

# The financing of the public sector deficit, 1960

The annual receipts by the public sector from taxation, other regular forms of income and certain capital items were in 1960 as in previous years insufficient to meet the public sector's expenditure on current and capital account in total.

This note deals with the ways in which this deficit was financed and provides figures for the period 1956-1960. A note on the financing of the public sector 1952-1959 published in *Economic Trends*, January 1961, contains more details on the definitions and sources of information used in the tables. Some of the estimates for the years 1956 to 1959 have been revised, mainly following the revisions given in the balance of payments and national income white papers.

The deficit is met by the sale of the various forms of financial assets which consist mostly of the different kinds of public sector debt. The public sector in this note is defined as in the national income *Blue Books* and comprises the Central Government (including the National Insurance Funds and the Issue Department of the Bank of England), local authorities and public corporations (including the Banking Department of the Bank of England). It is thus wider than the field covered by the Exchequer financing tables published in the *Monthly Digest of Statistics*.

Transactions between the Central Government, local authorities and public corporations are eliminated when showing the transactions for the public sector and so the tables show the sales of financial assets by the public sector as a whole to the rest of the economy (the private sector) and to overseas residents.

Three tables are given in this note. Table I summarises the savings and capital formation of the public and private sectors of the economy showing as a balancing item for each sector the net acquisition of financial assets and net investment abroad. The balancing item for the public sector is negative, representing a deficit that is met by the net sales of financial assets, that is, sales less purchases and repayments. The term sale of financial assets as used in this note and in the national income accounts includes all forms of borrowing and the term acquisition of financial assets covers repayments of debt and all forms of lending. Table II analyses the net sales of financial assets by the public sector by type of asset. Table III shows the acquisition of financial assets by the other sectors corresponding to the net sales by the public sector. Figures have been shown in the tables to the nearest million but this does not imply that they can all be regarded as accurate to the last digit.

The following paragraphs give further notes on these tables.

## Table I

Table I is based on the table 'Financing of Investment' in the national income *Blue Books* which shows for rather more sectors the relationship between savings and investment (Table 47, *Blue Book* 1960). In 1960 the public sector deficit was larger by about £136 million than that for 1959. There was little change in the public sectors' investment in real assets between the two years, the main change being the fall of £128 million in the savings on current account. There was a reduced surplus for the private sector, the substantial increase in savings being less than the very large increase in real investment at home. For the United Kingdom as a whole there was a substantial deficit on the current balance of payments compared with surpluses in the previous four years.

## Table II

Table II shows for the public sector its net sales of financial assets by type. The largest sums raised by the public sector

were in 1960 as in 1959 in the form of national savings and local authority debt.

The largest absolute changes between 1959 and 1960 were in British government and government guaranteed securities and in foreign reserves. There was a net sale of British government and government guaranteed securities by the public sector of £144 million in 1960 compared with a net repayment of £303 million in 1959. There was an increase in the foreign reserves of the United Kingdom of £175 million in 1960, compared with a reduction in the reserves of £136 million in 1959 (a reduction in the reserves results in an increased amount of sterling being available to the public sector).

A new item in 1960 was the special deposits with the Bank of England made by the London clearing banks and the Scottish banks—(£152 million). There was in 1960 a net repayment of Treasury bills by the public sector of £42 million compared with a net sale of £95 million in 1959.

The sizeable increase in the loans for house purchase was almost entirely due to the increase in loans by the Central Government to building societies; the loans for house purchase by local authorities in 1960 were only slightly larger than in 1959.

## Table III

Table III shows the net acquisition by other sectors of the various types of financial assets sold by the public sector. The financial assets are mostly liabilities of the public sector (such as Treasury bills or local authority debt) but also include gold, which is treated as a financial asset, and some liabilities of other sectors such as foreign exchange reserves and the deposit liabilities of banks. Any one sector may acquire such assets either directly from the public sector or from any other sector. The total net acquisitions of each type of financial asset by all the other sectors in any given period is equal to the net sales of that type of financial asset by the public sector. Thus, for example, the net acquisition of British government securities in 1960 by the private sector, as shown in Table III, exceeded the net sales of such securities by the public sector as shown in Table II. In that year, however, there was a compensating negative figure for the net acquisition of British government securities by the Radcliffe banks and the identified overseas holders in total.

The Radcliffe banks comprise the following groups of banks (including discount houses) in the private sector: London clearing banks, the Scottish banks, banking offices in Northern Ireland, accepting houses which are members of the Accepting Houses Committee, discount houses which are members of the London Discount Market Association and certain 'overseas banks', that is, the offices in the United Kingdom of the members of the British Overseas Banks Association, the American banks in London and members of the Foreign Banks and Affiliates Association.

The Radcliffe banks, which continued to expand advances on a considerable scale, had, in 1960 as in 1959, a large net sale of public sector debt (a net sale by the banks of about £363 million in 1960 compared with £321 million in 1959). There were large reductions in the banks' holdings of Treasury bills and British government and government guaranteed securities which were partly offset by the increase in special deposits.

