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The public finances: a historical overview

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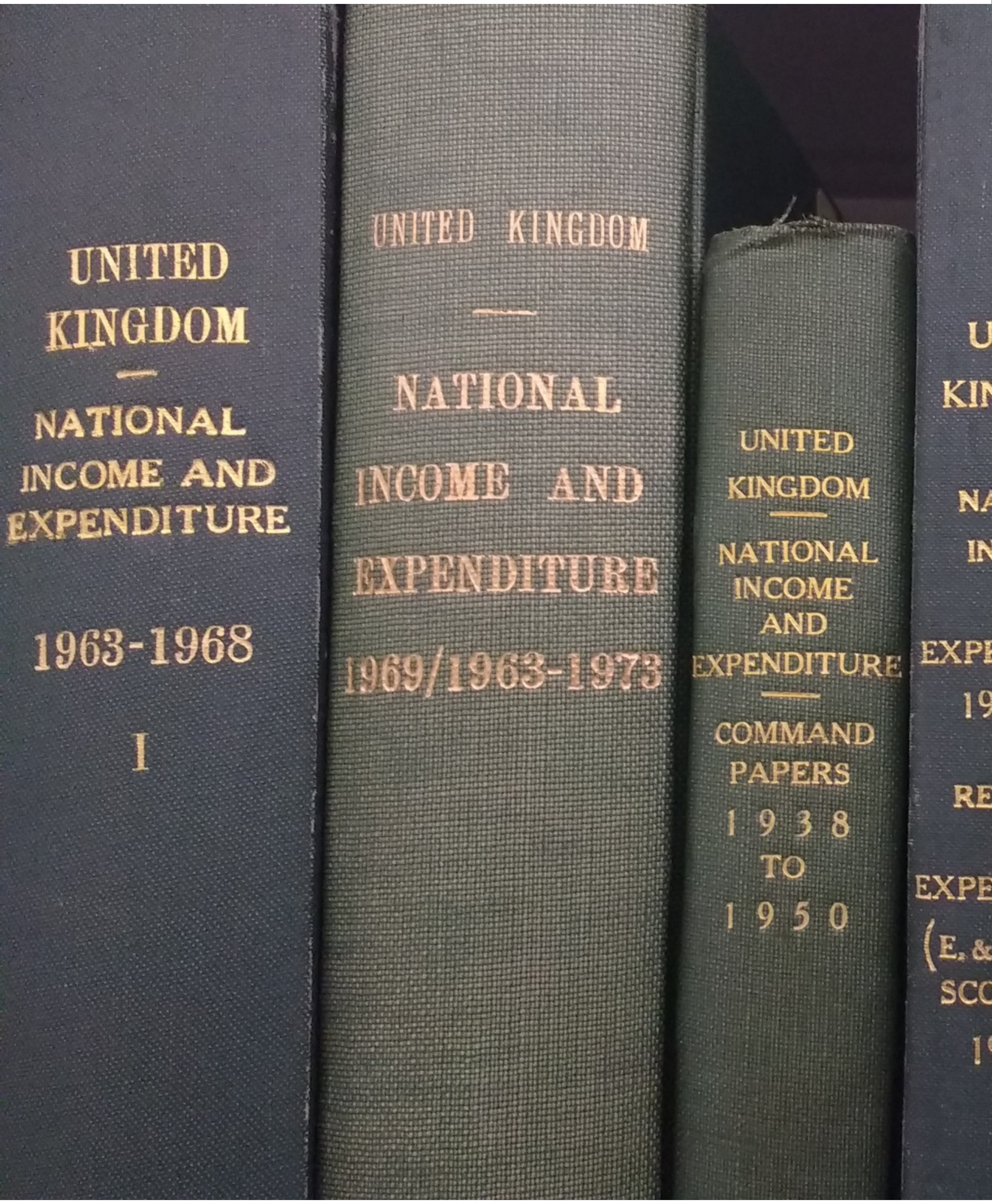

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Summary

The past 300 years have seen major changes in the way Britain handles its public finances. Between the revolutions of 1688-89 and the Great Recession of the late 2000s, the amount of money both collected and spent by the government increased dramatically, from less than 10% of GDP to well over 30%.

Much of the government's money was raised and spent on the wars it fought during this period. The Napoleonic Wars in particular cost an immense amount of money, and military spending still made up the majority of all government spending right into the mid-nineteenth century.

An increasing proportion of spending also went on the civil service, poverty relief, and a number of other areas. Total civil spending in 1692 came to a modern-day equivalent of around £90 million, roughly equivalent now to the spending of public bodies like Historic England. Spending on all of these areas began to accelerate in the nineteenth century, but only started to approach modern levels with the establishment of the welfare state after the Second World War.

Money was raised to support this spending through two major streams: taxation and debt. Both saw temporary increases in times of war, with large step changes after the two World Wars of the twentieth century. The makeup of taxes has also changed, with taxes on products and production making up the vast majority of tax income over the last three centuries, only being overtaken by taxes on income and wealth in the twentieth century.

Debt has also increased, although its current level (as a percentage of GDP) is well below where it was during both the Napoleonic Wars and the World Wars. Both the national debt and the deficit are at levels that are not historically unusual, although recent years have seen economic shocks making impacts previously only seen in times of war.

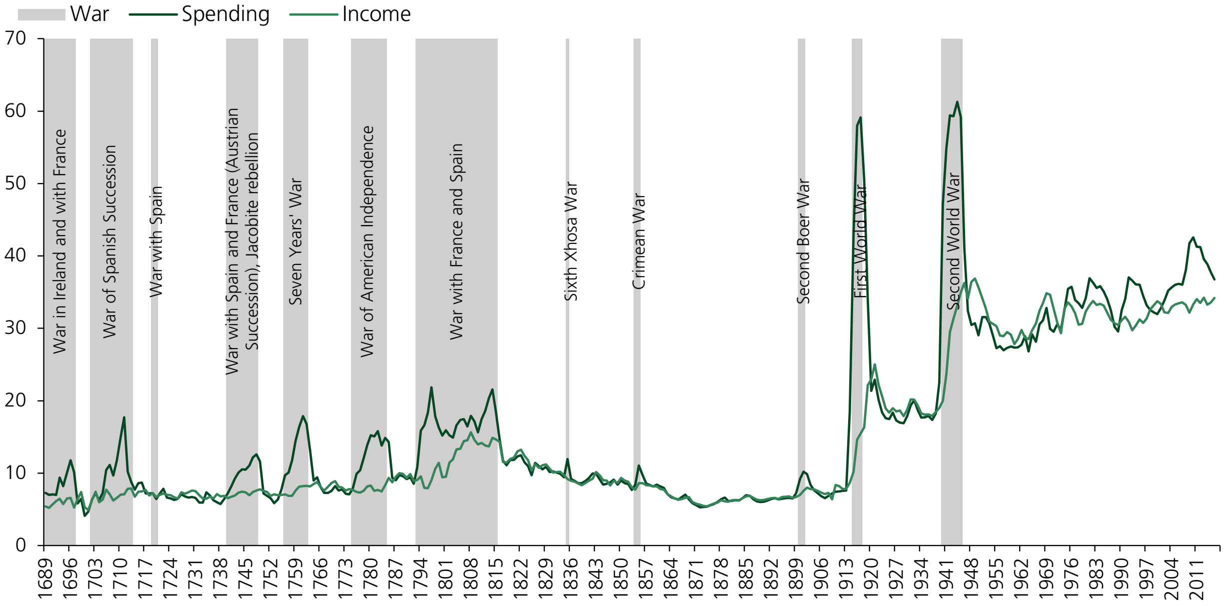
The government has tried other ways of raising money over the years, through annuities, lotteries, and other more esoteric methods. Some of these are still in existence, although some (such as the Post Office) no longer contribute to the public finances.

