

## Money for Everyone?

### An appendix to chapter 14

#### The Blue Book: Taxes, transfers and government expenditure, by Anne Miller

The purpose of this short article is pedagogical, to introduce those not already familiar with 'The Blue Book' to its fascinating figures, and, more importantly, to point out what is concealed.

The 'Blue Book' is the popular name for the *United Kingdom National Accounts* published annually by the Office of National Statistics (ONS). It is an expensive publication at around £40, but it appears on library shelves around September or October. It contains runs of 9 years of data, or in some tables 18 years, ending with the previous year. Thus the 2003 edition contains series of annual data for 1994 to 2002, or in some tables 1985 to 2002 inclusive.

The data series can also be accessed through the internet address [www.statistics.gov.uk](http://www.statistics.gov.uk). Look for 'Quick Links' at the bottom left of the home page, click on the 'Time Series Data'; look for 'Navigation' and click on 'Access individual series'; look for 'Titles' and click on 'Blue Book'. One can access a time series of annual data going back to 1948 in some cases.

The national accounts give details of income, expenditure and net products of industries. The accounts are given for the whole economy and for the main sectors of the economy: personal sector, company sectors, public sector (central and local government) and a rest of the world sector.

Table 1 gives figures for the year 2002 of Gross Domestic Product, GDP, (£1,043,945m) and Gross National Income, GNI or GNP, (£1,063,090m) both at current market prices. The difference between the two (national and domestic) figures is accounted for by various small components, which together may be called 'net income from abroad'. These measures of economic activity are used to monitor the economic well-being of the nation, although it is recognised that they contain major flaws for this purpose. There are three different ways in which they can be calculated, a) by calculating the value added to components which create economic output, b) by calculating all the expenditures of all sectors in the economy, and c) by adding up all the incomes of all sectors of the economy. One column of the table is headed REF and contains a very useful four letter indicator, which enables one to trace the same series through several different tables or publications.

TABLE 1. SOME FIGURES FOR 2002

Blue book TABLE	Blue book REF		
1.2	YBHA	<b>GDP at current market prices</b>	
		<b>(output approach)</b>	<b>£ 1 043 945m</b>
1.2	ABMX	Gross National Income at current market prices	£ 1 063 090m
			<b>Thousands</b>
1.5	DYAY	<b>Home population</b>	<b>59 207</b>
		Population under 16	12 824
		<b>Household population aged 16 +</b>	
1.5	MGRQ	Self-employed	3 124
1.5	MGRN	Employees	24 339
1.5	MGRZ	Total employment *	27 659
1.5	MGSC	Unemployed	1 524
1.5	MGSF	All economically active population	29 183
1.5	MGSI	Economically inactive population	17 199
1.5	MGSL	Total	46 383
1.5	IHXT	<b>GDP at current market prices per head</b>	<b>£ 17 632</b>

\* This includes people on government-supported training and employment programmes and unpaid family workers.

No figure tells us much in isolation. Another figure is required with which to compare it - the comparable figure from a previous time period to see if fortunes have increased or decreased in the meantime, or a figure from another country in comparable units, for instance. In this case, the figure for comparison with GDP is the total population, which yields series IHXT, GDP per head, giving a figure of £17,632 for 2002. It is much easier to grasp the concept of £17,632 per head, than of £1,000,000m for an economy.

This figure of £17,632 per head of population of man, woman and child is quite revealing. It is an average figure for the whole UK, and, it implies that, if GDP had been distributed evenly over the population, then a family of four (mum, dad and two children) would have received a gross income (before tax or benefits) of £70,528 in 2002. Given that most children do not have a gross income of their own, maybe it is more appropriate to divide GDP by the population who are aged 16 and over, giving an average figure of £22,507 per adult. But some of these are 'economically inactive', such as students, carers, unemployed and retired people. Whilst a significant proportion of retired people are in receipt of an occupational pension, and have unearned income, a sizeable proportion, mainly women, are still entirely dependent on their DSS pension. According to *The Monthly Digest of Statistics*, also compiled by the ONS (online. Table 4.1, series BDAE), the number of retired people in Great Britain in receipt of a National Insurance retirement pension in September 2002 was 10,288,000. Let us assume that about half of these also have other income.

