

An Analysis of Government Revenue and Expenditure in Relation to National Accounts

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Introduction

The influence of government action on the course of the economy is nowadays very wide and often decisive. For this reason it is desirable that methods, other than those of the traditional government accounting, be used to analyse the effect of government action on the rest of the economy and to provide data additional to those available in the traditional accounts, as a basis for the crucial decisions which have to be made. No single set of accounts is adequate for this purpose. The national accounts of the country provide an integrated framework which embraces the whole economy and it, therefore, appears to be a worth-while task to organise and present in detail the accounts for recent years of the Government sector within such a framework.

An integration of government accounts with the national income accounts was first made for this country in connection with the preparation of the first White Paper on National Income and Expenditure, 1938-44,¹ published in 1946, and was further considered in the contribution by Dr. M. D. McCarthy to this Society's Symposium on National Income and Social Accounts on 25th January, 1952.² The methods of analysing government transactions adopted for the first White Paper, with minor modifications, were used in official publications up to the publication of the Irish Statistical Survey, 1957. In the Irish Statistical Survey, 1958,³ a new classification of government transactions was adopted. The basis of the classification is described in this paper and is further extended.

The management of public finance is one of the essential functions of government. Government action is made possible through the raising of revenue from taxation and other sources and, under the authority of the Oireachtas, the government imposes these taxes and decides on the objects on which public money will be spent. The Oireachtas is concerned with questions of policy in relation to public finance and also takes steps to ensure that the policy it has endorsed is carried out and that the sums of money it appropriates are spent for the specific purposes it lays down. In connection with the formulation of this policy the Minister for Finance presents an annual budget statement to the Dáil and in the accompanying speech proposals are laid before the House in relation to taxation,

social expenditure and other financial matters in respect of the current financial year. The budget, which can be regarded as a summary of the financial transactions involving the Exchequer, the main financial account of the Central Government, is the most important annual financial statement presented by the Government. Although the public take a great interest in the presentation of the budget and the Minister's statement is awaited with eager anticipation, it is probably true to say that few people understand the nature of the economic transactions involving the Exchequer and the significance of the level of government revenue and expenditure. The public would have considerable difficulty in deriving from the budget statement or from the financial tables which accompany it any clear economic picture of the whole structure of public finance or the long term trends which it manifests. This is particularly so because of the traditional structure of the accounting framework within which the figures are presented and also because in the tables in question only data for the last and current year are included.

Further details of government revenue and expenditure are presented in the voluminous Finance and Appropriation Accounts, which are issued by the Department of Finance. These accounts, which are published in the autumn of each year, contain data relating to the previous year's budget and very detailed information regarding revenue and expenditure is given. These accounts are by no means easy to follow for those not well versed in accounting methods and, in order to obtain a full picture of central government revenue and expenditure, further references must be made to the accounts of about thirty extra-budgetary funds which are related to the Exchequer. These funds include such well-known ones as the Post Office Savings Bank Fund, the Social Insurance Fund and the Local Loans Fund. Financial transactions occur between the Exchequer and these extra-budgetary funds and between the extra-budgetary funds themselves. As a first step towards simplification it would appear necessary to prepare a consolidated account for the Exchequer and all the extra-budgetary funds, after elimination of all transactions between the funds. The methods adopted in the preparation of such an account are discussed in this paper and at the same time transactions between the government sector and the rest of the economy are rearranged and reclassified according to economic concepts suitable for national income analysis.

This reclassification is necessary because it is difficult to obtain a complete picture of government transactions from the existing accounts even when all transactions between different parts of the government sector have been eliminated. This difficulty arises because the accounts have been prepared on an accounting basis and are primarily designed for facility in tracing the expenditure of the monies allocated for specific purposes and are not specifically designed for economic analysis. The summaries presented in the Finance and Appropriation Accounts tend to be based on administrative units rather than on an economic classification of the expenditure, which is the relevant type of classification for national income purposes. The reclassification may be looked upon as a form of processing of the existing accounts in order to derive from

them information in a form suitable for economic analysis. It must be emphasised that such processing of the data is intended only as a supplement to the original accounts and it is not intended to supplant the existing accounting methods. Such reclassification schemes, in one form or another, are also used in preparing national accounts in other countries. The methods of presentation of government accounts used in Britain are described in *National Income Statistics—Sources and Methods*,⁴ and a *United Nations Manual*⁵ has been published relating to a detailed set of accounts for government transactions.

The accounts presented in this paper cover transactions between the following sectors and the rest of the economy (i) Central Government, including Extra-Budgetary Funds (ii) Local Authorities (iii) Central Government, Extra-Budgetary Funds and Local Authorities. The main accounts are presented for the years 1953-54 to 1958-59, but one table is shown only for the years 1953-54 and 1957-58. Finally some international comparisons are given.

PART I—THE ANALYSIS OF THE DATA

Sectors of the Economy

In order to clarify the presentation of the accounts it is necessary to refer briefly to the sectors into which the economy can be divided.

The four main sectors are

- (i) Government, including extra-budgetary funds and local authorities
- (ii) Enterprises, public and private
- (iii) Households and private non-profit making institutions
- (iv) Rest of the world.

In the preparation of accounts covering each of these sectors government enterprises (concerns engaged in trading activities) such as the Post Office and Gaeltacht Services are included with the government sector on the basis that they are financially integrated with the government and do not keep their own reserves. On the other hand public corporations, such as the Electricity Supply Board, are included with other enterprises in the second sector.

Definition of Government Sector

The Central Government is defined to include all bodies that are established through political processes and for whose activities a Minister or other responsible person is accountable to the people through the Oireachtas. In particular this responsibility extends to the submission of detailed audited accounts to the Oireachtas. Central Government includes legislative, judicial and executive bodies established in this manner and also bodies such as the Post Office which are engaged in trading activities. The sector does not include public corporations which, although established by political processes, are not directly answerable to the central authority for their day-to-day activities.

The three main classes of central government bodies are (i) Departments of State, (ii) bodies which are not Departments but which receive their finances almost entirely from the Exchequer, are subject to financial control and may be regarded as extensions of government departments, (iii) various extra-budgetary funds for which separate accounts are maintained and which are directly administered by Departments. The dividing line between central government bodies and other bodies such as public corporations (Electricity Supply Board) and bodies serving agriculture or industry (An Foras Talúntais and Córás Tráchtála Teoranta) is difficult to draw exactly, and the inclusion of certain bodies in the government sector is therefore to a certain extent arbitrary. A full list of the bodies in (ii) and of extra-budgetary funds in (iii) is given in Appendix I. An important distinction has to be made between Departments engaged in administrative, executive and similar work, which are normally regarded as government activities, and those engaged in trading activities.

Local Authorities are bodies established for the purpose of having local jurisdiction over such matters as rates, harbour dues and the administration of Health Acts. They are also required to make annual returns of their income and expenditure. The local authority sector in the accounts presented here includes all these bodies* whose financial returns are summarised in the Returns of Local Taxation issued by the Department of Local Government and also Vocational Education Committees, Harbour Authorities and County Committees of Agriculture.

Types of Government Financial Transactions

In order to understand the classification of the different types of government transactions adopted in national accounts it is necessary to consider the composition of national income and of national expenditure. National income includes those incomes before deduction of direct taxation arising from economic activity, received by individuals, corporations or the government, and includes therefore, wages, salaries, profits, rent, interest and dividends. It differs from personal income which is the actual income received by households from all sources whether from productive activity or not. Personal income includes social payments such as old age pensions, unemployment benefit and assistance and also that part of the interest on central government and local authority debts received by households. On the other hand personal income excludes the undistributed profits before tax of public and private companies. Incomes arising from current production can be described as *factor incomes* while other forms of income which cannot be regarded as payments for current services to production are called *transfer incomes*. Transfer incomes include, in the case of households, the social payments made by the government to households, which are themselves paid for by another form of transfer income—the taxes received by the government. Interest and dividends can be treated in either of two ways. They may be regarded as factor

* The list of bodies is included in Appendix I.

incomes accruing to the owner of the capital or as transfer payments out of the factor income earned by the enterprises using the capital. The second treatment is adopted in the Irish national accounts. Both treatments lead to the same aggregate for national income.

It is clear, therefore, that government receipts should be divided into two main categories, receipts from trading and rental incomes, which arise from provision by the government of some service for which the public pays directly in proportion to the service received, and transfer receipts, such as taxes, interests, grants and borrowing, in respect of which no service corresponding directly to the payment is provided by the government. Revenue from trading (the profits derived from trading activities) and rental income are factor incomes and make a direct contribution to national income, but transfer receipts are not added to national income as they are already included in the factor income arising in enterprises and households or from abroad.

Similar considerations apply in relation to expenditure. National expenditure is the total expenditure on the goods and services produced. In computing the total, only "final" expenditures must be counted, for to avoid duplication, all "intermediate" expenditures (e.g., expenditure on flour for the production of bread) must be excluded. Each of the four sectors of the economy, government, enterprises, households and the rest of the world buy goods and services and thereby, contribute to national expenditure. In the national accounts, household expenditure (with the exception of the purchase of dwellings) is regarded as all of a current nature and the only expenditure by enterprises included as final expenditure is that in respect of capital formation, since the current purchases of businesses are all on intermediate products.

Some problems arise, however, in relation to government final expenditure. It is clear that transfer payments by the government to other sectors, such as social payments to households, subsidies and capital grants to enterprises and abroad, interest and loans, result in final expenditure by other sectors and are not, therefore, part of government final expenditure. Neither should the total gross expenditure of trading concerns be included in government final expenditure since the public pay directly for the services provided by trading concerns and such expenditure by the public is included in household expenditure or charged as an expense to enterprises. The government, however, does provide certain collective services to the public which are rendered free or nearly free and, therefore, do not appear in household expenditure. These include defence, justice, education and health and, in the course of providing such services, the government purchases the services of their staffs and also certain goods. Since the incomes of teachers, health officials and other government staffs are included in national income, it is necessary to include in national expenditure the expenditure incurred in the provision of the corresponding services. As the services are not sold they can be valued in money only by adding up the money spent by the government in payment of wages and salaries and goods and services. In the same way direct government

expenditure on fixed assets such as buildings and equipment is part of national expenditure.

It is sometimes suggested that government services to enterprises such as advisory services or part of the expenditure on fire services or on roads should be regarded as an intermediate expenditure and, therefore, should be excluded from government final expenditure. This treatment, however, raises difficulties and in the national accounts all government expenditure on goods and services is treated as final expenditure.

From the foregoing considerations it is evident that government expenditure should be divided into expenditure on goods and services (which forms part of final national expenditure) and transfer payments which include interest, subsidies, grants and loans to other sectors, in respect of which the government does not receive any corresponding service from the public.

Current and Capital Expenditure

Reference has been made to "current" and "capital" expenditure and it is necessary to define these terms in relation to national income concepts. Current expenditure is expenditure on goods and services which are regarded as consumed at the time of purchase while capital expenditure results in the acquisition of assets which are consumed gradually over a period of years. In the case of transfer payments they are regarded as current or capital according as the final expenditure in the enterprise or household sector is current or capital in nature. Difficulties arise in deciding whether certain expenditures are current or capital and the allocation of certain items to capital expenditure by the government must be to some extent arbitrary. In national income accounts fixed asset formation is considered as an addition to national wealth but it is not necessary that the expenditure should yield a satisfactory monetary return for such expenditure to be classified as capital expenditure. For instance new works of construction on roads are included with fixed asset formation but it is not possible to measure a monetary return for such expenditure. The Exchequer certainly derives no direct financial return from this expenditure.

The goods included in fixed asset formation are goods with an expected average lifetime of more than one year purchased by enterprises or the government and also dwellings purchased by households. In practice it is convenient to exclude from asset formation certain small items such as hand tools and tyres, irrespective of their lifetime. Part of the capital expenditure by the government is on the purchase of fixed assets owned by the government but a considerable part of the expenditure relates to capital transfers to other sectors of the economy which then purchase fixed assets. Included with capital expenditure are all government transactions in financial assets and liabilities such as loans to other sectors and redemption of securities.