Parliamentary scrutiny of the public finances has ebbed and flowed in its intensity, with a general trend for more scrutiny over the years. Some recent changes look to be improving this even further.

1. Income and spending, 1689-2016

Total government income and expenditure, as a percentage of GDP, is shown in the following chart covering the last 300 or so years.

Public income and spending, 1689-2016
% of GDP

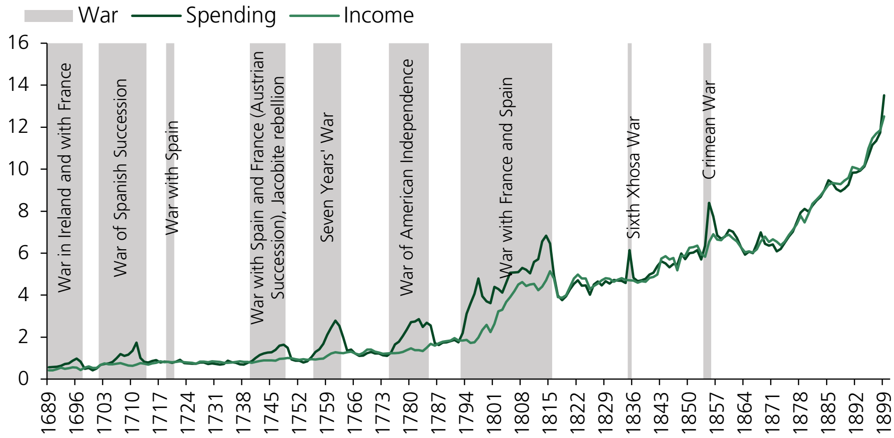


Source: Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

Two things are immediately apparent from this. First, both income and spending in peacetime are remarkably consistent in percentage terms for almost the whole of the 18th and 19th centuries, with the level of both jumping to significantly higher levels at the end of the First and Second World Wars; secondly, spending (and to a lesser extent income) increases markedly during times of war.

Both of these effects can be seen equally clearly when we look at income and spending in real terms.

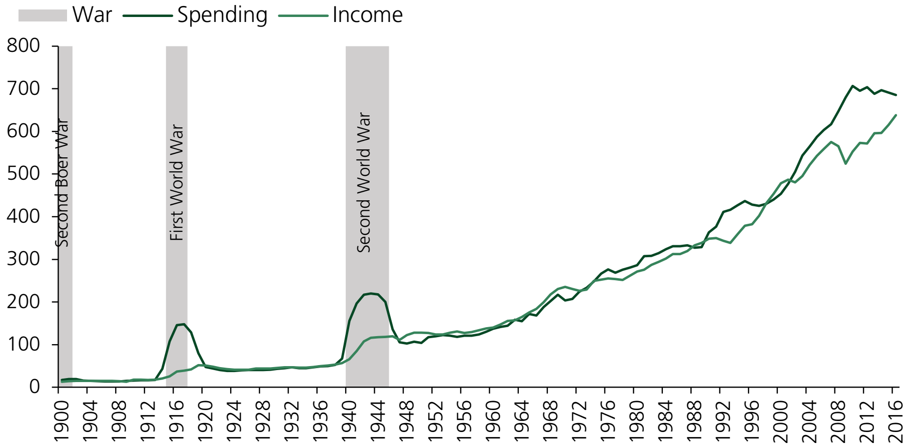
Public income and spending, 1689-1899
£ billions, 2013 prices



Source: Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

Here we can see that peacetime income and spending remain largely constant from 1689 to around 1750, albeit with spikes during wars, before slowly beginning to increase. However, the level of both increases enormously during the wars around the start of the 19th century, and they remain higher than they had previously been after those wars ended. Income and spending then start to increase quickly towards the end of the century.

Public income and spending, 1900-2016
£ billions, 2013 prices

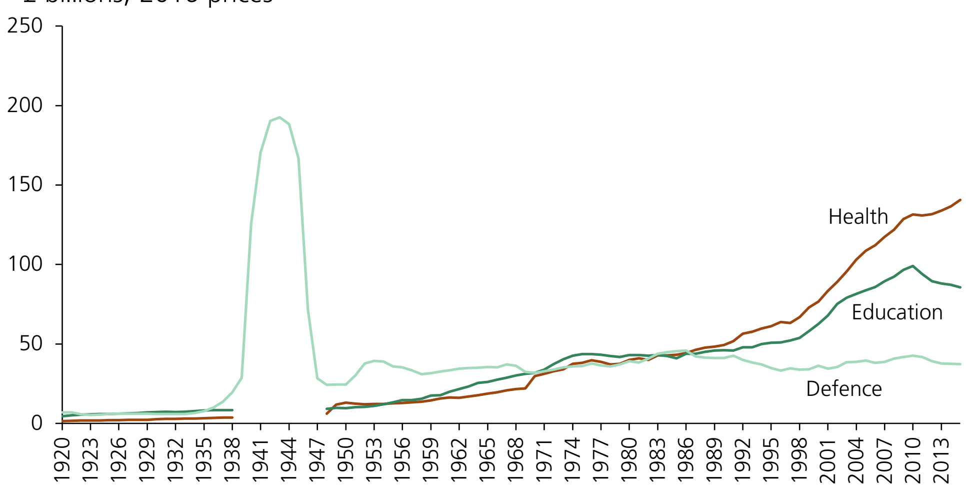


Source: Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

During the 20th century, similar step changes in spending are apparent after the First and Second World Wars. It is only after the Second World War, however, that spending begins to consistently grow, reaching its peak in and after the financial crisis of the late 2000s.

This spending increase can largely be attributed to the creation of the welfare state after the Second World War; in real terms, defence spending stayed largely flat from the 1950s onwards, while spending on health and education increased fairly steadily until the 2000s.

Public spending by category, 1920-2015
£ billions, 2016 prices



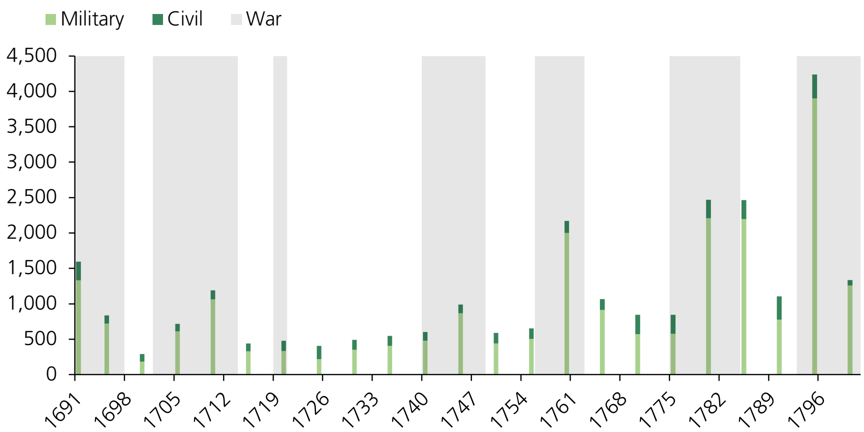
Source: Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