The figure of GDP divided by the employed and self-employed population (27.659m) together with half of the GB retired population assumed to be in receipt of other gross income (5.144m), gives an average gross income of £31,825, which gives a clearer indication of the amount of wealth generated in the UK society. For any skewed distribution, as of the distribution of income for instance, the *mode* (or most frequently occurring value), the *median* (the value where half of the observations are less than the median and half are greater), and the average or *mean*, occur in this reverse alphabetical order, and, as a rough rule of thumb, the difference between the values of the mode and the mean is about three times the difference between the median and the mean. All this goes to show that there must be many gross incomes in excess of £31,825. It is significant that the Blue Book used to publish a 'Gini coefficient' which gave an indication of the degree of inequality of gross income in the UK, and this practice was dropped in the mid 1980s, presumably to avoid drawing attention to the increasing inequality in the population, and the practice has not been resumed under new Labour, presumably for similar reasons.

**TABLE 2. UK TAXES, TRANSFERS AND GOVERNMENT EXPENDITURE IN 2002**

Ref: BLUE BOOK, edition 2003, Tables T.11.1, T.11.2, T.5.2.4S and T.5.3.4.S £ million

**TAXES PAID by UK RESIDENTS (T.11.1).                      GENERAL GOVERNMENT OUTLAYS**

REF			REF		
	<b>TAXES ON INCOME AND WEALTH</b>			<b>SOCIAL PROTECTION, including workers' salaries</b>	
DRWH	Household income taxes	109 399	ADAL	Total social assistance benefits in cash (local govt.)	12 969
NMDE	NI Self employed	2 146	QYRJ	Total soc sec bens in cash	56 656
GCSE	NI Employees	<u>25 543</u>	NZGO	Total soc assist bens in cash (central government)	<u>54 688</u>
	Tax expenditures	137 088		Total social benefits in cash	124 313
	Total (potential)	c. <u>120 000</u>	NNAD	Other (local & central govt.)	<u>16 554</u>
		c.250 000	QYXB	Social benefits	140 867
				Other (central government)	<u>23 304</u>
				Total social protection	164 171
CEAN	NI Employers	35 683			
	<b>OTHER TAXES ON INCOME &amp; WEALTH</b>				
DBHA	Petroleum revenue tax	946			
BMNX	Other corporate taxes	32 160			
CDDZ	Motor vehicle duty (domest)	2 666			
NMIS	Council tax, etc. (local government)	16 412			
	Other taxes on income	<u>1 208</u>			
		53 392			
	<b>TOTAL TAXES ON PRODUCTION AND IMPORTS</b>			<b>GENERAL GOVERNMENT EXPENDITURE</b>	
NZGF	V.A.T. to central govt	69 394			
GTAM	Beer	2 934	QYXA	Health	66 972
GTAN	Wines, etc	4 332	QYWZ	Education	53 328
GTAO	Tobacco	7 947	QYWX	Defence	27 672
GTAP	Hydrocarbon oils	22 070	QVEU	Economic affairs	26 566
CUKY	National non-dom rates	16 606			
GTBC	Stamp duties	7 436	QYWW	General public services	23 511
	Other	<u>14 661</u>	QYWY	Public order and safety	21 976
		<u>145380</u>			
NMBY	Paid to central govt	140 479	QYXD	Housing	6 772
NMYH	Paid to local govt	149	QYXC	Recreation, culture	5 593
FJWB	Paid to the EU	<u>4 752</u>	QYXE	Environmental protection	<u>5 941</u>
NZGX	Total	145 380			
NMGI	<b>CAPITAL TAXES</b>	2 386			
	<b>TOTAL TAXES in this box</b>	236 841		<b>TOTAL</b>	238 331
	<b>TOTAL TAXES AND COMPULSORY SOCIAL CONTRIBUTIONS</b>			<b>TOTAL GOVERNMENT OUTLAYS</b>	
	<b>Paid:</b>		QYXB	Social Protection	164 171
GCSS	to central government	352 616	NMYX	Government Expenditure	238 331
GCST	to local government	16 561	QYXI	Other	<u>21 206</u>
FJWB	to the EU	<u>4 752</u>		Total outlays	423 708
GCSU	Total	<u>373 929</u>			