It is apparent that the concept of capital expenditure in national accounts is different from the business accounting concept and the concept used in budgetary accounting. It is to be expected, therefore, that the balance on current account of the government sector

will be different from the balance derived from the traditional accounts. In particular two large items, expenditure on the construction and improvement of roads and the redemption of securities, which are treated as current items in the budgetary accounts but as capital expenditure in the national accounts, are responsible for increasing the balance on current account by about £10 million per year.

Capital assets depreciate and, in order to be able to replace them when they are worn out, an amount should be set aside to cover depreciation of government owned fixed assets. This should be allowed for in government current expenditure before striking a balance on current account. The same amount would then be shown as a receipt on the capital account. Unfortunately, since government transactions are shown on a cash basis in the Finance and Appropriation accounts, no estimates of the depreciation of government owned capital assets are available, apart from those owned by the Post Office. For the government accounts presented here, no estimates of depreciation have been made and, in any interpretation of the balance on current account, it should be borne in mind that the balance is computed before allowance for depreciation. The depreciation of the assets purchased by other sectors of the economy with finances provided by the government sector should, of course, be included in the accounts of the other sectors.

Economic Classification of Receipts

Taxes. The most important item in government receipts is tax revenue. Taxes are divided into taxes on income, taxes on capital and taxes on expenditure. Taxes on income and capital correspond broadly with direct taxes and taxes on expenditure with indirect taxes. Social insurance contributions are treated as a form of taxation because the payment of these contributions is compulsory. The only item in taxes on capital is death duties which, from the point of view of the government, can be regarded as a current receipt. The distinction between taxes on income and taxes on expenditure is not always well defined. Taxes which constitute costs of production, such as alcohol and tobacco taxes, are considered as taxes on expenditure. Taxes in connection with the purchase or use of particular goods are also treated as taxes on expenditure. Examples are motor vehicle licence duties, customs duties and wireless licence duties. Rates are included with taxes on expenditure, as they are related to the use of land and buildings. Also included in taxes on expenditure are fees and licences paid to the government for services, which the government alone can provide, such as passport fees and court fees, and fines or penalties imposed by the government.

If government trading bodies enjoy a monopoly, any profits made, after allowance for depreciation and interest charges, are treated as taxes on expenditure while losses are treated as subsidies. Only one concern—the Post Office—sometimes contributes to taxes on expenditure in this manner.

Trading and Rental Income. Although the main economic activities of the government sector relate to the administration and de-

fence of the State, the collection of taxes and the provision of certain services to the community, there are certain branches of the government engaged in trading activities. Examples are the Post Office, the Post Office Savings Bank, Gaeltacht Services and the housing activities of local authorities. The object of engaging in such activities is not usually the making of profits. The housing activities of local authorities are run at a loss and the object, in the case of the Post Office, is to just cover expenses. The main interest in trading bodies from the national income point of view is not in their gross payments and gross receipts but in the net profit or loss resulting from their operations and in their expenditure on capital formation, since as already observed the trading income of such bodies is a direct contribution to national income and their gross payments in the form of wages, salaries and expenditure on goods are not part of final expenditure. In the case of the Post Office, therefore, the gross trading payments (Post Office wages, salaries, etc.) are not included in government expenditure, nor are the gross trading receipts (revenue from sales of stamps, telephone, etc.) included in government revenue, but the balance of current receipts over current expenditure, after certain adjustments, is brought into government revenue as gross trading income. The method used in obtaining the figures relating to the Post Office which are included in the national income accounts are described in Appendix II and the actual items included in the accounts are also shown. Closely connected with the Post Office is the Post Office Savings Bank and the treatment of the Savings Bank is also described in Appendix II.

Only two trading bodies—the Post Office and Post Office Savings Bank—are included in the central government sector. Although Gaeltacht Services are engaged in trading no commercial accounts are available and this branch of the government service has been treated as a department in which part of the cost of the services provided is recouped from the public. In nearly all departments certain costs are recouped from the public as appropriations-in-aid or as exchequer extra receipts. Such activities are not treated as trading since the amounts of these receipts represent only a small fraction of the cost of running the departments. The amount of such miscellaneous receipts is shown as a separate item in the government accounts presented here, but it is necessary to deduct these receipts from government current expenditure and to enter “net expenditure” in the national income accounts. In the case of Gaeltacht Services the receipts from the public are considerable in relation to the amount of expenditure and it would be more desirable to treat this branch as a full trading body if commercial accounts were available.

In the local authority sector the housing activities of local authorities relating to the provision of houses for renting are treated as a trading activity, in which the rents are deliberately subsidised, the subsidy being the amount by which the rental income received from tenants together with other miscellaneous receipts fall below the current outgoings on the upkeep of houses, loan charges and administration costs. The effect of this treatment is that the expenditure on maintenance and repair and the

administration costs of local authority housing are omitted from the accounts and are replaced by a housing subsidy, and the actual rental income received from tenants is also omitted and replaced by an imputed gross rental income related to the actual cost of providing the houses. The method is explained fully in Appendix II.

Interest and Dividends. Interest and dividends received by the government are distinguished according to the source of the income. The land annuities are shown as a separate item.

Financial Claims. A considerable part of government finance is obtained by borrowing. The government acting both as a borrower and a lender plays an important part in channelling savings from those with funds to others who are seeking funds to borrow. The activity is obviously important in relation to economic development, particularly in a country where there is no developed capital market, and it gives rise to different types of transactions in financial claims which can be separately distinguished in the accounts. Thus, receipts may accrue to the government from direct borrowing or borrowing by the issue or sale of securities or by the utilisation of cash balances and also by the repayment to the government of previous loans given to the other sectors of the economy. It is of interest to distinguish these classes of receipts and, in the case of the repayment of loans, to show the figures on a gross basis. It would be of little interest to show the other items gross, the amounts for which may be very large, even when there is very little net borrowing. The purchases of securities are, therefore, subtracted from the sales and new issues of securities. Securities which are redeemed through sinking funds are, however, shown separately. On the expenditure side of the account are included the direct loans given by the government to the other sectors. Included with these direct loans and not distinguished from them is the provision of capital to public corporations.

A detailed analysis of government borrowing is very valuable in considering the impact of government transactions on the rest of the economy and is also necessary in relation to the compilation of statistics of financial flows between the different sectors of the economy. A table has been prepared, therefore, giving details of the borrowing of central government according to (i) type of borrowing and (ii) sector from which borrowed.

Economic Classification of Expenditure

A considerable part (in recent years the greater part) of government expenditure has the effect of redistributing incomes and does not add to the volume of goods and services provided by the government which correspond to final expenditure by the government. The most important distinction to be made on the expenditure side of government accounts is that between transfer payments (in respect of which no service is received by the government), whether to individuals or enterprises, and final expenditure by the government itself. In relation to transfer payments it is convenient to distinguish five types of unrequited current payments according

to whether they are received by enterprises, persons and private non-profit making institutions, bodies mainly financed by the government, other grant-aided bodies and local authorities.

- (a) *Subsidies.* Subsidies are grants made to enterprises (trading concerns) which can be regarded as current trading receipts of the recipient. Thus the lime and fertiliser subsidies have the effect of reducing the prices paid by farmers for these commodities, which are part of the inputs of their industry, and are treated as current subsidies. Grants to cover the deficits on the trading accounts of public corporations are also treated as subsidies.
- (b) *Transfer payments to households.* When grants are paid to persons or private non-profit making institutions they are called transfer payments to households and may be current or capital in character. The most important current transfer payments are social welfare benefits. Secondary schools are regarded as being in the private sector of the economy and, therefore, capitation grants and other payments to secondary schools are treated as transfer payments. Capital transfer payments comprise items such as grants to Universities for construction work and grants to persons constructing houses.
- (c) *Grant-aided bodies financed by the government.* Grant-aided bodies such as the Industrial Development Authority are regarded as extensions of government departments since they are mainly financed by the government and are subject to financial control and are therefore treated as part of the government sector. The payments to such bodies, therefore, disappear on consolidation and the full expenditure of the bodies is recorded as government expenditure, according to economic category.
- (d) *Other grant-aided bodies.* There are certain bodies serving enterprises, which are aided but not controlled by the government, and which do not produce goods and services or trade in the normal way with the object of making a profit. An example is Coras Tráchtála Teoranta. Current payments to these bodies are regarded as government current expenditure on goods and services, while capital payments are classified as capital grants to enterprises.
- (e) *Grants to Local Authorities.* These grants are separately distinguished and disappear on consolidation of the whole public authorities' sector.

Current Expenditure on Goods and Services. The expenditure on the administration and defence of the State is included in this category together with administrative expenditure on social services such as education and health. All expenditure relating to defence is treated as current expenditure even though it may be in respect of constructional work or heavy equipment. Wages and salaries are distinguished from other expenditure.

Interest and Dividends. Interest paid to other sectors of the economy on government borrowing is classified as national debt interest. As explained in Appendix II this item includes the total investment income of the Post Office Savings Bank Fund. Payment of land bond interest is separately distinguished.

Gross Physical Capital Formation. This item includes only direct capital expenditure by the government on government buildings, constructional works, national schools, etc., and must not be confused with other capital payments by the government which are included in capital grants and other transfer payments.

Capital Grants. These are grants to enterprises or to local authorities for capital purposes and include items such as expenditure on farm buildings, land rehabilitation and capital payments to industrial concerns, including public corporations.

Method of Analysis

In the process of distinguishing the types of payments and receipts and consolidating the accounts a large number of internal transactions are completely eliminated from the accounts so that only the transactions between the government sector and the rest of the economy remain. The transactions eliminated comprise certain transfers from one government department to another or from one extra-budgetary fund to another and transfers between the exchequer and extra-budgetary funds. Such transfers which are grants, loans or interest payments, when payment is made without receipt of a service, are omitted from both the receipts and the payments side of the account. Where, however, a service is provided by one department or fund to another department or fund the payment (or imputed payment) is recorded as current expenditure and the receipts are recorded as current receipts by the department or fund rendering the service, provided the department is not a trading concern. When finally net current expenditure is derived in the consolidated account by the subtraction of current receipts from current expenditure the effect is that such transactions between departments and funds are eliminated since they appear in the same economic category in respect of receipts and payments. It is not always possible to ensure that this occurs, however. For instance, payments of petrol tax and rates are included in current expenditure of the spending department but are recorded as taxation by the bodies receiving the payments, and, therefore such payments and receipts are not eliminated from the accounts. It would be very troublesome to eliminate all such transfers which, in the aggregate, are not very large. Again imputed payments by departments to the Post Office are part of the gross trading income of the Post Office and also a part of current expenditure. These imputed payments, therefore, are not eliminated.

A further problem relates to the division between the current and capital accounts which, as already indicated, raises difficulties. There are certain items of revenue and expenditure which from the point of view of the government sector could be treated as current revenue and expenditure rather than capital receipts and payments although the payments are made from and to the capital accounts

of other sectors. On the revenue side the government's receipts from death duties are a regular income and hence might be considered appropriate to the current account of the government sector, but the payment is made from the capital account of the private sector. There would be some justification, therefore, for including receipts from death duties in the capital account of the government sector. However, in order to keep all taxation in the current account this item has been treated as current receipts. Similarly, certain capital grants, such as those in respect of the farm buildings scheme, University construction and housing grants, by the government can be considered as an annual charge on the Exchequer but they are certainly capital receipts in the accounts of the recipients. Since such payments will eventually result in gross fixed asset formation, for national income analysis it is appropriate to include the payments in the capital account of the government sector, as well as payments in respect of direct physical asset formation by the government.

The treatment of trading bodies in the accounts has already been discussed and compared with the treatment in the Finance and Appropriation accounts. The treatment adopted here for another item of expenditure in connection with land annuities is also different from that used in the Finance Accounts. When the land annuities were halved about twenty-five years ago the Exchequer was made liable for payment to the Land Bond Fund of that portion of the land annuities which were no longer payable by the agricultural community. In the Finance Accounts this portion of the land annuities paid by the Exchequer to the Land Bond Fund is treated as service of the public debt. In consolidating the accounts this payment is an internal transaction in the government sector and is, therefore, eliminated, the only effect of the halving of the annuities on the consolidated account being to decrease the receipts of land annuities by this amount. However, in effect, the government is subsidising the payments of land annuities and, in order to record this fact in the consolidated account, the payment by the exchequer to the Land Bond Fund is regarded as a subsidy to the agricultural sector and the same amount is imputed as a payment of land annuities by the agricultural sector. Payments by the central government and local authorities towards housing loan charges are also treated differently. Whereas in the Finance Accounts the payments from the Exchequer to local authorities are regarded as service of the public debt they are here treated as current grants to local authorities. In the local authority current account they are included as current grants received from the central government. As a result of the treatment of housing as a trading activity as described in Appendix II the contribution by the Exchequer to housing loan charges is, in effect, included in housing subsidies in the consolidated account for central government and local authorities instead of in service of the public debt.

