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The International Financial Position of the United
Kingdom - Problems and Prospects

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(Appendix - Frederick R. Dahl)

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Summary

Before the First World War, the United Kingdom was a creditor on both short and long-term international account. By the end of the Second World War, it had become a net debtor. During the immediate postwar period, its international financial position improved but slightly. The requirements of domestic reconstruction and the capital needs of the outer sterling area induced the British authorities to favor a cheap-money policy. The resulting inflationary tendencies were repressed by a restrictive fiscal policy and tight internal as well as external direct controls. Following the devaluation of 1949, significant progress toward financial stabilization was made, but this progress was interrupted in 1950-52 by the post-Korean inflationary boom and its subsequent collapse. U. S. assistance was in most postwar years essential in helping the British authorities to cover the deficit in the U. K. balance of current international payments.

Since the world-wide abatement of inflationary pressure, the revival of conservative monetary policies, and the tightening of import controls in 1951-52, the U. K. balance of payments has greatly improved. The period of transition with its extraordinary requirements for reconstruction, replenishment of inventories, and unrequited exports financed by the war-swollen sterling balances of the independent members of the sterling area seems to have ended. British industries have become more competitive in the world market. The British authorities have replaced most direct controls of the domestic economy by indirect controls, and despite the continuation of direct controls over imports, improved the international acceptability of sterling by gradually restoring free markets for several internationally traded staple commodities. For the last twelve months, both the U. K. global balance of current international payments and the sterling area's balance of dollar payments have remained in approximate equilibrium.

The United Kingdom is expected to continue this gradual progress toward an improvement in its international financial position and the restoration of the international importance of sterling.

Over the next few years there should be no significant reduction in British exports and no very large rise in British imports; a moderate increase in the trade deficit and the gradual reduction in U. S. aid (and possibly of U. S. military expenditures) may be expected to be largely balanced by increases in the net income on service account and in the inflow of foreign investments. In the event of sterling convertibility there might be a moderate shift in imports from soft to hard-currency suppliers, increasing both the U. K. deficit on dollar account and the U. K. surplus elsewhere. However, the danger of "regional

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disequilibrium" would be minimized if the major European currencies were also made convertible; moreover, the United Kingdom is expected to avoid any large extension of credit to soft-currency countries and to require countries short of sterling to purchase sterling with dollars. The dependent territories in the outer sterling area will probably continue to earn a dollar surplus which will help the United Kingdom to cover its direct dollar deficit.

The expectation of these developments is based on two assumptions: first, that the United States, as the leading economic power of the free world, does not impede that progress by adopting commercial policies that would make it impossible for other nations to improve their balance of payments; and second, that the United Kingdom will continue to maintain financial stability, keeping the supply of sterling under control both at home and abroad.

IntroductionHistoric background

Prewar period -- Forty years ago, the United Kingdom was the world's foremost creditor nation. Its long-term foreign investments were estimated at £4.0 billion; moreover, the London market held about £0.4 billion in short-term foreign assets, mainly in the form of commercial bills. It was the strength of this position rather than the size of official gold reserves -- which in July 1914 totalled merely £38 million, plus an internal gold coin circulation of about £120 million -- that enabled London to function as the hub of the so-called international gold standard.

Interwar period -- The First World War impaired this position in two ways. First, it inflicted upon British investors heavy losses and saddled the government with a heavy foreign war debt. Second, the disruption of the normal pattern of international trade and payments undermined the role played by the British banking system in financing world commerce. The end of hostilities did not restore international confidence; moreover, the average surpluses in the U. K. balance of current international payments even during the prosperous 'twenties were too small to permit the British monetary authorities to accumulate sufficient official reserves to offset the decline in private foreign assets.

These developments explain the different effects on the British monetary system, in 1914 and 1931, of sudden catastrophes. The outbreak of the First World War made the London market cut off discount credits to foreigners and thus drove sterling above par; the banking crisis of 1931 made foreigners withdraw their balances and thus drove sterling off gold and below par. The resulting devaluation of sterling -- necessary as it probably was to correct the overvaluation of 1925 and beneficial as it may have been for the domestic economy of the United Kingdom -- further weakened confidence in sterling and therefore the position of London as a center of world finance.

During the interwar period, foreign investments were slowly built up again, although the value of existing assets was lowered by the Great Depression. In the 'thirties, the U. K. monetary authorities managed to raise significantly the amount of their gold reserves, but these reserves were hardly larger than foreign-held sterling balances.

