment may also be directed towards *imports* (2.1n) as well as domestic production.

Weights relate to industrial production, not GDP.

See ET p 26, ETAS p 80-83.

**2.6 Implied index numbers of costs and prices**

These indices are all derived by dividing current-price series by constant-price equivalents–that is to say, they are *not* independent indices from which constant-price series have been derived. The methods are set out in *Sources and Methods* p 68-9 and 43.

Broadly, the nature of each index is as follows:

*Total home costs* (GDP at factor cost)

This is the GDP(E) series (1.1) divided by the constant-price series (2.1). The latter is made up of a variety of revaluations and the application of independently-derived price indices (eg the Retail Price Index, over the relevant part of consumption). The index of home costs is thus an average of other price changes, weighted so as to be relevant to the composition of GDP. See also ET p 6, ETAS p 5-8.

*Income from employment*

The figures for income from employment, at current factor cost, in 1.2 are divided by the index for GDP(I) at constant factor cost (2.2). (The latter series is GDP(I), in 1.2, divided by the home costs index, above.) The effect is that change in rates of wages and salaries and employers' contributions are allowed for, and also changes in productivity: hence the heading "Home costs per unit of output".

*Gross profits and other income*

Gross profits (-SA) are deflated as for income from employment.

*Implied deflators*

These similarly come from dividing the current by the constant price series.

*Imports, exports, and terms of trade:*

See ET p 44, ETAS p 119-121.

All these index numbers relate the expenditure in each year to the base year (1975). The weighting of the expenditure is therefore that which is relevant to the year for which the index is shown. Where there may have been substantial changes in the composition of the item, it is unsafe to deduce pure price changes between two other years (for instance, the balance of GDFCF has changed over the last 10 years as between construction of dwellings and roads, and installation of plant and machinery, and the relative prices may well have changed).

## SECTION 3: INDUSTRIAL INPUT AND OUTPUT

**3.1 GDP by industry and type of income**

This table divides output (at factor cost) by industry groups, as in 1.10: but in 3.1 stock appreciation is shown for each group, and deducted to give the contribution to total GDP. Within each industry group the costs are analysed by type of income.

For most groups, *income from employment* is broken down into wages and salaries and employers' contributions; there is additional detail about HM Forces and about teachers. *Self-employment* is merged with company profits (either alone or as part of "other trading income" or "other income"). (It appears on its own in 4.1, in three categories.) Corporate *trading profits* are generally combined with other forms of trading income: gross trading profits on their own appear in 5.4, 5.5 and 6.2, and for manufacturing industry (on a different basis) in 5.8. *Trading surpluses* of public enterprises are separated (but only in some groups). *Rent* appears for two groups. (For "ownership of dwellings", of the 9837 (for 1979), 6191 was rent of owner-occupied dwellings (4.4).) The *imputed charge for capital consumption* for general government (non-trading) services is split between defence, health and education; that for private non-trading bodies (1.3, 4.1) is part of "other income" for "other services". The gross profits for *Insurance, banking, finance, etc.* include net receipts of *interest;* as in 1.9 (see page 5-9 above) this requires an adjustment in the total at the foot of the page.

The summary for all industries is also a summary of the income/cost elements in GDP in the top part of 1.2. See page 2-7 on value-added and intermediate output.

A matrix of input and output by individual industries among themselves is published at intervals; the latest is *Input-Output tables for the United Kingdom, 1974* (Business Monitor PA 1004 1981).

**3.2 GDP by manufacturing industry**

For years to 1977, this table breaks down by individual manufacturing industry the contributions to GDP shown by industry group in 1.9 and in 3.1.

**3.3 Wages and salaries in manufacturing industry**

The total of wages and salaries for manufacturing in 3.1 is here divided by industry.

## SECTION 4: THE PERSONAL SECTOR

This section elaborates 1.3 and adds a capital account, shows income and expenditure accounts for sub-sectors, and provides a summary of income distribution, and details of consumers' expenditure.

**4.1 Income and expenditure account**

For the last 11 years the main headings of income in Table 1.3 are broken down into categories which are useful in studying practical economic problems and policies.

*Employers' contributions* are broken down into statutory contributions for national insurance, national health and redundancy and contributions to occupational pensions schemes. Employers' national insurance contributions are shown separately in 7.6. Although the employee will not recognise these contributions as his income, and never sees them in his pay packet, they are included for the reason given in the notes to 1.3 above. They are offset, along with the contributions by the employee (which he *is* conscious of, as a deduction from the pay packet) in the expenditure section of 1.3 and 4.1. (See alternative grouping of incomes in 4.4.) Employees do not contribute to the Redundancies Fund. Table 5G shows 1979 figures.

Income from *self-employment* includes, indistinguishably, the value of the own labour of the self-employed person as well as his profits. His NI contributions are shown in 7.6. Incomes of employees of unincorporated businesses (eg solicitors' clerks and farmworkers) are shown in 1.10.

*Rent* as a factor income, and thus an element in personal investment income, appears in 1.10. For 4.1 the imputed rent of owner-occupied dwellings (4.4) is here included in income (although the houseowner sees no money from occupying his own house); it is regarded as being spent on consumption of housing (4.6, under "rent, rates and water charges").



*Table 5G* National insurance contributions, 1979

| Blue Book Reference | | National Insurance | National Health (a) | Redundancy fund and Maturity Pay fund (a) | Total — National Insurance, etc. | Other (private pension schemes, etc.) | Total (employers[1] contributions) |
|---|---|---|---|---|---|---|---|
| 4.1, 7.2, 7.6 | Employers' contributions | 6225 | (517) | (212) | 6954 | 7298 | 14252 |
| 7.6 | Contributions by employees, etc. | 4131 | (364) | (–) | 4495 | | |
| 7.6 | Payments in lieu of graduated contribution | 89 | (–) | (–) | 89 | | |
| 4.1, 7.2 | Total contributions to national insurance, etc. | 10445 | 881 | 212 | 11538 | | |

(a) Given the nil entries, the bracketed entries can be deduced.

*Life assurance and superannuation schemes*

The funds of life assurance and superannuation schemes are treated as the property of the personal sector. The institutions associated with these funds are deemed to be investing them on behalf of the personal sector. It follows that income from these investments ('rent, dividends and interest receipts' in 4.5) is income of the personal sector ('receipts from life assurance and superannuation schemes' in 4.1), although individuals do not receive cash payments equal to the yearly income from the funds' investments. The cost of administering these schemes and transfers to shareholders ('administrative costs, etc' in 4.5) are part of consumers' expenditure.

Because these schemes are treated as belonging to the personal sector, employees' contributions and payments of pensions or proceeds of life assurance policies are transfers *within* the sector and so are not included in 4.1. For a diagram illustrating this treatment see *FS Explanatory handbook,* 1981, p 98. This is not the only possible way of treating these schemes–see 4.4 and *Sources and Methods* p 100-101.

The net increase (8969) in the amount available for investment on behalf of the personal sector by life assurance and superannuation schemes in 4.5 (the difference between income, employers' or employees' contributions and rent, dividend and interest receipts, and outgoing pensions and other benefits paid and administrative costs, etc.) and the surplus (351) of unfunded schemes (which are run mainly by the public sector) are included implicitly in personal saving and shown in 13.2 as increases in financial claims by the personal sector on life assurance and superannuation funds and the public sector, respectively. This table also shows, for the first time in the 1980 Edition, a summary capital account for life assurance and superannuation schemes which shows how the schemes invest their 'new money' in real property and the various types of financial assets.

*Personal saving.*

The total shown for saving (+D +SA -TR) relates to the parts of the personal sector as follows:

*Table 5H* Saving in personal sector, 1979

| | | |
|---|---|---|
| Households: balance (4.4) | 8519 | |
| Life assurance and superannuation funds (4.5): | | |
| Funded schemes | 8969 | |
| Unfunded | 351 | |
| Private non-profit-making bodies (by difference) | (239) | |
| Total personal sector (4.1) | 18078 | (cf 18348 in 4.1 note 3, before TR). |

Notes on other items in 1.3 (see page 5-2 above) may also be relevant; see also Chapter 3 (personal disposable income).

*Connecting tables:*

1.3 (summary 22-year run)
4.2 (capital account)
4.3 (income and savings ±D, ± SA)
4.4 (households)
4.5 (life assurance and superannuation)

ET p 10 and ETAS p 20-24 (personal income, personal disposable income and RPDI; saving; consumers' expenditure).

**4.2 Capital account**

The definition of *saving* used here (and in 4.1, 1.3 and the top left of Table 1.7) allows the account to include changes in the *value of stocks. Tax reserves* are treated as reducing the amount saved, but are added back to reflect the actual changes in financial assets, which are affected by tax *payments* and not tax *liabilities;* see page 5-21.

The capital *transfers* are grants to housing associations, universities, etc. (7.3). *GDFCF* shows the purchase or construction of new dwellings, and the net effect of purchases and sales (from and to other sectors) of land and existing buildings. The remaining capital formation relates to unincorporated businesses (farmers, etc.) and private non-profit-making bodies serving persons (including university building).

*Taxes on capital* are shown in detail in 9.7 (for the whole of the private sector). *Capital transfers* to *public corporations* relate to contributions to initial installations of capital equipment.

*NAFA* (shown for all sectors in 1.7) leads on to 13.3, where the detailed acquisition of personal financial assets is shown.

**4.3 Income and saving after providing for D and SA**

This shows income from self-employment, total personal income, and personal saving, on three bases (a) + D + SA, (b) + D - SA, (c) - D - SA; and saving also after providing for tax reserves. It is a table for reference when performing calculations on (a) a normal accounting basis, or (b) a 'gross' or (c) a 'net' economic basis.

**4.4 Income and expenditure of households**

This table gives an account for households as closely as possible in the way that individuals and families see their income and expenditure, but also consistently with national accounting classifications. Cash incomes from work and property are separated from grants, pensions and other benefits, and from imputed income and from income in kind.

The treatment differs from that in the personal account (4.1, and also 1.2) in showing receipts from superannuation funds and life assurance policies; likewise the expenditure side of the account shows payments to these funds (compare the treatment described on page 5-15 above). The relationship of the household balance to personal saving is shown in Table 5H.

Note that 'households' covers all persons considered as individuals. It goes beyond family households (see p 109 of Blue Book).



**4.5 Transactions leading to net acquisition of financial assets in life assurance and superannuation funds by the personal sector**

The general treatment of these assets is discussed in the notes to 4.1 above.

*Funded schemes* for superannuation are those where an employer and (normally) an employee make payments into a fund from which future pension liabilities are met.

Various types of scheme are described in *Sources and Methods,* p 126-7. Some *unfunded schemes* involve contributions from employees, but (as for 'pensions') the employer pays the future pension out of future income without setting up a fund: these are known as "notionally funded" schemes, the surplus of which (351) is shown in the bottom line of the 'Unfunded' section and is shown as a personal sector claim on the public sector in 13.2. For schemes arranged on a *non-contributory* basis (where pay has been fixed at a level below other comparable employment in order to allow for the absence of contributions), current expenditure on pensions is included in both 'pensions' and 'employers' contributions', leaving the surplus unaffected.

**4.6-4.7 Consumers' expenditure at current prices, and at constant prices**

Consumers' expenditure appears in 1.1, 1.3 and 4.1; it is the total of such expenditure by households and by non-profit-making bodies. It includes an item for expenditure abroad by UK residents, and a deduction is made for expenditure in the United Kingdom by foreign tourists, students and business-men. The detailed categories in the table relate to expenditure in the United Kingdom by UK and foreign consumers.

Notes on the various items are given in the Blue Book, p 111-2, which also gives totals for household and catering expenditure on food (catering being distinguished in the main table from household consumption of food).
Quarterly figures and long runs are in ET p 10 and ETAS p 20-32.

The purchase of *motor-cars* is treated as consumption, not personal investment; running costs appear as a separate group in the table, and this includes (in "Other") the cost of car insurance (premiums *less* claims).

The *insurance* expenditure quoted in the table excludes that for cars and the structure of dwellings (included with maintenance, etc. under "Housing"); it includes the costs of life assurance companies, etc. (*Sources and Methods* p 180-1), and of the insurers of house contents, etc.

The methods of arriving at *constant price* data are described in the Blue Book (p 106-7) and in *Sources and Methods* (p 153-201) at length.

**4.8 Taxes on expenditure and subsidies allocated to consumers' expenditure**

From this table one can see the amounts of tax raised from, and subsidies provided for, items of consumers' expenditure. The market price of these items is raised or lowered compared with the factor cost of the goods.

The net total of taxes less subsidies is part of the *"factor cost adjustment"* (1.1); the rest (taxes *less* subsidies on other types of expenditure) is shown in 9.5. Taxes on *imports* are given on p 105 of the Blue Book.

Duties on drink, tobacco, etc., and VAT, are shown separately in 7.2; a purchase may bear VAT as well as duty. (VAT and some of the other duties do not all fall on consumers' expenditure: 7.2 gives totals only, for each separate tax.)

**4.9 Distribution of income, before or after tax, in 1977/78**

Income in this table is household incomes in 4.4 but without deduction of mortgage interest, etc. (*Economic Trends,* May 1978, p 91.) For a number of income ranges, both before and after tax, the number of incomes ("tax units") is given for the tax year from 6 April 1977 and the totals of income before tax; and income after tax. Notes on sources, reconciliation and details of the unallocated incomes are given on p 113 of the Blue Book.

**SECTION 5: COMPANIES AND FINANCIAL INSTITUTIONS** (CFIs)

Summary table 1.4 related to the whole of the corporate sector; this now divides into Section 5 and Section 6 (Public Corporations–PCs). Tables 5.4–5.7 subdivide CFIs into industrial and commercial companies (ICCs) and financial companies and institutions (FCIs). Table 5B above summarises company income, saving and investment.

Section 5 does not contain trading or "production" accounts for companies. This is because of the lack of the necessary data. (It is however possible to construct one for PCs - see 6.1.)