2. Major areas of spending

2.1 War

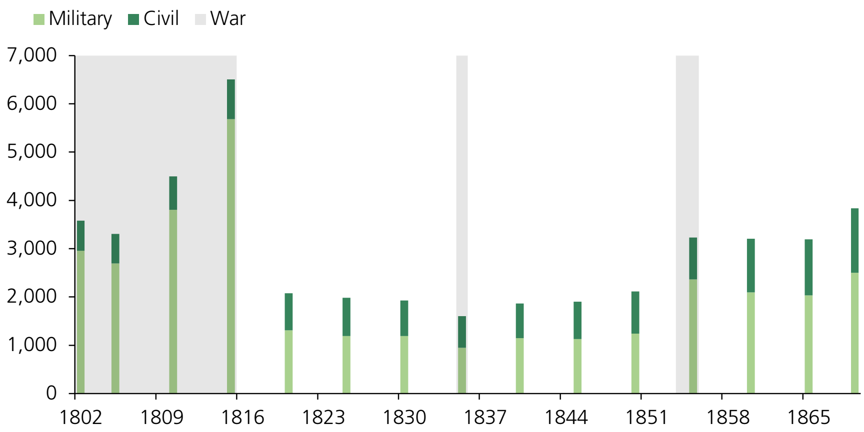
Over the past three hundred or so years, one of the largest areas of spending by the government has been on war – in 1711 during the War of Spanish Succession, spending on the military made up 64% of all government spending. Even in 1850 (after 35 years of relative peace) the equivalent figure was 21%,[1] significantly higher than the 5.2% of spending that went on defence in 2016/17.[2]

Great Britain civil and military spending, 1691-1801
£ millions, 2013 prices



Source: Public Income and Expenditure 1688-1869 (The Chisholm Report), 366, 29 July 1869

United Kingdom civil and military spending, 1802-1869
£ millions, 2013 prices



Source: Public Income and Expenditure 1688-1869 (The Chisholm Report), 366, 29 July 1869

Individual wars have cost varying amounts, depending on the scale of the military intervention required and the length of the conflict. A summary covering the period from 1688 to 1868 can be seen in the below table.

1 *Public Income and Expenditure 1688-1869 (The Chisholm Report)*, 366, 29 July 1869
2 HM Treasury, *Public Expenditure Statistical Analyses 2017*, Table 5.2, 19 July 2017

Total costs of British wars, 1688-1868
£ millions, adjusted to 2013 prices

		Total cost	Cost per year
1688-1697	War in Ireland and against France	4,855	539
1702-1713	War of Spanish Succession	6,762	564
1718-1721	War with Spain	602	151
1739-1748	War with Spain (Right of Search) and of Austrian Succession	6,230	623
1756-1763	Seven Years' War	10,742	1,343
1776-1785	American War	11,218	1,122
1793-1815	War with France	83,496	3,630
1838-1843	Insurrection in Canada	191	-
1840-1843	First China War	206	-
1848-1853	Kaffir War	209	-
1854-5, 1855-6	Russian War	6,698	3,349
1856-7, 1860-1	Second China War	641	-
1856-7	Persian Expedition	87	-
1864-5	New Zealand War	67	-
1866-7, 1867-8	Abyssinian Expedition	769	-

Note: '-' = data not available. Names of wars are those used in the source material and may not reflect modern usage.
Source: Public Income and Expenditure 1688-1869 (The Chisholm Report), 366, 29 July 1869; adjusted to 2013 prices using GDP deflators from Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

This indicates that the war with France from 1793 to 1815 (including the Napoleonic Wars) was by far the most expensive in this period, at a total cost of around £80 billion in 2013 terms. This was also the most expensive war in terms of cost per year at £3.6 billion (also in 2013 terms), just ahead of the £3.3 billion per year of the later Russian War (now known as the Crimean War).

Although the comparison is not exact (because methods of calculating the costs of conflicts can vary widely), it is interesting to look at the estimated costs of recent conflicts. The Ministry of Defence estimates that between 2004/05 and 2008/09 (roughly when combat operations ended),[3] the cost of the war in Iraq was around £1.1 billion per year, for a total of £5.7 billion. The equivalent figures in Afghanistan (for 2004/05 to 2014/15, given that UK combat operations in Afghanistan ended on 26 October 2014) were £1.8 billion per year, a total of £18.2 billion.[4]

For further information about the cost of UK military operations, see the Library's briefing paper on UK Defence Expenditure.

2.2 Civil spending

In 1692, the first individual year for which we have detailed spending figures, total spending on civil government could be broken down as follows:

[3] More accurately, UK combat operations in Iraq ended just after financial year 2008/09, on 30 April 2009.
[4] Ministry of Defence, Defence departmental resources: 2017, 5 October 2017

Total civil spending of Great Britain, 1692

	Cash £	2013 prices £ millions
Privy Purse	27,500	3.8
H.M.'s Household:		
Cofferer of the Household	103,601	14.2
Treasurer of the Chamber	26,933	3.7
Great Wardrobe	23,943	3.3
Master of the Robes	3,500	0.5
Master of the Horse	34,777	4.8
Band of Pensioners	4,500	0.6
Plate and Jewels	9,245	1.3
Total	**206,499**	**28.3**
Works and Gardens	35,379	4.8
Pensions and Annuities:		
The Queen	60,500	8.3
Queen Dowager	15,210	2.1
Prince and Princess of Denmark	49,000	6.7
Other Civil List Pensions and Annuities	50,845	7.0
Total	**175,554**	**24.1**
Royal Bounty	25,190	3.5
Secret Service	44,602	6.1
Fees and Salaries	60,069	8.2
British Ministers Abroad	25,083	3.4
Contingent and Miscellaneous Charges	32,123	4.4
Total Civil List	**631,999**	**86.6**
Mint Expenses	10,647	1.5
Redemption of Captives	500	0.1
Servants of late King Charles II	18,647	2.6
Total Civil Government	**661,793**	**90.7**

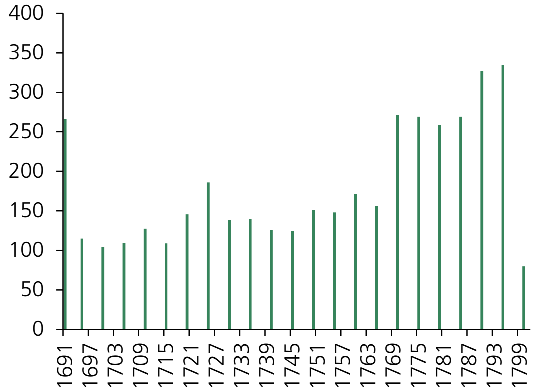
Note: Totals do not match those given in source; this is likely an arithmetic error in the source material.
Source: Public Income and Expenditure 1688-1869 (The Chisholm Report), 366, 29 July 1869; adjusted to 2013 prices using GDP deflators from Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

Total civil spending came to £91 million in 2013 prices; for comparison, this is similar to the 2017 budget of the Food Standards Agency (£85 million) or Historic England (£94 million).[5] Much of what we would today think of as functions of government received very little money in the 17th century, with the entire wage bill of the civil service in 1692 coming to a modern-day equivalent of £9 million (in March 2014, the equivalent figure was £11 billion, over a thousand times higher).[6]

[5] Cabinet Office, Public bodies 2017 report, 30 November 2017
[6] National Audit Office, Central government staff costs, 5 June 2015

However, the scope of civil government did expand over the years – by 1770, total civil spending had nearly tripled in real terms, to £270 million (2013 prices).

Great Britain civil spending, 1691-1801
£ millions, 2013 prices



Source: Public Income and Expenditure 1688-1869 (The Chisholm Report), 366, 29 July 1869

After the Acts of Union 1800[7] (and the resulting creation of the United Kingdom), spending covered Ireland as well as Great Britain, and was therefore significantly higher than it had been in previous years. This did not affect the overall trend of an increase in civil spending – between 1802 and 1869, civil spending doubled again, going from £620 million to £1.3 billion in 2013 terms.

Box 1: Mr Burke's reforms

On 11 February 1780, Edmund Burke MP made a speech in the House of Commons suggesting a number of measures to reform the economy. Many of these measures were later carried out in the Civil List and Secret Service Money Act 1782, which marked the first time that Parliament had directly interfered with the spending of the Civil List.