In general the expenditure of local authorities on loan and stock account in the Local Taxation Returns has been taken as capital expenditure. There are certain items, however, which in the Local Taxation Returns, have been charged against the revenue account although they are of capital nature. These are expenditure on the

reconstruction and improvement of roads and expenditure under the Local Authorities (Works) Act, and they have been transferred from current to capital expenditure. An item for expenditure on the repair of labourers' cottages has been transferred from capital to current expenditure.

The expenditure of local authorities on school meals, home assistance, blind welfare, scholarships, etc. is treated as a transfer payment to persons and is included with current transfer payments. Expenditure by local authorities on maintenance and clothing in institutions, dispensary treatment, maintenance allowances, etc. is also regarded as a current transfer payment. Expenditure on the health services is, therefore, partly treated as current expenditure (wages and salaries of staff and running costs of institutions) and partly as transfer payments (costs of food, clothing, medicine, etc. supplied to patients). The receipts from paying patients are subtracted from transfer payments.

Certain payments to local authorities are included with State grants in the Local Taxation Returns. These include such items as government contributions in lieu of rates and payments to local authorities from the Road Fund to cover collection expenses. These payments have been classified as government current expenditure in the central government account and, therefore, a corresponding amount must be deducted from State grants in the Local Taxation Returns and transferred to current receipts.

Classification of Expenditure by Purpose

The classification discussed above is a classification into different types of economic transactions. Another type of classification which brings together expenditures allocated for specific purposes is of considerable interest. Such a classification may be called a classification by "purpose of expenditure". It distinguishes expenditures on basic administrative services such as justice, police, defence, other administration, economic and community services such as agriculture, industry and roads, and social services, such as education, health and social welfare. There are difficulties in compiling the data for such a classification because, while certain votes in the Appropriation Accounts refer only to one type of service, others such as the Office of Public Works and the Stationery Office contribute to many different services, and a detailed analysis of these expenditures has to be made. The difficulty is even more marked in the case of local authority accounts where considerable expenditures are recorded under general purposes. A table has been prepared, however, for the year 1957-58, which shows a cross classification of central government expenditure, by economic type and by purpose of expenditure, and total figures are also shown for 1953-54.

PART II—THE RESULTS

Central Government Accounts

Table 1 shows for the years 1953-54 to 1958-59 the consolidated current and capital accounts of the central government (including extra-budgetary funds), after elimination of transfers between the

different accounts. The figures for the latest year are based on estimates in certain cases.

Both current receipts and expenditure rose steadily from 1953-54 to 1957-58 but in 1958-59 current receipts increased by only £3 million while current expenditure was about the same as in 1957-58. On the other hand there are marked variations in capital receipts and expenditure which are partly due to the fact that in some years certain of the public corporations borrowed directly from the public instead of obtaining their finances through the central government.

The amount received from taxes on income and capital has not altered appreciably since 1955-56 but receipts from taxes on expenditure show a marked upward trend. The other items of receipts also show increasing trends, except investment income from abroad which declined steadily over the period as a result of the sales of sterling securities.

The most notable feature of the current expenditure figures is the increasing importance of transfer payments in total current expenditure. While expenditure on subsidies did not alter appreciably over the six-year period, an upward trend in the years 1953-54 to 1956-57 being reversed in the later period, all other transfer payments (except land bond interest) show marked increases. In fact the aggregate of national debt interest, other current transfer payments and grants to local authorities increased from £50.0 million in 1953-54 to £65.5 million in 1958-59, and in that year constituted about 54 per cent. of current expenditure by central government. In contrast, expenditure on current goods and services increased by only £3 million from £40.9 million in 1953-54 to £43.9 million in 1958-59. Final expenditure by the central government was responsible, therefore, for an increase of only £3 million of the total increase of £19 million in current expenditure on the six-year period.

National debt interest and land bond interest rose from £8.8 million in 1953-54 to £13.6 million in 1958-59. In considering the burden of this debt attention must be directed to the income from trading and investments which (after deducting that part of the land annuities paid by the Exchequer) rose from £10.1 million to £15.1 million. The position revealed by these figures is altered considerably when the local authorities are taken into account as will be seen later.

The balance on current account less taxes on capital can be regarded as government savings before provision for depreciation and the amount varied from £3.8 million in 1953-54 to £9.3 million in 1958-59. Lest these figures may impart too encouraging a picture of the central government finances it is necessary to repeat that no allowance for government depreciation has been made in these accounts. It is evident that net government savings after allowance for depreciation would be lower than the figures just quoted by the depreciation of government owned fixed assets. Expenditure on gross physical capital formation by central government has not exceeded £6 million per year in recent years and it would appear likely that annual depreciation does not exceed this amount, so that net central government savings would still be a

positive quantity in 1957-58 and 1958-59. Provision for depreciation of assets purchased by other sectors of the economy by means of government grants and transfer payments appears in the accounts of these other sectors.

No confusion should be caused by the fact that government savings before allowance for depreciation are positive in Table 1 while budgetary deficits were recorded in the same years. The differences are due to the inclusion in the capital account of Table 1 certain items which are included in the current budget, to which reference has already been made. The main items are grants to local authorities in respect of road improvement and redemption of securities. Indeed, from the point of view of budgetary financing, there is much to be said for including in the current budget all capital grants and transfer payments, since the payments are an annual drain on the Exchequer and the government sector cannot derive any direct benefit from the payments.

Receipts on capital account are obtained mainly from borrowing, which amounted to £34.7 million in 1956/57, declining to £20.9 million in 1958/59. In relation to these figures regard must be taken of expenditure on the redemption of securities which acts as an offset to borrowing. Capital grants to enterprises show an upward trend since 1954/55, but capital transfer payments to households and private non-profit making institutions show a steady decline. Apart from the one year, 1957/58, expenditure on gross physical capital formation shows an upward trend. Loans to local authorities which had reached £11.8 million in 1957/58 declined to £6.6 million in 1958/59, but the decline in other loans from £12.0 million in 1956/57 to £4.5 million in 1958/59 was more marked.

In order to finance government expenditure the central government (including extra-budgetary funds) borrowed substantial sums each year. Table 2 shows the sources from which the finances were obtained in the years 1953/54 to 1957/58 and also the different types of borrowing for 1957/58. In the derivation of the figures it was necessary to make certain assumptions. The receipts of the Post Office Savings Bank Fund and the receipts from savings certificates have been assumed to come from households and unincorporated businesses. Receipts from prize bonds have been divided between companies (5 per cent) and households and unincorporated businesses (95 per cent). Subscriptions from residents of amounts up to £5,000 to national loans have been assumed to come from households and unincorporated businesses, while larger amounts from residents have been allocated to companies. Net sales of Irish securities have been divided arbitrarily between companies (40 per cent.) and households and unincorporated businesses (60 per cent.).

A notable feature of the table is the large volume of borrowing from households and unincorporated businesses which, in 1957/58, accounted for about one-half of total borrowing. The banks also played an important part in financing government borrowing in the period 1954/55 to 1956/57. The table shows some of the flows in respect of financial assets and liabilities between the central government sector and other sectors in the economy. A complete

statement of such financial flows between various sectors would be of great interest in the consideration of monetary policy. A complete system of financial statistics would, of course, show the financial flows for each of the main sectors of the economy, the classification being extended to include insurance companies, other financial institutions, etc. The classification by type of borrowing would also naturally have to be extended to include all the main types of financial assets and liabilities such as money, central government securities, local government securities, ordinary stocks and shares, etc.

Reference was made earlier to a classification of expenditure according to purpose, and Table 3 shows the results of cross-classifying central government expenditure in 1957/58 by economic type and by purpose of expenditure. There are three main divisions by purpose, general services, economic and community services and social services. Each of these groups is further subdivided. In deriving the figures it was possible in certain cases to allocate entire votes in the Appropriation Accounts to one purpose but sometimes it was necessary to divide votes between many purposes. The method of allocation of votes to specific purposes is shown in Appendix III. A similar type of allocation was used for expenditures which were not recorded in votes in the Appropriation Accounts.

Out of a total of £163·2 million current and capital expenditure by central government in 1957/58, social services accounted for £73·7 million, economic and community services for £49·6 million, general services for £19·8 million and debt services for £17·2 million, while £2·9 million could not be allocated. Social welfare accounts for almost half of the expenditure on social services and education for a little less than one-quarter. Housing and health each account for nearly one-sixth of total expenditure on social services. Two-fifths of the expenditure on economic and community services relates to agriculture and about three-tenths goes on transport and communication. Three-quarters of the expenditure on general services is on defence, justice and police. Corresponding total figures are shown for 1953/54.

Local Authority Accounts

Sufficient detail is not given in the Local Taxation Returns, nor in the accounts of the individual local authorities which are used in the compilation of the Local Taxation Returns, to enable as great detail to be shown for local authorities as was done for the central government sector. The principal defects are the inability to distinguish payments on wages and salaries from other current expenditure and to distinguish current and capital expenditure in all cases.

Table 4 shows the consolidated current and capital accounts of local authorities. Current receipts and expenditure have risen each year but both capital receipts and expenditure have declined each year since 1956/57. The main sources of current receipts are rates and State grants, both of which show substantial increases since 1953/54. Expenditure on transfer payments (subsidies, national debt interest, etc.) shows marked increases from 1953/54

to 1958/59, and, unlike the central government sector, expenditure on current goods and services also show a proportionately large increase from £22·7 million in 1953/54 to £29·1 million in 1958/59—a rise of £6·4 million out of a total increase of £13·6 million on current expenditure.

On capital account notable decreases in loans to persons and in gross physical capital formation have occurred since 1955/56. These figures are a reflection of the reduced building activity in recent years. The borrowing to finance the capital expenditure also shows a downward trend since 1955/56.

National debt interest paid by local authorities rose from £3·5 million in 1953/54 to £6·6 million in 1958/59. To offset this payment, receipts of interest under the Small Dwellings Acquisition Acts (say about two-thirds of the total repayment) and gross rental income less housing subsidies accrue to the local authorities. These receipts increased from £0·7 million in 1953/54 to £1·9 million in 1958/59.

The balance on current account varied from a surplus £2·6 million in 1953/54 to £4·3 million in 1957/58 and was £3·0 million in 1958/59. Similar remarks to those already made in regard to central government depreciation apply here. In addition it should be observed that a part of the repayment of loans under the Small Dwellings Acquisition Acts is repayment of principal and should strictly be included in the capital account.

Combined Public Authorities' Accounts

Table 5 shows consolidated current and capital accounts for the whole public authorities' sector—central government, extra-budgetary funds and local authorities. In preparing the table miscellaneous current receipts have been subtracted from current expenditure to derive net current expenditure on goods and services and, of course, all payments between central and local government have been eliminated. In addition, two-thirds of the receipts under the Small Dwellings Acquisition Acts have been taken as receipts of interest and included with investment income, while the remainder of this item has been allocated to loan repayments in the capital account. The main features of the table are the rapid increase in taxes on expenditure (including rates) from £78·4 million in 1953/54 to £98·2 million in 1958/59 and the large increase in national debt interest and other current transfer payments over the period shown.

National debt interest (including land bond interest) rose from £10·2 million in 1953/54 to £15·9 million in 1958/59. At the same time, trading, rental and investment income (after deducting subsidies paid by the public authorities) increased from £8·6 million to £12·8 million. Thus, the greater part of national debt interest is covered by receipts from past investments.

Public authorities' net current expenditure on goods and services increased by £7·2 million from £56·4 million in 1953/54 to £63·6 million in 1958/59, so that the proportionate increase has been small when compared with the increase in expenditure on transfer payments. There have been many references in recent

years to mounting costs of administration without any clear definition as to what constitutes costs of administration. Net expenditure by public authorities may, however, be described as the costs of administration and the provision of social and community services such as health, roads, education, etc. From the figures in Table 1 it is clear that the main reason for increased government expenditure in recent years is not increasing costs of administration but greatly increased transfer payments.