**5.1 Appropriation account**

We start with *gross trading profits* after deduction of stock appreciation: this is broadly the total which is at present subject to tax, and is the amount by which profits add to the cost of GDP (1.2). Adding back SA gives a series (with a rather different shape in recent years) which is broadly comparable with trading profits in traditional corporate accounting. *Rent* (1.10) and *non-trading income* arising in the United Kingdom are distinguished from *income from abroad:* note that the latter may well be reinvested by overseas subsidiaries. In the bottom half of the table total income is allocated. It shows the various types of *dividend and interest* (at home or abroad), and the additions to *dividend reserves;* together these groups add to the dividends and interest *due* during the year. Notes to the table and on p 114 explain the systems of deducting tax before paying dividends.

Transfers to *charities* appear as an income item of the personal sector in 1.3 and 4.1.

*Profits due abroad* relate to the share of profits in companies wholly or partly owned by foreign companies. This item is additional to dividends and interest paid abroad, which are not shown separately.

UK taxes on income

As with dividends and interest, 'payments' (see below for meaning) and reserve additions make up the total set aside by the firm, in the knowledge of its probable liabilities, and this account thus shows the tax the firm regards as *accruing.* 'Payments' in this context are the amounts due to the Inland Revenue in the (calendar) year: accruals adjustments in the financial accounts reconcile these with the amounts of cash paid over (part of adjustments shown in 13.4, 13.6, 7.5). These differences include PAYE deductions overhanging the end of the calendar year: with a strong rise in earnings, even with tax reductions, the overhang tends to be greater on 31 December than a year before. A note on *tax credits* is on page 5-4 (j iv).
*See* ETAS, p166-171 (from 1955, quarters from 1962).

**5.2 Capital accounts**

The *undistributed income* from 5.1 is part of the corporate income in 1.4. Together with the dividend reserves previously deducted, it makes up the balance already discussed in the summary capital account (1.7), combining figures for ICCs and FCIs; similarly for the net acquisition of financial assets (NAFA), and the capital items on the left of 1.2.

The notes above to the left side of that table apply to the items in 5.2.

The capital transfers by companies to PCs relate to contributions to the capital cost of, for instance, connecting their premises to the electricity supply (*Sources and Methods,* p 214). The bottom parts of 5.4 and 5.5 give capital accounts for ICCs and FCIs; Tables 13.4-13.6 analyse the *financial assets* acquired to the type of company.

**5.3 Total income and saving after providing for D and SA**

This table shows the factor incomes *(gross trading profits and rent)* (a) before and (b) after deducting SA, and (c) after deducting SA and D; similarly for *total income.*

For *undistributed income* the same is shown, and also (d) with dividend and tax reserves also deducted. The latter basis (4819 for 1979) shows the amount available from internal funds for new investment of all kinds. Of course, undistributed income is only one of a number of items financing companies' operations–the others include (net) capital transfers and borrowing. For a more detailed analysis of the sources and uses of funds of *ICCs,* and an analysis of the implied level of borrowing–the so-called 'net borrowing requirement'–see FS 9.2, *FS Explanatory handbook,* and pages 5-7 and 5-38 of this Guide.

**5.4 Appropriation and capital accounts of ICCs**

The appropriation and capital accounts are similar to those for CFIs in 5.1 and 5.2, except that the balance is struck *before* charging dividend reserves; the *undistributed income* (-T-Div + Div R-TR + D + SA) corresponds with that at the top left of 1.7. On Saving and NAFA, see note on tax reserves of CFIs below; on *borrowing* see preceding paragraph.

See ETAS p172-176 (from 1960, quarters from 1965); capital p182-185, years and quarters from 1963, and ET p62; *Financial Statistics,* Section 9.

**5.5 Appropriation and capital accounts of FCIs**

The income arising in the United Kingdom is divided in a way which is consistent with the treatment of *interest* in the national accounts (*Sources and Methods*, pages 1-2).

The main income is from transfers (payments of interest, etc), and the negative figure for gross trading profits largely reflects the management expenses *less* specific charges for services.

The balance of undistributed income (-T-Div + Div R + D: see notes to 5.4 on TR and to 5.5 on SA) is comparable with that in 5.4 (but not directly with 5.1), and with that at the top left of 1.7. *NAFA,* at the foot of 5.5, is as in 1.7. Note that before 1977 FCI *tax reserves* were not separated from those of ICCs; the figures for Saving and NAFA therefore contain minor errors.

Page 115 of the Blue Book contains certain additional figures relating to dividends in 1973, when the imputation system of corporation tax was introduced.

*See* ETAS p177-181 (as above).

**5.6, 5.7 Income and saving of ICCs/FCIs, after providing for depreciation and stock appreciation**

These are parallel to 5.3, except that the last form in which undistributed profit is quoted is *before* deduction of dividend reserves.

**5.8 Trading profits by industry**

This table analyses by industry the gross and net trading profits of CFIs (up to 1978 only). The total of the gross figures are the *company* profits element in total domestic income (1.2), and thus, after deduction of SA, in GDP. The gross total corresponds with the third line of 5.1.

The industrial analysis of profits in Table 5.8 is derived mainly by the Inland Revenue from records of the taxable profits of companies, which differ in certain respects from the national accounts definition of profits. In particular, interest paid by industrial and commercial companies on advances from banks, etc, is deductible for tax purposes and does not form part of the tax-based profits estimates of these companies. In the national accounts definition these interest payments are deemed to be made out of profits and are included in the 'allocation of income' in the appropriation account. These differences in definition are reflected also in the profits of FCIs. For tax purposes interest received by FCIs is regarded as part of taxable profits; but the interest is not included in the national accounts definition of profits. These differences are reflected in the 'adjustment' rows of Table 5.8. Because of the differences the industrial analysis in Table 5.8 is not compatible with the industrial analysis in Tables 3.1 and 3.2.

Note also

(a) that much of agriculture, forestry and fishing in 3.1 has been excluded (not company activity);

(b) the enormous difference between the gross and net profits of "mining and quarrying", which represents statutory *depreciation allowances* (cf Blue Book, p 129) on North Sea oil and gas (these amounts are much larger than the *capital consumption* for petroleum and natural gas in 11.3).

## SECTION 6: PUBLIC CORPORATIONS

These are defined as the list on p 116 of the Blue Book. (In Public Expenditure White Papers, passenger transport executives and the Land Authority for Wales are included with local authorities, not as public corporations.) A summary *integrated account* is at Annex B.

### 6.1 Operating account

This is the only operating account for trading enterprises in the Blue Book, apart from LA housing (8.5): for companies and for CG and other LA services (eg London Transport) the sector accounts include only the balance of trading activities (as in the gross trading surplus at the end of 6.1, carried forward to 6.2). Against the total of revenue from sales (external and internal) and certain *subsidies* (p 117) are set:

(a) *wages, salaries, etc:* this is the "income from employment" in 1.10 which forms part of PCs' contribution to GDP;

(b) *purchases of goods and* (outside) *services* (*less* goods put to stock): these are purchases of the product of other sectors, not value added by PCs (see page 2-7 on value added, and intermediate output);

(c) taxes on expenditure: note the treatment of *local rates,* which applies generally in the national accounts – implicitly for companies, and explicitly for the personal sector as part of consumption at market prices (4.6 and 4.8 – "rent, rates and water charges");

(d) gross *trading surplus* and rent (+D – SA), which equals three items in 1.10 contributing to GDP: 1.2 has the same surplus gross of SA. Note that the figures net of depreciation (footnote to 6.1) are much smaller.

### 6.2 Appropriation account

This corresponds to 5.1 for companies, the other part of the corporate sector (1.4), and the figures combine to those totals. The *balance* enters the capital account (6.3), and appears in 1.8 top left. (*Dividend reserves* are allocated in 6.2 but not in the company tables 5.1, 5.4 and 5.5 – note 3 to Table 1.7 refers.)

### 6.3 Capital account

This corresponds to 5.2 for CFIs. The balance of 6.2, otherwise called "undistributed income" or "saving" (+D + SA – Div R – TR) (1.7), is carried in; notional reserves are removed (because the balance of this table is to be a financial one); capital transfers of various types are added (excluding write-offs in this year's Blue Book: see note on p 116). Capital expenditure items are deducted (including the change in *value* of stocks, as the balance of 6.2 includes SA). The balance is the *financial surplus* (negative in practice, -2117), equal to NAFA of -2117 in 6.4 and 1.7.

### 6.4 Financial transactions

Liabilities incurred are set against assets acquired, the balance (NAFA) being financed by the financial surplus in 6.3. Within this table the *borrowing requirement* of PCs can be seen as arising from the purchase of financial assets, less three minor items on the liabilities side, less the financial surplus (or plus the deficit). The five items adding to 'Total borrowing requirement' are the ways in which this is financed. Of these items, the first two are internal to the public sector, and so are excluded (footnote 2) from the PCs'



contribution to the borrowing requirement of the public sector as a whole (PSBR): they are included in the CG contribution of PCs.

The *accruals adjustment* relate to the differences between subsidies or taxes due, and the cash passing during the year: this is a timing adjustment.

Notes on p 117 of the Blue Book describe the *lending* items, and give background to other items in 6.4.

Table 13.7 shows financial transactions for the *public sector* as a whole, consolidating PC transactions with those for CG and LAs.

*References* are given in the *Guide to Public Sector Financial Information,* 1979 (HMSO), p 23, 24 and 80; and see *Financial Statistics,* Section 5.

## SECTION 7: CENTRAL GOVERNMENT INCLUDING NATIONAL INSURANCE FUND

### 7.1 Summary account

This table gives current, capital and financial items, current saving (+D + SA) and financial surplus ( = NAFA). Detail is shown in 7.2, 7.3 and 7.4 respectively.

### 7.2 Current account

This is the Government's own current account, put into a form as consistent as possible with that of other sectors (and international practice). It therefore differs substantially from other accounts prepared for control and planning, notably the Budget accounts. See *Sources and Methods,* Chapter IX, especially p 288-294; Table 16 of *Financial Statement and Budget Report, 1981-82,* and Cmnd 8175, p 231. See also Annex C below. The following notes supplement those on p 117 to 122 of the Blue Book.

Receipts

*Taxes on income.* The 'receipts' shown are consistent with actual deductions from personal incomes (note on p 118 of Blue Book). Accruals adjustments in 7.4 reconcile these with the cash received. The 'tax balances' are meanwhile held by the employer; see note on this and on 'tax credits' in the personal and corporate sector accounts, at (j) on pages 5-4 of this Guide.

Taxes and other internal transfers are summarised in Tables 5A and 5B above, and can be seen in more detail in Table 5I; see also 9.7.

Line 6 of Table 5I shows the division by sector (1.4, 5.1, 6.2) of the total *receipts* from taxes on income at the top left of 7.2. (The detail in the whole of 7.2 shows, within each economic category, the administrative types of tax and of expenditure.)

Line 8 shows the amount of *accruals* of tax on the two groups of companies in 5.4 and 5.5, and fills in the totals for the corporate sector and for the whole amount due to the government. (A current account on a full 'accruals basis' would employ this latter figure, partly offset in the capital account by a wider accruals adjustment.)

*Taxes on expenditure.* These are cash receipts, except for VAT and car tax (on purchase of cars), which are based on accruals: see notes on p 118 of the Blue Book. Note that the same goods may bear a duty as well as VAT (eg drink, tobacco and petrol). For drink and tobacco the duties in 7.2 may be roughly compared with the total taxes in 4.8 on similar goods. Petrol (part of hydrocarbon oils) cannot be compared because there is heavy industrial use of these products, and the taxes on them are included in the price of the final product. This table shows the royalties, etc. from seaward activities (North Sea oil and gas).

References for further detail on *all taxes* are on p 11-12 of the *Guide to Public Sector Financial Information* (PSFI) 1979.

*Table 5I* Taxes and cash benefits by sector 1979 £ million

(Payments –)

| | Personal | Corporate | | | | | Government | | |
|---|---|---|---|---|---|---|---|---|---|
| | | ICCs | FCIs | Total CFIs | PCs | Total | CG | LA | Total GG |
| Blue Book ref. | 1.3, 4.2 | 5.4 | 5.5 | 5.1 | 6.2 | 1.4 | 7.2 | 8.2 | 1.5, 9.1 |
| 1. Taxes on income and current internal transfers other than interest and dividends (Table 5A, line 13, Table 5B, line 13). | –10637 | –3955 | –985 | –4940 | –68 | –5008 | 5166 | 10479 | 15645 |
| *Elements of 1* (2 to 6): | | | | | | | | | |
| 2. Benefits and grants | 20968 | – | – | – | – | – | –20032 | –936 | –20968 |
| 3. Transfers from companies to charities | 45 | –40 | –5 | – 45 | – | – 45 | – | – | – |
| 4. Current grants from CG to LAs | – | – | – | – | – | – | –11415 | 11415 | – |
| 5. National insurance contributions [a] | –11538 | – | – | – | – | – | 11538 | – | 11538 |
| 6. Taxes on income: payments/receipts | –20112 (b) (c) | (–3915) | (–980) | (–4895) | –68 | –4963 (d) | 25075 (d) (e) | – | 25075 (d) (e) |
| 7. Additions to tax reserves (–) | –270 | –1130 | –257 | (–1387) | –19 | –1406 | (1676) | | (1676) |
| 8. Taxes on income due (accruals) (6 + 7) | (–20382) | –5045 | –1237 | –6282 | (–87) | (–6369) | (26751) | | (26751) |

(a) Including employers' contributions (see (e) on p(5 – 2)).
(b) Deductions from incomes: see page 5 –21.
(c) 21522 in 1.3/4.1 less 1410 tax credits (9.7) also included in corporate sector figures.
(d) Includes tax paid by non-residents (9.7).
(e) Cash received 586 less – see accruals adjustment in 7.4.

*National insurance contributions* are separated from the other contributions due from employers, employees, etc. Details are shown in 7.6 (10445 in 7.2 = 6225 + 4131 + 89). The *national health contribution* is a payment of employers and insured contributors, covering a small proportion of its cost (9.4 on p 64 of Blue Book). Contributions to the Redundancy Fund and Maternity Pay Fund are made by employers alongside national insurance contributions. The amounts are assembled in Table 5G.