GDWM	Total as % of GDP	35.8%			
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We now move on to examine the sources of government revenues from taxation, in Table 2. I have started with taxes on personal income. Household income taxes account for £109,399m. Many people are surprised that the yield from income tax is so low. £109,399m. is barely 10.5% of GDP. Even making heroic assumptions about every adult having enough income to cover the personal allowances (0.25 of £4,545 for the 2001-02 tax year, plus 0.75 of £4,615 for the 2002-03 tax year) and enough to pay 10% on their next tranche of income (0.25 of £1880 and 0.75 of £1920), would yield £8,859 m taxes on incomes of £301,721m. Income tax at 22% on the remainder of the GDP should yield £163,289 m, and this ignores tax revenues from higher income tax rates of 40% on incomes of about £34,370 and over. The 10% and 22% rates of income tax would together yield some £172,148m. instead of £109,399m.

Some of the difference can be explained by allowable deductions from income, such as the necessary expenses outlaid in order to generate the income. However, the bulk of it can be explained by 'Tax Expenditures'. These are the tax breaks given to the better-off half of society (such as paying only a notional 10% tax on dividends and only 20% tax on bank and building society interest), which are not published by the ONS, but are estimated by some sources to be in the region of £120,000m. This is of the same order of magnitude as 'Total social benefits in cash', the sum (ADAL + QYRJ + NZGO) totalling £124,313m., the details of which are given on the right hand side of Table 2 above. There tends to be much fuss in the press about the amount of visible cash benefits going to the poorer sections of society, but hardly a whisper about the hidden Tax Expenditures of equal magnitude subsidising the better-off sections of society. One of the effects of this policy is that it reduces the tax base, and increases the tax rate from what it might otherwise have been, for those who pay the tax.

Income tax revenues (the largest single source of tax), together with 'National Insurance contributions by self-employed and employed people' (which are little different from income tax revenues, and so can be added to them), gave a total of £137,088m., and accounted for only about 37% of the total tax revenue of £373,929m. (GCSU) in 2002. So, where does the rest of the revenue come from? The next largest item of tax revenue is from Value Added Tax (NZGF) at £69,394m. Other taxes on production and imports (including taxes on hydrocarbon oils and national non-domestic rates) together yielded £75,986 m. These two items, together accounting for 'Total taxes on Production & Imports' (NZGX) yield £145,380m, which represents 39% of total tax revenue. 'Employers' National Insurance contributions' account for £35,683m. and other corporate taxes £32,160m. Many people are surprised at how relatively little Council Tax accounts for at £16,412m, given how painful a tax it feels. Similarly, capital taxes, such as Capital Gains Tax, have a typically low yield. One can only conclude that they are relatively easy to avoid legally.

When considering what governments do with the tax revenues raised it is important to distinguish between 'transfers' between different sections of society, and 'expenditure' spent by the government on goods and services on behalf of the public. 'Expenditure' is clearly laid out in Table 11.2 of the Blue Book, and is reproduced in the right hand column of Table 2 above. There are two main points to make here. One is that in 2002 the total of government expenditure at £238,331m. is of roughly the same order of magnitude as 'Tax revenue other than that from personal income tax' at £236,841m. Government Expenditure represents nearly 23% of GDP. The second point is to identify the largest components of the expenditure. By far the largest two of all are 'Health' representing 28% of all government expenditure, closely followed by 'Education' representing 22%. The other main items are 'Defence' 12%, 'Economic Affairs' 11%, 'General Public Services' 10%, and 'Public Order and Safety' 9% of government expenditure (£238,331m.)

