

PUBLIC SECTOR STATISTICS FOR THE UNITED KINGDOM

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This paper describes the composition of the public sector in the United Kingdom and traces the development and contribution to the economy of the three main sub-sectors—central government, local government and public corporations—over the past thirty years. Relevant data for output, employment, fixed capital formation and national wealth set the public sector into perspective with the economy as a whole and illustrate how its share of human and other resources has changed over the years. While all four measures show the public sector share of the total to have been around 30 percent in 1980, historically the changes have moved very differently. The slow, but fairly steady, increase in the share of employment and output contrasts with very marked changes in the other two measures. Although public sector fixed investment nearly doubled in real terms between 1950 and 1980 its share of total investment declined from 48 to 31 percent, a much smaller share being taken by dwellings, electricity supply and the railways. In terms of the share of national wealth the public sector moved from a state of indebtedness to the rest of the economy in the fifties and sixties to a position of holding nearly one third of the value of tangible and financial assets in the late seventies.

A small part of the paper considers the international dimension, but because few other countries use the concept of a public sector, this section examines only the relationship between total tax revenue and GDP in a number of countries and employment in general government.

The problems of determining the boundary of the public and private sectors occurs most frequently at the interface between public corporations and private enterprises; the rules for deciding classification are set out in so far as they can be specified.

The last sections of the paper put the statistics into their policy context and consider the value of public sector aggregates. The conclusion is that a general case cannot be made to justify assembling public sector aggregates for all countries; the need will be determined by the economic policies being pursued in a particular country. Although the United Kingdom gives considerable prominence to a public sector financial aggregate, the Public Sector Borrowing Requirement, the functions of the public corporations and the rest of the public sector are so disparate that consolidated accounts for the public sector are no longer prepared.

Introduction

1. Direct government involvement in the economy has increased significantly over time. Major changes were effected soon after the second world war with the establishment of state coal, electricity, gas and rail industries and a national health service. Depending upon their complexion so Governments will have different views about the role of the state in the economy. Thus, while, in the United Kingdom, a conservative government may have as an objective the rolling back of the frontiers of the public sector by “privatising” activities at present carried out within the public sector domain, a government of the left might wish to move the boundary in the reverse direction and so increase the government’s control over activities that have historically been performed in the private sector. As a result some state industries, such as steel, have suffered the fate of being political footballs, moving into and out of the public sector on

* I gratefully acknowledge the assistance and advice given to me during the preparation of this paper by colleagues in the Central Statistical Office and in HM Treasury.

more than one occasion. The present government is committed to reversing some of the changes made by preceding labour governments and has legislated for the return of a number of corporations, including the state airline, British Airways, and aerospace manufacture to the private sector. However, to date, the majority of the large state enterprises have been accepted as permanent features of the economy by political parties of the right and left.

2. State involvement by the establishment of a statutory nationalized industry was a feature of the immediate post-war decade from 1945. Subsequently different routes have been taken to involve the state more closely in productive activity, for example by part ownership or by full, permanent or temporary, ownership through a state holding company, the National Enterprise Board.

3. Given the way the United Kingdom economy has developed there has been a need for a statistical framework that permits the monitoring, in aggregate, of those aspects of public sector activity that are relevant to current economic, fiscal and other policies. This has largely concerned the financial aggregates, but the ground rules that have been devised to establish the appropriate statistical base are relevant to the whole range of sectoral statistics for the national accounts.

DEFINING THE PUBLIC SECTOR

4. For the purpose of describing a particular sector of the economy, each has to be defined in such a way that statistical information can be compiled, within the national accounting framework, to measure expenditure, incomes, outputs, employment, financial flows etc. This is possible only by allocating to each trading or non-trading body a unique classification. Thus guidelines have to be established to determine, for example, whether an enterprise that is part publicly and part privately owned and/or controlled should be classified to the public or to the private sector. This is far from straightforward, but I will defer consideration of the problems that arise in this context until later on in the paper and will restrict myself at this stage to describing the composition of the public sector in the United Kingdom.

THE NATURE OF THE PUBLIC SECTOR IN THE UNITED KINGDOM

5. In the United Kingdom the public sector comprises central government, the local authorities, jointly referred to as general government, and public corporations. While the nature of activity carried out by each of these differs from country to country, there is a considerable degree of consistency internationally at the general government level. The United Kingdom is in a minority in identifying public corporations separately from an all embracing enterprise sector. To put the different sectors in perspective I will describe briefly the range of activities performed by each in the United Kingdom.