The *gross trading surplus* relates to the bodies in the following list, which are treated as government trading bodies:

Forestry Commission/Forestry Enterprises
Export Credits Guarantee Department
Crown Estates Office
National Savings Bank Ordinary Fund
Land Commission



The gross trading surplus (–SA) and *rent* enter GDP (1.10, thence into 1.2). The treatment of trading deficits and of monopoly surpluses is explained in *Sources and Methods*, p 256-8. *References* to trading accounts of public bodies are given in *Guide to PSFI*, 1979, p 53-5, 89, 104 (N Ireland); and 27 (ECGD).

*Interest and dividends.* The LA and PC figures correspond to payments in 8.2 and 6.2.

The *imputed charge for consumption and non-trading capital* represents the imputed income of central government from owner-occupied non-trading property. It appears also as part of consumption on the opposite page, and is required in order to produce an appropriate measure of the total costs involved in providing government services. The figures are derived from the estimates of capital consumption.

Expenditure

*Consumption* is made up of current expenditure on goods and services and *capital consumption* (see note above, and p5-32 below). A functional analysis of the former is given.

The functional sub-division of current expenditure on goods and services (and of that of LAs in 8.2) is different in a number of ways from the analysis by programme and operating authority given in Public Expenditure White Papers (eg Table 1.3 of Cmnd. 8175). The main differences are that

a. programme totals include capital and loan expenditure;

b. certain receipts, etc. are treated differently;

c. the current element in programmes, where this is shown separately, includes transfers;

d. (i) the coverage of programmes may change somewhat from time to time (but the basis is consistent for all years in any White Paper), whereas

(ii) the functional division in the Blue Book is in principle held constant (but when functions are transferred to trading bodies or to PCs the figures for past years are not adjusted–see p 5-26).

A more detailed account of the differences is given in Part 5 of Cmnd. 8175.

*Subsidies* differ from grants in being made directly to producers' trading (production) accounts with the object of reducing prices. The relation between market prices and factor cost (FCA, 1.1) embodies the assumption that prices are in fact reduced: if nevertheless market prices were kept up at the pre-subsidy level, the factor cost could be swollen (regrettably but not misleadingly) by the fact that the producer had made extra profits or reduced losses out of the subsidy. Consumers' expenditure is the category of final expenditure mainly affected by subsidies.

*Current grants to the personal sector.* These comprise mainly social security benefits and grants to universities and colleges. Child benefits (and the family allowances which preceded them) are shown here, and also supplementary benefits. National insurance benefits are given in total only, but itemised in detail in 7.4.

Grants are also made by LAs (8.1, 8.2 and Table 5I above).

Details of *national insurance benefits* (11891) are given in 7.6.

*Current grants to LAs* appear in detail (as income) in 8.2.

*Current grants overseas* are net of receipts from the European Communities (the 554 of current inward transfers to CG in 1.6).

*Debt interest.* This item is gross (interest and dividend receipts are on the facing page). The figure is greater than that quoted (for financial years) in Public Expenditure White Papers on a net basis, ie interest payments regarded as being met from interest receipts, interest provisions from trading surpluses and rents are excluded. See Cmnd. 8175, para 20 on p 228 and Table 4.4; and FS 2.4 (which gives quarterly figures for the necessary adjustment). Debt interest paid abroad was:

*Table 5J* Central government: interest paid abroad, 1969—1979

| 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|---|---|---|---|
| 358 | 308 | 278 | 272 | 308 | 372 | 517 | 536 | 648 | 730 | 867 |

Other references: *Guide to PSFI, 1979* p 51-3; National Debt, p 8-9.

*References* on *CG expenditure,* on various bases, are in *Guide to PSFI,* 1979, p 14-17. The *current surplus* (+D + SA) appears in the capital account (7.3, 1.7). See also page 5-4 above.

**7.3 Capital account**

This corresponds to 4.2, 5.2 and 6.3 for the corporate sectors and to 8.3 for LAs. It takes in from 7.2 the CG *current surplus,* and the balance of 7.3 is the *financial surplus,* which balances with NAFA in 7.4.

*Taxes on capital* appear in 9.7 according to the paying sector, and by type of tax.

*GDFCF.* The functional divisions correspond to certain of the categories in 7.2 (and forming part of general government expenditure in 9.4).

*Stocks.* Figures for the value of the physical increase and for SA are in 12.4.

*Capital transfers* to the private sector appear also in 4.2, 5.2, 5.4, 5.5; to PCs in 6.3 and to LAs in 8.3. Write-offs are now excluded: see note on p 116 of the Blue Book.

**7.4 Financial account**

The balance of the transactions in financial liabilities and assets is the net acquisition of financial assets (NAFA), in which the financial surplus (7.3) has been invested. Within the table a large group of items (total 10396) shows how the CG's own *borrowing requirement* was financed; this total appears in the public sector account in 13.9 and the corresponding financing of the whole public sector in 13.10 (and FS 2.6). Note that the CGBR includes borrowing of sums on-lent to LAs and PCs as well as the CG's own operations. The CGBR is also regarded as the CG's contribution to the PSBR (FS 2.5). The CGBR is discussed in the article on measuring the PSBR in *Economic Trends,* August 1980, For detailed notes on 7.4 see Blue Book, pp 120-2. For further details of *overseas official financing* and the relationship with the PSBR, money supply and DCE, see FS 2.6, 7.3 and 7.4 and pp 2-11 to 2-15 above.

*References* to a wide range of publications on government finances are in *Guide to PSFI,* 1979, especially p 6-9, 17-18 and bibliography on p 56-105. See also *Financial Statistics,* Section 3.

**7.5 Current account of CG excluding National Insurance Fund**

This shows transactions *including those with the NIF.* The differences from 7.2 are that a small amount of interest and dividend receipts by the NIF from outside the CG are excluded, and CG interest payments and grants to NIF are included. Final consumption is lower by 437, the NIF's expenditure in 7.6.



*Reference: Guide to PSFI,* 1979, p 40.

**7.6 Current account of National Insurance Fund**

*Contributions* from employers and from insured persons, and payments in lieu of graduated contributions, add to 10445. The difference between this and the 11538 shown as contributions by the personal sector in 1.3, 4.1 and 4.5 is the 1093 shown for national health and redundancy fund, etc. contributions in 7.2.

*Interest* is earned on the funds held at any time, and invested with CG and outside.

*Goods and services:* see note on 7.5 above. The *current grants* are the various NI benefits to persons who are contributing or have contributed; supplementary benefits, child benefits, war pensions and some other benefits are non-contributory and are paid by DHSS direct; they are shown in 7.2.

For a general account of the system of social security payments, and references, see *Guide to PSFI,* 1979, p 4-42, 61, 76, 82-4.

## SECTION 8: LOCAL AUTHORITIES

**8.1 Summary account**

This table shows current, capital and financial items, current saving (+D; stocks and thus SA are treated as negligible) and financial surplus (= NAFA). Detail is shown in 8.1, 8.2 and 8.3 respectively.

**8.2 Current account**

Although the current account is broadly equivalent to the rate fund account operated by local authorities there are important differences. The current account includes certain income and expenditure of 'Special Funds' (which are separate from the rate fund). The charge for the use of capital represented by the 'imputed charge for capital consumption' has no real parallel in the rate fund. On the other hand the rate fund does have transactions of a capital nature which have no close parallel in the national accounts: 'revenue contributions to capital outlay', certain other expenditure of a capital nature, repayment of principal on loans and contributions to 'repairs and renewals funds'. Whereas trading and housing revenue account surpluses are remitted to the current account in national accounts, the surpluses generated by these activities may, in the local authorities' own accounts, find their way into increases in trading balances, revenue contribution to capital outlay or other flows. The trading surpluses in the local authorities' accounts will be less than on national accounts definitions, as debt charges (principal and interest) are charged to the local authority trading accounts whereas in national accounts the debt charges are excluded from the trading operating accounts and included in the current/capital accounts. Finally there is an important difference (apart from differences flowing from the points made above) between the current account 'surplus' and the rate fund 'increase in balances', although both represent the excess of income over expenditure. This is that, whereas the current surplus forms a capital receipt in the national accounts, in local authority accounts the rate fund balances remain a continuing asset of the rate fund. They will normally be lent to other accounts within the local authority or invested. Any loans made to the capital accounts from the rate fund balances are repayable. The only non-repayable flow direct from the rate fund to the capital account is the 'revenue contribution to capital outlay'.

Receipts

The detailed *grants from central government* include: (a) *specific grants* (which depend on the amount of local expenditure). These have been reduced in number, and the only major ones remaining are Police, Magistrates Courts, Probation and after-care, Commonwealth immigrants, Urban Programme, Improvement grants, Slum clearance (note that these are each composed of several separate grants). (b) *General grants*–Rate Support Grant, Transport Supplementary Grant, National Parks Supplementary Grant.

Grants are on a *payments* basis.

*Rates* are the total *due;* an accruals adjustment is in 8.4. All local rates are included in the national accounts as taxes on expenditure, bearing on consumers' expenditure on housing, and (for rates on industrial premises, etc.) as an element in the tax on the finished product: they thus enter into the difference (FCA) between GDP at factor cost and at market prices. Part of the Northern Ireland rates are paid over to central government (7.2) which now carries out certain functions which were previously locally controlled.

*Gross trading surplus:* excess of current receipts (including LA and CG subsidies) over current expenditure of trading bodies. The *imputed charge* differs from the method of charging for the use of capital in local authorities' own accounts (see above). It is consistent with the treatment of governmental and other non-trading bodies in the national accounts (see 7.2 above). A contra item appears under "final consumption" on the opposite page of the table.

Expenditure

The details of *current expenditure on goods and services* correspond to those in 9.4 (as part of public expenditure) and in 7.2 (where CG services correspond). A note on *transfers of services* (water, local health etc) and notes on details of expenditure are on p 122-4 of the Blue Book. LA *housing subsidies* are supplemented by CG subsidies (8.5).

*Current grants:* 90 per cent of the mandatory part of *awards to students* is paid out of CG grants received. *Rent rebates* are made to council tenants (8.5) and *rent allowances* to private tenants in the area (100 per cent CG grant; 75 per cent is received by LAs as CG grant).

*Debt interest* includes interest paid abroad:

*Table 5K* Local authorities: interest paid abroad, 1969–1979

| 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|---|---|---|---|
| 11 | 12 | 11 | 17 | 48 | 91 | 87 | 90 | 74 | 80 | 58 |

The *current surplus* is transferred to capital account (8.3 and top left of 1.7).

**8.3 Capital account**

This adds up to a (negative) financial surplus, financed by NAFA (8.4), which again is negative (ie there has been net borrowing). Certain *capital grants* are received from CG but the bulk of capital expenditure (eg school building) is financed by long-term borrowing, shown in 8.4.

*GDFCF:* This corresponds to items of public expenditure (by GG=CG+LA) in 9.4, and (for roads, etc.) by CG in 7.2.

*Transfer of services.* Note, in relation to the NHS figure, that the National Accounts practice is to record services within the group to which they belonged in the year in question: thus, local health services taken over by (CG) health authorities are excluded in recent years, and water expenditure is now largely excluded: p 122-3 of Blue Book gives details. (The practice in Public Expenditure White Papers is to give a run of comparable figures rather than record the historic groupings.)

*Capital grants.* Grants to public corporations are mainly to nationalised transport undertakings, and those to persons for house improvements, including thermal insulation.



**8.4 Local authorities: financial account**

The balance shows the net acquisition of financial assets (in practice a negative figure – ie liabilities incurred). This is equal to the financial deficit in 8.3. The most important element is the *borrowing requirement* of LAs; the main types of borrowing are shown. The footnote shows the relationship to the PSBR.

The other elements in NAFA are accruals adjustments (the differences between accounts due to and from LAs and the cash received or paid), unidentified items (conventionally included in the financial account), net lending, and short-term assets (the change in bank deposits, etc). See article on rebasing the PSBR in *Economic Trends* for August 1980.

*References* on LA accounts, etc: *Guide to PSFI,* 1979, p 22-3, 72-3, 81-2, 93-5 (Scotland), 100 (Wales), 102-4 (N Ireland); *Financial Statistics,* Section 4.

**8.5 Housing operating account**

This and 6.1 for PCs are the only "production accounts" in the Blue Book, showing revenue and expenditure for trading bodies. The surplus, or "rent" (before depreciation) enters GDP (1.10) alongside the LAs' gross trading surpluses from other services.

*Rent,* in a different sense of the word, is received from tenants of council property; if they cannot afford the normal rent they will receive a rent rebate. The General Rate Fund makes a payment to the Housing Account to compensate it for the total rebates given (419). Together with *subsidies* from CG and LA these enable a certain cost of service to be sold at a lower price (the rent to the tenant). (The tenant, after rent rebates have been applied, only pays 1530 of the total revenue cost of 3776.) The CG subsidies and the CG element of rent rebates are treated as being paid directly to the Housing account, not through the general LA account. The total cost of the service is made up of the management expenditure, repairs and the surplus balance ("rent", on the notional earnings on the capital employed). A footnote to 8.5 shows the financial charges met from this balance. It will be noted that the charges for past capital borrowed absorb practically the whole of the operating surplus in 8.5, and that the repayment element is small, being based on historic costs and a long notional life (normally 60 years). If one substitutes for these repayments (273) the capital consumption at current replacement costs (830, Table 11.9 – albeit a somewhat notional figure), we can get a closer idea of an economic rent for LA housing:

*Table 5L* Local authority housing — economic rent, 1979

| | |
|---|---|
| Supervision and management | 514 |
| Repairs | 783 |
| Other expenditure | 32 |
| Total expenditure in 8.5 | 1,329 |
| Debt interest (8.5 n) | 2,146 |
| Capital consumption (11.9) | 830 |
| Total cost | 4,305 |
| *Less* other income/rent (8.5) | – 131 |
| Economic rent on dwellings covered by housing account | 4,174 |

This compares with 1530 actually paid by tenants (8.5). Note that the *capital* cost of new housing (1747 in 1979) is shown in 8.3; the difference between this and the loan repayments (273) is a broad measure of the amount by which debt (CG or LA) in respect of housing increased during the year.