Before leaving Table 2, it is worth noticing that Table T.11.2 of the *Blue Book* has a general heading of Social Protection, of which only £124,313m. of the £164,171m. total represents social benefits in cash. The other quarter covers some workers' salaries, some unfunded pensions including those of the fire and police services, and other unspecified (presumably administrative) costs. It is not easy to sort out these merely from the *Blue Book* tables; other information is needed. Another mystery item is the ambiguous component from Table 11.2, headed '*Expenditure not classified by division*', with the sub-heading '*Property income*' (NMYX). This would not matter too much, but it is a large item of some £21,206m of government expenditure. This just serves to illustrate the fact that the tables can be both fascinating and frustrating.

Finally, Table 3 gives a more detailed breakdown of Social Benefits financed by central and local governments. The main breakdown is into National Insurance benefits, based on contribution records, and Social Assistance benefits, based mainly on means-tested benefits and administered by both central and local government. Social

Assistance will include the ever-popular Child Benefit, but it is not clearly flagged in this table. It is probably subsumed in 'Family benefits' (CSDB). It can be seen that the largest single item of social benefits by far is the cost of 'Retirement pensions' (CSDG) at £43,985m. This is followed by 'Other social security benefits' (CSDC) £16,975m and 'Income Support' (CSDE) £14,439m. 'Rent rebates and allowances' (CTML + GCSR) together add up to £12,081m. The next largest items are 'Family benefits', 'Other grants to households', 'Incapacity benefit' and 'Income tax credits and reliefs', each costing over £6,000m.

It is anticipated that a Citizen's Income scheme could simplify these payments into Citizen's Incomes (for adults, children and older citizens) and costs of disability (including expenses due to disability, mobility and care), and probably there will need to be a housing benefit scheme to cope with continuing large differences in housing costs between different areas.

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**TABLE 3. SOCIAL BENEFITS, 2002**

Ref: Blue Book, 2003 edition, Tables T.5.2.4S, T.5.3.4S and T.11.2 £ million

<b>SOCIAL BENEFITS, CENTRAL GOVERNMENT</b>		
<b>Social security benefits in cash</b>		
<b>National insurance fund</b>		
CSDG	Retirement pensions	43 985
CSDH	Widows' and guardians' allowances	1 096
CJTJ	Jobseeker's allowance	512
CUNL	Incapacity benefit	6 754
CSDL	Maternity benefit	66
CSDQ	Statutory sick pay	32
GTKZ	Statutory maternity pay	<u>715</u>
<b>ACHH</b>	<b>Total national insurance fund benefits</b>	<b>53 160</b>
GTKN	Redundancy fund benefits	235
GTLQ	Social fund benefit	1 923
FJVZ	Benefits paid to overseas residents	<u>1 338</u>
		<b><u>3 496</u></b>
<b>QYRJ</b>	<b>Total social security benefits in cash</b>	<b><u>56 656</u></b>
<b>QYJT</b>	<b>Total unfunded pensions &amp; employee social benefits</b>	<b>13 837</b>
<b>Social assistance benefits in cash</b>		
CSDD	War pensions and allowances	1 173
CSDB	Family benefits	8 906
CSDE	Income support	14 439
CSDC	Other social security benefits	16 975
NZGI	Other grants to households	6 807
RYCQ	Income tax credits and reliefs	6 338
RNNF	Benefits paid to overseas residents in cash	<u>50</u>
<b>NZGO</b>	<b>Total social assistance benefits in cash</b>	<b><u>54 688</u></b>
<b>NMDR</b>	<b>TOTAL SOCIAL BENEFITS (CENTRAL GOVERNMENT)</b>	<b><u>125 181</u></b>
<b>SOCIAL BENEFITS, LOCAL GOVERNMENT</b>		
GCMO	Total unfunded employee social benefits	2 717
<b>Social assistance benefits in cash</b>		
GCSI	Student grants	884
CTML	Rent rebates	5 237
GCSR	Rent allowances	6 844
ZYHZ	Other transfers	4
ADAL	Total social assistance benefits in cash	<u>12 969</u>
<b>NSMN</b>	<b>Total social benefits, Local government</b>	<b><u>15 686</u></b>
<b>NNAD</b>	<b>TOTAL SOCIAL BENEFITS other than social transfers in kind</b>	<b>140 867</b>