6. *Central government* comprises all bodies for whose activities a Minister, or other responsible person, is accountable to Parliament. In addition to government departments it includes a number of bodies administering public policy, but without the independence that characterises public corporations. In particular it includes the national health service, the Department of National Savings and certain funds and accounts controlled by government departments, of which the National Insurance Fund is the most important. Also, although the central bank, the Bank of England, is a public corporation, its Issue Department is regarded as an agent of central government and its transactions are treated as though they were those of the central government itself.

7. The *local authority* sector comprises those authorities accountable for administering functions at county, district and town level. Various reorganizations have affected local authorities' responsibilities and the nature of their activities has changed over the years. Whereas, at one time, water boards, river and drainage boards and harbour authorities in England and Wales were part of this sector they are now separately constituted as public corporations. Local authorities' major activity is in the field of education, which accounts for more than a third of current expenditure and over half of local authority employment. The other main expenditure items are, on current account, environmental services, social services and law and order and, on capital account, housing.

8. *Public corporations* are public trading bodies, including the nationalised industries, which have a substantial degree of financial independence from the public authority that created them, including limited powers to borrow and to maintain reserves. They are publicly controlled to the extent that the authority that created the corporation appoints the whole or the majority of the board of management and that their borrowing is subject to limits laid down by Parliament. Although Ministers' powers are prescribed by statute, the limits and exercise of them in relation to nationalised industries has given rise to friction between government and the industries over time.

9. The public corporations sector includes such nationalised industries as the National Coal Board and the British National Oil Corporation and other bodies such as the British Broadcasting Corporation, the Post Office (formerly within central government), the Bank of England and the Regional Water Authorities.

The size and importance of the public sector

10. The preceding paragraphs have referred to the types of bodies and activities included within each of the main sub-groups of the public sector, but such a description gives no indication of their size and importance relative to the economy as a whole and how these have changed over time. There is no unique way of measuring the relative size or importance of the public sector; each of the approaches I use conveys a particular message and there are of course other ways in which the involvement of the public sector can be considered. The following tables, which contain aggregates that do not feature in our standard national accounts presentation, put the public sector into perspective with the

economy as a whole and illustrate how its share of human and other resources has changed over the years.

TABLE 1
GROSS DOMESTIC PRODUCT BY SECTOR 1950-80

	1950		1960		1970		1975		1980	
	£bn	%	£bn	%	£bn	%	£bn	%	£bn	%
Central Government	0.9	8.2	1.9	8.6	3.1	7.1	7.7	8.1	15.6	8.0
Local Government	0.7	5.6	1.6	6.9	3.9	9.0	10.3	10.9	19.7	10.2
Total General										
Government	1.6	13.8	3.5	15.5	7.0	16.1	18.0	19.0	35.3	18.2
Public Corporations	1.0	8.6 ¹	2.0	8.7	4.5	10.3	10.6	11.2	21.2	11.0
Total Public Sector	2.6	22.4	5.5	24.2	11.5	26.4	28.6	30.2	56.5	29.2
GDP at current factor cost	11.4	100.0	22.6	100.0	43.6	100.0	94.5	100.0	193.5	100.0
GDP at 1975 factor cost	49.0		63.9		85.5		94.5		101.4	

¹ Public Corporations accounted for only 1 percent of GDP in 1946.

TABLE 2
NUMBERS EMPLOYED BY SECTOR¹ 1950-80

	1950		1960		1970		1975		1980	
	Mn	%	Mn	%	Mn	%	Mn	%	Mn	%
Central Government	2.4	10.4	2.2	9.1	1.9	7.7	2.3	9.0	2.3	9.4
Local Government	1.5	6.3	1.8	7.4	2.6	10.3	3.0	11.9	3.0	12.3
Total General										
Government	3.9	16.7	4.0	16.5	4.5	18.0	5.2	20.9	5.4	21.7
Public Corporations	1.9	8.2	1.8	7.4	2.0	8.2	2.0	8.2	2.0	8.2
Total Public Sector	5.8	24.9	5.8	23.9	6.5	26.2	7.3	29.1	7.4	29.9
Total Employed Labour Force	23.3	100.0	24.2	100.0	24.8	100.0	24.9	100.0	24.7	100.0

¹ At mid-year. Components may not add to totals because of rounding.