*References: Guide to PSFI,* 1979, p 31-4, 70-1, 97 (Scotland).

*Subsidies* from CG (notionally treated as direct to the housing account) enable a certain cost of service to be sold at a lower price (the rent to the tenant). (The tenant, after rent rebates, only pays 1530 of the total cost of 3776 in 8.5; and see above.)

The total cost of the service is made up of the *management* expenditure, *repairs*, and the surplus balance (the notional earnings on the capital employed). A footnote to 8.5 shows the financial charges met from this balance.

## SECTION 9: GENERAL GOVERNMENT

These tables consolidate those for the CG and LA sectors: not only are activities by both sectors included (sometimes under the same functional or economic heading–eg expenditure on roads; taxes on expenditure; interest payments) but the transactions between CG and LA are removed. (A general note on consolidation is on p 4-10). General government (GG) is thus a group concerned with administration and with trading and (predominantly) non-trading services to the private sector and to public corporations. The whole *public sector* consists of GG, and PCs including most GG trading services: see 13.7, 13.9 and 13.10. The gross trading surplus and the capital formation of GG trading services including the Forestry Commission/Forestry Enterprise are brought to account in 9.1.

### 9.1 Summary account

The total at the foot of the right-hand page is that which is analysed at length in 9.4. The left-hand page of 9.1 is concerned with the financing of this expenditure by taxation of all kinds, trading surpluses and borrowing. The top section, current receipts, assembles and consolidates figures in 7.1/7.2 and 8.1/8.2. The second section brings in the *current surpluses or deficits*, taxes on capital (7.3), and strikes a *financial surplus/deficit* (net of capital expenditure) which is balanced by the net acquisition of financial assets in the third section. In the third section on the left, the *GG borrowing requirement* emerges after lending has been taken into account.

The combined account at the bottom of the left-hand page is the sum of all receipts including borrowing (omitting the intermediate balances); that on the right-hand pages show total expenditure (including and excluding debt interest and non-trading capital consumption). The account can be summarised thus:

*Table 5M* Summary of general government account

| | Receipts | | Expenditure |
|---|---|---|---|
| Current | 74295 | | 74493 |
| Capital | 1111 | | 7140 |
| | 75406 | | 81633 |
| GG financial deficit | | −6227 | |
| Financial, apart from borrowing | − 2628 | | 3273 |
| | 72778 | | 84906 |
| GG borrowing requirement | | 12128 | |

*Expenditure* by GG, as defined for the Blue Book, comes fairly close to the Treasury definition of *"public expenditure on programmes"* (see p 231 of Cmnd. 8175 and Table 16 of *Financial Statement and Budget Report, 1981-82)*. Starting from GG expenditure on the national accounts basis, excluding debt interest, the adjustments are:

i. to include, for certain of the smaller public corporations including passenger transport executives, capital expenditure instead of capital grants and loans to them;

ii. to net off fines and fees in Scottish and magistrates' courts;



iii. to deduct the imputed value included in the national income accounts for capital consumption;

iv. to deduct, for 1975-76, lending by the Bank of England in respect of refinanced shipbuilding and export credits;

v. to deduct stock appreciation;

vi. to add back the income from the special sales of assets offset in general government expenditure;

vii. to reclassify certain interest support costs as subsidies;

viii. to add LA rate fund contributions to special funds;

ix. to adjust all definitions and classifications (eg the functions of authorities) to those now current, instead of those current at each past date.

At present the *"planning total"* of public expenditure includes nationalised industries' net overseas and market borrowing, special sales of assets, the contingency reserve, and (in future years) is net of an allowance for shortfall (Cmnd. 8175, Table 1.1 and p 225-6). See p 5-20 above on nationalised industries; ET p 56 and ETAS p 151-3 for quarterly figures and long runs of GG expenditure; and *Financial Statistics,* Section 2.

Current and capital expenditure is grouped in the economic categories used throughout the Blue Book, and a current surplus struck. These divisions are used in macro-economic forecasting and planning, rather than in the planning and control of public expenditure; in particular the definitions of debt interest vary (Cmnd. 8175, p 228).

### 9.2, 9.3 Total expenditure on goods and services at current and at 1975 prices

The main services (defence, health, education) using goods and services for current purposes are separated out from the total (31654 = 19094 CG + 12560 LA in 9.1). Non-trading capital consumption (depreciation) is added, and the *consumption* of these three services, and of the rest, is shown. Adding single figures for expenditure on fixed capital formation and the physical increase in stocks gives the total use of (or expenditure on) goods and services. The expenditure on each service in the shape of GDFCF and stocks can be picked out in 9.4 at current prices; the figures at 1975 prices are not published.

*GG final consumption* at current prices (38316 in 9.2) enters the main table of national expenditure in 1.1; at constant prices (24334, 9.3) it enters 2.1.

### 9.4 Analysis of total expenditure

This is the main table on general government expenditure. It gives, for 29 functional groups, the expenditure at current prices in each of the economic categories and in total, excluding debt interest and capital consumption; and at the end the total for each economic category including the two excluded from the functional analysis.

Notes on references in *Guide to Public Sector Financial Information, etc:*

Constant and current prices: totals for past periods, and those currently planned (at constant survey prices)–p 4-5, 9-10 of PSFI; see especially Public Expenditure White Papers for plans and actuals at survey prices. Figures for previous and current financial years and for one forecast year, showing adjustments from Blue Book basis to White Paper basis, are in Table 16 of the *Financial Statement and Budget Report, 1981-82,* March 1981 (HMSO) and Table 2.4 of *Financial Statistics.*

Cash limits: p 5-6, 59

Defence: p 25-6, 65, 84

Overseas aid: p 26-7, 58

Export credit, investment insurance: p 27-8, 62, 89, 90

Assistance to industry: p 28-9, 71, 89

Employment, etc: p 30, 72, 73

Housing: p 31-4, 70-1

Education p 34-7, 63, 85

Health and personal social services: p 37-40, 61, 75

Social security, national insurance: p 40-2, 61, 76, 82-5

England, Scotland, Wales, N Ireland: p 42-4, 70

Regional: p 82

International comparisons: p 46-8, 79 (OECD)

Debt interest: p 51-3; Cmnd. 8175 Table 4.4 and p 202-3 and 228

Parliamentary committees: p 64, 79

Local authorities: p 69, 72-3, 81-2

Oil: p 76, 89

Estimates: p 86-8, 91

**9.5 Taxes on expenditure and subsidies: allocation by type of expenditure**

For consumers' expenditure the taxes and subsidies are given gross; for GG consumption, GDFCF and exports a net figure appears.

*Taxes and subsidies* on consumers' expenditure (17148, 3014) are shown in detail by type of consumption (4.8) (and for GG and LA respectively in 7.2 and 8.2, by type of tax and object of subsidy).

The net figure for each of the main classes of expenditure breaks down the *factor cost adjustment* (FCA) so that expenditure at market prices can be derived from that at factor cost and vice versa (FC = MP – FCA): these figures are the difference between those in the top and bottom halves of 1.1 (at 1975 prices the FCA is shown in 2.1 as 12349 but without breakdown).

Indirect taxes and subsidies at constant prices have meaning only in the context of the factor cost adjustment at constant prices. The estimates are compiled in some detail but the detailed results are unlikely to have general interest.

**9.6 Analysis of current expenditure on goods and services** (CEGS)

This table takes the functional groups used in 9.4 and breaks down CEGS into *wages and salaries* (including employers' NI contributions); SET or NI surcharge when relevant; and a net figure for *other payments.* It also gives these elements of CEGS for CG (22314 in 7.2) and for LAs (14642 in 8.2).

A footnote to 9.6 gives *total wages and salaries* paid by public authorities including those from CG/LA trading and capital expenditure (not including those of outside contractors) and the total financed from grants.

Another footnote shows the element of HM Forces in "wages, salaries, etc".

Expenditure on *goods* is a large element of "other payments"; and the total is net of charges for services.



**9.7 Taxes on income, national insurance contributions and taxes on capital: Allocation by sector, type of income, and property**

The total of taxes on income and NI contributions (36613) is subdivided to show, at the top of the table, *taxes on income* paid by the personal sector (including those on grants – see p 126 of Blue Book), by CFIs (for ICCs and FCIs see 5.1 above) and by PCs. The deduction of *tax credits* avoids double-counting (page 5-4, (j) iv). The taxes paid on *non-resident* earnings appear in the appropriate account for CFIs (5.2), not in the overseas table. (Similarly, income from abroad is included in the national accounts net of foreign taxes.)

## SECTION 10: GROSS DOMESTIC FIXED CAPITAL FORMATION (GDFCF)

In this section there are discontinuities and *adjustments* in certain years explained in detail on p 126-129 of the Blue Book.
A note on the concept of fixed and other capital in the national accounts can be found on pages 4-12 to 4-14 above.

**10.1, 10.2 GDFCF at current, and at 1975, prices by broad sector and type of asset.**

The totals in the main Tables 1.1 and 2.1 (33646 and 20506 at current and at 1975 prices) are broken down into private sector (ie personal + companies and financial institutions), GG and PCs, and each into four types of asset forming the fixed investment.

Note that investment in *buildings* is divided between new construction, etc. of dwellings and of other new buildings, works, etc. and net purchases (by those in one sector from those in another) of land and existing dwellings. The latter net out, apart from the fees, duties, etc. included as "transfer costs" at the foot of p 76 in 10.8 (the 1333 is also the net total of the "net purchases" in 10.3, fifth group). (Purchases and sales by non-residents are separately recorded as inward investment/disinvestment; the transfer costs are included with GDFCF as described above.)

See also ET p 16, ETAS p48-55.

**10.3 GDFCF by type of asset and sector**

This is a regrouping and expansion of 10.1, separating the net purchases of land and existing buildings (see above under 10.1/10.2), and showing each sector used generally in the Blue Book (including trading and non-trading activities of CG/LAs). Net purchases of land and existing buildings are shown separately from investment in new buildings for each sector.

It should be noted that in the national accounts, expenditure on assets is classified according to the sector *owning* the asset. This causes complications in the treatment of capital expenditure of financial leasing companies. Expenditure on assets required under finance leasing arrangements is allocated in Table 10.3 to financial companies and institutions. All the tables in Section 10 are on an ownership basis as far as possible and all (except Tables 10.4 and 10.5) are therefore affected by this treatment of financial leasing. The only Blue Book table not affected is the supplementary table on page 128 which is the only table prepared on a *user* basis. (See the Blue Book explanatory notes on pages 128 and 129 for a further discussion of this point. A general note on finance leasing is also given in *Financial Statistics Explanatory handbook* 1981, pages 89 and 90.)

**10.4, 10.5 GDFCF at current, and at 1975 prices, by type of asset**

For the whole economy, the category 'vehicles, ships and aircraft' in 10.1-10.3 is broken down into five groups; other types of asset as in sub-totals in 10.3.

**10.6, 10.7 GDFCF at current, and at 1975, prices by industry group**

The industry groups are broadly those in 1.10, 2.2 and 3.1; a comparison can thus be made in several cases between movements in investment, output and employment and profit incomes.

Note the steep growth of North Sea investment (the bulk of "petroleum and natural gas") and compare the *net* investment figures in 11.7/11.8, and the gross and net *profit* figures commented on in notes to 5.8 (page 5-20 above).

It must be remembered that GDFCF is classified to industry on the basis of the ownership of assets. Assets *leased* by financial companies for use by manufacturing industry are *not* included in the figures for GDFCF by manufacturing but appear in the estimates for other service industries, despite the fact that they will contribute to manufacturing output and profits.

**10.8 GDFCF by industry and type of asset**

For three broad types of asset (vehicles, ships and aircraft; plant and machinery; new buildings and works) the investment by over 50 industries or services is shown, at current market prices. For *manufacturing industry*, many groups correspond with the output, wage/salary and profit figures in 3.2, 3.3 and 5.8 respectively. The *services* are grouped by industry, not by public and private sectors (for instance, "health services" includes investment in private hospitals, etc).

See notes on *leasing* above, to 10.3 and 10.6/10.7.

**SECTION 11: STOCK OF FIXED CAPITAL**

This section of the Blue Book has been developed in recent years, and the somewhat difficult concepts employed are not all explained in the notes nor in *Sources and Methods*.

The fullest description is in articles by Tom Griffin in *Economic Trends* October 1975 and (especially) October 1976. The following notes draw on those articles (and update them).

The CSO calculates *gross capital stock* for each industry by applying material from firms' accounts and certain assumptions on length of life of assets, in a *'perpetual inventory' (Sources and Methods,* p 384).

(a) For each type of asset a working life is assumed and checked so far as possible from separate surveys (Griffin, 1976, p 137-9).

(b) At the end of the *assumed* life the asset is entered as being "retired".

(c) The original investment (the GDFCF in respect of that asset) is revalued to 1975 replacement costs.

(d) These elements of investment are summed for all years up to the point where they are retired; for some types of asset this may be over a very long period (120 years for some types of building). But it may be short (5 years for some plant and machinery). *(Cars* continue to be allocated to the sector/industry of first purchase throughout their assumed lives of 10 years. Their lives are relatively short compared with those of other capital assets, so the effects of resale (typically by companies to persons) on the various estimates is small.)

(e) The sum of each type of investment for each industry can then be grouped for the whole economy by type, by industry and by sector, to give the gross capital stock.

(f) *Gross capital stock* (Griffin, 1976, p 132) is a measure of the total value of the productive fixed assets. It is now regarded as the best indicator of *productive potential* - that is of potential GDP: but capital can usually be utilised at levels of intensiveness above the normal for short periods (albeit with disproportionately large labour inputs).