Postwar period -- The Second World War dealt the British credit position even harder blows than the First. Losses and the liquidation of foreign investments were greater, and a very large short-term debt was incurred, especially in the form of foreign-held sterling balances. By the end of the war, the United Kingdom had become a net debtor on foreign account, its long-term net assets overbalanced by its short-term indebtedness.

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During the postwar period the global volume of long-term foreign assets did not change much, but the value in current sterling and the regional distribution were considerably altered. Large-scale liquidations of holdings in Latin America and further losses in the Far East were about offset by the continuing flow of new investments into the outer sterling area, and the general rise in economic activity and in the world price level increased the current value of equity investments. In 1950, the market value of long-term investments was estimated at £4.2 billion -- in terms of current sterling about the same amounts as in 1913 or 1938, but in terms of actual purchasing power only about one-third of the 1938, and an even smaller fraction of the 1913 value. (See Appendix, Table 1: U. K. foreign investments, 1913-1950)

The short-term assets (gold and dollar reserves) of the United Kingdom underwent violent fluctuations, corresponding to changes in the country's balance of current international payments and to government credit and aid transactions; their sterling value was raised by the sterling devaluation of 1949. At the end of 1952, their value of more than £0.8 billion (\$2.3 billion) was, in current sterling, somewhat greater than in 1938 and much greater than in 1914; however, their purchasing power as well as their relation to international demand liabilities and to the requirements of the country's foreign trade were equal to only a fraction of their interwar and prewar levels. (See Appendix, Table 2: U. K. gold and dollar reserves, 1913-1953)

The country's foreign liabilities were increased by loans from the U. S. Government and from Canada as well as by "drawings" upon the International Monetary Fund and credits granted by the European Payments Union. The foreign-held sterling balances were diminished by their use to pay for the so-called "unrequited exports", but increased by net purchases of gold and dollars from, and the capital flow to, the outer sterling area. At the end of 1952, they stood at about £3.5 billion; of that sum, however, about £1.1 billion was due to dependent territories so that the balance held by foreigners not under the control of the British authorities amounted to only £2.4 billion. This sum, while nominally more than three times as large as the 1938 level, was not significantly larger in terms of actual purchasing power. (See Appendix, Table 3: Foreign-held sterling balances, 1929-1952)

On balance, the United Kingdom at present is a net creditor on long-term account to an estimated amount of £1.5 billion, and a net debtor on short-term account (excluding the colonial sterling balances) to an estimated amount of £1.6 billion. The net position has somewhat improved since the end of the Second World War, mainly on account of the effects of the sterling devaluation. Most of the debts bear a very low rate of interest while most of the assets (except the official reserves) are invested in high-yielding securities and enterprises. Despite its net debtor position, the United Kingdom therefore still earns a significant net income from its foreign assets.

Factors determining financial position

International transactions -- During the past forty years, important changes in the international financial position of the United Kingdom were due to immediate repercussions of the two World Wars. Barring such world catastrophes, however, the country's position is determined by changes in the main factors of its balance of international payments. (See Appendix, Table 4: U. K. balance of payments surpluses and deficits, 1938-1952)

These factors may be grouped as follows:

- (a) Current transactions;
- (b) Capital and unilateral transactions, including especially U. S. aid;
- (c) Inter-area transfers of gold and dollars, including especially gold purchases from, and dollar pooling arrangements with, the outer sterling area, and gold and dollar settlements within the European Payments Union.

All these transactions involve changes not only in the global financial position of the United Kingdom, but also in the regional distribution of its assets and liabilities. This regional distribution is particularly important in view of the prevalence of currency inconvertibility outside of the dollar area.

International policies -- The balance of payments transactions themselves are determined not only by economic developments involving changes in market conditions, but also -- and often decisively -- by the policies pursued by the governments of the countries in question. Any analysis of changes in the international financial position of the United Kingdom must therefore take into account:

- (a) Policies of foreign countries with which the United Kingdom has the closest economic ties, in particular, the policies of the independent members of the outer sterling area and of the dollar area.
- (b) Policies of the U. K. Government. These policies may directly affect international transactions through quantitative controls of foreign trade and payments, or through changes in commercial policy and exchange rate relations; or they may indirectly, but none the less effectively, influence international transactions through the market mechanism, in particular, by means of fiscal, monetary, and credit measures.

The following remarks deal with the prospects of changes in international transactions affecting the position of the United Kingdom, especially in case of a return to some form of limited sterling convertibility, and with the policies of foreign and U. K. authorities that would affect those prospects.

