

# THE FINANCIAL SURPLUS OF THE PRIVATE SECTOR

1960

Estimates of the financial surplus of the domestic private sector during the years 1952 to 1959 together with a description of the sources and methods employed in calculating it were given in the Bulletin dated December 1960. Since then later figures have become available for national income and expenditure,<sup>(a)</sup> the balance of payments<sup>(b)</sup> and other financial series; and estimates for the year 1960 together with revisions for 1958 and 1959 are shown in Tables I and II on page 16. The definitions of the items in the tables are unchanged, except that in Table II "Government loans to building societies" are shown separately.

Both tables show totals for the financial surplus; but the totals differ. There are two main reasons for this. First, Table I measures the financial surplus of the domestic banking and private sectors combined, whereas Table II measures the surplus of the domestic private sector only. Secondly, in the national income statistics used for Table I the change in overseas assets is defined as equal to the balance of payments surplus on current account, whereas the overseas investment transactions entered in Table II are taken from the capital account of the balance of payments. In each of the three years 1958 to 1960 a positive "Balancing item" had to be introduced in the balance of payments to reconcile the identified current and long-term capital accounts with the recorded monetary movements, thus indicating either that the net current surplus was underestimated or that the net capital outflow was overstated, or some combination of these two factors. The effect of a positive "Balancing item" is to raise the total of Table II relative to that of Table I.

In 1960 the difference attributable to the "Balancing item" amounted to the

exceptionally high figure of £375 million. The comparable figure for 1959 had been £64 million and the sharp increase in 1960 probably reflected an unidentified inflow of capital into the United Kingdom. To the extent that this was so Table II, which records identified capital transactions only, errs by omitting some part of the increase in the private sector's liabilities overseas and this table therefore exaggerates the private sector's surplus.

In 1960 the figures in Table II contain a further imperfection; but this narrowed rather than widened the difference between the two totals. The available banking statistics do not provide a clear division between the banks' own funds and their liabilities to their customers. In particular the item "Deposits" in Table II relates almost exclusively to balances on current and deposit accounts, the other component of total deposits ("Other Accounts") being omitted because it includes, indistinguishably, some of the funds of the banks themselves. The item "Deposits" does not therefore include changes in credits in course of transmission, that is to say sums due to be credited to customers' accounts and held while in transit on the impersonal accounts of the banks concerned.<sup>(c)</sup> The extension of arrangements for credit transfers and the introduction of a credit clearing in 1960 led to an increase in the total of credits in course of transmission, and this may account for a large part of the rise (£155 million, compared with £41 million in 1958 and £34 million in 1959) in the item "Gross Deposits: Other Accounts" in the statistics of the London Clearing Banks.<sup>(d)</sup> The available statistics do not yet allow the change in credits in course of transmission to be isolated, and the total in Table II is, therefore, understated—and closer to the lower total in Table I—by the amount of any such increase.

(a) See "Preliminary Estimates of National Income and Expenditure 1955 to 1960" (Cmnd. 1333) and "Economic Survey 1961" (Cmnd. 1334).

(b) See "United Kingdom Balance of Payments 1958 to 1960" (Cmnd. 1329).

(c) In practice, some credits in course of transmission will go to reduce advances to customers rather than to increase their deposits.

(d) See Table 7 of the Statistical Annex.

If allowance is made for each of these two factors—credits in course of transmission and the balance of payments “Balancing item”—the decline during 1960 in the private sector’s surplus was probably nearer to £300 million than to the £105 million recorded in Table II. In Table I the private sector’s surplus is combined with the banking sector’s surplus, the total figure falling by £255 million.

Table I shows separate figures for persons and companies, and includes also the whole of the “Residual error” required to balance total income and expenditure in the national income statistics. A large part, though perhaps not all, of this “Residual error”—which changed sharply between the three years from +£320 million in 1958 to -£215 million in 1960<sup>(a)</sup>—arises in the estimates for persons and companies; the “Residual error” must therefore be borne in mind in any discussion of the separate figures for persons and companies.

The main features of Table I in 1960 are an increase of some £300 million in the personal sector’s financial surplus and a somewhat greater decline in that of companies. A marked decrease in the rate of personal borrowing during 1960 was the main element in the rise in the personal sector’s surplus. Only £27 million was added to hire purchase debt attributed to that sector,<sup>(b)</sup> £215 million less than in 1959, while the rise in advances taken by the personal sector from the banks was probably around £100 million less.<sup>(c)</sup>

Within the company sector, the reduction in the financial surplus was probably accounted for by industrial and commercial companies, where the rise in saving was outweighed by increased expenditure on fixed assets and stockbuilding. It is probable that the financial surplus of financial institutions rose a little, or at least did not fall.