The surplus on public authorities' current account after deduction of taxes on capital rose from £8.9 million in 1953/54 to £14.6 million in 1958/59, before allowance for depreciation. It is reasonable to infer from the high level of public authorities' gross fixed asset formation in recent years that the depreciation of assets owned by public authorities is considerable and would probably have the effect of eliminating the surplus on current account except for the two most recent years. These recent surpluses and the fact that the greater part of the national debt interest is covered by receipts of investment income lead to the conclusion that the financial position of the public authorities is sound. Nevertheless, there should be no undue optimism about the future. Expenditure on capital transfer payments, which has been about £8-£9 million a year recently, does not provide a future monetary return to the public authorities, although the expenditure should benefit the economy as a whole. If such expenditure should rise markedly, the interest on future national debt could not be adequately covered by investment income without having a large surplus on current account.

Expenditure on gross physical capital formation has decreased since 1956/57, while borrowing has also fallen significantly from the very high level of 1956/57.

The pattern of the changes in public authorities' current receipts and expenditure is indicated in Table 6, which shows the percentage distribution of public authorities' current receipts and expenditure in each year.

The proportion of current receipts arising from taxes on income and social insurance contributions declined each year from 1955/56 to 1958/59, while the proportion from taxes on expenditure increased from 61.7 per cent. in 1955/56 to 64.2 per cent. in 1958/59.

On the expenditure side the table shows that national debt interest (including land bond interest) has risen from 8.9 per cent of total expenditure in 1953/54 to 11.5 per cent. in 1958/59. At the same time other transfer payments have increased from 30.3 per cent. to 31.7 per cent, while net current expenditure on goods and services decreased from 49.0 per cent. to 46.0 per cent.

International Comparisons

Table 7 shows the current receipts and expenditure of public authorities for a number of countries. The figures for Ireland included in this table are somewhat different from those shown in earlier tables. Certain adjustments have been made to the figures in order to make them as comparable as possible with OEEC concepts. In particular a conjectural figure for the depreciation

of the fixed assets of public authorities is included in current expenditure.

Table 8 shows the percentage distribution of the figures in Table 7.

The proportion of current receipts obtained from total direct taxation (taxes on income and social insurance contributions) is low in Ireland by comparison with other countries, accounting for only 24·2 per cent. of current receipts as compared with figures ranging from 27·5 per cent. for Italy to 63·2 per cent. for the Netherlands. On the other hand indirect taxes (taxes on expenditure) form a very high proportion of current receipts in Ireland amounting to 67·7 per cent. as compared with figures ranging from 31·1 per cent. in the Netherlands to 64·8 per cent. in Italy. Only 4·2 per cent. of current receipts is from social insurance contributions in Ireland, while, in other countries, the figures vary between 7·7 per cent. and 28·3 per cent. These differences, of course, are a reflection of the high proportion of agriculturists in Ireland, most of whom pay no direct taxes on income. The proportion of income from property and entrepreneurship is 8·1 per cent. in Ireland and only the United Kingdom exceeds this proportion, but in interpreting the figures it should be observed that the proportion of expenditure for interest on the public debt is also the second highest.

Ireland occupies an intermediate position as regards the proportion of expenditure on current goods and services, but when defence expenditure is excluded the proportion is the highest in the table being slightly in excess of that for Sweden. A part of the current expenditure on goods and services in Ireland, however, relates to expenditure of a social nature mainly undertaken to relieve unemployment at certain times. Examples of such works are the work undertaken by the Special Employment Schemes Office and work for the improvement of estates taken over by the Land Commission.

The proportion of expenditure on subsidies and current transfers is about average when compared with the other countries but, as already observed, Ireland shows the second highest figure for interest on the national debt.

When total taxation is expressed as a proportion of gross national product it will be observed that only one country, Italy, has a lower figure than Ireland, while the proportion in Belgium is about the same as Ireland. In the other countries the proportions are considerably higher than in Ireland and exceed 30 per cent. in Norway, the Netherlands and France.

Much the same pattern is shown from a comparison of the figures for total current expenditure as a proportion of gross national product. For Ireland the proportion is 23·7 per cent., while the proportions in Belgium and Italy are somewhat lower. The proportion in Norway is little different from that in Ireland, and in the remaining countries the proportions are larger, reading 28·0 per cent. in the United Kingdom and 31·0 per cent. in France.

These comparisons show that the relationships in Ireland between government current revenue and expenditure and gross national product are by no means exceptional.

CONCLUSIONS

(1) The preparation and publication of consolidated government accounts on the lines of those discussed in this paper is essential for national income analysis and the international comparability of government financial transactions. Such accounts should also prove useful in relation to the formation of future policy and will enable those whose task it is to discuss and formulate this policy to have a comprehensive picture of the inter-relationship between figures in the government accounts and the transactions of other sectors of the economy.

(2) While the present accounting structure is essential and the re-arrangement of the accounts for national income analysis is not intended to replace it, there is scope for improvement in the methods adopted for accounting. To enable the reclassification adopted in this paper to be carried out easily and expeditiously, it is desirable to record separately every transaction between departments and extra-budgetary funds or local authorities, even when the amounts involved are small. At present certain items of this nature are amalgamated with other items of revenue and expenditure. Of greater importance, however, is to identify separately transactions of different economic significance. This is particularly so in relation to local authorities. Wages and salaries should be distinguished from other expenditure on goods and services in all cases and an attempt should be made to distinguish capital from current expenditure in relation to the type of assets produced by the expenditure rather than by the method of financing adopted.

(3) During the course of this paper reference has been made to public corporations. The importance of these public corporations in the national economy is evident and it seems highly desirable to prepare a consolidated series of accounts in respect of their transactions in order to consider their impact on the economy and their relationship with other sectors. A large number of government transactions are with the public corporations and these can easily be segregated in the government accounts. If the government sector and the public corporations are combined the aggregate might be called the "public sector" and it would be of interest to consider the public sector in relation to similar concepts in other countries. This is something which might be done in the future.

(4) At present, with the exception of the Post Office, depreciation estimates are not available in government accounts. As the stocks of capital assets of the government sector covers such assets as government buildings, hospitals, schools, houses, etc., it is evident that the annual depreciation of assets is considerable. Reliable estimates of such depreciation would be of considerable value and would enable reliable estimates of *net* capital formation to be derived. As indicated earlier only conjectural estimates of the depreciation of some of these assets have been entered in Table 7. Reliable estimates of government depreciation should be compiled and are most necessary in connection with future economic planning.

(5) One of the tables in this paper forms the basis of what can

TABLE I.—RECEIPTS AND EXPENDITURE OF CENTRAL GOVERNMENT AND EXTRA-BUDGETARY FUNDS, 1953-54 TO 1958-59.

Category	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59
	£ thou sands					
<i>Current receipts</i>						
Taxes on income	24,870	26,426	27,995	27,170	28,045	27,820
Taxes on capital	2,803	2,990	3,302	2,348	2,680	2,890
Taxes on expenditure	61,136	61,236	63,777	70,240	73,651	75,850
Social Insurance contributions	5,290	5,341	5,387	5,684	5,911	5,880
Gross trading income	1,611	1,715	1,976	2,225	2,605	2,640
<i>Investment income:</i>						
Local Authorities	2,096	2,503	2,793	3,211	3,768	4,250
Land Annuities—interest	2,870	2,872	2,877	2,883	2,889	2,900
Other Irish sources	3,086	3,528	3,858	4,211	4,900	5,570
Abroad	1,207	1,336	1,318	938	775	620
Miscellaneous receipts	3,977	4,070	4,506	4,571	4,975	4,740
Total	108,946	112,017	117,789	123,481	130,199	133,160
<i>Capital receipts</i>						
Loan repayments:						
Local Authorities	1,094	1,273	1,455	1,616	1,763	1,920
Land Annuities—principal	526	532	548	586	587	570
Other loans	796	664	714	2,319	790	880
Grants from abroad	—	—	—	—	—	280
Borrowing	29,868	31,070	22,766	34,688	29,882	20,900
Total	32,284	33,539	25,483	39,209	33,022	24,550
Total receipts—current and capital	141,230	145,556	143,272	162,690	163,221	157,710
<i>Current expenditure</i>						
Subsidies	10,283	11,938	12,702	13,041	11,392	10,320
National debt interest:						
paid to residents	5,891	6,687	7,935	8,606	10,052	10,410
paid abroad	1,696	1,818	1,812	1,960	1,894	1,930
Land Bond interest	1,205	1,210	1,221	1,322	1,246	1,260
Other current transfer payments	27,927	28,168	28,988	30,941	34,353	34,100
Current expenditure on goods and services:						
Wages, salaries and pensions	29,415	30,278	30,634	32,498	32,405	33,450
Other	11,476	10,322	10,428	10,374	10,461	10,430
Current grants to Local Authorities	14,439	16,078	16,651	18,693	19,191	19,040
Total	102,332	106,499	110,371	117,435	120,994	120,940
<i>Capital expenditure</i>						
Capital grants to enterprises	4,978	2,747	3,305	5,388	5,347	6,390
Other capital transfer payments	5,159	4,148	3,519	3,063	2,127	1,480
Redemption of securities	2,004	5,671	4,737	4,513	4,036	7,120
Gross physical capital formation	4,283	4,881	5,154	5,636	4,935	5,940
Payments abroad	—	—	—	—	2,050	410
Loans:						
Local Authorities	9,108	8,090	8,557	10,998	11,810	6,550
Other	7,950	7,593	2,520	12,033	6,459	4,520
Capital grants to Local Authorities	5,416	5,927	5,109	3,624	5,463	4,360
Total	38,898	39,057	32,901	45,255	42,227	36,770
Total expenditure—current and capital	141,230	145,556	143,272	162,690	163,221	157,710

be described as statistics of financial flows. It is of considerable importance to develop a system for the compilation of such statistics, first in relation to the government sector of the economy and later in relation to banks and other financial institutions. Statistics of this nature would undoubtedly lead to a clearer understanding of the economic relationships between different sectors of the economy and would provide a further valuable basis on which public administrators could base their decisions.

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TABLE 2.—NET BORROWING OF CENTRAL GOVERNMENT IN 1957-58, CLASSIFIED BY CATEGORY AND BY SOURCE, WITH CORRESPONDING FIGURES CLASSIFIED BY SOURCE FOR 1953-54 TO 1956-57.

Category	Banks	Other companies	Households and unincorporated businesses	Abroad	Unallocated	Total
£ thousands						
<u>1957-58</u>						
Deposits less withdrawals plus interest credited to depositors in P.O. Savings Bank and net borrowing through savings certificates	—	—	2,431	—	—	2,431
Exchequer bills	1,500	2,500	100	400	—	4,500
National loans (new issues) ...	—	1,814	7,764	380	—	9,958
Prize bonds	—	339	6,447	—	—	6,786
Other borrowings	—	2,800	—	—	—	2,800
Net sales of Irish securities ...	—	623	935	—	—	1,558
Net sales of foreign securities	44	—	—	1,903	—	1,947
Net changes in balances, etc.	-326	—	—	—	228	-98
Total—1957-58 ...	1,218	8,076	17,677	2,683	228	29,882
Total—1956-57 ...	8,866	3,857	14,288	8,665	-488	34,688
Total—1955-56 ...	6,285	1,075	7,433	7,680	203	22,676
Total—1954-55 ...	9,087	4,121	15,521	2,088	253	31,070
Total—1953-54 ...	3,667	6,609	17,046	2,580	-34	29,868

Note :— Minus sign denotes net purchases or accumulation of balances, etc.

TABLE 3.—CENTRAL GOVERNMENT EXPENDITURE CLASSIFIED BY ECONOMIC TYPE AND BY PURPOSE OF EXPENDITURE, 1957-58, WITH CORRESPONDING TOTALS FOR EACH PURPOSE, 1953-54.