The Role of International TransactionsCurrent transactions

Exports -- In 1952, the merchandise exports of the United Kingdom were, in terms of physical volume, about 65 per cent, and at current sterling prices about 400 per cent higher than in 1938. Since 1938, exports have increased about twice as much as industrial production. Manufactured products accounted for about 85 per cent of all exports. (See Appendix, Tables 5-6: U. K. exports, 1938-1953; total; direction)

The U. K. budget for 1953 shows that the government wishes to encourage, and expects, a rise in economic activity. The greater flexibility of the British economy, aided by the increased emphasis on the market-price mechanism and the relaxation of direct domestic controls and fiscal burdens, should make possible further shifts from older, less productive, and in export markets less competitive industries such as textiles, to the more advanced sectors of metal and machinery production. Products of these capital goods industries will probably continue to be strongly demanded abroad since the industrial activity of overseas countries is expected to be further expanded.

In particular, continuing expansion of the Canadian economy, continuing prosperity in the United States, and continuing industrialization in the dollar countries of Latin America should provide a larger dollar market for British manufactures.

Some competent observers have expressed the fear that British industry might be unable to take advantage of these opportunities because of an alleged growing productivity differential between U. K. and U. S. manufacturers. However, little if any evidence for such a growing differential is to be found. Between 1938 and 1948, industrial production indeed rose much faster in the United States (120 per cent) than in the United Kingdom (16 per cent); this discrepancy was due to the larger rise in the employed labor force in the United States (where unemployment was greater in 1938), and to the impact of the war on British industry. However, between 1948 and 1952, production rose in both countries by the same percentage (about 14 per cent). Moreover, the present competitiveness of British industry is shown by the success of British electrical machinery and automobiles in the U. S. market; these goods are produced by industries in which U. S. supremacy had until recently been taken for granted.

Imports -- In 1952, imports into the United Kingdom were, in terms of physical volume, somewhat lower than in 1938 but they were about 300 per cent higher at current sterling prices. Foodstuffs and raw materials accounted for about 75 per cent of all imports. (See Appendix, Tables 7-8: U. K. imports, 1938-1953; total; direction)

Both increasing economic activity and increasing freedom in international sterling transactions would lead to a rise in imports. However, even in the event of the United Kingdom restoring convertibility for sterling currently earned by foreigners, the relaxation of controls for British residents would certainly be limited and gradual and it could be stopped whenever the rise in imports would become excessive. Moreover, the impact of direct controls on restricting imports has probably been overrated. The restoration of domestic financial equilibrium in the United Kingdom has shown that effective demand could easily be kept at a level consistent with the available supply of domestic goods and services; in fact, the recent budget relaxed domestic restrictions since effective demand threatened to fall below a level of supply compatible with full employment. In view of the wide range of domestic production in the United Kingdom it seems unlikely that any considerable margin of effective demand would be directed exclusively toward goods that could only be imported rather than produced at home. Increased domestic production would indeed require increased imports of raw materials. Also, there would be a sharp "initial impact" on imports of some semi-luxury dollar goods not produced at competitive prices in the U. K., such as household appliances and many kinds of food; however, excessive demand for such goods might be handled by tariff or tax adjustments, and in the long run large-scale "runs" on imports would probably be just as unimportant as were "runs" on rationed domestic goods after the abolition of rationing.

Finally, renewed emphasis on price considerations and elimination of red tape connected with direct import controls would increase the efficiency of foreign trade and thus compensate in part for a moderate increase in imports.

Shift in imports — While relaxation of import controls would thus hardly raise global imports to a dangerous level, it would probably shift some imports from soft to hard-currency areas. A return to sterling convertibility might induce traders in soft-currency countries to use sterling proceeds for purchasing dollar goods instead of sterling commodities which had been imported previously for lack of other uses for sterling earnings. However, if sterling goods are competitive in the dollar area, they should also be competitive with dollar goods in third areas.

The danger of "regional disequilibrium" would be reduced to the extent that Britain's soft-currency trading partners themselves become more competitive and return to convertibility; however, the need to maintain and if necessary expand inter-area transfers to meet the danger of "regional disequilibrium" would indeed limit the speed of eliminating discriminatory import restrictions.

Cyclical import fluctuations -- Some observers believe that even if the United Kingdom is able to maintain current international equilibrium in the long run, it would still be in danger of suffering recurring crises such as those of 1947, 1949, and 1951. In fact, some observers believe that such crises should be expected to occur in biennial cycles.