TABLE 3
GROSS DOMESTIC FIXED CAPITAL FORMATION (GDFCF) BY SECTOR 1950-80

	1950		1960		1970		1975		1980	
	£bn	%	£bn	%	£bn	%	£bn	%	£bn	%
Central Government	0.1	7.4	0.3	6.1	0.6	6.1	1.2	6.0	1.7	4.2
Local Government	0.4	23.7	0.6	14.4	1.8	19.6	3.8	18.3	3.8	9.5
Total General										
Government	0.5	31.1	0.9	20.5	2.4	25.7	5.0	24.3	5.5	13.7
Public Corporations	0.3	16.8	0.8	18.8	1.7	17.7	3.9	19.2	6.8	17.0
Total Public Sector	0.8	47.9	1.7	39.3	4.1	43.4	8.9	43.6	12.3	30.8
Total GDFCF at current prices	1.7	100.0	4.2	100.0	9.5	100.0	20.4	100.0	40.1	100.0
Total GDFCF at 1975 prices	7.0		11.9		19.5		20.4		20.8	

TABLE 4
SECTOR DISTRIBUTION OF NATIONAL WEALTH
(percent)

	1957 ¹	1960 ¹	1970	1975
Central Government	-19	-14	2	4
Local Government	7	7	12	15
Total General Government	-12	-7	14	19
Public Corporations	4	3	8	10
Total Public Sector	-8	-4	22	29
Private Sector	108	104	78	71
Total Economy	100	100	100	100

¹ Estimated by Department of Applied Economics, Cambridge.

11. It is clear from these tables that although a different picture of the relative and changing importance of the public sector emerges according to the measurement criteria adopted, the involvement of the public sector has clearly been increasing over time.

12. Using an *output* measure, the contribution to GDP (Table 1) shows the public sector's share to have declined after reaching a peak of just over 30 percent in 1975. It was lower by 1980 both in total and in each sub-sector, reflecting an intensification by the government of its control of public expenditure. The 1980 figure showed an increase over 1979 because the decline of 3½ percent in private sector activity gave a cyclical boost to the public sector's share of output. The 1975 peak was also, to some extent, attributable to the trough in activity in the remainder of the economy in that year.

13. To put the public sector into perspective one should also consider in which areas of the economy it plays a dominant role. The functions of central and local government speak for themselves, but it is of interest to note in which "productive" areas the public sector, largely through the presence of public corporations, has a significant stake. Historically their involvement was initially in the field of communications, subsequently in public utilities and later in manufacturing. The changing role in the major industrial groupings is illustrated in the following table:

TABLE 5
PUBLIC SECTOR CONTRIBUTION TO OUTPUT IN CERTAIN INDUSTRIES
% of total output of each industry group

Industry	1950	1960	1970	1975	1980
Petroleum and North Sea Gas	—	—	—	—	6
Other mining and quarrying	90	83	80	77	84
Manufacturing	1	2	4	4	4
Gas, electricity and water ¹	95	100	100	100	100
Transport	53	55	45	51	45
Communications	95	95	95	96	95

¹ Private water companies account for less than ½ percent of output.

14. Perhaps the most surprising feature of the above figures is that the changes have been so small over so long a period and that in both transport and other mining and quarrying the public sector share is lower than it was thirty years ago. In the United Kingdom the public sector has, however, for economic, social and political reasons become more involved in declining than in growing industries. So far as transport is concerned the figures mainly reflect the increasing dominance of road transport, in which the public sector does not have the monopoly that it does of the railway system. In the case of other mining and quarrying, although there was some recovery in 1980, the change reflects the relative decline in output of the nationalised coal industry over the period. Although output of the rest of other mining and quarrying has changed little over the past 30 years, coal output has declined to about half of its level in 1950. In manufacturing the public sector had a share of only 4 percent of output in 1980, its main involvement being in iron and steel, aerospace and shipbuilding; aerospace has however since been returned to the private sector. The figure of 4 percent does understate the effective role of the public sector in manufacturing. In saying this I am not referring to the influence that the government may exert across the whole economy through regional and fiscal policies, but to its very direct involvement in the affairs of some firms that remain statistically in the private sector—for example BL and Rolls Royce (1971) Ltd.—although they are currently under direct government control. I will however return later to the problems of matching statistical classifications—which must have some continuity if they are to be of value for analysis—with the rapidly changing real world.