Under the Act, the Civil List was divided into eight classes, with "Pensions and Allowances to the Royal Family" making up class 1 and "Salaries and Pensions of the Commissioners of the Treasury and Chancellor of the Exchequer" as class 8; the classes would serve as a priority ordering for spending, and no Civil List spending could fall outside the classification.

Burke's original idea had been that if more money was spent under the Civil List than was available then rather than being funded by debt, spending would simply be cancelled from the lowest class upwards. It was no accident that the lowest class contained the salaries for the people responsible for managing the spending – Burke reasoned that Treasury officials would keep a very tight grip on spending rather than lose their own salaries!

Understandably, this measure was strongly opposed, and the whole of Burke's Bill was rejected in 1780. It was not until 1782 – with the removal of this measure – that any of his reforms made it onto the statue book. [8] Unfortunately for the Palace of Westminster, one of these reforms was the abolition of the wooden tally sticks that had been used for accounting purposes before this point; the tally sticks' destruction in 1834 led directly to the Palace burning down.

2.3 Poverty

Many monarchs and governments used public money as a form of charitable giving to particular groups of disadvantaged people, often for political or religious purposes. There is evidence of this from 1688 onwards in our sources: in this year, £7,244 was given out as the Royal Bounty. This fund supported French Huguenot refugees, Protestants who had settled in England after fleeing religious persecution.

Support for Huguenots continues to appear throughout the spending records, with "Relief of French Protestants" first appearing in 1696 and

7 Act of Union (Ireland) 1800 and Union with Ireland Act 1800
8 *Public Income and Expenditure 1688-1869 (The Chisholm Report)*, 366, 29 July 1869, p589-9

continuing to appear regularly until 1761; the Royal Bounty also continues to be listed, suggesting that it expanded to cover more than its original remit.

Another example comes from the tax on First Fruits and Tenths. Originally imposed by Popes during the Crusades, First Fruits consisted of an archbishop or bishop's first year's income after appointment to their bishopric, while Tenths were 10% of their ongoing income. This tax was abolished in 1533 by Henry VIII, but quickly reinstated the next year with the proceeds going to the Crown instead.

After going in and out of favour under monarchs of various religious persuasions, on 7 February 1704 Queen Anne announced that the proceeds of First Fruits and Tenths would henceforth be used to supplement the income of poor members of the clergy; it appears in the financial records as "Queen Anne's Bounty for Augmentation of Poor Livings" every year from 1706 to 1817.[9]

Other spending on poverty tends not to appear in central government records, because under the Poor Relief Act of 1601, looking after the poor was the responsibility of the local parish rather than the national government. This is not to suggest that the degree of expenditure was not significant – indeed, after the introduction of the Speenhamland system in 1795, which linked poor relief to the price of bread, the cost to the parish system increased dramatically.[10]

2.4 Abolition of slavery

The UK abolished the slave trade in 1807, with the Foreign Slave Trade Abolition Act. This did not abolish slavery, but prohibited British ships being involved in the slave trade. Slavery itself continued in the British colonies.

The UK abolished slavery in the Slavery Abolition Act 1833, which came into effect on 1 August 1834. However, in place of slavery the negotiated settlement established a system of apprenticeship, tying the newly freed men and women into another form of unfree labour for fixed terms. The system of apprenticeship was abolished in 1838, with complete emancipation from 1 August 1838. There was a cost to the government from this action, as the Slavery Abolition Act also granted £20 million in compensation to the former slave-owners.[11] The former slaves, however, received nothing.

The payments went out in several tranches between 1835 and 1837, with the initial 1835 tranche accounting for over a quarter of all

9 Queen Anne's Bounty continued to be paid after this point, although it is not reported separately in our sources. The charity that was set up to administrate it still exists today, having merged with the Ecclesiastical Commissioners in 1948 to form the Church Commissioners.

10 Ron Harris, *Government and the economy, 1688-1850*, in *The Cambridge Economic History of Modern Britain Vol 1*, 2004

11 The Centre for the Study of the Legacies of British Slave-ownership at UCL has published detailed data on the slave-owners receiving compensation and the ownership of the estates prior to the compensation payments.

government spending that year. The government funded the majority of the £20 million payments using the West India Slave Compensation Loan of 1835, and this loan was rolled into the government's main debt holdings (gilts). The debt instrument used was an undated bond (or gilt), which meant there was no compulsory date on which the original money lent to the government had to repaid (or redeemed); it therefore remained on the books until 2015, when the then Chancellor – George Osborne – redeemed all the remaining undated bonds in the government's portfolio.[12] The long gap between the money being borrowed and the bond being redeemed was due to the type of financial instrument that was used rather than the amount of money borrowed.[13]

2.5 Other spending

Beginning in 1824, official spending figures for what had been previously been reported as "miscellaneous civil services" (that is, most functions other than supporting the Royal Household or paying the salaries of civil servants) began to be broken down by government function. It took a number of years before the spending figures consistently began to use the same classification systems, and it is only from 1843 that figures are available allowing consistent comparisons between years. However, the 1869 Chisholm Report does include a comparison between 1835 and 1869, which is reproduced below (along with conversions to 2013 prices).

Miscellaneous civil service spending, 1835 and 1839

	Cash (£)		2013 prices (£ millions)	
	1835	1869	1835	1869
Public Works and Buildings	182,497	1,221,054	17	114
Salaries etc. of Public Departments	591,177	1,752,191	56	163
Law and Justice	494,796	3,903,873	47	363
Education, Science and Art	135,130	1,652,712	13	154
Colonial, Consular and Foreign	426,957	693,408	40	65
Superannuations, charities, etc.	162,968	505,401	15	47
Miscellaneous, Special and Temporary	269,657	161,554	25	15
Civil Contingencies	130,000	0	12	0
Total	**2,393,182**	**9,890,193**	**225**	**921**

Source: Public Income and Expenditure 1688-1869 (The Chisholm Report), 366, 29 July 1869; adjusted to 2013 prices using GDP deflators from Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

Spending on total miscellaneous services increased enormously over this 34-year period (more than quadrupling in real terms). The largest percentage increase was in Education, Science and Art, which saw a 1,109% increase in spending.

The 1869 figures can be broken down even further within their categories – the Chisholm Report includes an itemised list of everything

12 HM Treasury, Repayment of £2.6 billion historical debt to be completed by government, 27 March 2015

13 For more see HM Treasury FOI release Slavery Abolition Act 1833.

that made up these numbers. Some of the more interesting items that can be seen in this list include:

- £49,000 on maintaining the Houses of Parliament (the current Palace of Westminster was in its final stages of construction at this point);
- £428,000 on printing and stationery for all government departments – this is by far the most expensive item within the "Salaries, etc. of public departments" category;
- £180,000 for the Metropolitan Police, which had been in existence for 40 years at this point;
- £774,000 on public education in Great Britain (and £370,000 for the same in Ireland);
- £7,360 for the Commissioners for the Suppression of the Slave Trade;
- £1,905 towards the Livingstone Search Expedition (missionary and explorer David Livingstone was still missing in Africa at this point, and would not be found for a further two years);
- £7,500 in compensation for victims of the Clerkenwell Explosion, the bombing of Clerkenwell Prison in 1867 in an unsuccessful attempt by the Irish Republican Brotherhood to free one of their imprisoned members. Michael Barrett, convicted of murder for his part in the bombing, was the last man to be publically hanged in England.[14]

Box 2: Robberies of the Exchequer

Spending money is not the only way in which a government can see a decrease in its available funds – there have been two occasions on record when the Exchequer was robbed. The first of these occurred in 1303, during the reign of Edward I, when the proceeds of a recent tax were kept in a chest in Westminster Abbey, along with many of the King's jewels and other treasures.

