THE FINANCIAL SURPLUS OF THE PRIVATE SECTOR 1961

The United Kingdom is divided, for the purposes of these statistics, into three main sectors—the public sector, the banking sector and the private sector. The private sector consists of all persons and companies (other than banks) resident in the United Kingdom.[a] The saving of the private sector (*i.e.*, the excess of its current income over its current expenditure) has in recent years been more than sufficient to meet its expenditure on real capital assets (fixed capital and stocks and work in progress) and net capital transfers to the public sector. The private sector has therefore had a " financial surplus " available to it for the acquisition of financial claims on, or for the reduction of financial liabilities to, other domestic sectors and for net investment overseas.

Table I (*page 114*) shows an estimate of this financial surplus obtained by subtracting capital expenditure from estimated saving. This table is derived from national income sources.[b] The estimates in **Table II** (*page 115*) are compiled from other financial statistics[c] and show the extent to which the surplus can be identified in terms of changes in financial and overseas assets and liabilities.

There are marked differences between the totals in the two tables and these are mainly due to conceptual differences between them. First, the national income figures, which are the source of Table I, are constructed on the assumption that the balancing item in the U.K. balance of payments represents capital transactions with overseas; but it is not so treated in Table II, which is concerned with identified capital transactions only. Secondly, Table I unavoidably relates to the private and banking sectors combined, while Table II is confined to the private sector, the banks being treated as a separate sector. Table II thus excludes the financial surplus of the banking sector. Because there is difficulty in distinguishing between the banks' liabilities to their customers and their own funds, the exclusion introduces an error of understatement in the increase in bank deposits. To this extent the financial surplus of the private sector in Table II is also understated, and this difference between the two tables is accentuated.

As explained in a previous article[d] the effect of these differences was particularly marked in 1960. Despite a considerable understatement of the increase in bank deposits, the size of the private sector's surplus in that year is almost certainly overstated in Table II, because it does not take account of a large negative item—an unrecorded inflow of overseas capital.

In 1961 the financial surplus of the private sector was substantially greater than in 1960. Table I shows an increase in the surplus of the private and banking sectors combined of £280 million, and it is unlikely that much of this increase relates to the banking sector. For the reasons mentioned above, the increase of £75 million shown in Table II is probably some £200 million too small. Thus the true increase in the private sector's surplus was probably of the order of £275 million.

If allowance is made in Table II for a greater understatement of the rise in bank deposits in 1960 than in 1961, the private sector's net borrowing from the banking sector decreased by around £600 million between the two years, the change reflecting both a lower rate of borrowing and a rise in deposits. There was also a marked change in identified net capital transactions with overseas (including direct investment), a net inward movement of over £200 million in total during 1960 being

[a] For fuller definitions and explanations see the articles in Nos. 1 and 3 of Vol. I of this Bulletin.

[b] See " Preliminary Estimates of National Income and Expenditure 1956 to 1961 " (Cmnd. 1679), " Economic Survey 1962 " (Cmnd. 1678) and Economic Trends, April 1962.

[c] Most of the statistics used in Table II appear in Financial Statistics, published by the Central Statistical Office monthly from May 1962.

[d] See Vol. I, No. 3.

replaced by a slightly larger net outward movement in 1961. The identified change of some £450 million between the two years may not, however, tell the full story. Between 1960 and 1961 the balancing item in the balance of payments decreased by £225 million; and if, as is thought likely,[a] this reduction indicates a fall in the unrecorded inflow of capital, the true measure of the change from net inflow in 1960 to net outflow in 1961 would probably be not far short of £700 million.

Table II also shows a fall of over £1,000 million in the private sector's net lending to the public sector (which nevertheless still exceeded £400 million in 1961). A further caution is necessary on the relationship of this movement to the change in direction of the flow of overseas funds. Existing financial statistics do not in general distinguish non-official overseas holdings of public sector debt from the domestic private sector's holdings. Any increase in non-official overseas holdings therefore appears in Table II both as an increase in the private sector's claims on the public sector and, in so far as the inflow of funds is recorded, as an increase in the private sector's liabilities to overseas. Much of the apparent movement in the private sector's holding of public sector debt is therefore in reality a movement in overseas holdings. Moreover, even if overseas funds are in fact invested in the financial liabilities of the private sector, the ultimate effect may often be to increase the funds available to the private sector for the purchase of public sector debt or, to a lesser extent, for increasing its net claims on the banking sector.[b] It follows that the large changes in the total amounts lent to the public sector are in practice inextricably bound up with changes in the movement of overseas funds.