Economic type	General Services					Economic and community services						Social services				Debt Services	Unallocable expenditure	Total
	Finance and tax collection	External Affairs	Defence	Justice and Police	General administration	Agriculture (including food)	Forestry and fishing	Industry (including fuel, mining, etc.)	Transport and communication	Other economic and community services	Education	Health	Housing	Social Welfare				
	£ thousands																	
<i>Current expenditure</i>																		
Subsidies	—	—	—	—	—	9,200	89	119	1,970	—	14	—	—	—	—	—	11,392	
National debt interest :	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
paid to residents	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
paid abroad	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Land Bond interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	10,652	
Other current transfer payments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,894	
Current expenditure on goods and services :	—	—	372	3	—	—	7	—	11	16	3,637	33	—	30,217	1,246	57	1,246	
Wages, salaries and pensions	2,326	364	6,366	5,409	1,359	1,535	998	569	467	1,796	9,602	261	—	1,267	—	86	32,405	
Other	494	183	1,305	802	601	797	170	211	485	2,576	351	89	—	1,742	—	655	10,461	
Current grants to Local Authorities	—	—	12	—	—	5,816	41	—	1,404	529	1,096	8,109	1,840	342	—	2	19,191	
Total 1957-58	2,820	547	8,055	6,214	1,960	17,348	1,305	899	4,387	4,917	14,700	8,492	1,840	33,568	13,192	800	120,994	
Total 1953-54	2,407	482	9,826	5,443	1,788	15,136	985	1,021	4,204	3,920	12,243	5,982	1,083	28,023	8,792	747	102,082	

TABLE 3.—CENTRAL GOVERNMENT EXPENDITURE CLASSIFIED BY ECONOMIC TYPE AND BY PURPOSE OF EXPENDITURE, 1957-58, WITH CORRESPONDING TOTALS FOR EACH PURPOSE, 1953-54—continued.

Economic type	General Services				Economic and community services							Social services				Debt Services	Unallocable expenditure	Total
	Finance and tax collection	External Affairs	Defence	Justice and Police	General administration	Agriculture (including food)	Forestry and fishing	Industry (including fuel, mining, etc.)	Transport and communication	Other economic and services	Education	Health	Housing	Social Welfare				
	£ thousands																	
Capital expenditure																		
Capital grants	—	—	—	—	—	2,800	38	354	2,155	—	—	—	—	—	—	—	5,347	
Other capital transfer payments	—	—	—	—	—	—	—	—	—	—	519	—	1,598	—	—	10	2,127	
Redemption of securities ...	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4,036	—	4,036	
Gross physical capital formation	22	30	75	62	22	99	1,008	10	1,726	683	1,241	4	—	3	—	—	4,935	
Payments abroad	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,050	2,050	
Loans:																		
Local Authorities	—	—	—	—	—	—	—	—	82	—	181	2,772	8,775	—	—	—	11,810	
Other	—	—	—	11	—	73	155	4,385	1,820	—	15	—	—	—	—	—	6,459	
Capital grants to Local Authorities	—	—	—	—	—	—	—	—	5,921	185	46	8	3	—	—	—	5,463	
Total 1957-58	22	30	75	73	22	2,972	1,201	4,749	11,004	818	2,002	2,784	10,376	3	4,036	2,060	42,327	
Total 1953-54	12	18	44	73	56	2,534	636	8,214	8,411	1,207	1,550	4,529	9,637	223	2,004	—	39,148	
Total expenditure—current and capital 1957-58	2,842	577	8,130	6,287	1,982	20,320	2,506	5,648	15,341	5,735	16,702	11,276	12,216	33,571	17,228	2,860	163,221	
Total expenditure—current and capital 1953-54	2,419	500	9,870	5,516	1,844	17,670	1,621	9,235	12,615	5,127	13,793	10,511	10,720	28,246	10,796	747	141,230	

TABLE 4.—RECEIPTS AND EXPENDITURE OF LOCAL AUTHORITIES, 1953-54 TO 1958-59.

Category	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59
	£ thousands					
<i>Current receipts</i>						
Rates	16,292	17,376	18,091	20,089	20,448	21,350
Taxes on expenditure	923	949	1,053	994	931	1,040
Gross rental income	3,389	3,751	3,988	4,443	4,869	5,200
Current grants from C.G. and E.B.F.	14,439	16,078	16,651	18,693	19,191	19,040
Repayment of loans under Small Dwellings Acquisition Acts ...	797	1,041	1,239	1,484	1,638	1,900
Miscellaneous receipts	3,223	3,299	3,579	3,993	4,159	4,550
Total	39,063	42,494	44,601	49,696	51,236	53,080
<i>Capital receipts</i>						
Capital grants from C.G. and E.B.F.	5,416	5,927	5,109	3,624	5,463	4,360
Capital grants from Hospitals' Trust Fund	1,270	1,259	1,030	1,295	625	440
Miscellaneous receipts	562	382	280	284	375	290
Loans received from C.G. and E.B.F.	9,108	8,090	8,557	10,998	11,810	6,550
Other loans received and miscellaneous borrowing	6,372	6,299	8,840	4,818	—	1,710
Total	22,728	21,957	23,816	21,019	18,273	13,350
Total receipts—current and capital	61,791	64,451	68,417	70,715	69,509	66,430
<i>Current expenditure</i>						
Subsidies:						
Housing	3,228	3,602	3,826	4,255	4,429	4,550
Other	91	82	90	92	92	90
National debt interest:						
C.G. and E.B.F.	2,096	2,503	2,793	3,211	3,768	4,250
Other	1,423	1,730	2,032	2,345	2,783	2,300
Other current transfer payments ...	6,977	7,919	8,664	9,345	9,514	9,800
Current expenditure on goods and services	22,661	23,640	25,320	27,486	26,863	29,080
Total	36,476	39,476	42,725	46,734	46,949	50,070
<i>Capital expenditure</i>						
Capital transfer payments ...	378	665	787	639	894	800
Loan repayments:						
C.G. and E.B.F.	1,094	1,273	1,455	1,616	1,763	1,920
Other	897	1,118	1,196	1,239	1,460	1,380
Loans to persons	3,997	4,112	4,247	2,909	1,536	1,500
Gross physical capital formation ...	18,949	17,807	18,007	17,578	12,575	10,760
Accumulation	—	—	—	—	4,332	—
Total	25,315	24,975	25,692	23,981	22,560	16,360
Total expenditure—current and capital	61,791	64,451	68,417	70,715	69,509	66,430

TABLE 5.—RECEIPTS AND EXPENDITURE OF PUBLIC AUTHORITIES, 1953-54 TO 1958-59.

Category	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59
	£ millions					
<i>Current receipts</i>						
Taxes on income (incl. Social insurance contributions)	30.2	31.8	33.4	32.9	33.9	33.7
Taxes on capital	2.8	3.0	3.3	2.3	2.7	2.9
Taxes on expenditure (including rates)	78.4	79.6	82.9	91.3	95.0	98.2
Gross trading income	1.6	1.7	2.0	2.2	2.6	2.6
Gross rental income	3.4	3.7	4.0	4.5	4.9	5.2
Investment income	7.6	8.4	8.8	9.1	9.7	10.4
Total	124.0	128.2	134.4	142.3	148.8	153.0
<i>Capital receipts</i>						
Loan repayments	1.6	1.5	1.7	3.4	1.9	2.1
Other capital receipts	1.8	1.6	1.3	1.6	1.0	1.0
Borrowing	36.3	37.4	31.6	39.5	25.5	22.6
Total	39.7	40.5	34.6	44.5	28.4	25.7
Total receipts—current and capital	163.7	168.7	169.0	186.8	177.2	178.7
<i>Current expenditure</i>						
Subsidies	13.6	15.6	16.6	17.4	15.9	15.0
National debt interest (including Land Bond interest)	10.2	11.5	13.0	14.2	15.5	15.9
Other current transfer payments ...	34.9	36.1	37.6	40.3	43.9	43.9
Net current expenditure on goods and services	56.4	56.8	58.3	61.9	60.5	63.6
Total	115.1	120.0	125.5	133.8	135.8	138.4
<i>Capital expenditure</i>						
Capital grants to enterprises ...	5.0	2.7	3.3	5.4	5.3	6.4
Other capital transfer payments ...	5.5	4.8	4.3	3.7	3.0	2.3
Redemption of securities and loan repayments	2.9	6.8	5.9	5.8	5.5	8.5
Loans to public corporations and persons, etc.	12.0	11.7	6.8	14.9	8.0	6.0
Gross physical capital formation ...	23.2	22.7	23.2	23.2	17.5	16.7
Payments abroad	—	—	—	—	2.1	0.4
Total	48.6	48.7	43.5	53.0	41.4	40.3
Total expenditure—current and capital	163.7	168.7	169.0	186.8	177.2	178.7

TABLE 6.—PERCENTAGE DISTRIBUTION OF PUBLIC AUTHORITIES' CURRENT RECEIPTS AND EXPENDITURE, 1953-54 TO 1958-59.

Category	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59
	Percentages					
<i>Current receipts</i>						
Taxes on income (including Social insurance contributions) ...	24.3	24.8	24.8	23.1	22.8	22.0
Taxes on capital	2.3	2.3	2.5	1.6	1.8	1.9
Taxes on expenditure	63.2	62.1	61.7	64.2	63.8	64.2
Income from property and entrepreneurship	10.2	10.8	11.0	11.1	11.6	11.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
<i>Current expenditure</i>						
Subsidies	11.8	13.0	13.2	13.0	11.7	10.8
National debt interest and Land Bond interest	8.9	9.6	10.4	10.6	11.4	11.5
Other transfer payments	30.3	30.1	30.0	30.1	32.3	31.7
Net current expenditure on goods and services	49.0	47.3	46.4	46.3	44.6	46.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 7.—CURRENT RECEIPTS AND EXPENDITURE OF PUBLIC AUTHORITIES, 1957 OR 1957-58.

Category	Ireland	United Kingdom	Sweden	Norway	Netherlands	Belgium	Italy	France
	£ million		Kr. million		Million guilders	Milliards francs	10 ⁹ lire	Milliards francs
Taxes on income	28.1	2,587	9,259	4,113	4,560	39.2	} 914	1,169
Social Insurance contributions	5.9	657	1,343	676	2,650	33.7		1,920
Taxes on expenditure (including rates) ...	95.0	2,956	4,978	3,813	3,540	51.5		3,536
Income from property and entrepreneurship (a)	11.3	596	1,191	184	650	4.2	151	113
Current transfers from the rest of the world	—	21	—	4	—	0.2	107	40
Total current receipts ...	140.3	6,817	16,771	8,790	11,400	128.8	3,330	6,778
Current expenditure on goods and services (b)	72.2	3,599	9,325	3,452	5,310	58.0	1,915	3,153
Defence	(6.1)	(1,550)	(2,643)	(981)	(1,850)	(18.0)	(N.A.)	(1,406)
Civil	(66.1)	(2,049)	(6,682)	(2,471)	(3,460)	(40.0)	(N.A.)	(1,747)
Subsidies (c)	10.8	411	597	1,239	650	7.3	218	393
Interest on the public debt	14.2	810	775	285	870	11.0	272	307
Current transfers (d)	37.3	1,317	3,496	1,687	3,010	46.1	615	2,555
Total current expenditure ...	134.5	6,137	14,193	6,663	9,840	122.4	3,020	6,408
Net current saving of public authorities	5.8	N.A.	2,578	2,127	1,560	6.4	310	370
Depreciation and other operating provisions (e)	4.5	N.A.	N.A.	29	200	1.0	35	29
Gross saving of public authorities ...	10.3	680	N.A.	2,156	1,760	7.4	345	399
Total gross national product at market prices	567.1	21,915	52,993	28,213	35,390	560.7	15,688	20,670

(a) Gross trading income, gross rental income, investment income and two-thirds of the receipts under Small Dwellings Acquisition Acts, less Post Office depreciation, housing subsidies and subsidies under the Land Acts.

(b) Net current expenditure on goods and services, plus certain transfer payments which are treated as current expenditure in the O.E.E.C. system of accounts plus depreciation on government owned buildings.

(c) Central government plus local authority subsidies less housing subsidies and subsidies under the Land Acts.

(d) Central government plus local authority current transfer payments less certain transfer payments treated as current expenditure on goods and services.

(e) Post Office depreciation and the depreciation on government owned buildings.

TABLE 8.—PERCENTAGE DISTRIBUTION OF CURRENT RECEIPTS AND EXPENDITURE OF PUBLIC AUTHORITIES, 1957 OR 1957-58, AND THEIR RELATIONSHIP TO GROSS NATIONAL PRODUCT.