During late April, 11 monks from the Abbey, with the aid of travelling merchant Richard Podelicote, broke through the wall of the Chapter House and stole around £100,000 worth of cash and other treasure. The whole loss was estimated at a worth of "nearly two millions" in 1869, which would imply a value of closer to £190 million in modern terms. The monks were apparently "embarrassed by the richness of their spoil", leaving behind the King's crown and many other pieces of treasure.

Two of the King's officers later testified that they had seen several monks carrying two large and heavily laden baskets at night to a boat.[15] The monks buried much of what they had taken in the enclosure within the Abbey's cloisters, having already sown it with hemp several months earlier in order to conceal the burial.

The King was away in Scotland at the time, but came back rapidly on hearing that a suspiciously large amount of gold and precious stones was being sold to the goldsmiths of London. Subsequent inquisitions in Westminster Hall and in Southwark sent a total of 27 people to the Tower, with eight more being imprisoned in Newgate. It is not known what further punishments the conspirators suffered.[16]

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14 Turbulent London, On This Day: The Clerkenwell Outrage, 13th December, 1867, 13 December 2015

15 The Chisholm Report, from which many of these details are taken, states that the boat was waiting at Westminster Bridge; this cannot be correct, as the first Westminster Bridge was built in 1750.

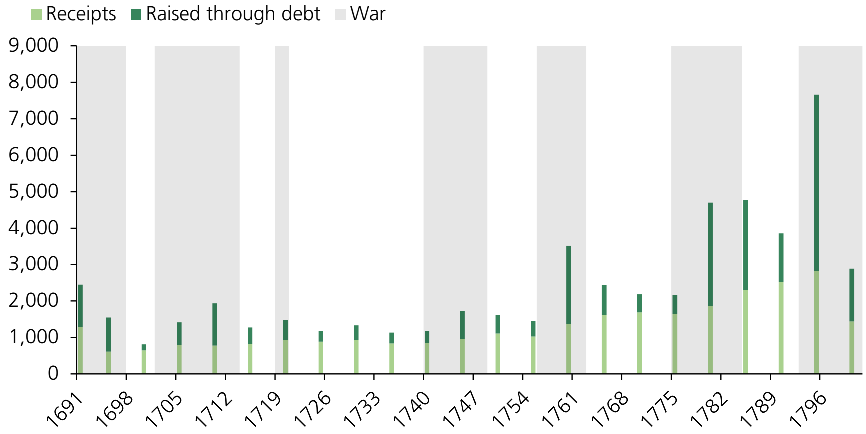
16 *Public Income and Expenditure 1688-1869 (The Chisholm Report)*, 366, 29 July 1869, p343-344; Luke Owen Pike, *A History of Crime in England Illustrating the Changes of the Laws in the Progress of Civilisation*, 1876, p198

The second robbery of the Exchequer was more successful, but as a result we have significantly fewer details: in 1729, the office of Lord William Powlett, one of the Tellers of the Exchequer, was broken into overnight. The thieves stole £4,191 (around £390,000 in 2013 terms) from a chest, possibly by breaking through the floor from the room below; nobody was ever arrested or charged with the robbery.

3. Raising revenue

Governments typically raise revenue in two major ways: gathering money from their citizens by taxing them in one form or another, and borrowing money either from citizens or from other countries. The balance between them has varied over time, as can be seen from the below charts.

Great Britain total income, 1691-1801
£ millions, 2013 prices



Source: Public Income and Expenditure 1688-1869 (The Chisholm Report), 366, 29 July 1869

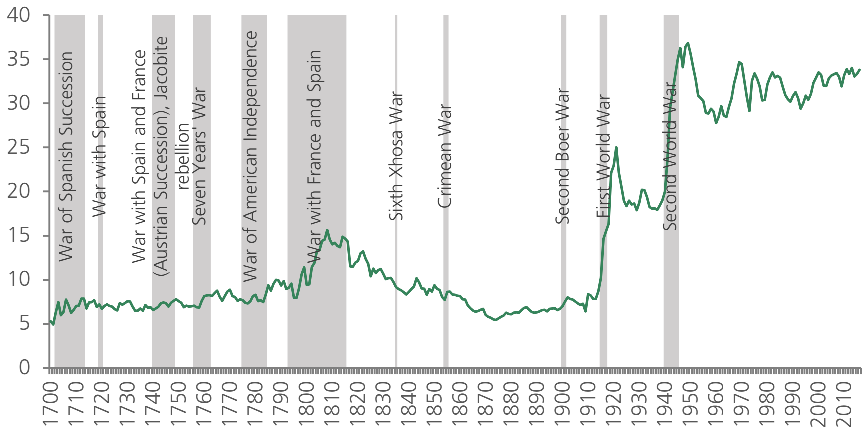
United Kingdom total income, 1802-1869
£ millions, 2013 prices

Source: Public Income and Expenditure 1688-1869 (The Chisholm Report), 366, 29 July 1869

Throughout this period, the amount raised by receipts from citizens is typically reasonably constant over the short and medium term, with short-term costs being met by an increase in borrowing when costs rise (for example, in times of war). Reduction in borrowing is particularly apparent from 1802 to 1869, as the government attempted to reduce its debts.

3.1 Taxes, customs and duties

Public income, UK, 1700 - 2016
% of GDP



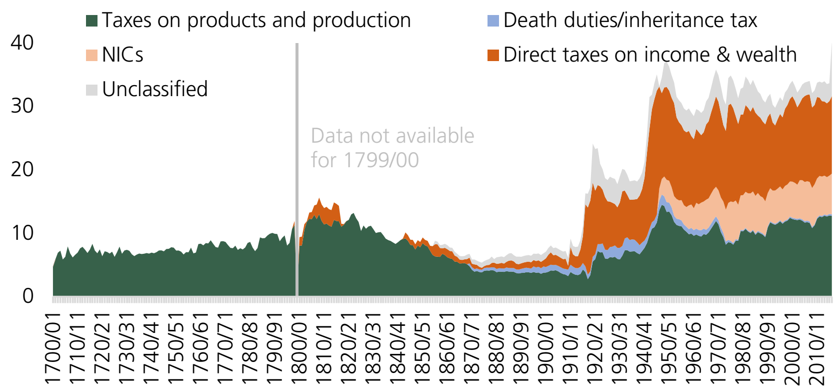
Source: Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

For the majority of the 18th and 19th centuries, public income – from taxes, customs, excises, stamps and other revenues – was equivalent to less than 10% of GDP. Public income rose above this level briefly in the early 19th century, largely to fund war with France. It peaked at over 15% of GDP in 1808, but subsequently fell and settled below 10% of GDP for almost all of the final 65 years of the century.

During the early part of the 20th century public income creeped up a little relative to the final half of the previous decade. However, both World Wars brought in step changes in public income: in the period between the two wars public income fluctuated between 18% and 24% of GDP; since the Second World War public income has exceeded 30% of GDP in the majority of years.

Over the years the composition of public income has changed. During the 18th century and much of the 19th century taxes on products and production – such as customs, excises, stamps and land & assessed taxes – brought in the vast majority of public income. The 20th century saw a greater reliance on taxes on income & wealth and National Insurance contributions (NICs).