The balance of payments accounts of the United Kingdom show that the crisis of 1947 was indeed due largely to a sharp rise in imports, together with a run on the U. K. dollar reserves made possible by an abortive attempt at convertibility. The crisis of 1949 was primarily due to speculative short-term capital movements, caused by the conviction of traders that the devaluation of sterling was unavoidable. The crisis of 1951, finally, was due not only to a sharp rise in both the volume and the price of imports connected with the post-Korean boom, but also to renewed speculative movements and to interarea transfers reflecting dollar deficits of the outer sterling area.

All these crises were thus connected with constellations of historic events which we may hope will not be repeated in the future. In contrast of 1947, the pent-up postwar demand for goods has by now been satisfied and domestic inflationary pressure has been eliminated. In contrast to 1949, sterling prices are no longer above the world market level and there is no reason to expect another devaluation. Finally, there is no danger of a recurrence of the 1951 crisis as long as another catastrophe such as the outbreak of the Korean war can be avoided.

It is true, however, that future cyclical movements cannot be excluded. In the U. S. economy, moderate fluctuations in domestic activity and therefore in the importation of goods, including imports from the sterling area, can be traced throughout the postwar period; they probably will continue to exert some influence, especially in the field of raw materials and durable goods. However, such minor fluctuations can be weathered without arousing the fear of a return to tighter import controls and inconvertibility if U. K. gold and dollar reserves are sufficiently strengthened, and if the downward phase of such fluctuations does not coincide with a sharp reduction in U. S. public expenditures of dollars abroad.

Terms of trade -- Since the volume of British exports has risen considerably since 1938 while the volume of imports has slightly declined, the trade deficit of the United Kingdom would have been reduced to a small fraction of the 1938 figure if import prices had not risen much more than export prices: in April 1953, the ratio of export to import prices (the so-called terms of trade) was about 20 per cent lower than in 1938. However, such a development conforms to past experience: industrialized countries regularly have less "favorable" terms of trade in times of prosperity than in times of depression since the prices of raw materials and foodstuffs, which form a large part of their imports, fluctuate cyclically with greater amplitude than the prices of manufactures, which they export. (See Appendix, Table 9: U. K. terms of trade, 1913-1953)

No significant change in the terms of trade is expected in the near future since the present economic activity throughout the free world is assumed to continue at a high level. Insofar as British exporters have so far enjoyed

price advantages over dollar exporters because of sterling inconvertibility, they will lose this gain, but the resulting deterioration in the British terms of trade is likely to be insignificant. Moreover, the danger of adverse development in the terms of trade would be reduced if Britain's most important soft-currency trading partners, such as Germany and the Low Countries, joined the United Kingdom in making their currencies convertible; in this case, British importers would gain through the consequent decline in the price of exports from these countries about as much as British exporters would lose.

Services -- In 1952, the U. K. surplus on service account was, in terms of current sterling, about the same as in 1938, but at constant (wholesale) prices about 70 per cent lower. Moreover, the composition of the balance had changed considerably. Shipping was by far the largest single source of revenue while capital income supplied less than 25 per cent of the net income, as compared with 75 per cent in 1938. This comparison, however, exaggerates the decline in capital income: U. K. income from oil investments is included among "other" receipts rather than among capital income, and these "other" receipts increased considerably between 1938 and 1952 although some part of the increase represented income from U. S. troop expenditures in the United Kingdom. Government transactions, insignificant in 1938, were a large net debit item in 1952. (See Appendix, Table 10: U. K. service accounts, 1913-1952)

Continuing high levels of economic activity should make for continuing large net incomes from shipping and investments. Relaxation of international tension, while cutting down receipts from U. S. Government expenditures, may also make possible a reduction in U. K. Government expenditures abroad. The expected increase in troop expenditures in Germany will be probably offset in part by the resumption of German payments on prewar debts.

Moreover, a restoration of sterling convertibility and the planned re-opening of British markets for additional internationally traded staples would increase the receipts of British bankers, insurance companies, and traders. British owners of foreign assets that so far have been hidden from the exchange authorities might be willing to repatriate their earnings and thereby increase the amount of foreign exchange at the disposition of the monetary authorities.

Net revenues on service account are therefore likely to increase, offsetting at least in part a rise in the trade deficit resulting from a liberalization of imports.

Current account balance -- With imports computed f.o.b., the surplus on service account was larger than the trade deficit in 1952 so that the United Kingdom realized a surplus on total current account. However, the country's regional balances showed great variations: the United Kingdom had a surplus with the outer sterling area and a deficit with the dollar area; with the rest of the world, it was about in balance during the first half, but earned a surplus during the second half of the year.