Category	Ireland	United Kingdom	Sweden	Norway	Netherlands	Belgium	Italy	France
	Percentages							
Taxes on income	20.0	38.0	55.2	46.8	40.0	30.4	} 27.5	17.2
Social Insurance contributions	4.2	9.6	8.0	7.7	23.2	26.2		28.3
Taxes on expenditure (including rates) ...	67.7	43.4	29.7	43.4	31.1	40.0		52.2
Income from property and entrepreneurship	8.1	8.7	7.1	2.1	5.7	3.3	4.5	1.7
Current transfers from the rest of the world	—	0.3	—	0.0	—	0.1	3.2	0.6
Total current receipts ...	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Current expenditure on goods and services	53.7	58.6	65.7	51.8	54.0	47.4	63.4	49.2
Defence	(4.5)	(25.2)	(18.6)	(14.7)	(18.8)	(14.7)	(N.A.)	(21.9)
Civil	(49.2)	(33.4)	(47.1)	(37.1)	(35.2)	(32.7)	(N.A.)	(27.3)
Subsidies	8.0	6.7	4.2	18.6	6.6	6.0	7.2	6.1
Interest on the public debt	10.6	13.2	5.5	4.3	8.8	9.0	9.0	4.8
Current transfers	27.7	21.5	24.6	25.3	30.6	37.6	20.4	39.9
Total current expenditure ...	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total taxation as a percentage of gross national product	22.7	28.3	29.4	30.5	30.4	22.2	19.6	32.1
Total current expenditure as a percentage of gross national product	23.7	28.0	26.8	23.6	27.8	21.8	20.4	31.0

APPENDIX I

<i>Extra-Budgetary Funds</i>	Central Bank Account
Local Taxation Account	Capital Fund
Guarantee Fund	Marketing of Agricultural Produce
National Development Fund	
Erasmus Smith Endowment Account	<i>Grant-aided Bodies treated as part of Central Government</i>
Shannon Navigation, etc. Account	An Chomhairle Ealaíon
General Cattle Diseases Fund	Dublin Institute for Advanced Studies
Dairy Produce (Price Stabilisation) Fund	Industrial Development Authority
Labourers' Cottages Fund	An Foras Tionseal
Irish Housing Fund	Bord Fáilte Éireann
Social Insurance Fund	Fógra Fáilte
Foreign Exchange Account	
National School Teachers' Pension Fund	
Intestate Estate Fund Deposit Account	<i>Local Authority sector</i>
Contingency Fund	County Councils
Post Office Savings Bank Fund	County Borough Corporations
Supplementary Unemployment Fund	Urban District Councils
Church Temporalities Fund	Town Commissioners
Secondary Teachers' Pension Fund	Separate Public Assistance Authorities
American Loan Counterpart Fund	Joint Mental Hospital Boards
American Grant Counterpart Special Account	Joint Burial Boards
Road Fund	Joint Drainage Committees
Local Loans Fund	Joint Library Committees
Rent and Interest Accounts 1 and 2	The Cork Sanatoria Board
Rent and Interest Account 3	The Dublin Fever Hospital Board
Land Bond Fund	The Western Health Institutions Board
Sinking Funds (Finance A/C XXII)	An Chomhairle Leabharlanna
Capital Services Redemption Account	The Lough Corrib Navigation Trustees
Saving Certificates Reserve Fund	Harbour Authorities
Death Duties Account	Vocational Education Committees
	County Committees of Agriculture.

APPENDIX II

TREATMENT OF THE POST OFFICE AND POST OFFICE SAVINGS BANK
IN THE NATIONAL ACCOUNTS

The Post Office is a trading concern which derives its income from sales to the public. It also obtains loans through the Exchequer from the Post Office Savings Bank Fund which in turn borrows from the public. The charges that the Post Office makes for its services are sufficient to ensure that the Post Office can pay its interest and depreciation charges on capital and is not, therefore, normally a liability to the Exchequer. A commercial account is prepared annually so that the trading surplus of the Post Office can be determined. This trading surplus comprises the interest and depreciation charges together with any residual surplus that may accrue. This residual surplus arises in some years only; in other years, there is a deficit on the trading account after allowing for interest and depreciation charges. As already explained the residual surplus or deficit is taken as a tax on expenditure or as a subsidy, respectively, in the national accounts. The gross trading income of the Post Office is taken as the provision for interest and depreciation charges.

Although the Post Office is a trading concern it is financially integrated with the central government and in the Exchequer Receipts and Issues each year appear entries for the Post Office receipts and payments. As explained already these gross receipts and payments are omitted from the government accounts presented in this paper and the balance of current receipts over current expenditure, after certain adjustments, is brought into government revenue so that the difference between the items of income and expenditure in the trading account is the same as the difference between the items of receipts and payment in the cash account. The adjustments are derived by effecting a reconciliation between the cash account and the trading account. This reconciliation is shown in the following table.

ACCOUNTS OF THE POST OFFICE, 1957-58.

<i>Cash account</i>				£000	<i>Trading account</i>				£000
Receipts	...	...	...	8,262	Income :				
Payments	...	...	...	8,577	Gross trading income	...	...	...	1,534
					Surplus	...	...	...	294
Excess of payments over receipts	...	...	...	315	Total income	...	...	...	1,828
					Expenditure :				
					Services rendered free	...	...	...	908
					less services received free	...	...	...	-228
					Fixed capital formation	...	...	...	331
					Increase in stocks	...	...	...	-34
					Annuity to P.O. Savings Bank	...	...	...	1,115
					Cash adjustments, etc.	...	...	...	51
					Total expenditure	...	...	...	2,143
					Excess of expenditure over income	...	...	...	315

The adjustments involve debit entries for the services rendered free by the Post Office to other government departments (which do not appear in the cash accounts but contribute to gross trading income in the commercial accounts) less the services rendered free to the Post Office, the value of capital formation included in payments in the Appropriation Accounts and the value of the annuity repaid to the Post Office Savings Bank, also shown as a payment in the Appropriation Accounts.

The cash payments and receipts shown in the table are omitted from the government accounts presented here and the separate items in the trading account are inserted. As was stated earlier, gross trading income comprises provision for interest and depreciation charges. Not all the items shown, of course, appear in the final consolidated account for central government (including extra-budgetary funds), since the annuity to the Post Office Savings Bank Fund is an internal transfer within the government sector and is, therefore, eliminated. The services rendered free less those received free are included with current expenditure on goods and services, as is the amount for cash adjustments, etc.

In addition to the trading account the following entries in respect of telephone capital are included.

CAPITAL ACCOUNT OF POST OFFICE, 1957-58.

£000				£000			
Transfer from exchequer	...	1,150		Capital expenditure less de-			
Borrowing	...	57		crease in stores	...	...	1,207
		1,207					

Closely connected with the Post Office is the Post Office Savings Bank, which, in many respects, is similar to a commercial bank. The Bank borrows money from the public and lends it to the Exchequer, the Post Office and other government funds at a higher rate of interest than it pays to the public. There is, therefore a profit arising from its transactions, which is also available for lending to the Exchequer.

Before considering the account of the Post Office Savings Bank Fund it is necessary to refer briefly to the method of treatment of other financial concerns, such as the commercial banks, in the national accounts. If the ordinary concept of "net output"—*the excess of the receipts of an enterprise from the sales of goods and services over the current purchases of goods and services*—is applied to banks, then the net output of the banking sector, which is its contribution to national income, is very small. In fact, when wages and salaries are subtracted from net output derived in this manner, the residue which is the profit of the bank from such activities is usually negative. This is an unsatisfactory result of the application of the accounting principles to what is usually

regarded as a prosperous industry. The reason for this paradox is that the charges banks make for their services (i.e. their sales to the public) are insufficient to cover operating expenses. The banks derive the main part of their profits by lending money at a higher rate of interest than they pay on money deposited with them and this profit subsidises the provision by banks of those services for which inadequate payment is received.

One way out of the difficulty is to consider the net receipts of interest by the banks as being equivalent to an additional payment by the public for services rendered by the banks. These payments are then imputed as a charge on the public. This method is adopted in the Irish national accounts and the result is to derive a profit for the banks resembling that shown in their ordinary accounts. It may be mentioned that to the extent that bank charges are paid by enterprises, the extra charges imputed are offset against business profits and, therefore, there is no net addition to the national income. To the extent, however, that the extra charges are paid by persons and private non-profit making institutions, they have to be treated as consumer's expenditure on current goods and services and, therefore, are added to both national income and national expenditure.

The ordinary account for the Post Office Savings Bank can be summarised as follows:—

ACCOUNT OF POST OFFICE SAVINGS BANK, 1957-58

<i>Receipts</i>		<i>Payments</i>	
	£000		£000
Borrowing = deposits		Management expenses ...	200
less withdrawals		Interest credited to depositors	2,167
plus interest credited to depositors ...	1,563	Accumulation ...	5,413
Net decrease in investments, etc. ...	2,240		
Investment income ...	3,435		
Repayment of principal of loan to Post Office ...	542		
	<u>7,780</u>		<u>7,780</u>

Here the interest credited to depositors is regarded as being paid out and then re-invested by the depositors in the bank. There are no "sales" to the public and net output derived in the usual manner gives a negative total equivalent to minus the management expenses. Adopting the same procedure as for the commercial banks, a charge for services is imputed equal to investment income less interest credited to depositors. This imputed charge may be regarded as a charge for reinvesting the money deposited in the Post Office Savings Bank Fund. The account can now be re-arranged.

ACCOUNT OF POST OFFICE SAVINGS BANK, 1957-58 (ADJUSTED FOR
INCORPORATION IN NATIONAL ACCOUNTS)

<i>Receipts</i>	<i>£000</i>	<i>Payments</i>	<i>£000</i>
Borrowing (incl. net decrease in investments)	3,803	Investment income	3,435
Investment income	3,435	Accumulation	5,413
Repayment of principal of loan to P.O.	542		
Gross trading income*	1,068		
	<u>8,848</u>		<u>8,848</u>

*Gross trading income=imputed charges† less management expenses.

†Imputed charges=investment income less interest credited to depositors.

The items in this account are included in government receipts and expenditure. The gross trading income of the bank derived above is taken as profit and is included with national income, and the investment income regarded as due to the public is larger than the interest credited to depositors by the amount of the imputed charges. In consolidating this account with the Exchequer account any investment income paid by the Exchequer to the Fund is offset by the receipts in the Fund. The payment of investment income (partly imputed) from the Fund to the public is regarded as national debt interest.

TREATMENT OF HOUSING AS A TRADING ACTIVITY

By amalgamating the current housing accounts of the different local authorities included in the Local Taxation returns the following account is obtained:

HOUSING ACCOUNT OF LOCAL AUTHORITIES, 1957-58

	<i>£000</i>		<i>£000</i>
Rent and other receipts	2,580	Loan charges	4,869
Deficit	4,429	Maintenance, repair and administration costs	2,140
Total receipts	<u>7,009</u>	Total expenditure	<u>7,009</u>

From this account it is seen that rents are subsidised to the extent of £4·429 million and this amount can be regarded as a subsidy to the household sector of the economy. If this amount of subsidy is treated as a payment to the household sector a corresponding increase must be imputed as rental income to local authorities and this would increase the rental income (actual and imputed) to £7·009 million. This is the rental income which would be just sufficient to pay for the loan charges and other expenses

and is therefore, related to the economic cost of the houses at the time of construction. Imputing the subsidy payment and the corresponding rent the above account can, therefore, be rearranged in the form :

ADJUSTED HOUSING ACCOUNT OF LOCAL AUTHORITIES, 1957-58

	£000		£000
Rents (actual and imputed)		Loan charges	4,869
and other receipts	7,009		
less maintenance, repair		Subsidy	4,429
administration costs—	2,140		
=Gross rental income	... 4,869		
Deficit	... 4,429		
Total receipts	9,298	Total payments	9,298

The reason for the subtraction of maintenance, repair and administration costs from both sides of the account is that rents in national income accounts are shown net of maintenance charges and other expenses. In preparing the consolidated accounts for the government sector in this paper the items in the first account above are omitted and are replaced by the items in the adjusted account. In the final account for all local authorities the deficit shown is, of course, eliminated, as it is made up of transfers from other accounts of local authorities and grants from central government. The other three items are included in gross rental income, subsidies, national debt interest and loan repayments.