Composition of public income, UK, 1700/01 - 2016/17
% GDP



Source: Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

18th century

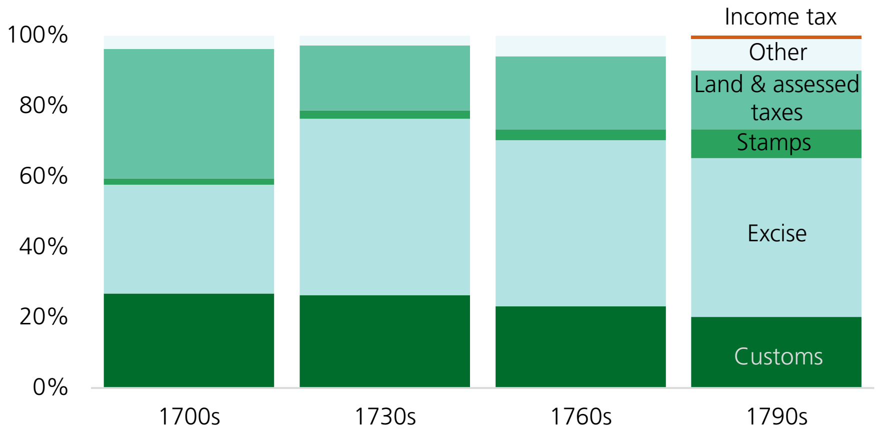
Public income increased during the 18th century. As the century began public income was equivalent to around 5% of GDP – by the end of the century it was closer to 10%. The rate of growth may have been the fastest in Europe.[17]

Nearly all public income in the 18th century came from taxes on products and production.[18] However, the composition of this group of excises, customs, stamps and taxes changed during the century.

In the first decade of the 1700s, close to 40% of all public income came from land & assessed taxes, but these taxes contributed less than 20% of public income by the final decade of the century. Land tax was a tax levied on the value of land, tenements and hereditaments. The value of land was assessed in 1692 and was not reassessed during the 18th century. Universities, colleges, schools, hospitals, and alms-houses were exempt from the tax as some of the lowest valued lands. Assessed taxes were raised on items such as carriages, servants, and – perhaps most famously – windows.[19]

Excises – mainly levied on basic consumption, such as salt, bricks, printed cloth – grew in importance during the 1700s. In the first decade of the 18th century excises contributed around 30% of public income. In the final decade of the century they brought in around 45% of income. At points during the 1700s close to half of all income came from excise.

Public income sources during decades of the 1700s, UK
% of total public income



Source: Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

It has been argued that the changing composition of tax during the 18th century had redistributive effects. The rich carried most of the burden of land & assessed taxes, while excise was mainly levied on basic consumption disproportionately falling on the middle and lower classes.[20]

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17 Ron Harris, *Government and the economy, 1688-1850*, in *The Cambridge Economic History of Modern Britain Vol 1*, 2004

18 According to the definitions used in the Bank of England's A millennium of macroeconomic

19 Parliament, Living Heritage – Window Tax [accessed on 19 February 2018]

20 Ron Harris, *Government and the economy, 1688-1850*, in *The Cambridge Economic History of Modern Britain Vol 1*, 2004

In the Budget of December 1798, William Pitt introduced a direct income tax to fund war with France. The tax was increased, ceased and then re-imposed during the following years, but was repealed in 1815.

19th century

During the 19th century, public income reversed the trend of the previous century – falling from around 10% of GDP in 1800 to less than 7% in 1899. However, in the early decades of the century – in order to pay for war with France – public income grew relative to GDP, peaking at over 15% of GDP. The income tax brought in by William Pitt raised the equivalent of close to 3% of GDP at its peak, before it was repealed in 1815. Revenues from other taxes also grew in the early part of the century – excises increased from around 3% of GDP in 1800 to around 6% towards the end of the decade.

From the late 1810s public income fell relative to GDP, and by the mid-1870s was around 5%. This relative fall was despite income tax being re-introduced in 1842. Income tax was re-introduced to close the gap between the government's spending and income – its deficit. Income tax has been part of UK taxation ever since.

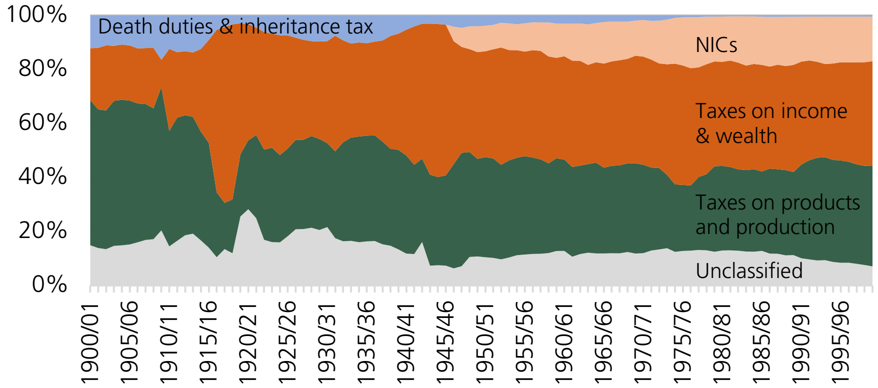
20th century

By the end of the 19th century public income had creeped up to just below 7% of GDP. Significant increases were seen during the 20th century, with step changes following both the World Wars. Since World War II public income has rarely fallen below 30% of GDP.

Both the size and composition of public income changed significantly during the 20th century. More income was needed to pay for the wider role of the government – largely following the introduction of the welfare state. New taxes were introduced, most significant of which were National Insurance contributions (NICs), Value Added Tax (VAT) and corporation tax.

The 20th century saw a significant movement away from taxes on products and production – customs, excises, VAT and stamps – to taxes on income & wealth and NICs. At the end of the century the government raised more, as a % of GDP, from corporation tax alone than it had from all sources in 1900.

Composition of public income, UK, 20th century
% of total income



Source: Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

3.2 Debt

From the revolutions of 1688-89 onward, the government was increasingly able to convince its creditors that it was financially prudent enough to pay back money that it was lent. This meant that it was able to borrow at relatively low interest rates, which in turn resulted in a huge expansion of the national debt, from around £1 million in 1688 to £15 million a decade later,[21] around £50 million in 1715, and closer to £500 million by 1800. See the charts on page 21 for more detail.

Debt was divided into two main types: funded debt came with an accompanying tax or other measure that was designed to raise the money necessary to pay off its interest, while unfunded debt would be maintained through normal spending. Both types appear throughout the historical spending records.

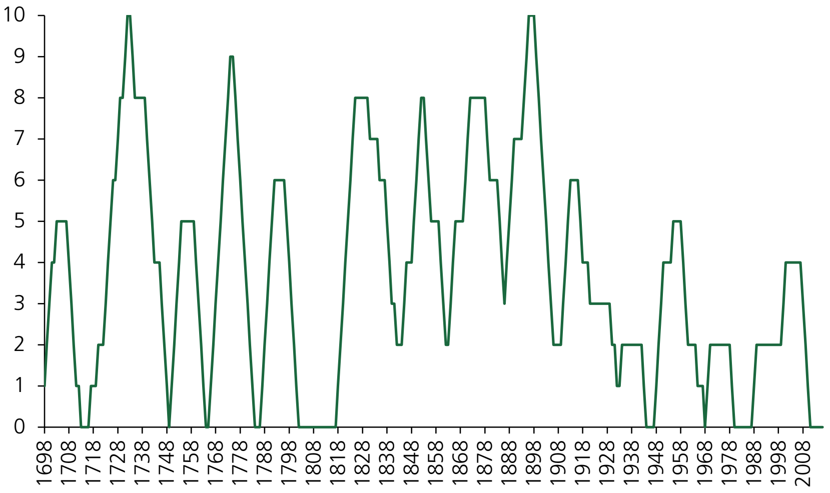
There were 328 years between 1689 and 2016, and the national debt increased in 210 of them (64%). War has historically been the main cause of debt: over the entire period, the average deficit during years of war was 6.7% of GDP, compared to 1.0% during years of peace.[22]

Box 3: Deficits

The "deficit" refers to the difference between the amount the government spends and the amount it receives in tax or other revenues each year (when it receives more than it spends there is a "surplus" instead). Today the deficit is measured by "public sector net borrowing".[23]

Of the 328 years between 1689 and 2016, there was a deficit in 210 and a surplus in 118. Deficits have always been common in times of war, but from around 1900 onward they have also been increasingly common in times of peace; as the chart below shows, there has been no ten-year period with at least five years of surplus since 1958.