15. Not surprisingly the proportion of *employment* (Table 2) accounted for by the public sector is less volatile than the output share. Although there was a decline in the share between 1950 and 1960, the proportion has risen steadily since then. Over the past decade, within a fairly stable employed labour force of 25 million, there has been a steady rise in the proportion employed by the public sector, reaching almost 30 percent in mid-1980. While there has been little change in employment in the trading part of the public sector—the public corporations—in central and local government employment has risen by 900 thousands since 1970. Most of the increase in the total occurred in the first half of the decade, a large part of that being attributable to administrative staff increases in national and local health and education services. Since 1975 however, although the total has risen far more slowly, there has been a continuing increase in employment in health and social services and police, partly offset by a reduction in some other services Table 6 shows:

16. The picture for *fixed capital formation* (Table 3) contrasts with the other measures in that the public sector was responsible for a very high proportion of investment—nearly one half—in the early years. That figure has tended to decline over time despite the broadening of the public sector base. While it can be misleading, because of the highly cyclical nature of investment and cyclical differences between different areas of activity, to compare the movement over time between figures for single years, the years shown in Table 3 do not give too unfair a picture of the shift in investment between the sectors over the past 30 years.

TABLE 6
ANALYSIS OF NUMBERS EMPLOYED IN CENTRAL AND LOCAL GOVERNMENT¹
Thousands

	1970	1975	1980	Change	
				1970-75	1975-80
Central Government	1,905	2,251	2,327	+346	+76
HM Forces	372	336	323	-36	-13
National Health Service	741	1,093	1,228	+352	+135
Other Central Government	792	822	776	+30	-46
Local Government	2,559	2,974	3,027	+415	+53
Education	1,241	1,554	1,556	+313	+2
Health and Social Services	265	309	346	+44	+37
Police	145	181	195	+36	+14
Other Local Authorities	908	930	930	+22	—
General Government	4,464	5,225	5,354	+761	+129

¹ At mid-year.

17. The very high proportion of total investment going to the public sector in 1950 reflected the high priority then given to public sector housing which accounted for 15½ percent of total investment compared with only 5½ percent in 1980. The public sector's share of investment declined sharply between 1975 and 1980 although the volume of total investment in the two years was at a similar level. Local authorities bore the brunt of this change, the volume of their investment expenditure—largely on housing, schools and roads—falling by nearly 50 percent over the 5 year period. These reductions largely reflect the measures taken to reduce public expenditure, which invariably tend to affect capital programmes far more severely than current expenditure.

18. In considering the capital intensiveness of public sector activity one has to remember that the treatment of similar expenditure differs between central government and the rest of the economy. Thus expenditure on vehicles, ships and aircraft features as current expenditure when it is for defence purposes, while for other sectors, other than households, such expenditure is classified as fixed investment. Nevertheless there is a strong contrast between the very labour intensive activities such as education and general administration undertaken by general government and the highly capital intensive production processes, such as electricity generation, undertaken by some public corporations. In the 1950s the public sector, and the public corporations in particular, commanded a very high proportion of annual investment compared with its contribution to total output. The recent decline in investment, particularly by local authorities, has resulted in the ratio of the public sector share of total investment to its share of GDP falling from 2.1 in 1950 to only 1.1 last year. Table 7 identifies the main public sector investment programmes and shows which are now attracting a smaller share of resources compared with the past.

TABLE 7
GROSS DOMESTIC FIXED CAPITAL FORMATION BY THE PUBLIC SECTOR

	1950		1960		1970		1975		1980	
	£m	%	£m	%	£m	%	£m	%	£m	%
General Government										
Dwellings ¹	264	15.4	255	6.1	715	7.6	1,684	8.2	2,250	5.6
Roads	11	0.7	94	2.2	521	5.5	835	4.1	997	2.5
Education	50	2.9	114	2.7	295	3.1	555	2.7	557	1.4
National Health										
Service	16	0.9	37	0.9	151	1.6	366	1.8	614	1.5
Other	191	11.2	360	8.6	749	7.9	1,544	7.6	1,082	2.7
Total	532	31.1	860	20.5	2,431	25.7	4,984	24.4	5,500	13.7
Public Corporations										
Coal Mining	26	1.5	79	1.9	56	0.6	150	0.7	776	1.9
Gas	33	1.9	44	1.1	192	2.0	341	1.7	679	1.7
Electricity	138	8.1	338	8.0	487	5.1	775	3.8	1,088	2.7
Railways	44	2.6	171	4.1	89	0.9	260	1.3	419	1.1
Posts etc. ²	—	—	—	—	434	4.6	774	3.8	1,524	3.8
Other	47	2.7	156	3.7	421	4.5	1,620	7.9	2,360	5.9
Total	288	16.8	788	18.8	1,679	17.7	3,920	19.2	6,846	17.1
Total Public Sector	820	47.9	1,648	39.3	4,110	43.4	8,904	43.6	12,346	30.8
Total GDFCF at current prices	1,712	100.0	4,190	100.0	9,470	100.0	20,416	100.0	40,050	100.0
Total GDFCF at 1975 prices	7,025		11,905		19,460		20,416		20,761	

¹ Excluding existing dwellings and land.

