

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 5, 1942

To Chairman Eccles

Subject: British and Canadian

From Mr. Goldenweiser

War Finance

Attached is a memorandum and tables prepared by Mr. Knapp
which show briefly how England and Canada are financing the war.

A handwritten signature in dark ink, appearing to be 'E. C. Eccles', written over a horizontal line. A long, sweeping vertical line descends from the signature.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 3, 1942

To Mr. Goldenweiser

Subject: British and Canadian

From J. Burke Knapp

War Finance



Please find attached two tabulations relating to British and Canadian war finance, respectively, which were prepared at your request.

I would suggest that you accept with considerable reservation the percentage figures showing the relation between national income at factor cost and government expenditure (in the British case, government expenditure from domestic resources). As they stand, these figures are probably not very meaningful; presumably the most significant comparison would be between the government's consumption of goods and services and personal consumption of goods and services -- in other words the proportions in which the total output of goods and services is divided between the government and the public. In order to reach estimates of this character, much more refined work is necessary, both on the figures of national income and on the figures for government expenditure. I understand that Mr. Musgrave contemplates doing something of this character, and I am sending him a copy of this memorandum.

Your attention is called to the fact that the British and Canadian experience in the first four months of the current fiscal year is not representative of their war finance as a whole, although the figures appear to be of sufficient interest to justify their reproduction. In the British case, revenue (and to a certain extent, small savings) has been seasonally slack and increased resort has been had to borrowing from commercial banks. In the Canadian case, the deficit has been met principally by drawing upon the large balances held by the government at the beginning of the fiscal year as a result of the Second Victory Loan last March. A new Victory Loan will be launched in Canada this month.

Attachments 2

cc Mr. Gardner
Mr. Musgrave

BRITISH WAR FINANCE

(Fiscal years ending March)
(Millions of pounds sterling)

United Kingdom	1941-1942	1942-1943 (budget forecast)	Four months April-July 1942
1. National income (at factor cost) . . .	6,500	--	--
2. Total central Government expenditure. (War expenditure)	4,776 (4,085)	5,286 (4,500)	1,757 --
3. Overseas disinvestment	790	775	*200
4. Total expenditure from domestic resources	3,986	4,511	1,557
(Same as per cent of national income) <u>1/</u>	(61%)	--	--
5. Revenue receipts	2,074	2,402	663
(Same as per cent of total expendi- ture from domestic resources) <u>2/</u>	(52%)	(53%)	(43%)
6. Deficit met by borrowing from domestic resources	1,912	2,109	394

* Rough estimate.

1/ Private domestic disinvestment was roughly 500 million pounds in 1941-1942, so that actually only 54% of the national income was required for Government expenditure.

2/ Revenue receipts in the fiscal year 1941-42 were equal to 32% of the national income; in the calendar year 1941, the total accruing central and local Government tax liabilities were equal to 40% of the national income.

The following supplementary table shows where the funds were raised to meet the deficit described in Item 6 above:

	1941-1942		Four months April-July 1942	
	Millions of £	% of Item 6	Millions of £	% of Item 6
A. Increased holdings of Government securities by London clearing banks	300	16%	266	30%
B. Increased holdings of Government securities by Bank of England	207	11%	37	4%
(Increased holdings of currency by public outside banks)	(148)	(8%)	(58)	(6%)
C. Subscriptions to Government's "small savings" issues, plus increase in deposits at Post Office and Trustee Savings Banks	638	33%	181	20%
D. Other borrowing from domestic resources	767	40%	410	46%
Total	1,912	100%	894	100%

CANADIAN WAR FINANCE

(Figures in millions of Canadian dollars for fiscal years ending March)

Canada	1941-1942	1942-1943 (budget forecast)	Four months April-July 1942
1. National income (at factor cost)	6,100	-	-
2. Total Government expenditure	2,945	3,600-3,900	1,398
(Same as percent of national income) . .	(48%)	-	-
(War expenditure, including aid to Britain)	(2,444)	(3,000-3,300)	(1,215)
3. Revenue receipts	1,481	2,050	742
(Same as percent of total Government expenditure)	(50%)	*(55%)	(53%)
4. Deficit financed by borrowing and change in Government's cash balances	1,464	1,850	656
5. Deficit met by borrowing (Item 4 adjusted for change in Government balances) . .	1,962	-	77

*Calculated on middle estimate for Government expenditures -- i.e., 3,750 million dollars.

The following supplementary table shows where the funds were raised to meet the deficit described in Item 5 above.