Years of surplus in the previous 10 years, 1698-2016



Source: Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

[21] Ron Harris, *Government and the economy, 1688-1850*, in *The Cambridge Economic History of Modern Britain Vol 1*, 2004

[22] Wars also do not tend to increase GDP; in fact, mean GDP per person in years of war was 36% of that during years of peace, although this figure is skewed by the large increase in GDP per person over the period of peace since the end of the Second World War.

[23] For more information about the budget deficit, see the Library briefing The budget deficit: a short guide.

Historically, the public finances have been reasonably insulated from major economic shocks; the South Sea Bubble of 1720 and the Railway Mania and Canal Mania crashes of the mid-nineteenth century are not visible in the figures. This trend has not continued into recent years, however. Economic problems in the 20th century have increasingly shown up as larger and larger public deficits, and the financial crisis of the late 2000s led to a deficit that was greater in GDP terms than anything since the Second World War.

Annuities

Governments have had a number of ways of raising money directly from their citizens. A popular one from 1692 onwards has been the creation of annuities, a system under which individuals pay the Government for the right to be paid a particular sum each year, either for a fixed number of years or until death. This is effectively a loan raised against individuals; the Government trades off having to pay out the annuity each year against the benefit of gaining the initial subscription immediately.

The risk of such a system is, of course, that people may end up living longer than expected, resulting in a drain on the public finances. This resulted in the creation of life annuities being stopped in 1828, and only restarted the next year after the tables on which payouts were based had been recalculated to take people's actual lifespans into account.

Box 4: Tontines

There is a special type of annuity known as a tontine, which has only been attempted three times within Great Britain. Under this system, as with a life annuity, individuals pay for a share in the scheme, and nominate a person (this can be themselves); for as long as that person remains living, the government pays out each year.

However, unlike in a normal annuity, the total amount paid out by the government each year remains fixed, so as people die the amount that the survivors receive slowly increases. In the First English Tontine of 1692, people bought shares for £100 and received £10 per year for seven years, followed by £7 per year until the death of their nominee, plus a share of the total left over due to other nominees dying. By the time only one nominee remained alive in 1782, the holder of this share was receiving £1,081 per year.

Two subsequent attempts at running tontines were unsuccessful, and there was considerable disquiet at a system that effectively monetised death. Tontines were therefore made illegal in Britain in 1774.

Lotteries

One unusual method of raising revenue is via a lottery. This is also effectively a debt: the government sells tickets up front and thereby receives money immediately, in exchange for a promise to pay off prizes later on. Initially, they were combined with an annuity system: in 1694, a lottery was authorised which granted annuities of 14% for six years, but 2,500 of the tickets ("fortunate tickets") also carried extra prizes.

The Malt Lottery Loan of 1697 was somewhat simpler, with tickets costing £10. Of the 140,000 total tickets, 3,500 carried prizes of up to £1,000; the rest simply entitled the bearer to their £10 stake back at a rate of a farthing per day. This lottery was very unsuccessful, with only 1,793 tickets being sold. This did not prevent the Treasury from coming up with the rather bizarre idea of returning the unsold tickets to the

Exchequer and issuing them as a form of cash; they remained in circulation until the government had finally paid off their value in 1711.[24]

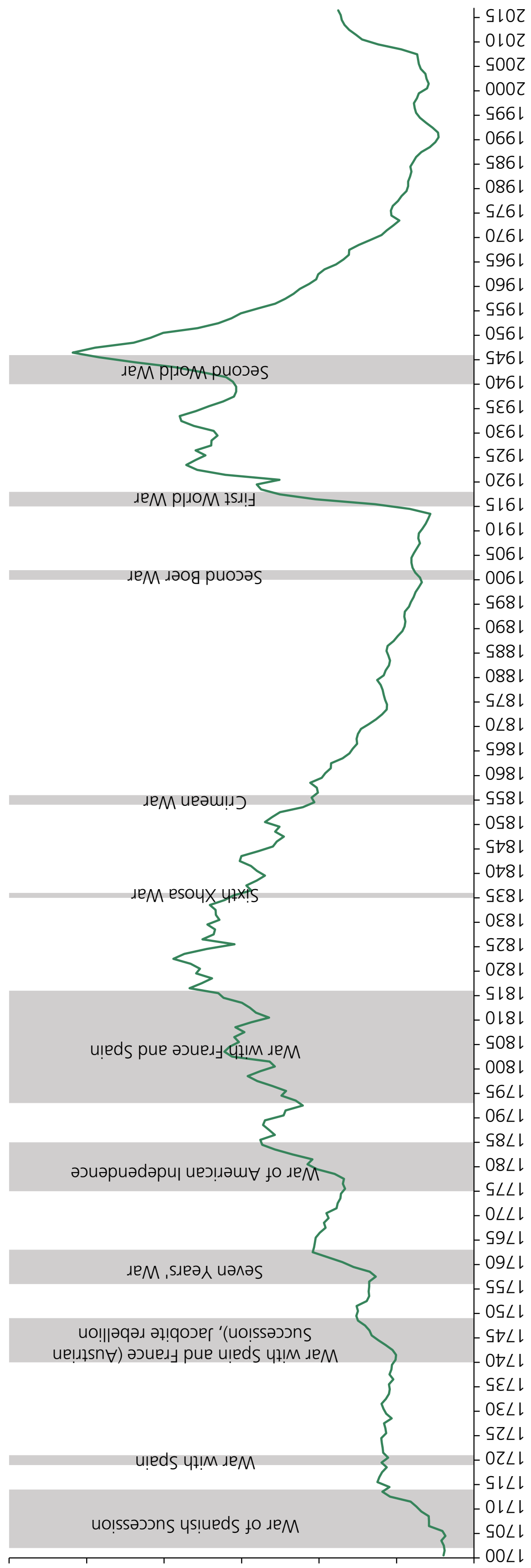
Lotteries continued as a means of raising revenue up until 1824; since then, they have been run only as a game of chance, although the fundraising aspect can still be seen in the charitable aspects of the modern lottery.

[24] *History of the Earlier Years of the Funded Debt, From 1694 to 1786*, C. 9010, August 1898