² In 1950 and 1960 included with General Government.

19. The change in the share of *national wealth* (Table 4) in the hands of the public sector has been more marked than the change shown by any of the other measures. The public sector has moved from being in a state of indebtedness to the rest of the economy in the sixties to a position of holding approaching one third of the value of tangible and financial assets in the late seventies. It was however only Central Government that had a negative net worth in the earlier period, though that was large enough to offset the small positive figures for public corporations and local authorities. Central Government just moved into surplus in 1969, because while liabilities rose only slightly over the previous year, there was increased indebtedness of other sectors, particularly local government and public corporations, to central government. During the seventies this indebtedness increased, though the net worth of central government changed little in value terms largely because of heavy sales of long term gilts. Incomplete data available for years after 1975 suggest that while there may have been a fall in Central Government's share of net worth, there has been little change in the share of total net worth held by the public sector as a whole, which, in common with the figures for output and employment, has probably remained around the 30 percent level since the mid-seventies.

20. There is increasing interest in sectoral wealth figures because of the greater emphasis now placed, in macro-economic analysis, on the role of wealth in determining economic behaviour. The figures in Table 4 are based on the nominal value of the relevant assets and liabilities, but one factor that has been

of special relevance to public sector financing, particularly for central government, is the rate of inflation. This, together with the associated low real interest rate, has permitted high levels of public sector borrowing in nominal terms whilst, at the same time, containing, in real terms, the level of public sector financial indebtedness.

The Public Sector in an International Context

21. As few other countries use the United Kingdom concept of a public sector there is little information available about other countries to make any international comparisons. As however there is often misunderstanding about the impact of government on the economy in different countries, I will conclude the scene setting part of this paper by putting the United Kingdom in an international context so far as the relative demand on resources by General Government is concerned. I will not indulge in a detailed comparison of the impact of different forms of taxation on the economy, but will restrict myself to considering tax revenue and employment. Table 8 derived from *OECD Revenue Statistics*, shows tax revenue as a percentage of gross domestic product at market prices for a selection of countries.

TABLE 8
TOTAL TAX REVENUE (INCLUDING SOCIAL
SECURITY CONTRIBUTIONS) AS A PERCENTAGE
OF GROSS DOMESTIC PRODUCT AT
MARKET PRICES IN 1980

	Percent
Sweden	49.9
Netherlands	46.2
Denmark	45.1
Belgium	42.5
France	42.5
Irish Republic	37.5
German Federal Republic	37.2
United Kingdom	35.9
Italy	32.8 ¹
Canada	32.8
Switzerland	30.7
United States	30.7

¹ 1979.

Source: OECD.

22. The above comparison is based on tax revenues only and therefore fails to include any additional borrowing that may be required to bridge the gap between revenue and expenditure. The figures are indicative not only of the extent to which resources are pre-empted by government activity, but also of the political and social policies and priorities pursued in different countries. Those with low social security contributions, e.g. Canada, feature lower in the ranking than countries such as the Netherlands where such contributions account for approaching 40 percent of the total of taxes and such contributions. Inter-

country comparison is however essentially superficial at this aggregate level as appreciation of the figures depends on an understanding of the form and composition of taxes in different countries and the methods by which governments choose to achieve their aims, for example through systems of tax allowances which tend to reduce government tax receipts or by a gross system under which money is collected and then handed back as cash grants.¹

23. Because the figures are so often abused, I must also mention the approach to making international comparisons of public sector involvement in the economy based on employment statistics. The topic hits the headlines from time to time, but usually only because the figures have been mis-interpreted or mis-represented. Thus an article in "L'Expansion" in December 1979 set out to establish a "top twenty" of European pen pushers. The Economist, adding some licence in the translation to that already taken in the interpretation of the statistics, reported its findings as concluding that Britain, with 5.3 million civil servants² (one person in five) came out top, having 68 percent more civil servants than France and 48 per cent more than Germany. In fact the differences between countries are more readily ascribed to institutional differences than to other causes. I will not go into the detail of the organisation of the public sector in the different countries; that is explored in greater detail elsewhere.³ Table 9 gives a more objective analysis of the figures and confirms the misleading nature of the interpretation given in the press articles referred to. The table shows figures for employment in non-trading general government (i.e. central and local government) in the United Kingdom, Belgium, France, Germany and the Netherlands. It is clear from the figures in the table that when allowance is made for the different arrangements for health, education and social services there is not a great difference in the relative numbers employed by government (i.e. other services and administration) in the countries for which the figures can be compared.