These variations are likely to grow more severe in the future, in view of the probable shift of some imports from soft- to hard-currency suppliers in the event of sterling convertibility. The United Kingdom will therefore be able to maintain regional equilibrium only if it can continue to earn or acquire gold and dollars from non-dollar countries, at least to the same extent as in recent years.

Capital and unilateral transactions

Investment -- In 1952, the U. K. surplus on current account was sufficient to permit a modest outflow of capital to the outer sterling area. This flow has been fostered by the relative freedom of capital movements within the sterling area and by the close ties between British and overseas financial institutions.

However, the underdeveloped regions of the outer sterling area are in need of a capital inflow much larger than the United Kingdom can provide out of its own resources. Some parts of that area, and in particular Australia and New Zealand, offer good opportunities for investment of private U. S. capital. Restoration of convertibility would encourage investors to take advantage of these opportunities, and the old tradition and experience of British financial institutions would make it attractive for such investors to place their investments by means of the London market. Similarly, some British flight capital might be induced to return from the dollar area. (See Appendix, Table 11; Capital movements between U. S. and sterling area, 1945-1952)

Short-term capital movements -- Postwar movements of short-term capital have been largely of a speculative nature. Whenever it is believed that sterling might again be devalued, non-British traders try to postpone sterling payments and British traders try to postpone non-sterling (i.e., dollar) receipts; when the danger is believed to be past, the opposite movement occurs. As a result, these capital flows show great fluctuations; for instance between the sterling and the dollar areas, there was a large capital inflow into the United Kingdom in the second half of 1950, when sterling was strong; a large capital outflow in the second half of 1951, when sterling was weak; and virtual balance in the second half of 1952. In the long run, these movements probably tend to cancel out except insofar as they might represent permanent illegal capital flight.

Restoration of sterling convertibility would make it possible for central banks again to exert considerable influence on international capital movements by means of the discount mechanism. Discount rate differentials, together with free forward exchange markets, could be used to attract or repel foreign balances according to the needs of offsetting changes in the country's balance of current payments or long-term capital transactions. Recent experiences with "American account" sterling and Canadian funds indicate the renewed susceptibility of capital to respond to changes in interest rates.

Restoration of convertibility would encourage foreign traders to hold more sterling as working balances for international transactions and to use sterling to a greater extent for transactions among non-sterling countries. The resulting rise in the international demand for sterling could probably offset any attempt to convert existing sterling balances into dollars, which might follow an extension of convertibility privileges to the foreign holders of "old" sterling balances.

Foreign aid -- In 1952, "defense support" granted by the U. S. Government equalled only about 3 per cent of British imports or exports of goods and services. It was important not so much because of its impact on the global balance of payments, but rather because of its effect on the dollar balance of the United Kingdom. Even so, the amount of aid was not significantly larger than the inter-area transfers of gold and dollars, which represented the partial convertibility of U. K. receipts from current transactions with Continental European countries and the pooling in London of sterling area dollar earnings.

Another kind of assistance was represented by U. S. military expenditures in the form of off-shore purchases (i.e., purchases by the United States of military items in the United Kingdom for the use of U. S. or other NATO troops) and of expenditures for and of U. S. armed forces stationed in the United Kingdom. These expenditures were made for military rather than economic reasons and had therefore no direct relation to the balance of payments difficulties of the United Kingdom. Nevertheless, military expenditures contributed to the recent rise in dollar holdings of the United Kingdom, both directly and, in the case of U. S. expenditures in other NATO countries, indirectly, by improving the dollar position of important trading partners of the United Kingdom.

In the future, U. S. economic aid to the United Kingdom is expected gradually to be eliminated. In the event of a relaxation in international tension, U. S. military expenditures in the United Kingdom also should be expected to be reduced.

A sudden sharp contraction in U. S. Government expenditures might indeed threaten the equilibrium in the U. K. dollar balance. However, dangerous repercussions would be avoided by the execution of the proposal made by President Eisenhower to use part of the sums saved by a decline in armaments expenditures for financing the development of underdeveloped regions. Such a program would indirectly benefit the United Kingdom by improving the dollar position of some of Britain's most important customers in the outer sterling area.

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Inter-Area transfers

In view of the persistent deficit of the United Kingdom in its direct current transactions with the dollar area, the country must seek to convert as much of its surplus with non-dollar countries into dollars as is necessary to cover its dollar deficit. This conversion is accomplished by the purchase of newly mined gold in the outer sterling area, especially in the Union of South Africa; by dollar pooling arrangements with most members of the outer sterling area which permit the United Kingdom to utilize the net dollar surplus achieved by the outer sterling area; and by gold (or dollar) payments under the European Payments Union, which permit the United Kingdom to utilize at least part of any surplus realized by the sterling area with the Continental members of the Union. (See Appendix, Tables 12-15: U. K. balance of payments, 1938-1952, total; dollar area; sterling area; EPU area)

Gold purchases -- In the years preceding the Second World War, the United Kingdom settled most or all of its direct deficit with the dollar area by using its surplus with the outer sterling area to buy newly mined gold which it re-exported to the United States.