National debt, 1692-2016

% of GDP

War

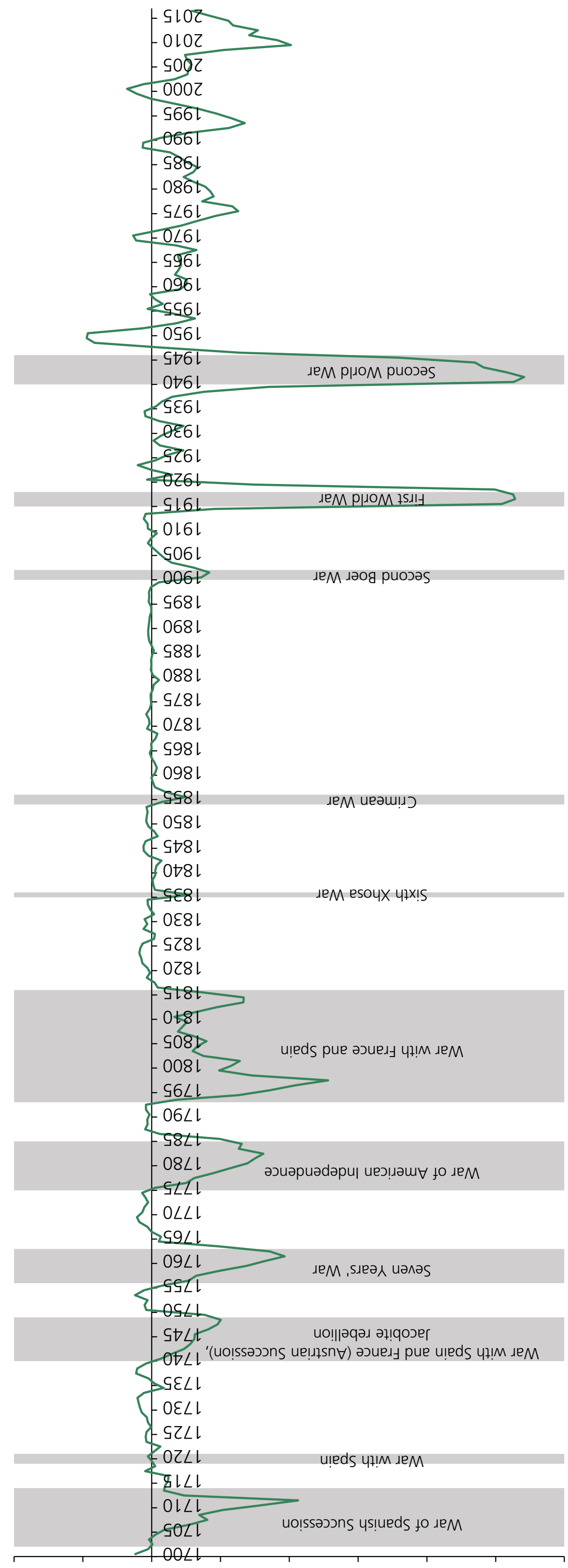


Source: Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

Public surplus/deficit, 1700-2016

% of GDP

War



Source: Bank of England, A millennium of macroeconomic data, V3.1, 2 March 2017

3.3 Other ways of raising revenue

The Post Office

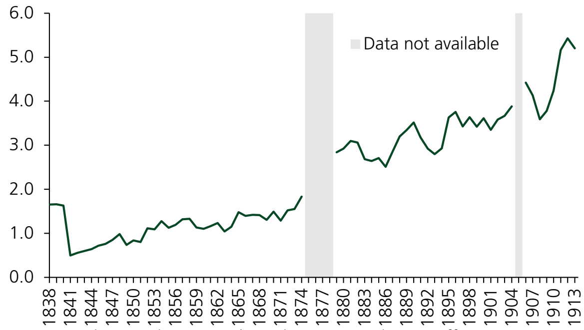
Since the first government-run Post Office during the reign of James I, it has not only been a service but also a means of generating a profit. Initially this profit simply went to the Postmaster, in recognition of the fact that he also bore the costs, but as the revenue increased the running of the Office was first farmed (that is, the Postmaster bought the right to run the service and could then keep subsequent profits) and later made a fully public service.

It took a significant length of time for the Post Office to reach its current form and restrictions. During the reign of Queen Anne a number of unusual parcels appear in the records, including several people who managed to send themselves and their livestock by post; one of these was "Doctor Crichton, carrying with him a cow, and divers other necessaries".

It was only in 1840, with the introduction of uniform penny postage, that Members of both Houses of Parliament finally had to pay to send their own letters through the post. Before 1764, Members had only to write their own name in the corner of the envelope; this privilege was apparently much abused!

In 1838, the Post Office was generating a net revenue of £1.7 million per year (equivalent to around £160 million in 2016 prices). Revenues initially fell when prepaid penny postage was introduced, but had recovered around thirty years later, and continued to increase (albeit with some temporary falls) until the First World War.

Post Office net revenues, 1838-1913
£ millions, not adjusted for inflation



Source: The Postal Museum (postalmuseum.org), Post Office Statistics

Casual revenues

Several miscellaneous categories of revenue have historically belonged to the Crown (and hence to the government). Some of these are particularly obscure; for example, any whales and sturgeons landed on the coast belong to the monarch (initially, the whale's head belonged to the King and its tail to the Queen, the idea being that the Queen could thereby have a source of whalebone for her wardrobe).

Another source of revenue is something where the meaning has totally changed: "waifs and strays". Originally, a "waif" was something that a thief threw away as he ran from the scene of the crime, and a "stray" was any animal of value found wandering around where no-one could identify its owner. In both cases, ownership of the object or animal defaulted to the Crown.

Some of these rules are still in place today: the Crown is still the owner of buried treasure ("Treasure Trove"), although in practice anything now declared to be treasure will go to a museum and its finder compensated.

Finally, "conscience money" appears in a number of places throughout the accounts. This is money that people voluntarily give to the government in order to ease their consciences, presumably because they had underpaid tax in a previous year. In the mid-nineteenth century, this source of income amounted to around £9,000 per year, and small amounts (up to a few thousand pounds in any given year) are still regularly received by the Treasury today.[25]

Box 5: H.W. Chisholm and his Report

Many of the details throughout this paper come from a single source: *Public Income and Expenditure 1688-1869 (The Chisholm Report).* This is largely the work of two men, W.G. Anderson (principal Financial Clerk of the Treasury in 1857) and H.W. Chisholm (Chief Clerk of the Exchequer), who took over the work from Anderson and continued to work on it over the course of twelve years.

Originally simply a collection of financial accounts covering the entire period from 1688 to 1869, Chisholm hugely expanded the scope of the Report, adding several hundred pages of explanatory notes and tables covering subjects from military expenditure to a brief history of taxation, and short anecdotes about subjects vaguely related to the public finances that he found interesting. Although he was no historian, and the veracity of some of the stories he tells may be dubious (see footnote 15 on Box 2, for example), he nevertheless provides a wonderful variety of detail, and somehow manages to make financial records interesting.

Chisholm was an interesting person in his own right – he later became Warden of the Standards under the Board of Trade, and was thus responsible for the standardisation of weights and measures throughout the country. The standard measures of an inch, a foot and a yard were embedded in the northern terrace wall of Trafalgar Square at his direction and can still be seen today. He was also the father of English mathematician Grace Chisholm Young, the first person to obtain a First class degree at both Oxford and Cambridge Universities in any subject.

[25] HM Treasury Freedom of Information request, 4 July 2013, via [What Do They Know?]

4. Parliamentary scrutiny and reform

For much of the past three centuries, it was not unusual for government spending plans to receive very little in the way of scrutiny from the House of Commons. In 1782, a report of the Finance Committee into military expenditure during the previous six years found that some £15.6 million of spending on the Army (out of a total of £47 million) had received no authorisation from Parliament whatsoever – ministers had just gone ahead and spent the money anyway. Similar unauthorised spending had been incurred by the Navy and Ordnance.

Abuses of this kind led to the establishment in 1805 of the Commissioners of Military Inquiry, who produced a number of reports into various parts of the military and their spending. They uncovered several irregularities in spending, such as the Deputy Paymaster of the forces in the West Indies manipulating different rates of exchange to make a personal profit on the money under his control, and the Treasurer of the Ordnance simply drawing money from the Bank of England without authority (a total of nearly £84,000).

From the 1780s, several improvements were made in the way that Estimates were created, along with changes in transparency that meant Members could see that the money appropriated was actually spent for the stated purpose. The creation of the Public Accounts Committee in 1861 was a particular milestone in this regard.[26] However, Members have very little formal input on how money may be spent; the restriction on anyone other than the Government proposing new spending, formalised in a Standing Order in 1716, has proved extremely durable.

There have been recent moves to allow Members some more direct scrutiny of spending decisions, particularly in the area of debating estimates – see the Library briefing papers The Estimates process and 2017-18 Main Estimates and Public spending: New debates in the House for details.

26 Estimates, The History of Parliament blog, 5 April 2017

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