WHERE DOES THE PUBLIC SECTOR END AND THE PRIVATE SECTOR BEGIN?

24. Earlier in this paper I defined the public sector, but glossed over the problems of drawing the dividing line between it and the rest of the economy. Deciding what should be classified to central government or to local government is fairly straightforward; the main problems arise at the boundary between the United Kingdom public corporations and the private sector. This is where conceptual difficulties abound and where there is keen political interest.

25. To enable a picture of the economy to be compiled and to show statistically the role of each sector (e.g. central government, public corporations,

¹ See International Comparisons of Taxes and Social Security Contributions by K. J. Newman in *Economic Trends*, December 1981.

² Hardly an appropriate description of general government employment, which includes doctors, dentists, teachers and the armed forces.

³ See A Comparison of Public Services Employment in the United Kingdom with Five Other European Countries by Eric Lomas in *Economic Trends*, Dec. 1980. Estimates for the United Kingdom have since been revised.

TABLE 9
EMPLOYMENT IN NON-TRADING GENERAL GOVERNMENT ACTIVITY AND TOTAL EMPLOYMENT IN 1979

	Non-Trading General Government						
	Percentage of Employment in Whole Economy						
	Whole Economy Mn	Mn	Total	Health and Personal Social Services	Education	Other Services and Administration	Armed Forces
United Kingdom	25.1	5.4	21.4	6.1	6.3 ¹	7.7	1.3
Belgium	3.8	0.7	17.8	1.3	7.6	6.5	2.4
German Federal Republic	25.5	4.1	16.1	1.5	4.3 ²	8.2	2.1
Netherlands ³	4.9	0.7	14.6 ⁴	—	5.1	7.3	2.2
France ³	21.7	3.1	14.2		11.4		2.8

¹ Includes culture.

² Includes science, research and culture.

³ 1978.

⁴ Based on man years data.

Source: National Statistics and OECD.

personal sector, banking etc.), each institution must have a discrete classification so that the statistical and financial information can be handled satisfactorily. Therefore so far as the public versus private boundary is concerned, each body is either within or outside the public sector; there is no part allocation to one sector. Considerable discussion has taken place—both nationally and internationally—about the rules for determining the appropriateness of a particular classification. At first sight it might seem that classification should rest simply on majority ownership, but that is not the whole story. What is of key importance is who controls the organisation. That may not be the same as majority ownership, as if the government were to hold a majority of the shares in a company and yet were not, for example, to take any part in the appointment of directors or to influence day to day management decisions and investment policy, then the body would not conform with the criteria given earlier for designation as a public corporation. In my view it would be quite inappropriate for such a company, which would be subject to full market discipline, to be classified to the public sector. This situation is typified by the case of the British Petroleum Co. of which the majority of shares were at one time held by the Government, but which was never regarded as a candidate for public sector classification, because the government did not exercise control.

26. The composition of the public corporations sector has changed over time. Although it is still dominated by the long established large state owned corporations, the nationalised industries, state involvement has more recently taken on a new guise, in particular with the establishment of a National Enterprise Board (NEB), which can take a stake in private sector companies. It would give rise to many statistical problems if, each time the NEB's share in a company

exceeded or fell below a certain level, the sector classification were to change. For that reason, where direct or indirect government control of a company is deemed to be of a temporary nature, reclassification is not effected.

27. When considering whether or not a change in the ownership and organisation of an enterprise should lead to a change in classification there is often difficulty at the margin in deciding whether or not control has moved into or out of the public sector and whether the change is likely to be permanent. The classification rule can be generalized only to the extent that it is possible to say that when a change in organisation takes effect, the enterprise is classified to the sector by which it is both controlled and normally owned on a basis that is intended to be permanent. One result of the classification of all government bodies and public corporations to a public sector is to permit the measurement of public sector borrowing, but the classification of an enterprise is not necessarily critical for this as if borrowing is from the government it will feature in the public sector borrowing requirement (PSBR), irrespective of the classification of the borrower.