There was a large negative amount for the total of identified items held by the overseas sector shown in Table III for 1960 but this was probably offset by transactions shown as those of unidentified overseas holders and so included with those of the private sector.

A notable feature in 1960 was the increase of around £524

million in the sales of financial assets to the private sector (including unidentified overseas holders). There was probably a large increase in the unidentified overseas items (one of which was £131 million transferred to the United Kingdom in connection with the purchase of Ford shares). The main changes in 1960 compared with 1959 in the types of financial assets acquired by the private sector (including unidentified overseas holders) were in British Government and government guaranteed securities, an acquisition of £432 million compared with £80 million in 1959, and in Treasury bills, a net acquisition of £246 million in 1960 compared with a net reduction of £1 million in 1959. The acquisition of national savings and local authority debt by the private sector continued at a high level in 1960 although the amounts were somewhat smaller than in 1959.

#### General

The above tables deal with the financing of the public sector deficit. A complementary study of the investment of the financial surplus of the private sector (excluding the

banks but including unidentified overseas holders) is to be given in the *Quarterly Bulletin* for June 1961, published by the Bank of England. The definition of the banking sector adopted in the latter study comprises the Radcliffe banks and the Banking Department of the Bank of England whereas in the present study the figures for the Banking Department are included in the public sector aggregates. The definition of the private sector (including unidentified overseas holders) is the same in both studies.

The two studies together do not provide a complete picture of the net acquisition of financial assets by the public sector, the Radcliffe banks, the rest of the private sector and the overseas sector, even for those types of financial assets identified in the tables. This is because, firstly the information on the net acquisition of financial assets by the overseas sector from the United Kingdom sectors is limited to certain identified items and, secondly, the total net acquisition of financial assets by the Radcliffe banks is not covered by either study.

Central Statistical Office

## Investment and saving

TABLE I

£ million

	1956	1957	1958	1959	1960
<b>Public sector</b>					
Savings <sup>(1)</sup> ... ..	693	844	909	876	748
Taxes on capital ... ..	166	176	182	212	236
Capital transfers ... ..	-61	-46	-57	-47	-60
Funds available for investment ... ..	798	974	1,034	1,041	924
Investment in real assets at home <sup>(2)</sup> ... ..	1,371	1,497	1,511	1,602	1,621
Net acquisition of financial assets plus net investment abroad <sup>(3)</sup> (Sales of assets-)	-573	-523	-477	-561	-697
<b>Total investment</b> ... ..	<b>798</b>	<b>974</b>	<b>1,034</b>	<b>1,041</b>	<b>924</b>
<b>Private sector (including banks)</b>					
Savings <sup>(1)</sup> ... ..	2,730	2,841	2,740	3,076	3,794
Taxes on capital ... ..	-166	-176	-182	-212	-236
Capital transfers ... ..	75	50	58	49	61
Funds available for investment ... ..	2,639	2,715	2,616	2,913	3,619
Investment in real assets at home ... ..	2,078	2,189	2,167	2,288	3,053
Net acquisition of financial assets plus net investment abroad ... ..	561	526	449	625	566
<b>Total investment</b> ... ..	<b>2,639</b>	<b>2,715</b>	<b>2,616</b>	<b>2,913</b>	<b>3,619</b>
<b>United Kingdom</b>					
Savings: from sector accounts ... ..	3,423	3,685	3,649	3,952	4,542
Residual error ... ..	93	161	319	-13	-213
<b>Total savings</b> ... ..	<b>3,516</b>	<b>3,846</b>	<b>3,968</b>	<b>3,939</b>	<b>4,329</b>
Capital transfers from abroad ... ..	14	4	1	2	1
Funds available for investment ... ..	3,530	3,850	3,969	3,941	4,330
Net acquisition of financial assets plus net investment abroad from sector accounts ... ..	-12	3	-28	64	-131
Residual error ... ..	93	161	319	-13	-213
<b>Total net investment abroad<sup>(4)</sup></b> ... ..	<b>81</b>	<b>164</b>	<b>291</b>	<b>51</b>	<b>-344</b>
Investment in real assets at home ... ..	3,449	3,686	3,678	3,890	4,674
<b>Total investment</b> ... ..	<b>3,530</b>	<b>3,850</b>	<b>3,969</b>	<b>3,941</b>	<b>4,330</b>

<sup>(1)</sup> Savings, after providing for stock appreciation but before providing for depreciation and tax, dividend and interest reserves.

<sup>(2)</sup> Gross fixed capital formation at home plus the value of the physical increase in stocks and work in progress.

<sup>(3)</sup> Equals the sales of financial assets (net) by the public sector as shown in Tables II and III apart from the change in sign.

<sup>(4)</sup> Equal to the balance of payments surplus on current account as defined in the white papers on the balance of payments.