APPENDIX III

RELATIONSHIP BETWEEN THE PURPOSE CLASSIFICATION AND THE
INDIVIDUAL VOTES IN THE 1957-58 APPROPRIATION ACCOUNTS

<i>Purpose classification</i>	<i>Number of vote in Appropriation Accounts</i>
Finance and tax collection	 6, 7†, 9†, 11, 16†, 17†, 24†
External affairs	 7†, 9†, 16†, 17†, 24†, 58
Defence	 9†, 16†, 17†, 24†, 52†, 56†, 57
Justice and Police	 7†, 9†, 16†, 17†, 19, 21, 24†, 29, 30, 31†, 32, 33, 34
Other general administration	 1-5, 9†, 13-15, 16†, 17†, 18, 23†, 24†, 25, 26, 35, 36, 38†, 49†, 52†. 59

Agriculture (including food)		7†, 9†, 16†, 17†, 20, 24†, 27†, 38†, 47†, 50†
Forestry and fishing		16†, 17†, 24†, 28, 48
Industry (including fuel, mining, etc.)		7†, 9†, 16†, 17†, 24†, 50†, 53
Transport and communication		7†, 9†, 17†, 24†, 50†, 51, 52†
Other economic and community services		8, 9†, 10, 12, 16†, 38†, 47†, 49†, 55
Education		9†, 16†, 17†, 22, 24†, 27†, 38†, 39-46, 49†
Health		7†, 9†, 16†, 17†, 24†, 31†, 38†, 63, 64
Housing		38†, 49†
Social Welfare		7†, 9†, 16†, 17†, 24†, 60, 61, 62
Other social services		16†, 37, 56†

†These votes are divided between two or more purposes.

DISCUSSION

Mr. Osizlok, in proposing the vote of thanks, said : It is a matter for great satisfaction that, thanks to the enterprise of Mr. Broderick we now have an extremely useful survey of the rapidly expanding field of government activity within the context of national accounting. The purpose of the paper was to explain and to extend the basis of the new classification of government transactions adopted in the Irish Statistical Survey of 1958. He has done a good deal more. With his great knowledge of national accounting and quite remarkable powers of analysis and exposition he has conducted us through a, seemingly, rational and frictionless world of statistics in which, apparently, nobody ever loses his sense of direction or finds himself in a cul-de-sac; in which national aggregates fall neatly into their appropriate classes and the myriad of transactions between the various institutional groups is suitably adjusted and purified into final flows, the total yielding a net national product with the government contribution to it emerging in the shape of expenditure on goods and services currently consumed and on additions to, and improvements in, national capital stock.

I am quite willing to let Mr. Broderick lead me by the hand providing he is willing to concede that we have not been exploring the territory but rather progressing to a predetermined destination along a route well-mapped by statistical conventions. If these

conventions are changed—and, I shall maintain, they can quite legitimately be changed—both the route followed and the destination would be different. I do not, of course, propose to dog all Mr. Broderick's footsteps. A halt at two important landmarks must suffice.

But first a digression. The concept of national income is still very young and is undergoing a process of early evolution. In the mind of theorists it has scarcely been refined to the point of providing statistically meaningful definitions. My major criticism of the treatment of government transactions in national income accounting is that it results in a set of figures with only the fuzziest relation to the underlying economic concepts. This criticism is, therefore, not directed against Mr. Broderick whose main interest is in statistics and who, naturally, presents the subject as he sees it. As a statistical document, the paper is not only quite unexceptional but a most valuable challenge to theorists.

Let me get to my first landmark. National Income is defined as the total of individual and corporate incomes without deduction of direct taxation but with the addition of government income paid by such taxation. This national income total is equal to national expenditure comprising only *final* expenditure and to net national product comprising only *final* output. From certain considerations it is evident to Mr. Broderick that all government current expenditure on goods and services is final expenditure and, therefore, in its entirety, enters into net national product. It is at this point that I feel compelled to exclaim "But this is not so." If we regard direct taxation as that part of individual and corporate incomes which the government simply spends for them on education, health, etc., we should be contented either (1) with the aggregate of individual and corporate incomes if no deduction for direct taxation is made or (2) with an aggregate of individual and corporate incomes less direct taxation but with the addition of government income, in which direct taxes would simply reappear.

cf. R. J. Hicks :—

"In fact, the services of police, justice, and defence do contribute to production, and may be thought of as used in production in the same way as power and fuel. If we decide to give its full weight to this consideration only a fraction of the output of public authorities may have to be reckoned as entering into the final product."

"Some part of the output of public services is not final output, but plays its part in production of other goods (maintenance of law and order; roads used for business purposes and so on). To reckon this as well as the goods whose output is facilitated would involve double counting."

It may be of interest to note that, until the early 1930's, estimates of national income were based on the assumption of a neat correspondence between direct taxation and government current expenditure on goods and services. It was entirely a matter of

statistical convention whether government expenditure on current goods and services was to be included or excluded from net national product.* This did not matter much when the scope of government activity was small in relation to the private sector. In subsequent years, however, government activity has been substantially enlarged, both in scope and in kind, and the continued acceptance of any one of these extreme conventions is open to serious doubt *unless it is frankly recognised that they both equally disregard the productive aspect of the public services in question*. It is often argued that public expenditure on administration and defence must be included in net national output *because* it is intended to maintain and improve the basic social structure—the very condition of all production. With the latter part of this statement there can be no quarrel but, surely, the beneficial effects of such government action are already reflected in the growth of individual and corporate incomes and there is no need to duplicate them in order to prove them. Those who wish to justify the inclusion of such expenditures in net national product by reference to their productive aspect would have to accept that the rewards of such expenditure are

*I cannot help feeling that at this stage my comment must have been very badly delivered for I cannot imagine that Robinson Crusoe's contribution to economic theory can be placed as late as the 1930's. Simon Kuznets gives an interesting review of the development of the national income accounts in the U.S. in an article published in 1951 ("Government Product and National Income," *Income and Wealth*, Series I, Bowes and Bowes, Cambridge). Note in particular on page 187 :—

"It would have been as simple a convention to classify all government activity as yielding indirect output alone as to classify all of it as final output."

Incidentally on page 190, Kuznets also cites a number of countries which do in fact segregate government activities between "final" and "intermediate". This approach is apparently used directly in national accounting in Sweden with which, it was thought, our accounts would cease to be comparable if we did the same.

The need of a better understanding of the limitations which statistical conventions impose on the economic interpretation of national income data was well illustrated by some of the comments on Mr. Broderick's tables. The statistical conversion of budgetary deficits into budgetary surpluses was a source of gratification and encouragement. The international comparisons were especially revealing and made me think of a remark once made by a German visitor with whom I happened to travel to Glenmalur in Co. Wicklow via the Old Military Road. The German was intrigued by the name and on hearing the historical connection exclaimed : "The Irish are the most incredible people on this earth for where else do people build such magnificent roads in memory of their past ?" Are we, I wonder, any more rational in thinking that because—in compliance with international statistical conventions—we classify expenditure on roads as "capital", just as the Germans do, we should expect similar economic returns ? With due regard to the difference in economic utilisation of roads in these two countries and to the similarity in the rate of road depreciation, it would be more rational to regard our expenditure as creating a national liability rather than an asset. Mr. O'Carroll of the Central Statistics Office told me that even the Dutch find it difficult to justify, in terms of economic returns, their outlays on land reclamation. What chance have we with wide stretches of perfectly good land half utilised ? I see little encouragement in favourable statistical comparisons with other countries regarding various aspects of economic behaviour if no similar comparison can be made regarding the end-result : the national product. The value of an exercise which gives the wrong answer lies chiefly in showing the way the exercise has gone astray. I think our computations of national income based on international statistical conventions should be regarded in like manner.

subject to a rapid decline. For every £1 spent on public administration and defence, the national product net of such expenditure was £12·6 in 1937, £11·2 in 1953 and only £10·6 in 1957.* These figures, however, by themselves neither prove nor disprove that the rewards of public expenditure on defence and administration are declining because the wholesale acceptance of all government current expenditure in the net national product is entirely a matter of a statistical convention which disregards their productive utilisation.

cf. R. F. Hicks :—

“ It may be noted that our fourth breakdown, by separating out public net income, provides an upper and lower limit for the national income (with or without public income). It is open to anyone to decide what fraction of public output he considers to be a ‘ producers’ good ’ and having made the necessary deduction, avoid the convention of classifying all public expenditure as final output.”

If we treat public expenditure on administration and defence as ‘ intermediate ’ product, as I think we should, the figures to which I referred earlier, simply mean that between 1938 and 1957, national income rose from £145·8 million to £436 million and that out of this national income (and not in addition to it) the community spent on government administration and defence £11·6 million in 1938 and £41 million in 1957.

Similar considerations arise in connection with the treatment of public capital outlays—the second landmark. An element which is essential to the concept of capital formation, i.e. investment, is the expectation of future returns. The big question is: “ Returns of what?” For an answer to this question we must, I think, go to the statistical identity between national income=national product=national expenditure. The 1957 Irish Statistical Survey (on page 2) rightly insists on this threefold identity as “ fundamental ” to the whole structure of national income accounting. From this identity it would seem to follow that outlays which are identified as “ capital ” and which are included in national expenditure must carry the expectation of future returns in the shape of goods and services which enter into the calculation of the national product on which national income is spent. A similar deduction seems to

*The figures (in £ million) taken from the Irish Statistical Survey, 1957 are as follows :—

		National Income	Public Administration and Defence
1938	...	157·4	11·6
1953	...	443·7	36·5
1957	...	477	41

follow from the correspondence between savings and investments.* Savings are postponed consumption while investment represents future expansion of capacity to consume. Yet on page 2 of the Irish Statistical Survey "attention is drawn to the fact that, for social accounting purposes, capital expenditure covers not only outlays on formation of assets promising future monetary returns *or increases in national income* but also outlays on investment designed to provide non-monetary benefits to the whole community"† (*italics mine*).

It seems to me that there is an inconsistency between this statement, which I believe to be correct on its own, and the identity between national expenditure and national income. Unless this inconsistency is unreal, due to some kind of an optical illusion on my part, one of the following three things appear inescapable:—

- (1) the concept of national income must be enlarged to include all the future returns expected from public capital outlays; or
- (2) the distinction between current and capital expenditures for national income purposes must be dropped since it has been violated by the inclusion, as capital, of expenditures which do not carry the expectation of future returns in goods and services constituting national income; or
- (3) public capital outlays which promise a future return other than goods and services which enter into the calculation of national income must be treated as current expenditures.

I suggest that the third course is the obvious one to follow. The really distinguishing feature of investment is that it is a means to an end and not an end in itself and to some extent public capital outlays evidently serve primarily a social end. The fact that in satisfying the social end they may also increase the flow of goods and services in the future, is, I admit, a complication requiring an arbitrary convention, which would however be only an extension of a similar convention applied in the private sector. A glance at the operating expenses of any private undertaking would afford many examples of expenses wholly treated as current despite the fact that they are likely to increase the undertaking's future profits.

*cf. Irish Statistical Survey, 1958:—

"The savings of persons, public authorities and companies together with provision for depreciation and net foreign disinvestment are used to finance domestic capital formation.

In Table A.7 gross domestic physical capital formation is equated to the total amount available for investment."

I agree that the Keynesian identity between savings and investment does appear to be at variance with the undeniable economic fact that part of the funds going into investment is often financed from bank credit or from idle balances, and contrariwise, that savings (e.g. external disinvestment) are often used to finance consumption. This, however, does not help much, because in our statistics of national income this correspondence between savings and investment is explicitly assumed.

†I wish to thank Mr. Broderick for acknowledging my part in this definition of public capital outlays which are *included* in national expenditures. The difficulty, however, does not lie in this definition (which, as he stated, is correct) but in its reconciliation with the threefold identity between national income = national product = national expenditure (with which I had nothing to do).

On the matters which I have raised there is more to be said than can be said in the brief space of a note of thanks. If Mr. Broderick left me with a feeling that the reality is less simple than it seems to him, it is without doubt also less simple than it seems to me. But my chief emotion is one of gratitude to Mr. Broderick for his masterly record and interpretation of government statistics within the context of national accounts, which will be of immense interest and value to all who are interested in our economic affairs.