(g) *Capital consumption* is the replacement value of capital used up in current production/service. For each asset type it is the total value of gross capital stock divided by the length of life assumed. (Linear depreciation or using-up of capital over various assumed life lengths is thus assumed.) This is a measure of the *capital used up in production* in that year, and (subject to other assumptions about productivity, efficient, use, etc) is an alternative indicator of *output potential* (Griffin, 1976, p 133). See further notes on depreciation below.



(h) GDFCF *less* capital consumption gives *net domestic fixed capital formation;* these amounts, summed at constant prices over the lives of the existing assets, give the net capital stock.

(i) *Net capital stock* (Griffin, 1976, p 132, 133) is less good than gross stock as an indicator of current output potential, though when the outlook goes beyond the medium term (5 years or so) net stock indicates the total future output potential (of the *present* stock). It is also (p 135, 136) a useful indicator of written-down replacement cost of the fixed assets in the business, and is useful in calculating the return on capital and profitability (though with a reservation on land transactions).

(j) All the above results are at 1975 replacement costs. Revaluation to *current replacement costs* is performed as necessary for earlier and later years.

The concept of *depreciation* is the same as that of *capital consumption* ((g) above). But values estimated for capital consumption can differ from depreciation calculated by companies in their commercial accounts because (i) they are prepared at either constant (1975) or current replacement cost rather than at historic prices, and (ii) because an attempt is made to write off assets over their full economic service lives, rather than over a shorter period to secure taxation benefits as soon as possible. An individual firm tends to assume, in its accounting and costing, a shorter life than they the assets have in practice, and often much shorter (Griffin, 1976, p 135, 137-9). (Note that the figures in 5.3 for "depreciation" for companies, etc. are *not* from company accounts; the word is in fact used in the Blue Book interchangeably with "capital consumption" on the definition in (g) above.)

*Depreciation allowances* are another thing again. They are the amounts allowed against profits for *tax* purposes. They may be varied for reasons of public policy (eg to encourage investment during a recession), and they are not at all closely related to capital consumption or even to "conventional" depreciation. The table on p 129 of the Blue Book gives allowances of various types, and those to various groups. For companies the figure for 1979 is 14792 (with the qualification in the footnote to the table); Table 5.3 gives "depreciation" as 9854. Developments of various forms of commercial *current cost accounting* may well result in depreciation figures closer to the figures for capital consumption in the Blue Book (Griffin, 1976, p 136). See SSAP 16 (Accounting Standards Committee, Institute of Chartered Accountants in England and Wales, Moorgate Place, EC2).

**11.1, 11.2 Retirements at current, and at 1975 prices by industry group**

The *industry groups* in these and the next four tables combine certain of the groups shown in the GDP/output tables (1.10, 2.2, 3.1), but separate "petroleum and natural gas" from "mining and quarrying".

*Retirements* are the assets which reach the end of their assumed working life in the year in question: see (d) above, and 11.5, 11.6.

**11.3, 11.4 Capital consumption at current, and at 1975, prices by industry group**

*Capital consumption* (at constant prices) is defined at (g) above, and its use as an indicator of output potential is explained. 11.4 is revalued at current prices to give 11.3.

The relationship of *capital consumption* (depreciation) to *retirements* can be seen in a simplified example taken from Griffin, 1975, p 127:

Broadly, when gross capital formation is steady, retirements equal capital consumption. When investment is growing, few assets are old enough to retire but they are nevertheless being used and consumed, so capital consumption (as in recent years - compare 11.3 and 11.1) exceeds retirements. If there were a long-term decline in gross investment (at constant prices), retirements could exceed capital consumption.

*Table 5N* Capital expenditure for ten years. Mean life 5 years (example only)

£ million

| Year | Gross capital formation | Retirements | Gross stock (end-year) | Capital con-sumption | Net capital formation | Net stock (end-year) |
|---|---|---|---|---|---|---|
| 1 | 10 | — | 10 | 2 | 8 | 8 |
| 2 | 10 | — | 20 | 4 | 6 | 14 |
| 3 | 10 | — | 30 | 6 | 4 | 18 |
| 4 | 10 | — | 40 | 8 | 2 | 20 |
| 5 | 10 | — | 50 | 10 | — | 20 |
| 6 | 10 | 10 | 50 | 10 | — | 20 |
| 7 | 10 | 10 | 50 | 10 | — | 20 |
| 8 | 10 | 10 | 50 | 10 | — | 20 |
| 9 | 10 | 10 | 50 | 10 | — | 20 |
| 10 | 10 | 10 | 50 | 10 | — | 20 |
| 11 | — | 10 | 40 | 8 | −8 | 12 |
| 12 | — | 10 | 30 | 6 | −6 | 6 |
| 13 | — | 10 | 20 | 4 | −4 | 2 |
| 14 | — | 10 | 10 | 2 | −2 | — |
| 15 | — | 10 | — | — | — | — |

The table above also shows the relationship of retirements (11.1, 11.2), GDFCF (Section 10) and *gross capital stock* (11.12 to 14), and of capital consumption (11.3, 11.4) with *net capital* formation (11.7, 8, 10) and net *capital stock* (11.11).

**11.5, 11.6 GDFCF less retirements at current, and at 1975, prices by industry group**

11.6 gives the addition to *gross capital stock* in the year; in 11.5 this is revalued at current prices. (The quantities in 11.5 are different from the changes in the current values of gross capital stock, since that would involve revaluing the whole of the continuing stock as well as the year's new investment. There is no table showing this in the Blue Book, though 11.11 shows *net* capital stock at current replacement cost.)

At 1975 prices the 1979 change in gross capital was:

*Table 5O* Change in gross capital stock, 1979 — £ billion at 1975 prices

| Table | | Change in 1979 | Stock of fixed capital |
|---|---|---|---|
| 11.12, 11.13 | Gross capital stock, end—1978 | | 514.9 |
| 10.5, 10.7 | GDFCF | 20.5 | |
| 10.5 | *less* Transfer costs | −0.7 | |
| 11.2 | *less* Retirements, 1979 | −6.8 | |
| 11.6 | GDFCF *less* retirements (and costs) | | 13.0 |
| 11.12, 11.13 | Gross capital stock, end—1979 | | 527.9 |

**11.7, 11.8 Net domestic capital formation at current, and at 1975, prices by industry group**

Estimates of net domestic fixed capital formation reveal, over a long period of years, the increases in productive potential available from the stock of fixed assets (including dwellings)–see (i) on page 5-33.

At 1975 prices the 1979 change in net capital stock can be (indirectly) found, on Table 5P.

**11.9 Capital consumption at current replacement cost by sector**

These are the totals in 11.3 divided by sector, showing dwellings and other fixed assets.

**11.10 Net domestic capital formation at current prices**

This table (at current prices) divides the totals in 11.7 as in 11.9. The figures for *dwellings,* in the personal sector and for local authorities, are an indicator of long-term trends in the net growth of the services available from the stock of housing, in contrast with the gross figures in 10.3. The figures for *other fixed assets* for each sector can usefully be studied together with the capital consumption in 11.9 on the opposite page.



*Table 5P* Stock of net capital, 1979 — £ billion at 1975 prices

| Table | | Change in year | Net stock |
|---|---|---|---|
| 1.11 | Net capital stock, 1975, at current (= 1975) prices | | 332.6 |
| 11.8 | NDFCF, 1976 | 9.1 | |
| 11.8 | NDFCF, 1977 | 8.0 | |
| | NDFCF, 1978 | 8.2 | |
| | | | 25.3 |
| — | Net capital stock, 1978 | | 357.9 |
| 11.8 | NDFCF, 1979 | | 7.5 |
| — | Net capital stock, 1979 | | 365.4 |

**11.11 Net capital stock at current replacement cost by sector and type of asset**

Net capital stock reflects the unused services that remain in existing assets. These estimates are to be preferred to gross capital stock for calculation of financial rates of return, and for evaluating values of capital assets for use in sector balance sheets. It is part of a sector balance sheet. There is no table at 1975 replacement cost, but see notes (above) to 11.8 for the method of deriving a UK total.

**11.12 Gross capital stock at 1975 replacement cost by industry**

Gross capital stock is the best available of potential growth in GDP–see (f) above on page 5-32. The table shows industries in some detail, and broad comparisons can be made with 2.3 and 2.4 (index numbers of output), with GDFCF in 10.8 and with profits in 5.8.

**11.13 Gross capital stock at 1975 replacement cost by type of asset**

The corresponding GDFCF figures are in 10.5.

**11.14 Gross capital stock at 1975 replacement cost — analysis by asset for manufacturing, construction, distribution and other services**

This shows the disposition of various types of asset in a number of industries. Broadly corresponding output indices are in 2.4 (distributive trades, etc in 2.3).

**SECTION 12: CAPITAL FORMATION IN STOCKS AND WORK IN PROGRESS**

This section includes estimates of changes in the book value of stocks and the value of physical change in stocks. A change in the *book value* of stocks reflects changes in both the volume of stock held and the price at which that stock is valued. In the national accounts, these two components are separated into the value of *physical change* in stocks (contributing to the expenditure measure of GDP and to final expenditure) and *stock appreciation,* which represents the change in the value of stock arising from price changes, and which is included in the estimation of *gross trading profits.*

The starting point in estimating stock changes is generally the book value of stocks, which is provided by individual firms from their own accounts. The valuation of stocks varies between firms who employ different accounting practices, but in the national accounts it is assumed that (i) stock is valued at the lower of historic (ie purchase) and current replacement cost, and (ii) the 'first in, first out' (FIFO) convention is followed, ie the oldest stock is always used first.

This means that when prices are rising, stock is valued at a lower price than its current cost. This difference in value depends on how long stocks are held before they are used (the stockbuilding period), which may vary considerably between types of stock.

Ideally, the physical change in stocks at current replacement cost during a year should be measured by recording the value of every stock transaction within the year. This information does not, of course, exist in practice, and so an approximation to this physical change is made using the book values of stock at the start and end of the year. These two values are each revalued to the average replacement cost within the period, and the difference between the revalued levels is taken to be the physical change in stocks at current replacement prices.

The difference between this change and the book value change is defined to be stock appreciation, which therefore reflects both changes in the replacement cost during the year and the difference between historic and current costs. A fuller description of the calculations involved is given on p 405 of *Sources and Methods*.

**12.1 Increases in the book value by industry**

Increases in the book value of the stocks of each firm or organisation entering the statistical sample are taken from the annual accounts, and thus depend to some extent on the conventions used in that body's own accounting.

For industry groups and for certain services the table shows the change in the *value* of stocks in each year, and the (absolute) value of stocks at end-1979. For six groups of *manufacturing* industries three *types of stocks* are distinguished: materials and fuel; work in progress and finished goods, "finished", that is, in the eyes of that particular manufacturer. Retail and wholesale distribution are also distinguished and (within wholesaling) a group of dealers in coal, industrial materials and machinery. The remaining group, "wholesale distributors", includes mainly stocks which will at the next stage pass to retail distribution or export. CG stocks are shown (but forestry and the Royal Ordnance Factories enter the industrial group); LA stocks are thought to be small enough to be ignored.

*Stock appreciation* is shown as a single row to reconcile the total changes in book value with the total physical changes at current prices. It is divided by *sector* in 12.4. The total figure of the *value of physical increase* appears at the foot; this appears as part of national expenditure in 1.1 and (by sector) in 12.4; 12.2 gives a breakdown by industry, etc.

A note to 12.1 deals with stock value changes at the introduction of VAT (1 April 1973); 12.4n divides this by sectors. Notes on p 130-1 explain adjustments made for various years to figures in 12.1 itself. See also ET p22, ETAS p 66-68.

**12.2, 12.3 Value of the physical increase at constant, and at 1975, prices by industry**

For the industries, etc. in 12.1 the total physical increase in stocks is shown on both price bases. The end-1979 stock is shown in 12.3 at 1975 prices (12.1 gives it at current prices). For 1973 12.2 and 12.3 are not comparable (see 12.2n). See also ET p 22, ETAS p 69-73.

**12.4 Capital formation in stocks and work in progress by sector**

For each sector the physical increase, SA and the increase in value appear; the note at the start of this section of the Guide explains the relationship between those three quantities (2760 + 8542 = 11302). 2760 appears in 1.1; (-) 8542 in 1.2; 11302 at the bottom of the left-hand page of 1.7, the summary of the sector capital sector accounts, and its sector elements in 4.2, 5.4, 5.5, 6.3 and 7.3 respectively.

The book value of the *total stock* of each sector at end-1979 appears as a footnote; another gives the sector analysis for changes on the introduction of VAT in 1973.



## SECTION 13: FINANCIAL ACCOUNTS

These tables show how each sector has invested its savings, or else has raised cash for its current and capital activities. They expand the financial accounts given in 5.4, 5.5, 6.4, 7.4, 8.4 and 9.1. They link the national income and expenditure accounts to the data in *Financial Statistics* (and are consistent with the September issue). The discussion of the accounts in *Financial Statistics: Explanatory handbook* (April 1981 edition, HMSO) will be found helpful, especially (at this point) pages 10 to 15.

**13.1 Net acquisition of financial assets: summary analysis by sector**

This introductory table summarises, for the standard six sectors, *saving* (+D + SA + Div R + TR), and the *capital transactions* leading to *NAFA*. It is a regrouping of 1.7 (the left-hand page excluding the top sections), and gives a summary of private, public and overseas sector balance and of the residual error. Note that the saving or undistributed income in the individual sector tables has to be adjusted as follows, and that there is a qualification on pre-1977 company figures.

| | | |
|---|---|---|
| 4.2 | Personal | Add TR |
| 5.4 | ICCs | Add TR |
| 5.5 | FCIs | Add TR (from 1977) |
| 6.3 | PCs | Add Div R and TR |

Financial accounts for the three public sectors appear also in 6.4 (PCs), 7.4 (CG, in detail) and 8.4 (LAs). In the remaining tables of Section 13 these are consolidated into one *public sector* in order to remove the internal financing between them and allow the impact on other sectors to be seen more clearly.