The estimates of the private sector’s holdings of public sector debt used in Table II are

principally calculated by deducting the known holdings of other sectors from the total amounts outstanding. This part of Table II therefore includes any unidentified change in overseas holdings of public sector debt. A large part of the unidentified capital inflow from overseas in 1960 referred to above probably took the form of purchases of public sector debt; and the increase in the private sector’s holdings of public sector debt should in principle be reduced by this amount. In addition, allowance should be made in this part of the table for the non-official overseas holdings of government debt which form part of the overseas sterling holdings<sup>(d)</sup> series. Such holdings are not reported separately from overseas claims on, and liabilities to, the banking sector (deposits and advances) and the private sector (mainly commercial bills); and the total change in identified non-official overseas funds, apart from bank deposits and advances identified from other sources,<sup>(e)</sup> is entered in “Identified short-term capital (net)” where it accounts for most of the large movement shown for 1960. It is reasonable to suppose that a considerable part of this movement represented purchases of government debt by overseas residents. Altogether, if account is taken of amounts recorded but not separately identified in overseas sterling holdings and of the implication contained in the figure for the “Balancing item” that there were further transactions wholly unrecorded, it seems that the increase in overseas non-official holdings of public sector debt during 1960 may have been of the order of £550 million (including £130 million later used for the purchase of Ford shares). Thus the true increase in the domestic private sector’s holdings was probably little different from that in 1959; and, with a reduced rate of bank borrowing and with long-term investment overseas still at a fairly high level, net purchases of public sector debt on this scale were possible only with a marked falling-off in the rate of accumulation of bank deposits.

<sup>(a)</sup> The minus sign indicates that either saving has been overestimated or investment in fixed capital or stocks underestimated.

<sup>(b)</sup> See Table 19 of “Economic Survey 1961”.

<sup>(c)</sup> See advances by member banks of the B.B.A., category “Personal and Professional” in Table 10 of the Statistical Annex.

<sup>(d)</sup> See Table 17 of the Statistical Annex.

<sup>(e)</sup> See Tables 11 and 12 of the Statistical Annex.

**Table I**

FINANCIAL SURPLUS OF THE COMBINED PRIVATE AND BANKING SECTORS <sup>(a)</sup>			
£ millions	1958	1959	1960
<b>Persons</b>			
Saving <sup>(b)</sup> ... ..	+ 880	+1,015	+1,455
Capital transfers ... ..	+ 45	+ 40	+ 50
less Taxes on capital ... ..	- 180	- 210	- 235
Gross fixed capital formation at home	- 685	- 765	- 860
Value of physical increase in stocks and work in progress ... ..	- 15	- 45	- 70
Net increase in financial and overseas assets	+ 45	+ 35	+ 340
<b>Companies</b>			
Saving <sup>(b)</sup> ... ..	+1,860	+2,060	+2,340
Capital transfers ... ..	+ 15	+ 10	+ 10
less Gross fixed capital formation at home	-1,390	-1,375	-1,540
Value of physical increase in stocks and work in progress ... ..	- 80	- 105	- 580
Net increase in financial and overseas assets	+ 405	+ 590	+ 230
Residual error <sup>(c)</sup> ... ..	+ 320	- 15	- 215
TOTAL=Financial surplus ... ..	+ 770	+ 610	+ 355

(a) Excluding the Banking Department of the Bank of England.

(b) After providing for stock appreciation but before providing for depreciation and tax, dividend and interest reserves.

(c) The unexplained difference between estimates of total income and expenditure (current and capital) in the national income and expenditure statistics.

**Table II**

FINANCIAL SURPLUS OF THE PRIVATE SECTOR			
£ millions	1958	1959	1960
Changes in private sector's identified <sup>(a)</sup> claims on (increase +) and liabilities to (increase -):			
<b>Public sector</b>			
Currency ... ..	+ 50	+135	+ 100
National Savings ... ..	+175	+365	+ 290
Tax Reserve Certificates ... ..	+ 25	- 25	+ 35
Treasury Bills ... ..	+165	—	+ 245
Government and government guaranteed securities	+180	+ 80	+ 430
Iron and steel securities ... ..	+ 5	—	+ 10
Government loans to building societies ... ..	—	- 10	- 35
Local authority loans for house purchase ... ..	- 25	- 25	- 25
Other local authority net indebtedness ... ..	+335	+355	+ 310
Miscellaneous identified claims and liabilities ... ..	+ 30	+ 15	+ 45
	+940	+890	+1,405
<b>Banking sector</b>			
Deposits ... ..	+225	+430	—
Advances ... ..	-395	-805	- 640
Money at call and short notice (net) ... ..	- 5	—	- 15
Commercial bills ... ..	- 10	- 70	- 40
Other securities (net) ... ..	- 35	+ 45	+ 5
	-220	-400	- 690
<b>Overseas</b>			
Identified short-term capital (net) ... ..	- 50	+ 20	- 270
Identified long-term capital (net) ... ..	+130	+140	+ 100
	+ 80	+160	- 170
TOTAL=Financial surplus ... ..	+800	+650	+ 545 <sup>(a)</sup>

(a) Two important qualifications to the estimates for 1960 are discussed on page 14.