In the postwar period the United Kingdom, under special agreements with the Union of South Africa -- by far the largest producer of gold in the free world -- continued to acquire a substantial portion of newly mined gold; however, the importance of those transactions has decreased. The higher volume of international economic activity in general has not been matched by a greater volume of gold production, and the general rise in the price of goods and services has not been matched by a rise in the dollar price of gold.

The significance of this development should not be overrated. It is true that in relation to 1938, the dollar prices of most commodities have doubled while the dollar price of gold has remained constant; however, in the period, say, between 1929 and 1934, when the dollar prices of most commodities dropped considerably, the dollar price of gold was raised by about 70 per cent. The complaints about the decline in the ratio between the dollar prices of gold and of other goods would thus be justified only if the price relations of the late 'thirties rather than those of earlier periods had some special merits.

Some observers believe that an increase in the price of gold in all national currencies would significantly help the United Kingdom to cover its dollar deficit. Since the United Kingdom itself does not produce any gold, it would benefit from a rise in the price of gold only insofar as the gold producing countries, and especially the Union of South Africa, would increase their imports from the United Kingdom.

In the event of a rise in the price of gold sufficient to increase significantly the national income and therefore the demand for imports in South

Africa, that country would no doubt eliminate all discriminatory restrictions against dollar imports. The resulting increase in imports would therefore benefit primarily the dollar countries unless British exporters were able to compete on even terms with dollar exporters for the expanded market. However, if they were able to do so, they should be able to increase their exports also in many important areas other than South Africa, with or without any change in the price of gold. In particular, they should be able to increase their direct exports to the dollar area. Only if the United States adopted a commercial policy aimed at making impossible higher merchandise imports, while not objecting to gold imports at higher prices, would there be serious obstacles to an expansion of U. K. dollar earnings in the absence of a change in the gold price.

Dollar pool -- Since the beginning of the Second World War, most members of the sterling area have pooled their dollar receipts and expenditures with the United Kingdom. This arrangement makes it possible for the central banks and other monetary authorities of the outer sterling area to keep their monetary reserves in sterling rather than in dollars. It also makes it possible for the United Kingdom to conduct trade with the outer sterling area in sterling rather than in dollars. At the same time, it forces the U. K. authorities to be rather liberal in permitting members of the outer sterling area to convert their balances into dollars in order to cover their own dollar deficits. On the other hand, the U. K. reserves benefit from any dollar surplus earned by members of the outer sterling area. (See Appendix, Table 16: U. K. transfer payments, 1946-1952)

The dollar pooling arrangements correspond roughly to, and may facilitate the execution of, trade in the normal pattern between the United States, the United Kingdom, and the members of the outer sterling area. The United States frequently has a surplus in its current transactions with the United Kingdom, but a deficit with the outer sterling area. On the other hand, the United Kingdom almost invariably has a surplus on current account, and usually also a surplus on current account after covering net investments, with the outer sterling area. It seems therefore natural for the United Kingdom to use its surplus with the outer sterling area to cover at least in part its deficit with the dollar area. In recent years, the United Kingdom was able to utilize the dollar surplus of its overseas dependencies without achieving a corresponding export surplus with these territories, by letting its dependencies accumulate sterling balances. (See Appendix, Table 17: Dollar balance of payments of the sterling area, 1948-1952)

A restoration of sterling convertibility for foreign recipients of sterling would probably not be initially extended to residents of the sterling area, and the dollar pooling arrangements would probably continue to operate as in the past.

Some of the independent sterling area countries might desire to use a larger part of their sterling earnings to finance imports from the dollar area

and from other countries whose currencies might become convertible. However, such tendencies would be limited in two ways. First, U. K. exports, subjected to greater competitive pressures in other areas as a result of convertibility, would tend to be priced more attractively in all export markets, including the sterling area. Second, political and economic considerations, including the desire to obtain capital from the United Kingdom, would incline the independent members of the outer sterling area to cooperate with the United Kingdom in their internal and external policies affecting the volume and direction of their imports.