# Net sales of financial assets by the public sector

TABLE II

Type of financial asset	1956	1957	1958	1959	1960
<i>£ million</i>					
<b>Sales of assets or increase in liabilities (+)</b>					
<b>Identified items:</b>					
Notes and coin in circulation	124	126	42	85	123
Deposits with the Bank of England <sup>(1)</sup>	-40	-38	-7	86	8
Treasury bills	-179	19	47	95	-42
British government and government guaranteed securities	38	-31	142	-303	144
Special deposits	—	—	—	—	152
Tax reserve certificates	-17	5	23	-25	35
National savings	23	41	174	364	292
Local authority debt (excluding bank advances and loans)	369	349	326	344	324
Borrowing on bank advances and loans	76	-42	70	40	76
Iron and steel disposals for cash	28	47	3	2	9
Miscellaneous home receipts	20	-27	50	32	55
Foreign reserves	-39	-24	-271	136	-175
Inter-government loans	-51	72	-45	-118	-91
Loans from certain non-territorial organisations	191	-13	-26	-159	-160
Miscellaneous overseas receipts	30	-21	-7	42	13
less Loans for house purchase	-50	-33	-27	-33	-63
Advances by the Bank of England to discount houses	25	23	3	-20	-5
Trade and hire purchase debt at home (net)	29	19	-8	-3	2
<b>Total of identified items</b>	<b>577</b>	<b>472</b>	<b>489</b>	<b>565</b>	<b>697</b>
Changes in cash balances and unidentified items	-4	51	-12	-4	—
<b>Sales of financial assets (net) <sup>(2)</sup></b>	<b>573</b>	<b>523</b>	<b>477</b>	<b>561</b>	<b>697</b>

(1) Excludes special deposits.

(2) Includes a small amount of net investment abroad in real fixed assets.

# Financing the public sector deficit: analysis by sectors acquiring assets

## Net changes

TABLE III

£ million

Type of financial asset	1956	1957	1958	1959	1960
<b>Sales of assets or increase in liabilities (+)</b>					
<b>Radcliffe banks</b>					
Cash and balances at Bank of England ... ..	5	30	-14	46	32
Treasury bills ... ..	-138	217	-190	31	-253
Special deposits ... ..					152
British government and government guaranteed securities ... ..	-59	-32	144	-418	-365
Advances and loans to public sector ... ..	76	-42	70	40	76
less Advances by the Bank of England to discount houses ... ..	25	23	3	-20	-5
<b>Total ... ..</b>	<b>-91</b>	<b>196</b>	<b>13</b>	<b>-321</b>	<b>-363</b>
<b>Overseas sector: identified items</b>					
Foreign reserves ... ..	-39	-24	-271	136	-175
Official overseas holdings of Treasury bills ... ..	-34	-106	70	65	-35
Official overseas holdings of British government and government guaranteed securities ... ..	17	-19	-182	35	77
Inter-government loans ... ..	-51	72	-45	-118	-91
Loans from certain non-territorial organisations ... ..	191	-13	-26	-159	-160
Miscellaneous overseas receipts ... ..	30	-21	-7	42	35 <sup>(1)</sup>
<b>Total ... ..</b>	<b>114</b>	<b>-111</b>	<b>-461</b>	<b>1</b>	<b>-349</b>
<b>Private sector and unidentified overseas holders<sup>(2)</sup></b>					
Notes and coin ... ..	75	54	51	134	101
Treasury bills ... ..	-7	-92	167	-1	246
British government and government guaranteed securities ... ..	80	20	180	80	432
Tax reserve certificates ... ..	-17	5	23	-25	35
National Savings ... ..	23	41	174	364	292
Local authority debt ... ..	369	349	326	344	302
Iron and steel disposals ... ..	28	47	3	2	9
Other identified receipts <sup>(3)</sup> ... ..	24	-23	48	23	53
less Loans for house purchase ... ..	-50	-33	-27	-33	-63
Trade and hire purchase debt at home (net) ... ..	29	19	-8	-3	2
<b>Total ... ..</b>	<b>554</b>	<b>387</b>	<b>937</b>	<b>885</b>	<b>1,409</b>
<b>Changes in cash balances and other unidentified items ... ..</b>	<b>-4</b>	<b>51</b>	<b>-12</b>	<b>-4</b>	<b>-</b>
<b>Sales of financial assets (net) by the public sector ... ..</b>	<b>573</b>	<b>523</b>	<b>477</b>	<b>561</b>	<b>697</b>

(1) Includes for 1960, borrowing from overseas by local authorities so far as this can readily be identified. In previous years the whole of local authority debt (excluding bank advances and loans) as shown in Table II is attributed to the private sector and unidentified overseas holders in Table III.

(2) Excluding Radcliffe banks.

(3) Miscellaneous receipts in Table II plus increase in deposits with the Bank of England (other than deposits by the Radcliffe banks).