The accounts for FCIs are split between a banking sector and other financial institutions (OFIs), which in 13.2 are further split to show operations of life assurance and superannuation funds on behalf of the personal sector–see page 5-15 above.

**13.2 Transactions in financial assets: analysis by sector and type of asset, 1979**

The transition in 13.1 from saving to NAFA is outlined in the summary capital account (1.7). The financial transactions account balancing this in 13.2 shows both the types of financial asset used (or type of borrowing undertaken), and the balance across all the sectors for each type of asset.

The most liquid, or most marketable, assets are generally shown at the top of each group of items. The first group (not printed as such) relates to CG liabilities, the next to LAs, then banking and other financial sector liabilities, followed by bank lending (except to general government). (CG bank borrowing is included in the banks column against the various CG items higher in the table; LA bank borrowing is included in the banks column against the various LA items.) Groups of commercial and financial items follow, and finally official and commercial overseas lending and borrowing, the accruals adjustments (differences between certain amounts due and the flow of cash–eg the tax reserves mentioned page 5-18 above; see also note on accruals adjustment on p 132 of Blue Book); and the residual of unidentified items for each sector, including the overseas sector (Annex D refers). A note to the table explains their relationship to the residual error in the national income accounts.

Note that the *signs* in the table differ as between the capital and the financial transactions sections: investment is shown as – and + respectively, as a consequence of providing a balanced table. A table with consistent signs would add up to zero (or to the unidentified residual or to some chosen item excluded from the addition): this is sometimes an advantage but these tables use the convention appropriate for double-entry balances.

**Tables 13.3-8 Transactions in financial assets: personal sector; ICCs; banking sector; OFIs; public sector; overseas sector**

These use the same items (with quite minor variations) to show, for each sector, the various financial transactions over the years.

This is not the only form in which financial tables are required, and other types are provided or may be constructed by regrouping, using more detailed data from *Financial Statistics* where necessary. Tables 13.9 and 13.10 are of a different form, concentrating on *borrowing requirements.* The reader will find helpful the full explanation and discussion of the public sector borrowing requirement (and the statistical and organisational background to it) in *Economic Trends* for August 1980. For ICCs see also ET p 62, ETAS p 186-7.

Table 13.8, the financial account of the overseas sector with the United Kingdom, is the obverse of the UK's account with the rest of the world in the 'balance of payments'; the total (1863 for NAFA) corresponds to the figure of -1863 in 1.6 for the UK's net investment abroad (its current balance), set out in FS 11.1-11.4 and in the Pink Book on the UK balance of payments. Note that *overseas investment* by UK firms (and by foreign firms in the United Kingdom) is conventionally included as 'financial', even though this is expenditure on fixed assets owned and perhaps managed by the parent firm: and that the amount of that investment includes unremitted profits, deemed to be current income which is then reinvested. (An alternative approach to the financial accounts of ICCs to that in 13.4 is in FS 9.2, second page of table, and the problem is discussed in an article by CWPettigrew in *Economic Trends* for December 1978.)

**13.9 Public sector financial account**

The starting point is the *financial deficit* of general government (9.1, second page, residual of first two sections) and of public corporations (13.1, 6.3). Various forms of net lending and investment are then added which are part of public expenditure or similar transactions that need to be financed.

The receipts which follow, down to the *PSBR* line, comprise transactions which are essentially financial but which are closely linked to the operational activity of the sector, together with accruals adjustments and unidentified. The first two items of receipts, transactions concerning certain public sector pension schemes and accruals adjustments, are explained in notes on p 120 and 132. Unidentified receipts are made up as follows:

*Table 5Q* Unidentified receipts, public sector, 1979 £ million

| | | | |
|---|---|---|---|
| PCs | ( 6.4) | 179 | |
| LAs | ( 8.4) | −207 | |
| CG | | −151 | (by residual) |
| Public Sector | (13.9) | −537 | |

The CG 'unidentified' is part of the item 'miscellaneous financial receipts (net) and changes in cash balances' in 7.4.

The total balance is the *PSBR,* which is important to the government as well as to the markets through which it must be financed since in so far as it is financed by borrowing from the banking system it is a counterpart to the monetary aggregates (for the supply of money and for domestic credit expansion: FS 2.6 and 7.3). The PSBR can be broken down into each public sector's net borrowing from the private sector and overseas – that is the total borrowing requirement of each public sector *less* the amount financed by loans from the CG (Table 5R). These sums are described as "contributions to PSBR". They do not, however, give a picture of the relative overspending of the three public sectors, because PC and LA borrowing requirements are diminished, and that of the CG is increased, by the internal lending to them by the CG. The "own account" borrowing requirement of each of these sectors also adds to the PSBR.

A general article on the PSBR, with analysis for 1979-80, appears in *Economic Progress Report* for October 1980 (available from COI, Hercules Road, London SE1 7DU). A fuller article on the measurement of the PSBR is in *Economic Trends* for August 1980.



*Table 5R* Borrowing requirements, public sector, 1979

| Contributions to PSBR | | | CG loans, etc. | | 'Own account' borrowing requirement | |
|---|---|---|---|---|---|---|
| CG | 10,396 | (7.4, 13.9) | −3836 | (7.4) | 6560 | (not shown) |
| LA | 1,732 | (13.9) | +555 | (8.4) | 2287 | (8.4) |
| PC | 436 | (13.9) | +3281 | (6.4) | 3717 | (6.4) |
| PSBR | 12,564 | (13.9, 13.10) | – | | 12564 | |

The following table brings together the various sources for figures of financial deficits and the items linking them to CG, LA, GG, PC, and public sector borrowing requirements.

*Table 5S* Relation of NAFA to borrowing requirements, 1979

| | CG | LAs | GG | PCs | Public sector |
|---|---|---|---|---|---|
| 1 *Financial deficit* (= – NAFA) | 4033 | 2194 | 6227 | 2117 | 8344 |
| 2 Net lending, etc: | | | | | |
| a CG to LAs | 555 | −555 | | | |
| b CG to PCs | (3281) | | (3281) | (−3281) | |
| c Other | (−308) | (300) | (−8) | (440) | 432 |
| 3 Miscellaneous and unidentified | (2835) | −207 | (2628) | (1160) | (3788) |
| 4 *Contributions to GGBR and PSBR* | 10396 (CGBR) | 1732 | 12128 (GGBR) | 436 | 12564 (PSBR) |
| 5 Add back counterparts of 2a and 2b | | 555 | | 3281 | |
| 6 *Borrowing requirement of LAs and PCs* | | 2287 (LABR) | | 3717 (PCBR) | |

Sources for Table 5S

| | CG | LAs | GG | PCs | PS |
|---|---|---|---|---|---|
| 1 (signs reversed) | 7.1, 13.1 | 8.1, 13.1 | 9.1 | 6.4, 13.1 | 13.9 |
| 2 a | 7.4 | 8.4 | – | – | – |
| b | 7.4 | | 9.4 | 6.4 | |
| c | 7.4 | 8.4 | – | 6.4 | 13.9 |
| 3 | (7.4) | (8.4) | (9.1) | (6.4) | (13.9) |
| 4 | 13.9 | 13.9 | 9.1 | 13.9 | 13.9 |
| 5 = 2 a and b | | | | | |
| 6 | | 8.4 | | 6.4 | 13.9 |

See also *Financial Statement and Budget Report* 1981-82, Tables 8 and 12, for financial years and budgetary changes, and *Financial Statistics* for further analysis.

**13.10 Financing of the PSBR**

The first section of this table shows the ways in which the non-bank sector (persons, and companies other than banks) provided money to meet the PSBR – in other words, invested in various forms of government securities (and in notes and coin which can be regarded as liabilities of the CG). The securities are mostly but not all marketable, and may or may not bear a formal government guarantee.

The second section shows the money provided by the banks. An increase in bank lending to the public sector tends to increase bank deposits and thus the money supply (because the money lent to the public sector is quickly spent in the private sector or, exceptionally, remains temporarily in public sector bank deposits). This lending may partly be deliberate investment by the banks but in the last resort bank lending to the CG is automatic since the discount houses, which are part of the banking sector, guarantee to cover the Treasury bill tender each week, which assures the government of an automatic source of residual finance.

Bank lending to CG has an additional tendency to increase the money supply since by increasing the banks' holdings of reserve assets (Treasury bills, etc.) it enables them to lend more to other sectors as well. If the CG borrows £10 million by Treasury Bills, for instance, and spends this 10, the money will either be banked in the United Kingdom (increasing bank deposits by 10) or will go abroad. Leaving aside the latter possibility, the banks' balance sheets would then show +10 liquid assets balanced by +10 deposits. The banks have been able to acquire this additional asset without selling long-term securities or calling in bank advances (which would mop up money in the hands of the public) because the asset counts as part of their liquid reserves in the same way as a cash holding does; provided all the banks buy more Treasury Bills, their deposits rise in parallel and their cash is not depleted. (Not only this, but in the absence of special restraining measures they can expand their advances to customers, and hence the money supply, on the increased reserve base.) It is therefore a matter of great concern to avoid large borrowing by CG from the banks.

The third section of the table shows the finance received from the overseas sectors together with transactions in the official reserves of gold and foreign currencies. Note that this item is an asset, whereas most other items in the table are liabilities, and that -1059 in the table (with a negative sign) reflects an increase in the reserves. Conversely a decrease in the reserves would be shown with a positive sign. (When the reserves are used to finance an external deficit the CG receives an inflow of sterling from the sale of the foreign currency reserve assets, which helps to finance the PSBR. The reserves are generated in the first instance by borrowing in foreign currency by the CG, or by LAs or PCs under the exchange cover scheme, or by CG borrowing in sterling which may be subsequently used to buy foreign currency. Those borrowings are already shown elsewhere in the table. Any of them not in fact absorbed by an increase in the reserves remains to finance the PSBR.)

Foreign currency borrowing may be at the instance of the government, because foreign exchange for the reserve is short, or for reasons of commercial advantage when sterling rates are more expensive. Transactions in the reserves, and the foreign currency borrowing in support of them, are termed 'official financing' in the balance of payments accounts (eg in FS 11.4). The total finance raised in foreign currency is broader than the total of official financing. The relationship is explained in the notes to FS 2.6 in the *Explanatory handbook* to FS (April 1981) and in the diagram on page 33 of the handbook.

The formal relationship between the PSBR and the monetary aggregates is:

*Table 5T* PSBR, DCE and money supply

(1979 figures as in June 1981 *Financial Statistics*)

| | | | | |
|---|---|---|---|---|
| 1 | PSBR | 12593 | FS 7.3 | col 1 |
| 2 | *less* Sales of debt to non-banks | 10912 | | col 6 |
| 3 | Bank lending to private sector | 8585 | | col 9 |
| 4 | Bank lending overseas | −11 | | col 10 |
| 5 | Domestic credit expansion (DCE) | 10255 | | col 11 |
| 6 | *less* External and foreign currency finance | −2822 | | col 12 |
| 7 | *less* Non-deposit liabilities [(a)] | − 818 | | col 19 |
| 8 | Change in money stock (£M3) | 6615 | | col 20 |

(a) Share holders' capital reserves, etc., *less* investment in non-monetary assets; see also *Explanatory handbook to Financial Statistics,* 1981, p 55.

The notes to Section 7 of the *Explanatory handbook* to FS give the background to this relationship; see also *Bank of England Quarterly Bulletin,* March 1977, p 39.



**Annex A**

# Index numbers and the problem of weighting

On page 5-12 we referred to difficulties which arise from changes in the composition of output. The object of an output index is to give a careful and fair indication of the change from year to year in the volume of total output (or in one type of output); the associated price index or deflator should give a summary indication of relevant price changes consistent with the output index and with the totals of GDP at current prices. We take a simple imaginary price/volume situation, but the problem is more general, and arises on indices relevant to expenditure or sales, and to incomes.

2. Consider the output of two products, A which is large and declining, and B which is small and expanding. In the United Kingdom this could be coal and North Sea oil, or heavy engineering and computers. Suppose that they made up the whole of the economy or group being studied, and that the figures at each end of a ten-year period are:

*Table 1* Quantity assumptions

| Product | Year 0 ($q_0$) | Year 10 ($q_{10}$) | (Index) |
|---|---|---|---|
| A | 120 | 60 | (0.5) |
| B | 1 | 8 | (8.0) |

The volume index for A on its own is obviously 0.5 in year 10 (on the base of 1.0 in year 0); for B it is 8. If one wants to give an index of total volume of output, how are these two combined?

Coal is measured in tons, oil (let us say) in barrels, and computers in some standard unit which remains unchanged over the period. Clearly the value of one unit is likely to be very different, and there is no question of taking a simple average of 0.5 and 8. The standard method is to take the price per unit as the *weight* attached to the volumes in each year. Multiplication of each volume by a *constant* price gives the *value* at this constant price; the proportion which this constant price value in year 10 bears to that in the base year is the *volume index* (at constant prices).

The question, in a period of changing prices, is whether to take as weights the various prices in the base year (0) or in the current year (10 in our example, but in practice this means the prices in *each* current year shown in the table).