The dependent territories, which are the most important contributors to the dollar pool, would probably continue to make their dollar earnings available to the United Kingdom. If expectations of larger private and public foreign investment in these areas are fulfilled, their capacity to earn dollars might even be increased.

EPU -- At present, the sterling area is earning a limited amount of gold (or dollars) through its surplus in the EPU. This situation is not expected to be permanent. On the other hand, it is not expected that the Continental European countries would again earn gold (or dollars) from the sterling area as they did in 1951-52. If it is justified to expect approximate balance on current account between the sterling area and Continental Europe, it would not make much difference in the long run whether temporary deviations from balance were covered by credits or by payments in convertible currency.

The wide-spread fear that European action might endanger the British international position is probably caused by recollections of events in 1947 when the abortive attempt to make sterling convertible for foreigners was shattered primarily by large-scale withdrawals from European sterling balances. However, such an event is unlikely to be repeated. European sterling balances have been reduced to the working level. Moreover, the most important European countries (with the notable exception of France) have themselves regained internal and external financial equilibrium and their currencies are about as close to convertibility as sterling. Finally, in 1947 it was generally believed that convertibility would not be long maintained and that therefore any conversion of sterling into dollars would have to be requested at once; while at present it may be expected that convertibility would not be declared unless public opinion gave it a good chance of long-run success.

Gold and dollar reserves -- At present, U. K. gold and dollar holdings are slightly less than the 25 per cent of the country's annual imports of goods and services which is often considered a minimum requirement. However, if the recent trend in the increase in reserves continued for the rest of 1953, this minimum would be surpassed by the end of the year.

It is true that in 1951-52 even higher reserves were reduced, within a few months, to a level below the generally accepted "danger point". On the

basis of this experience, public confidence in the ability of the United Kingdom to maintain convertibility might be doubtful unless the U. K. reserve position were strengthened beyond a point which could be reached in the near future by accumulating surpluses on current account.

Assistance in this matter would be primarily the function of the International Monetary Fund. The Managing Director, Mr. Rooth, has recently confirmed the view that the Fund is prepared to use its gold and dollar resources (about \$3.3 billion) to help countries make their currencies convertible. A large part of the quota of the United Kingdom (\$1.3 billion) might thus be added to the U. K. reserves, e.g., by means of a stand-by arrangement.

The Role of Economic Policies

Foreign economic policies

This analysis of the future financial position of the United Kingdom has been based on the assumption that the country's major trading partners will not pursue policies incompatible with the restoration and maintenance of equilibrium in international economic relations. This means that the independent members of the outer sterling area will not pursue inflationary policies that would make it impossible for them to keep their current international accounts in balance, and that the countries of the dollar area will not pursue policies that would make it impossible for the rest of the world to keep their dollar accounts in balance.

Outer sterling area -- After the raw material boom of 1950-51, most of the independent members of the outer sterling area permitted a large part of their windfall profits to be used for imports, both from the United Kingdom and the dollar area; as a result, they not only depleted their own sterling balances in London, but also, through the dollar pool arrangements, added to the drain on the dollar reserves of the United Kingdom. In order to avoid further deficits, the most important independent member countries tightened in 1952 either their monetary policies or their import restrictions or both. The reduction in their imports from the sterling area as well as from the dollar and EPU areas had a decisive effect not only on the direct trade balance between the United Kingdom and the outer sterling area, but also on the restoration of a favorable balance of current payments between the sterling area as a whole and the European Payments Union and the dollar countries. (See Appendix, Table 18: Balance of payments of outer sterling area, 1949-1952)

Assuming that inflation is avoided in the outer sterling area, the dollar net earnings of the dependencies -- especially Malaya -- should continue to overbalance the dollar deficits of the independent members; the area as a whole should therefore continue to have a net dollar surplus that can be used for covering at least in part the dollar deficit of the United Kingdom. In the past, some independent members of the outer sterling area had large sterling balances at their disposal and could therefore afford to minimize repercussions of inflationary policies on their foreign trade by depleting those balances. The reduction of their sterling accumulations and the determination of the U. K. authorities to keep sterling "scarce" by a restrictive credit policy will probably induce these members to continue their present more conservative policies. Since these members are dependent upon London both as the most important market for their exports and the most important material and financial source of supplies, the pressure exerted by the U. K. credit policies is likely to be as effective as any institutional arrangement would be. The firmness of the U. K. authorities has recently been demonstrated by their refusal to permit Dominion flotations in London for unessential public projects.

Dollar area -- There is no reason to expect Canada to raise barriers against imports that would endanger the international financial position of the United Kingdom. The crucial question therefore relates to U. S. commercial policies.