Mr. P. Bourke : I am very happy to second the vote of thanks to Mr. Broderick for the excellent paper which he has read to us. It is realistic, as befits a statistician, but at the same time it presents a picture of our economy and its trends which is encouraging. The paper bears the hallmark of painstaking work and thought; it breaks a considerable amount of new ground and has a very worthy place in the archives of this Society. The first paper dealing with National Income was that read to this Society by Dr. Kiernan in 1926 which was followed by the studies of Professor Duncan dealing with the years 1929 to 1935 carried out in conjunction with his work for the Banking Commission. The first integration of Government Accounts with the National Income Account was made in the Department's White Paper published in 1946 dealing with the years 1938 to 1944, for which Dr. Geary, I am sure, was mainly responsible. We then had the Symposium on the National Income and Social Accounts in 1952 and we now come to this paper of Mr. Broderick's which deals, *inter alia*, with the new classification of government transactions adopted in the Statistical Survey of 1958. It gives a picture of the whole government expenditure including the extra-budgetary funds and the local authorities and prepares the way for a still more complete picture of the economy which could include the statutory corporations and other financial institutions. Each of these papers and studies registers noticeable progress on this important subject.

It was recently stated in the Senate by a distinguished ex-President of this Society that the public finances constituted the Achilles' heel of the Irish economic situation and that it was in the public financial sphere that danger lay. Whether this is so or not, it is the case that government action tends to have an increasingly wide effect on economies and it is, therefore, very important to have a study such as Mr. Broderick's. In deciding courses of action, one ought to be possessed of both an intimate knowledge of the economy and of the effects of government action upon it. Where critical decisions have to be made the availability of the relevant information and its proper presentation is a great help. The relevant facts will sometimes, so to speak, make the decisions themselves.

Before making some brief comments on the paper there is one point which suggests itself to me and that is the necessity for greater use being made of the valuable statistical information such as that embodied in this paper which is now becoming available. In the past complaints have sometimes been made as to the inadequacy of the information available on different subjects, but I feel now that the complaint could more properly be made that the

information which is available is not being utilised and exploited to the full. There is a need for more public analysis and criticism of the statistics available. Admittedly, skill is required in economic and critical analysis but this should be forthcoming from the growing number of graduates in Economics, Commerce, Statistics, etc. now emerging from the Universities.

I do not propose to make any extended comment on the principles which have been adopted in the compilation and analysis of the data in the paper and will leave this to those possessing more expertise than I have. There is, I think, room for discussion on some of the classifications.

Coming to the Tables themselves :—

TABLE I :

It is interesting to see that the taxes on expenditure have grown from £61 million to almost £76 million, an increase of about 25 per cent., whereas taxes on capital have remained almost stationary and taxes on income have only increased by £3 million or roughly 12½ per cent. This is a very noteworthy trend and in an economy such as ours has a great deal to be said for it. Our economy needs savings and needs them very badly though they must be properly deployed. Gifts from other countries are not to be expected and we must, therefore, achieve these savings either by the ploughing back of undistributed income or by voluntary savings out of distributed income. Taxes on income in a developing economy have an inhibiting and disincentive effect and the trend towards taxes on expenditure is, in my opinion, very sound. Gross trading income and investment income, excluding land annuities paid by the Exchequer, have increased over the period from £10 million to £15 million, although this conceals a fall in the investment income from abroad from £1,200,000 to £600,000, due to a repatriation of securities. This increase of about £5 million, as also the increase in miscellaneous receipts of almost £1 million, shed a new light upon the nature of a good deal of the borrowing which has been necessary. A higher proportion of such borrowing than is generally thought is self-liquidating and, therefore, less burdensome to the economy. Taking the receipts in the table as a whole, one observes the increasing proportion of current receipts to the total receipts. Current receipts have increased from £109 million to £133 million, that is £24 million, whereas capital receipts for the same period have fallen from £32 million to £24 million, variations in the capital receipts being due to borrowing by some of the corporations directly from the public instead of from the government. It is all to the good that these corporations have been able to borrow directly from the public. When one looks at the expenditure figures it is significant that while the national debt interest paid to residents has increased from £6 million to £10 million in round figures, the interest paid abroad has only increased from £1·7 million to £1·9 million, indicating that our borrowings externally have been very light. This must be regarded as highly satisfactory. Borrowing abroad may at times be necessary and desirable, but if it is possible to accomplish what has to be done by borrowing within

our own economy, it is obviously preferable. The borrower abroad gives hostages to fortune. Some part of the increase in interest paid must be attributed to somewhat higher rates, due to the trend in interest rates as distinct from increased borrowings. The increase shown in the six-year period on wages, salaries, and pensions of £4 million in relation to a base of £29·4 million must be regarded as modest. Consumer Price Index: Base mid-August 1953=100—stood in May 1958 at 116.

TABLE II:

Table II is most interesting and valuable, showing the net borrowing of the Central Government classified

- (a) by category, and
- (b) by source.

The banks provided over £29 million during this period but it is noteworthy that, whereas the total borrowings in 1957-58 were almost £30 million, the borrowings from the banks were only £1 million, the balance having been provided from the private sector of the economy with the exception of £2½ million from abroad, while, if one takes, for example, the year 1954-55, out of total borrowings of £31 million, £9 million was provided by the banks. It is to be hoped that this trend will continue—it is much sounder and better under normal circumstances that government borrowings should be from the private sector of the community and not from the banks. The classification of borrowing by reference to its sources and the flow of monies from those sources to the different sectors of the economy obviously provides further scope for useful exploration.

TABLE III.

This Table, in which the central government expenditure was classified

- (a) by category, and
- (b) by the purpose of expenditure,

will repay careful study. The total expenditure on agriculture, both current and capital, has risen during the four years by £2½ million to £20 million and the current agricultural expenditure in 1957-58 is now one-seventh of the total current expenditure for the year—£17 million out of £121 million; forestry and fishing are up, say, £1 million, transport and communications by almost £3 million, whereas in the case of industry there is a fall of £3½ million. This last seems an undesirable trend though there may be an explanation. Again, when one looks at the social services, expenditure on health is up by almost £1 million, expenditure on housing by £1½ million and expenditure on social welfare is up by £5 million. On the other hand, expenditure on education is only up by £3 million. One cannot help wondering whether, if there was more expenditure on education, there would be the same necessity for expenditure on health and social welfare, and the fact, as mentioned by Mr. Broderick, that social welfare

accounts for almost half of the expenditure on social services is in itself a striking fact.

COMBINED PUBLIC AUTHORITIES' ACCOUNTS :

The soundness of the financial position of the public authorities at the moment is well established by the tables but there is the danger, as mentioned in the paper, that if expenditure on capital transfer payments—now about £8 to £9 million per annum—should rise markedly the interest on the future national debt arising out of borrowings to meet this expenditure would not be adequately covered by investment income unless there was a large surplus on current account.

TABLE VIII. deserves a special word of commendation. It brings out the rather surprising fact that taxes on income in Ireland are the lowest percentage of the gross national product of any of the eight European countries mentioned with the exception of France. This is very much the reverse of the popular opinion though one rather wonders whether these international comparisons are always reliable in the sense that income subject to tax may not be computed in some European countries as strictly and completely as at home. Again, taxes on expenditure are higher in Ireland than in any of the other countries which, as I have already mentioned, appears to me, in the particular circumstances of our economy, a very good thing indeed. Again, the income from property and entrepreneurship is the highest of all the countries with the exception of the United Kingdom which is 8·7 per cent. As against this, when one looks at our subsidies payments we are perhaps in the somewhat unenviable position of being the highest of the countries mentioned with the exception of Norway which achieves a record of 18·6 per cent. With the exception of the United Kingdom, our interest on public debt is the highest percentage but our total taxation as a percentage of the gross national product is only 22·7, there being only two countries with a better record—Italy 19·6 per cent. and Belgium 22·2 per cent.

As mentioned by Mr. Broderick, in these government accounts there is no provision for depreciation and it is evident from his figures that some such provision must be deducted from the credit balance on current account less taxes on capital.

It is quite clear that no person interested in public affairs in this country can afford to be without this paper of Mr. Broderick's or to dispense himself from its careful study.

Dr. L. P. F. Smith : I wish to add my congratulations to those already expressed to Mr. Broderick on this paper.

It has long been necessary to present a consolidated account of government taxation and spending. Anyone who has made representations to Local Government Authorities has been told that the rates are in practice fixed by Central Government decision; on taking the matter up with Central Government Departments, one is told that this is a matter for the County Councils. We cannot afford to have two "back-seat drivers," each disclaiming responsibility for an important part of the national accounts.

It would be helpful if Table 3 which analyses government expenditure, could be widened to give a similar analysis of total government expenditure, including rates. This would correspond to the income analysis in Table 5.

Without such accounts, we cannot know the total effect of government policy in taxation and expenditure.

I wish to disagree with the definition in the public accounts which classifies rates as indirect taxation. It is impossible to analyse the reasons in the time available, but it is apparent on the same basis as Schedule A income tax and the valuation basis is varied in proportion to the estimated income from property. At the same time, items such as social service contributions which do not vary with income, are listed as direct taxation.

The matter of definition is of importance since, in Table 1, a transfer of rates from indirect to direct taxation shows an increase of about £8 million in direct tax instead of £3 million, i.e., direct taxation would be shown as increasing more rapidly than indirect—the exact opposite of the conclusion reached by Mr. Bourke on the basis of the figures presented here.

Similarly in the international comparison, the transfer of rates to the direct taxation account would increase the percentage so collected to approximately 38 per cent.—bringing Ireland more in line with other countries.

Mr. Broderick thanked the speakers and the other members of the Society for the reception given to his paper. The discussion had proved to be extremely interesting and informative and in the time that remained he could only deal with a few of the points raised by the speakers.

Regarding the problem whether government expenditure should be included in final expenditure it did not seem to be quite clear whether Mr. Oslizlok desired to omit all government current activities or only that part on administrative services from final expenditure and output. If all government current expenditure, including that on health and education, were to be omitted from final expenditure, it would not be possible to compare countries where the government sector was large with other countries where the part played by government was insignificant. Furthermore, as a country became more socialised and more services were provided by the government the final expenditure of the country excluding government expenditure, might show a downward trend, even though the overall position had improved and more goods and services were being produced.

Mr. Oslizlok had questioned whether the definition of capital expenditure used in the national accounts (which he, himself, had agreed to) was inconsistent with other national accounting definitions. While the question of concepts and definitions was really one for economists, it should be observed that in compiling statistical aggregates of capital formation it was not feasible to base the criterion for the inclusion of an item in capital expenditure on the amount of monetary return expected from the asset. For instance, all expenditure on new roads and improvements to existing roads (not normal repair and maintenance) were regarded as capital

expenditure although considerable non-monetary benefits to private motorists resulted from such constructional work. It was evident that the effect on national output of the construction of new roads would vary from country to country but the only reasonable way of compiling statistics was to include all expenditure on new roads in capital formation for every country. It would, of course, be desirable to break down capital formation into different categories so that the question of the expenditure on capital assets in relation to future productivity could be assessed. It would appear to be the task of economists to provide a basis for distinguishing "productive" and "non-productive" capital assets.

In reply to Mr. Coffey, Mr. Broderick agreed that the presentation of government accounts for national income purposes did not in any way supplant the necessity for the provision of the traditional accounts.

Mr. Garret Fitzgerald had enquired about depreciation. In the official national accounts an allowance for government depreciation was made. This covered depreciation on buildings. Regarding defence expenditure, this expenditure was treated as current because no benefit to the community in the form of welfare resulted therefrom. There was no addition to national wealth as would result from the construction of a new road.

With regard to Dr. Smith's observations on rates, it did not seem to matter much whether rates were considered direct or indirect taxes. Since they were allowed as an expense in computing business profits it seemed more appropriate, however, to regard them as indirect. Also the payment of rates is associated with the use and occupation of premises. It would not be true that the transfer of rates from indirect to direct taxes would bring Ireland more into line with other countries in the proportion of direct taxation collected, since such a transfer would also have to be made in respect of the figures for the other countries.