The *base-weighted volume index* multiplies each element of volume $q_0$ by the price in the base year $p_0$, and does the same for $q_{10}$. The index is thus denoted as the sum of these values in year 10 as a proportion of year 0:

$$\left\{ \frac{\sum q_{10} p_0}{\sum q_0 \; p_0} \right\}$$

The currently-weighted volume index uses $p_{10}$ instead of $p_0$ : $\dfrac{\sum q_{10} \, p_{10}}{\sum q_0 \; p_{10}}$ •

We take three price assumptions for years 0 and 10:

*Table 2* Price assumptions

| Assumption | Product | Year 0 ($p_0$) | Year 10 ($p_{10}$) |
|---|---|---|---|
| I (constant) | A | 10 | 10 |
| | B | 30 | 30 |
| II (compensating for volume changes) | A | 10 | 20 |
| | B | 30 | 20 |
| III (reinforcing price changes, but some general inflation also) | A | 10 | 15 |
| | B | 30 | 100 |

The value (qp) of output, on these three price assumptions, is:

*Table 3* Value of output

| Assumption | Product | Year 0 $q_0 p_0$ | Year 10 $q_{10} p_{10}$ | Index of value $\frac{q_{10} p_{10}}{q_0 p_0}$ |
|---|---|---|---|---|
| I | A | 120 x 10 = 1200 | 60 x 10 = 600 | |
| | B | 1 x 30 = 30 | 8 x 30 = 240 | |
| | A + B | 1230 | 840 | 0.68 |
| II | A | | 60 x 20 = 1200 | |
| | B | | 8 x 20 = 160 | |
| | A + B | 1230 | 1360 | 1.11 |
| III | A | | 60 x 15 = 900 | |
| | B | | 8 x 100 = 800 | |
| | A + B | 1230 | 1700 | 1.38 |

Weighting the quantities by the *base prices* gives:

*Table 4* Base-weighted volume

| Assumption | Product | Year 0 $q_0 p_0$ | Year 10 $q_{10} p_0$ | Index $\frac{q_{10} p_0}{q_0 p_0}$ |
|---|---|---|---|---|
| I–III (all base prices) | A | 120 x 10 = 1200 | 60 x 10 = 600 | |
| | B | 1 x 30 = 30 | 8 x 30 = 240 | |
| | A + B | 1230 | 840 | 0.68 |

We thus have *value* and *volume* indices as follows: by division they imply a combined *price deflator,* shown in the last column:

*Table 5* Indices with volume base-weighted

| Assumption | Value index $\frac{q_{10} p_{10}}{q_0 p_0}$ | Volume index $\frac{q_{10} p_0}{q_0 p_0}$ | Implied price deflator (value/volume) |
|---|---|---|---|
| I | 0.68 | 0.68 | 1.00 |
| II | 1.11 | 0.68 | 1.63 |
| III | 1.38 | 0.68 | 2.02 |

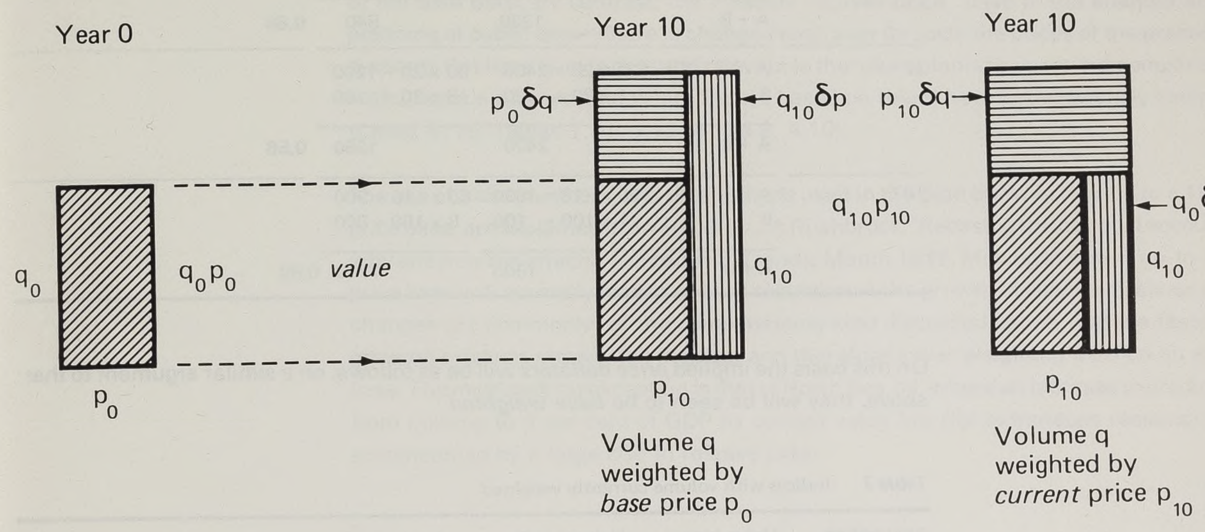


Under each assumption the implied price deflator is derived as

$$\frac{q_{10} p_{10}}{q_0 p_0} \div \frac{q_{10} p_0}{q_0 p_0}\text{, which reduces to, } \frac{q_{10} p_{10}}{q_{10} p_0}\text{: the weighting of p is by } q_{10},$$

the *current* volume.

This can be seen geometrically also:




The middle block shows the change in value from year 0 to year 10. Removing horizontally shaded $p_0\delta q$ (a base-weighted volume change) leaves the vertically shaded $q_{10}\delta p$ (a currently-weighted price change); similarly for the reverse case in the right-hand block.

For a base-weighted volume index, therefore, the price deflator has to be currently-weighted. This means that, strictly, only year 10 and year 0 can be compared in a table of year 0-10. If one wants the deflator from year 5 to year 10, for instance, dividing the year 10 index by that for year 5 gives:

$$\frac{q_{10} p_{10}}{q_{10} p_0} \div \frac{q_5 p_5}{q_5 p_0} \text{ which bears no simple relation to the measure } \frac{q_{10} p_{10}}{q_{10} p_5}\text{, and}$$

may be misleading as a pure measure of price changes if the changes in the patterns of prices and volume over the period are large.

On the other hand, the base-weighted volume index can be used for cross-comparisons of any years on the same price base. For year 5 to year 10, division of the two indices gives:

$$\frac{q_{10} p_0}{q_0 p_0} \div \frac{q_5 p_0}{q_0 p_0}\text{, which is, } \frac{q_{10} p_0}{q_5 p_0} \text{ the volume change required.}$$

We turn now to currently-weighted volume indices. Tables 6 and 7 correspond to 4 and 5 for the base-weighted index.

*Table 6* Volume currently weighted

| Assumption | Product | Year 0 ($q_0 p_{10}$) | Year 10 ($q_{10} p_{10}$) | Index $\frac{(q_{10} p_{10})}{(q_0 p_{10})}$ |
|---|---|---|---|---|
| I | A | 120 x 10 = 1200 | 60 x 10 = 600 | |
| | B | 1 x 30 = 30 | 8 x 30 = 240 | |
| | A + B | 1230 | 840 | 0.68 |
| II | A | 120 x 20 = 2400 | 60 x 20 = 1200 | |
| | B | 1 x 20 = 20 | 8 x 20 = 160 | |
| | A + B | 2420 | 1360 | 0.56 |
| III | A | 120 x 15 = 1800 | 60 x 15 = 900 | |
| | B | 1 x 100 = 100 | 8 x 100 = 800 | |
| | A + B | 1900 | 1700 | 0.89 |

On this basis the implied *price deflators* will be as follows; on a similar argument to that above, they will be seen to be *base-weighted.*

*Table 7* Indices with volume currently weighted

| Assumption | Value index $\frac{(q_{10} p_{10})}{(q_0 p_0)}$ | Volume index $\frac{(q_{10} p_{10})}{(q_0 p_{10})}$ | Implied price $\frac{(q_0 p_{10})}{(q_0 p_0)}$ |
|---|---|---|---|
| I | 0.68 | 0.68 | 1.00 |
| II | 1.11 | 0.56 | 1.97 |
| III | 1.38 | 0.89 | 1.54 |

Summing up, the volume indices and implied price deflators are, on these imaginary figures,

*Table 8* Summary

| Assumption | Volume indices: Base-weighted | Volume indices: Currently weighted |
|---|---|---|
| I (constant prices) | 0.68 | 0.68 |
| II (compensating prices) | 0.68 | 0.56 |
| III (reinforcing, with some general inflation) | 0.68 | 0.89 |

| | Price deflators: Currently weighted | Price deflators: Base-weighted |
|---|---|---|
| I | 1.00 | 1.00 |
| II | 1.63 | 1.97 |
| III | 2.02 | 1.54 |

The simple assumptions chosen for these tables exaggerate the differences in a developed economy because of the variety of other changes taking place. But it can be seen that the currently-weighted volume index gives, as expected, more weight to an expanding industry whose price has been rising (third line of table, 0.89 compared with the base-weighted volume index of 0.68); the currently-weighted price index (incompatible with that volume index) gives more weight to the price rise where the



volume has expanded (sixth line, 2.02 compared with 1.54). Care is needed when large changes like those in oil prices and domestic oil and gas production have taken place.

The constant-price figures in the Blue Book are chain-linked *base-weighted* volumes, the price base being up-dated (a major exercise) every few years; the bases being 1948, 1954, 1963, 1970 and the present base, 1975. This gives a good degree of continuity from year to year of issue, and from year to year in each table with the qualifications noted on p 106 of the Blue Book. By contrast, the Treasury "survey price" used in the analysis and planning of public expenditure is changed each year (broadly the prices of the preceding autumn); this base is up to date and relevant to the future planning years, but comparisons with previous surveys (and White Papers based on them) have to be specially computed (Cmnd 8175, Tables 1.11, 1.12, 4.7, 4.8, 4.10).

The use of index numbers, and the methods used in the Blue Book, in moving to a 1975 price base, are explained in an article by J A Rushbrook, 'Rebasing the national accounts-why and how the effects', in *Economic Trends,* March 1978. Moving to a more up-to-date price base will normally lead to a slight reduction in the growth of volume, because price changes are commonly of the compensating kind discussed above, and the fastest-growing products show a fall in price, and therefore lower weighting than on an earlier base. The most striking exception is that of North Sea oil, where an increase in production from nothing to 3 per cent of GDP by current value has (for extraneous reasons) been accompanied by a large *rise* in relative price.

# A summary integrated account–PCs

The following account is a recasting of Tables 6.1-6.4 to show the various levels of balance and the connection with national income and expenditure. Those quantities forming part of national income are in **bold roman type;** those which contribute final expenditure (at market price or at factor cost) are in ***bold italics***. (We write X for the VAT on sales by PCs.)

In the *production account* the wages, salaries and trading surplus are incomes of those working in the corporations (and of the corporation itself), and are part of national income. The sales (at market price and at factor cost) are part of national expenditure; since the sales may include some exports, they are related in the table to total final expenditure (=total domestic expenditure + exports).

In the *capital account* the expenditure on GDFCF and on the physical increase in stocks is part of national expenditure (again, part of TFE, of which GDFCF and stock increases form part).

It may appear confusing that the current expenditure of PCs (in the production account) is part of national income/product but that capital expenditure is part of national expenditure. In fact, ultimately each transaction is part of both income and expenditure (expressed in the use of double-entry bookkeeping). The *expenditure* on wages, etc, is, however, counted as national expenditure when the *final* product is bought (eg by the electricity consumer, as in Table 4.6); and the *income* from producing the capital goods is that of the producers of those goods (eg construction, Table 1.9).

## Public Corporations, 1979

| National income/product | | | PCs' expenditure, etc. | | PCs' income, etc. | | National expenditure | |
|---|---|---|---|---|---|---|---|---|
| | | | **6.1: PRODUCTION ACCOUNT** | | | | | |
| 1.10 | Income from employment | **12956** | Wages, salaries, etc. | **12956** | | | | |
| | | | | | Sales including VAT | *(36533+X)* | 1.1 Part of TFE (MP) | *(244203)* |
| | | | Purchase of goods and services *less* stocks | (19118) | *less* VAT | (– X) | | |
| | | | Taxes on expenditure (rates, etc.) | (748) | Sales *less* VAT | (36533) | | |
| | | | Total expenditure | (32822) | Subsidies | *1544* | | |
| 1.10 | Gross trading surplus + rent – SA | **5255** | *Gross trading surplus and rent* (+D –SA) | **5255** | | | | |
| | | | Total | 38077 | Total revenue | *38077* | 1.1 Part of TFE (FC) | *(218148)* |
| 1.10 | Contributions to GDP | **18211** | | | | | | |
| | | | **6.2: INCOME AND EXPENDITURE APPROPRIATION ACCOUNT** | | | | | |

AB-2 6.2 NATIONAL INCOME AND EXPENDITURE APPROPRIATION ACCOUNT should read:

| | | | | | | |
|---|---|---|---|---|---|---|
| 1.10 | Gross trading surplus | 5585 | | | Gross trading surplus (–SA) and rent | (5255) |
| 1.10 | Rent | 351 | | | Stock appreciation | 681 |
| | | | Interest and dividends due | (2791) | Other income | (580) |
| | | | Taxes due | (87) | | |
| | | | Total allocations | (2878) | | |
| | | | *Undistributed income* (–Div R – TR) | 3638 | | |
| | | | Total | 6516 | Total income | 6516 |

**6.3/6.4; 1.7: CAPITAL AND FINANCIAL ACCOUNTS**

| PCs' expenditure, etc. | | PCs' income, etc. | | National expenditure | |
|---|---|---|---|---|---|
| GDFCF | *5570* | | | 1.1 Part of GDFCF | *(33646)* |
| Physical increase in stocks etc. | *66* | | | 1.1 Part of stocks, etc. | *(2760)* |
| Stock appreciation | 681 | Undistributed income | 3638 | | |
| Capital transfers | 37 | Additions to reserves | (69) | | |
| | | Capital transfers | (530) | | |
| | | Total receipts | 4237 | | |
| | | *Financial deficit* (–NAFA) | 2117 | | |
| Total capital expenditure | 6354 | Total | (6354) | | |

## Public Corporations, 1979, continued

| PCs' expenditure, etc. | | PCs' income, etc. | |
|---|---|---|---|
| **6.4 FINANCIAL TRANSACTIONS** | | | |
| Financial deficit | 2117 | Accruals adjustment | 58 |
| Net lending, etc. | 440 | Miscellaneous (net) | – 1059 |
| | | Unidentified | – 179 |
| | | | – 1160 |
| | | *Borrowing requirement* | 3717 |
| Total expenditure | 2557 | Total financial receipts | 2557 |
| **6.4 FINANCING OF BORROWING REQUIREMENT** | | | |
| | | Loans from CG | 1709 |
| | | Public dividend capital | 1572 |
| | | CG finance | 3281 |
| | | *Outside finance* | 436 |
| Borrowing requirement | 3717 | Total amount borrowed | 3717 |
| **6.4 FINANCING OF PSBR CONTRIBUTION** | | | |
| | | Redemption of stock | – 540 |
| | | Transactions in other public sector debt | 352 |
| | | Other identified borrowing | 624 |
| *Contribution to PSBR* | 436 | Total finance of PSBR contribution | 436 |

Annex C

# Government and public accounts on various bases

This annex elaborates the notes in Chapter 5 to Section 7 of the Blue Book.