USES OF PUBLIC SECTOR STATISTICS

28. Statistics for the public sector are compiled not just for the record books but principally as the basis for formulating policy in relation to the sector as a whole and its parts. So far as the whole of the sector is concerned, particular emphasis is given by government to the level of public expenditure, the tax burden and to its borrowing needs relative to performance in the rest of the economy. The Government's medium term financial strategy is propounded in relation to the growth in the money supply, the level of expenditure by General Government (central government and local authorities) and public sector borrowing. At a departmental level a wealth of statistical data that falls within the public sector accounting framework, used as a basis for the description earlier in this paper, forms the basis of the analysis supporting decisions on every aspect of economic activity. These range from defence planning and expenditure to education policy, health and social welfare, transport, energy, industrial policy, regional policy etc. As a whole volume would be required to treat these topics in any depth, I propose to confine myself in the remainder of this paper to considering the sector in aggregate and in particular its financing needs. As policy towards expenditure levels, taxation and borrowing needs are formulated in relation to the fiscal year ending March 31 I shall refer in any figures I quote to these financial year periods.

PUBLIC SECTOR BORROWING

29. The public sector's needs for finance can be met in a number of ways. The major source of revenue is taxation, in its many forms, though the public corporations' trading surpluses also make a contribution. Taxes may be direct, imposed for example on income, or indirect, levied on expenditure items. Borrowing from the monetary, non-monetary private, and overseas sectors

contributes the balance of public sector needs—financing the PSBR. Being the balancing item it has fluctuated considerably over time, from a net repayment in 1969/70 to a borrowing of £13bn in the latest year.

30. The PSBR can be defined both in terms of the receipts and expenditure of the consolidated public sector accounts and also in terms of the borrowing requirements of the sub-sectors of the public sector: central and local government and the public corporations. All borrowing by local government and the public corporations is on their own account, though some corporations (e.g. British Gas) contribute more to the exchequer than they borrow and hence contribute to reducing the size of the PSBR. Central government borrowing includes money for on-lending to local authorities and public corporations; that has to be netted out when consolidating the sub-sector borrowing requirements, as do net purchases by local authorities and public corporations of other public sector debt. The PSBR is a fairly young statistic, coming into use only in the late 1960s, replacing the government's total financing requirement as a key figure. It includes all borrowing from outside the public sector by every institution classified to the sector irrespective of the source of the funds acquired and of the purpose of the borrowing. Tables 10a and 10b illustrate how the borrowing requirement arises, how it is financed and its size in relation to GDP.

31. An interesting sub-set of the PSBR is the general government borrowing requirement (GGBR) (see Table 10b) which comprises the total borrowing by central government, both for its own needs and on behalf of others, and direct borrowing by local authorities. It therefore excludes any borrowing by public corporations from the banks, elsewhere in the private sector and overseas.

32. I referred above to the high level of government borrowing that had proved possible without adding to the real indebtedness of the public sector. The last two columns of Table 10b show the PSBR at constant (1975) prices and as a proportion of GDP. These figures put PSBR changes over time, particularly for recent years, into better perspective and show the PSBR to have peaked, in real terms, in 1975/76. Some analysts attach more significance to the "real PSBR" as a measure of fiscal stance, just as the "real money supply" is often regarded as a summary measure of monetary policy.

CONCLUSION

33. I have attempted to portray the development of the public sector over the past thirty years and to highlight the key statistics for the sector that are currently relevant to government policy. I have restricted myself to the national accounting framework; the mysteries of public expenditure accounting and how the government's expenditure plans are compiled and presented are another story. I am however left wondering at the end of this study to what extent it is essential for policy purposes to compile national accounts aggregates—as in Tables 1–3—for the public sector as a whole.

34. Although functions are from time to time transferred from one sector to another, within the public sector and between the public sector and the rest of the economy, the activities of general government and the public corporations are fundamentally so dissimilar as to make aggregate presentation of questionable

TABLE 10a
THE PUBLIC SECTOR BORROWING REQUIREMENT AND ITS FINANCING
£ billion

	1965/6	1970/1	1975/6	1980/1
<i>General Government</i>				
Current Receipts:				
Taxes on income	4.4	7.6	17.2	31.9
Taxes on expenditure	5.0	8.5	14.9	38.5
National Insurance etc. contributions	1.8	2.7	7.2	14.5
Other receipts	1.2	2.0	4.7	9.3
Total	12.4	20.8	44.0	94.2
Current Expenditure:				
Military Defence	2.1	2.5	5.5	11.9
National Health Service	1.2	1.9	5.2	11.7
Local Authority Education	1.1	1.8	4.9	9.5
National Insurance Benefits	1.9	2.7	7.0	15.1
Current Grants and Subsidies	1.6	2.8	8.2	18.6
Other	3.0	5.1	13.0	29.3
Total	10.9	16.8	43.8	96.1
Current balance	1.4	4.0	0.2	-1.9
Other capital account transactions	-1.4	-2.8	-5.7	-6.9
<i>Public Corporations</i>				
Current balance	0.8	0.9	2.0	4.3
Other capital account transactions	-1.4	-1.9	-4.7	-6.6
<i>Public Sector</i>				
Financial Deficit ¹				
Central Government	-0.9	-2.5	3.3	7.2
Local Authorities	0.9	1.3	2.2	1.6
Public Corporations	0.6	1.0	2.7	2.3
Public Sector	0.6	-0.2	8.2	11.1
Other financial transactions (net)	0.4	1.0	2.4	2.1
Public Sector Borrowing Requirement (PSBR)	1.0	0.8	10.6	13.2
Financed by:				
Banking sector	0.6	1.2	3.4	3.3
Other financial institutions	0.5	0.9	4.0	5.9
Industrial and commercial companies	-0.1	0.1	1.3	-1.3
Personal sector	-	-0.1	0.8	4.7
Overseas sector	-0.1	-1.2	1.2	0.7