	1941-1942		Four months April-July 1942	
	Millions of \$	% of Item 5	Millions of \$	% of Item 5
A. Borrowing from chartered banks				
Increased holdings by banks of Government securities	117	6%	38	49%
Banks' financing of private subscriptions to Second War Loan	210	11%	*-100	-130%
Total	327	17%	-62	-81%
B. Borrowing from Bank of Canada, including net increase in Bank's holdings of pounds sterling	277	14%	1	1%
(Increased holdings of currency by public outside banks)	(115)	(6%)	** (40)	(52%)
C. Other borrowing	1,358	69%	138	179%
Total	1,962	100%	77	100%

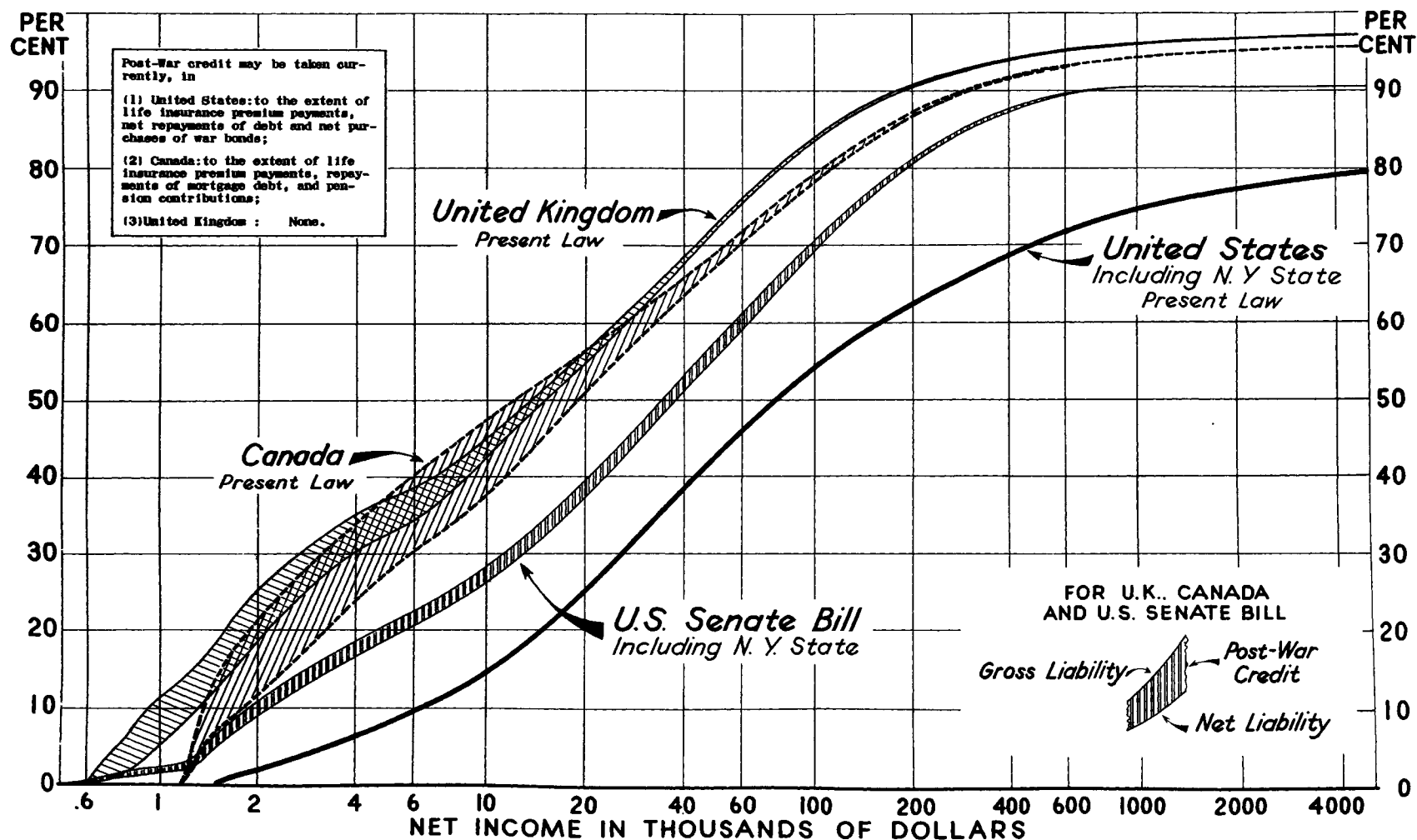
*Rough estimate

**July estimated

INDIVIDUAL INCOME TAX

UNITED STATES, UNITED KINGDOM AND CANADA

Effective Rates for Married Person without Dependents



Office of the Secretary of the Treasury
Division of Tax Research

B-351-1