Table I shows an estimated division of the private and banking sectors' financial surplus between persons and companies. There is some uncertainty about this because of changes in the residual error (the unexplained difference between estimates of total national income and total national expenditure). It seems clear, however, that the personal sector, with a continued rise in saving, added considerably to its surplus in 1961, as it had done in 1960. Companies, on the other hand, suffered a reduction in trading profits but paid slightly more in taxes, partly because of the increase in profits tax in the 1960 Budget, and distributed larger sums as dividends and interest. As a result company saving, including net additions to reserves for tax, dividends and interest, fell by some £415 million; and since companies' expenditure on stockbuilding and fixed investment together was only about £125 million lower than in 1960, their financial surplus became a financial deficit in 1961, for the first time since 1951.

(a) See " United Kingdom Balance of Payments 1959 to 1961 " (Cmnd. 1671), page 8.

(b) See the article on page 93.

Table I

FINANCIAL SURPLUS OF THE COMBINED PRIVATE AND BANKING SECTORS[a]

£ millions

	1959	1960	1961
Persons			
Saving[b]	+ 990	+1,565	+2,035
Capital transfers (including payments of death duties)	− 165	− 180	− 205
less Gross fixed capital formation at home	− 695	− 790	− 885
Value of physical increase in stocks and work in progress	− 40	− 60	− 25
Net increase in financial and overseas assets	+ 90	+ 535	+ 920
Companies			
Saving[b]	+2,070	+2,330	+1,915
Capital transfers	+ 10	+ 20	+ 15
less Gross fixed capital formation at home	−1,445	−1,650	−1,850
Value of physical increase in stocks and work in progress	− 130	− 560	− 235
Net increase in financial and overseas assets	+ 505	+ 140	− 155
Residual error[c]	+ 65	− 235	− 45
TOTAL = Financial surplus	+ 660	+ 440	+ 720

(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 independent estimates of total income and total expenditure (current and capital) in the national income and expenditure statistics.

Table II

FINANCIAL SURPLUS OF THE PRIVATE SECTOR

£ millions

	1959	1960	1961
Changes in private sector's identified claims on (increase +) and liabilities to (increase —):			
Public sector			
Currency	+135	+ 100	+100
National Savings	+365	+ 290	+145
Tax Reserve Certificates	— 25	+ 35	+ 5
Treasury Bills	— 5	+ 245	—375
Government and government guaranteed securities ...	+ 80	+ 430	+ 45
Iron and steel securities	—	+ 10	+ 85
Government loans to building societies	— 10	— 35	— 45
Local authority loans for house purchase	— 25	— 30	— 45
Other local authority net indebtedness	+360	+ 325	+490
Miscellaneous identified claims and liabilities	+ 30	+ 85	+ 20
	+905	+1,455	+425
Banking sector			
Deposits	+430	—	+170
Advances	—805	— 640	—130[a]
Money at call and short notice (net)	—	— 15	— 40[a]
Commercial bills	— 70	— 40	—115
Other securities (net)	+ 40	+ 5	+ 80
	—405	— 690	— 35
Overseas			
Direct investment abroad[b]	+195	+ 245	+210
Other identified long-term capital (net)[c]	— 50	— 150	—260
Identified short-term capital (net)	— 15	— 310	+285
	+130	— 215	+235
TOTAL = Financial surplus	+630	+ 550	+625

(a) These figures have been adjusted by £40 million to offset a transfer of approximately the same amount from "Advances and other accounts" to "Money at call and short notice" in the London clearing banks' figures for October 1961.

(b) Net of disinvestment abroad.

(c) Including direct investment in the United Kingdom (net of disinvestment), portfolio investment, and net investment by oil and insurance companies.