¹ Financial deficit equals above current balance and capital transactions with sign reversed.

relevance for policy purposes. Admittedly activities within and between central and local government vary greatly, but they do operate in a common environment. In particular their revenues, apart from major charges such as housing rentals, derive mainly from taxation. Also responsibility for many of the services they provide (e.g. the provision and maintenance of roads, law and order and health and social services) is shared and that is a further reason for general government aggregates to be compiled. But the most compelling reason for presenting general government as an aggregate is perhaps that local authorities depend for more than half of their revenue on grants from central government. A consolidated

TABLE 10b
PUBLIC SECTOR BORROWING REQUIREMENT AND GDP
£ billion

	Central Gov't (own account) Borrowing Requirement	Local Authorities Borrowing Requirement	General Government Borrowing Requirement	Public Corporations Borrowing Requirement	Public Sector Borrowing Requirement		PSBR as % of GDP ²
					Current prices ¹	1975 prices	
1963/4	-0.1	0.7	1.1	0.5	1.1	2.7	3.5
1964/5	-0.5	0.8	0.9	0.6	0.9	2.1	2.6
1965/6	-0.7	1.0	1.0	0.7	1.0	2.3	2.8
1966/7	-0.7	1.1	1.2	0.9	1.2	2.7	3.1
1967/8	-0.4	1.1	2.1	1.2	2.0	4.3	4.9
1968/9	-1.6	1.2	0.4	0.9	0.5	1.0	1.1
1969/70	-2.4	1.1	0.4	0.8	-0.5	-1.0	-1.1
1970/1	-1.6	1.3	0.6	1.2	0.8	1.5	1.5
1971/2	-1.4	1.4	1.2	1.0	1.0	1.7	1.8
1972/3	-0.2	1.6	2.5	1.2	2.5	3.9	3.8
1973/4	0.7	2.6	3.7	1.2	4.5	6.4	6.0
1974/5	2.5	3.4	7.3	2.1	8.0	9.6	9.1
1975/6	5.6	2.5	10.1	2.5	10.6	10.1	9.6
1976/7	4.2	2.0	7.3	2.3	8.5	7.2	6.6
1977/8	2.7	1.5	4.9	1.4	5.6	4.2	3.7
1978/9	6.0	1.3	9.0	2.0	9.2	6.2	5.5
1979/80	4.3	2.9	10.4	2.7	9.9	5.7	4.9
1980/1	9.3	2.3	13.9	1.7	13.2	6.5	5.7

¹ Figures may not add due to rounding.

² Expenditure based, at market prices.

general government account therefore has a lot to commend it. On the other hand, the public corporations are distinctly different, being more akin to the company sector in that they are trading bodies selling goods and services to the world at large.

35. Given these great dissimilarities between general government and the public corporations, aggregate figures for the sector can be of only limited use. While it may be interesting to monitor changes in the balance of "control" of the economy, this is only illustrative material and is not of great economic significance. A more significant comparison might be the relative shares of "control" held by public corporations and the company sector in different areas of economic activity, as illustrated by Table 5.

36. I would argue therefore that the need for statistics for the public sector as a whole depends on the economic policies being pursued and that a convincing case has yet to be made for all countries to compile such national accounting aggregates, even if comparability could be achieved. Currently, in the United Kingdom, it is only in the field of financial statistics that there is a need for public sector aggregates and it is in fact only four years since we discontinued the publication of consolidated accounts for the public sector, except in the financial accounts, because of the disparate functions of government and the public corporations.

37. The treatment of public sector statistics in this paper has of necessity been selective, but to those who wish to study the wider aspects of the subject or to delve more deeply into particular topics that I have treated only superficially, I commend the further reading listed in the Annex.

London,
January, 1982.

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