For control purposes the government has its own set of cash-based accounts. The central accounts are:

(a) the *Consolidated Fund,* into which tax revenues, etc. are paid, and from which the largest part of government expenditure is financed (through issues to spending Departments, who each have *Appropriation Accounts* for each separate vote for which they are responsible).

(b) The *National Loans Fund,* which handles all central government borrowing transactions and most domestic lending transactions.

(c) The *National Insurance Fund* and smaller statutory funds and accounts.

Considerable rearrangement is needed to put these accounts into the standard form of national accounts classification. A reconciliation is shown in the *Financial Statement and Budget Report* (FSBR), Table 22, and in more detail on p 290-1 of *Sources and Methods,* though this is not up-to-date.

The post-Budget forecast in FSBR (which is revealed with the Budget speech) can be related to past calendar years in the Blue Book, and to current quarters and past financial years in *Financial Statistics,* so that the Government's financial plans for the coming year can be seen in the perspective of the whole of the economic system shown in the national accounts, and can be checked against the outturn as it develops during the new financial year. Omitting figures, the chain of comparisons is as shown on AC-2.

The *estimates* of voted expenditure (the "supply services", covering in detail the bulk of CG expenditure apart from debt and NIF benefits) show for each vote the expenditure and receipts in each economic category at forecast outturn prices. These services are financed by *issues* from the Consolidated Fund (recorded in FSBR, Finance Accounts, etc.); actual *expenditure* during the year differs, mainly because of changes in departmental balances with their bankers (usually the Paymaster General's Office).

*Public expenditure,* as defined for the purposes of planning, and as published in White Papers (Cmnd. 8175, March 1981) relates primarily to General Government including the financing of the nationalised industries and other public corporations, but also includes capital expenditure by certain PCs (see Chapter 5, Section 6). Loans from CG to LAs, and other transactions internal to GG, are eliminated. Analyses in the White Papers show forward programmes and actual expenditure by CG and by LAs, with detail by functional programme and/or by economic category. The general basis is the *"survey price"* (for Cmnd. 8175, broadly the prices of late 1979, but see p 231 of that White Paper). The *cash limits* are also shown (Table 1.6) and in Part 2 the approximate cash equivalent for each programme for 1981-82. Table 4.6 shows expenditure at outturn prices for each programme and for CG and LAs, and the elements included for nationalised industries and certain public corporations, together with debt interest on the definitions used in White Papers and in the national accounts.

## Budget Forecasts and Outturn

### References to Blue Book tables, to Financial Statistics (FS) and to Financial Statement and Budget Report (FSBR)

| A. Central government | 1980 | 1980–81 | | | 1981–82 | |
|---|---|---|---|---|---|---|
| | Actual outturn | 1980 Budget forecast | Estimated outturn | Actual outturn | 1981 Budget forecast | Quarterly outturn |
| Current account (economic categories) | 7.2, FS 3.6 | FSBR 1980–81, 24B | FSBR 1981–82, 22A | FS 3.6 | FSBR, 22B | FS 3.6 |
| Capital account (economic categories) | 7.3, FS 3.7 | do | do | FS 3.7 | do | FS 3.7 |
| Financial deficit | 7.3, (FS 3.7) | (do) | (do) | (do) | (do) | (do) |
| Financial transactions | 7.4, FS 3.7 | do | do | do | do | do |
| CG borrowing requirement | do | FSBR 1981–82, 18 | | do | FSBR 18, 22B | do |
| CGBR financing | 7.4, FS 3.8 | – | | FS 3.8 | – | FS 3.8 |
| Consolidated Fund | FS 3.1 | FSBR 1981–82, 18, 20, 22 | | Accounts; FS 3.1 for CF, NLF | | |
| National Loans Fund | FS 3.1 | " 18, 21, 22 | | | As for 1980–81 | FS 3.1 for CF, NLF |
| National Insurance Fund | – | " 18, 22 | | | | |
| **B. General government** | | | | | | |
| Current account (economic categories) | 9.1, FS 2.1 | FSBR 1981–82, 14 | | FS 2.1 | FSBR, 14 | FS 2.1 |
| Capital account | 9.1, FS 2.2 | do | | FS 2.2 | do | FS 2.2 |
| Financial deficit | do | do | | do | do | do |
| Financial transactions | 9.1, FS 2.3 | do | | FS 2.3 | do | FS 2.3 |
| GGBR | do | do | | do | do | do |
| PSBR | 13.9, FS 2.7 | do | | FS 2.7 | do | FS 2.7 |
| Public sector borrowing – by sub-sector | do | do | | do | do | do |
| – details | 13.10, FS 2.6 | – | | FS 2.6 | – | FS 2.6 |

Public expenditure as defined in White Papers is reconciled with general government expenditure (Blue Book basis) in FS 2.4, showing financial years and quarters (thus allowing calendar years, etc. to be calculated).

Further details of government accounts, etc. are given in *Guide to Public Sector Financial Information* (HMSO, 1979), especially the first 18 pages.

Annex D

# The residual error and sector unidentified transactions

The residual error (-1435, Table 1.2) between estimates of GDP derived as a sum of final expenditures (less imports) and as a sum of factor incomes has been noted in Chapter 2, and the choice between GDP(E) & GDP(I) is discussed briefly in Chapter 3. In compiling the sector accounts leading to estimates of NAFA (or financial balance) of each sector many more transactions other than final expenditure or factor incomes have to be included. However these additional transactions are of the nature of transfer payments (interest, grants, etc.) and they are entered into the accounts explicitly on a double-entry system. Although they are subject to estimation error the entries are consistent and over all sectors (including the overseas sector) they add to zero.

It follows that the sector NAFA's, which in theory should add to zero, in practice add to the residual error with sign reversed. (The reversal of sign arises simply through the convention of entering the residual error on the income side of the GDP accounts.)

What is described as the NAFA or financial balance of each sector is derived as the net total of identified non-financial transactions. The financial accounts seek to identify directly transactions in financial assets and liabilities. These transactions yield a balance for each sector which in theory should be identical to NAFA but which in practice is different because of estimation error. The differences between the two balances are known as the sector unidentified. Like transfer payments, transactions in financial assets are entered in the accounts on a double-entry system. Although they are subject to errors and omissions the entries are consistent, and over all sectors (including the overseas sector) they add to zero. Consequently the sector unidentifieds for any period add to the residual error, again with sign reversed.

The arithmetic is summarised below:

*Table 1* Residual error by sectors, 1979

| | Personal sector | I and C companies | Financial companies and institutions | Public sector | Overseas sector | All sectors |
|---|---|---|---|---|---|---|
| NAFA | 11050 | –3367 | 233 | –8344 | 1863 (1) | 1435 (2) |
| Identified financial assets | 14125 | –4062 | –642 | –8881 | –540 | – |
| Unidentified items | –3075 | 695 | 875 | 537 | 2403 (3) | 1435 (2) |

(1) Balance of payments current balance (with sign reversed).
(2) The residual error (with sign reversed).
(3) Balance of payments 'balancing item'.

Although the sector unidentifieds are recorded with the financial accounts in Section 13 of the Blue Book it is not necessarily the direct measurement of transactions in financial assets that is in error. The residual error shows that a net total of errors or omissions amounting to 1435 arises from the non-financial accounts ('above the NAFA line') and errors in the measurement of inter-sector transactions 'above the NAFA line' may also contribute to the sector unidentifieds. For example the unindentified 695 for I and C companies could be due to any one, or a combination of:

(1) overestimation of company profits
(2) underestimation of company new capital formation
(3) underestimation of company purchases of land and existing buildings
(4) underestimation of company distributions
(5) under-identification of net acquisition of financial assets by companies.

Items (1) to (4) above would be errors or omissions 'above the NAFA line'. Only (5) would be errors or omissions within the financial accounts. Items (1) and (2) would contribute to the residual error but would have no direct effect on the 'unidentifieds' for other sectors. Items (3) to (5) are inter-sector transactions. The estimates of GDP and the residual error would be unaffected; the element of the 'unidentified' for I and C companies would be balanced by equal and opposite elements of the unidentifieds for other sectors.

The same residual error is present when an *ex post* comparison is made between *saving* and *investment,* for these correspond to income and total expenditure with current expenditure removed from each.

*Table 2* Residual error: saving and investment, 1979

| | | | | |
|---|---|---|---|---|
| *Investment:* | GDFCF at market prices (1.1) | 33646 | *Saving:* | |
| | Increase in value of stocks (1.7 left) | 11302 | Before providing | |
| | Overseas investment (1.6, 1.7) | – 1863 | for depreciation, | |
| | | | stock appreciation | |
| | | 43085 | and reserves | |
| Residual error (unidentified income, or saving) | | 1435 | (1.7 left) | |
| Equals saving | | 44520 | | 44520 |

The balancing item of the overseas sector in Table 1 above (2403) appears as -2403 in the *UK balance of payments* with the overseas sector. This is included conventionally (eg in 1.6 of the Blue Book) with investment and financing items, though part of it no doubt relates to the current account, where only identified transactions are included. Errors and omissions on goods and services will affect both the overseas balancing item and the figures for GDP (1.1) and thus the residual error. Those on property income from abroad have the same effect, via 1.2 of the Blue Book.

An inward flow of finance appears as +, outward as –:

*Table 3* Overseas balancing item, 1979

| | | | |
|---|---|---|---|
| Identified: | Investment and other capital transactions | +1170 | |
| | Official financing (net borrowing) | –1710 | |
| | Identified investment and financing | –540 | |
| Balancing item | | +2403 | |
| Investment and financing, including balancing item (as in 1.6) | | +1863, | covering current account deficit of 1863 (Tables 2B and 2P). |



# Index

A. **Summary index to this Guide**
B. **Systematic index to Blue Book**

This section contains an index with two columns, to this Guide and to the Blue Book itself respectively. The index to this Guide (column A) is intended to give principal references only. The index to the Blue Book (column B) aims to give exhaustive references, supplementing the index included (for the first time in 1980) in the Blue Book itself. It enables the reader to find figures for the various quantities on each definition used in the tables, and to compare readily the definitions in different tables. It is designed particularly for those wishing to build up their own statistical tables or economic relationships, and for readers with an interest in their own industry or specialisation.

ABBREVIATIONS, etc. used in index.

*Table numbers (Column B):*

| | |
|---|---|
| 1.1 | *National Income and Expenditure,* Table 1.1. |
| 13.2-9 | – Tables 13.2 to 13.9 inclusive. |
| 1.1n | – note to Table 1.1. |
| FS1.1 | *Financial Statistics,* Table 1.1. |
| BP1.1 | *United Kingdom Balance of Payments,* Table 1.1 |
| RT15 | *Regional Trends,* Section 15. |

*Price basis:* at market prices unless stated.

| | |
|---|---|
| CM | at constant (1975) market prices. |
| F | at factor cost. |
| CF | at constant (1975) factor cost. |

*Numbers of years shown:* normally 11 when no other indication.
Figures in italics: 22 years (1958-1979).
Other publications show, for a number of items:
very long runs; by years and quarters:
*Economic Trends, Annual Supplement* (ETAS)
–more recent, and revised, figures: *Economic Trends* (ET), quarterly from January.
–percentage changes, annual and quarterly: *Economic Trends,* monthly, especially October.

*Coverage of items:* *indicates inclusion in a broader item.

*Words and phrases abbreviated in index:*

–incomes and profits:

| | |
|---|---|
| T | tax |
| TR | tax reserves |
| Div R | dividend and interest reserves |
| D | depreciation |
| SA | stock appreciation |
| +D | indicates that depreciation has not been deducted. |
| -D | indicates that it has been deducted ("after providing for . . . . . ."). |
| ±D | indicates that both figures appear (or can be readily deduced). |

–current and capital expenditure:

| | |
|---|---|
| CEGS | current expenditure on goods and services. |
| GDFCF | gross domestic fixed capital formation. |

– sectors, etc.

| | |
|---|---|
| CFIs | companies and financial institutions |
| (= ICCs + FCIs). | |
| ICCs | industrial and commercial companies. |
| FCIs | financial companies and institutions |
| (= banks + OFIs). | |
| OFIs | other financial institutions. |
| PCs | public corporations. |
| (corporate = CFIs + PCs) | |
| (private sector = personal sector + CFIs) | |
| GG | general government |
| (= CG + LAs). | |
| CG | central government (± national insurance fund – NIF). |
| LAs | local authorities. |
| (public sector = GG + PCs) | |
| UK | United Kingdom |
| (= personal + corporate and general government) | |
| (= private + public). | |
| (UK and overseas sector + residual = 0) | |

– other abbreviations appear under alphabetical headings.

*Column A* shows page references in this guide.



# Index

–sectors, etc.

| | |
|---|---|
| CFIs | companies and financial institutions |
| (= ICCs + FCIs). | |
| ICCs | industrial and commercial companies. |
| FCIs | financial companies and institutions |
| (= banks + OFIs). | |
| OFIs | other financial institutions. |
| PCs | public corporations. |
| (corporate = CFIs + PCs) | |
| (private sector = personal sector + CFIs) | |
| GG | general government |
| (= CG + LAs). | |
| CG | central government (± national insurance fund – NIF). |
| LAs | local authorities. |
| (public sector = GG + PCs) | |
| UK | United Kingdom |
| (= personal + corporate and general government) | |
| (= private + public). | |
| (UK and overseas sector + residual = 0) | |

– other abbreviations appear under alphabetical headings.

*Column A* shows page references in this guide.

Printed in England for Her Majesty's Stationery Office by Robendene Ltd.
Dd 718997 C23 8/81