The effects of the policies of the United States are not confined to the direct trade between the United Kingdom and the United States. This trade forms only a relatively minor part of the entire foreign trade of either the United Kingdom or the United States. However, the ability of the United Kingdom not only to achieve a global equilibrium in its balance of payments but also to cover its direct deficit with the dollar area through dollars earned in other countries, depends largely on the total amount of dollars made available to the rest of the world in the form of U. S. imports of goods and services, private investment, and Government aid. The volume of private imports and investments again depends largely upon domestic business conditions in the United States and thus indirectly upon the domestic policies pursued by the U. S. authorities.

The recently restored global equilibrium in the U. K. balance of payments and the dollar equilibrium in the sterling area balance of payments reflect in part the equilibrium in the U. S. balance of international payments achieved since the middle of 1952. The large volume of dollar payments for U. S. purchases that has made possible this equilibrium is based not only on the continued high level of U. S. economic activity and the increased competitiveness of foreign producers, but also on the high level of military expenditures in the form of troop pay and off-shore purchases.

These developments have shown that the U. S. balance of current international payments can be kept in equilibrium without a relaxation of present import barriers. Since a moderate outflow of capital from the United States can be expected to continue, even a moderate surplus on current account would not endanger the dollar balance of the rest of the world. The problem is therefore not whether we might expect U. S. commercial policies to move in the direction of drastic tariff reductions, but whether we might expect U. S. policies to continue in such a way as to make it possible for the trading partners of the United States to supply this country with goods and services in about the same proportion to its national income as in recent years.

The ratio of imports to national income, despite a slight rise since the outbreak of hostilities in Korea, is still smaller than in most past periods of prosperity. Unless the United States decides to raise its barriers against imports, the present ratio is not likely to decline. While the tendency of the U. S. economy to economize on certain types of raw materials may continue, imports of metals and of manufactured goods should rise with rising national income. Assuming continuing prosperity and therefore a continuing increase in U. S. national income, we may therefore expect a further increase in the value of imports. To the extent that such a rise in imports would mean merely sharing an expanding market with foreign exporters, domestic entrepreneurs and workers would have no grounds for serious complaints about foreign competition.

The pursuit of commercial policies consistent with the maintenance of the international position of the United Kingdom would become difficult or impossible only in the case of a long-lasting serious depression, in which a large part of the productive forces in the United States became idle and demanded protection against being displaced by foreign competition. However, it is a basic tenet of U. S. domestic policy to combat such a depression, and the U. S. authorities may be expected to use all the necessary tools of fiscal and monetary policy at their disposal to make that policy effective.

U. K. economic policies

The U. K. international credit position is deeply affected by the policies pursued by the U. K. authorities. Perhaps as much as one-half of the entire world trade is conducted in sterling; changes in the availability of sterling at home largely determine changes in the supply of exportable U. K. goods, and changes in the availability of sterling abroad largely determine changes in foreign effective demand for U. K. goods.

Trade and exchange controls -- Since the fall of 1951, the U. K. authorities have influenced the country's international position first by tightening import restrictions, both globally and in relation to the other members of the European Payments Union; and later, in the spring of 1953, by relaxing controls. The authorities have also restored free sterling markets in some internationally traded commodities and quite recently have restored arbitrage facilities between sterling and the major Continental European currencies.

Even in the event of restoration of sterling convertibility for foreign holders of sterling there is no reason to expect immediate radical changes in trade or exchange controls of the United Kingdom and other sterling area countries affecting external transactions by their own residents. Relaxation of these controls can be regarded as an ultimate objective of the present U. K. Government, but it will certainly be gradual, and the U. K. authorities will in any case retain such tools as stand-by controls to be used in emergencies; controls to be used in retaliation against countries that might discriminate against trade with the sterling area; and controls to prevent capital flight.

Exchange rate policies -- Some observers believe that sterling convertibility would be followed by a change in British exchange rate policies. However, there is no indication that sterling is overvalued at present; on the contrary, discrepancies between official and blackmarket sterling rates have almost disappeared.

More difficult is the question of whether sterling convertibility would necessarily be followed by the introduction of a more widely fluctuating dollar-sterling relation. The U. K. authorities have already permitted wider margins

in spot and forward exchange dealings; the widening of these margins has helped to limit speculative short-term capital movements between the sterling and the dollar areas. The authorities may wish to bring about some further widening of margins between buying and selling rates, but such a technical measure is to be distinguished from the basic change in international monetary policy that would be involved in a complete abandonment of the dollar par value for sterling. A system under which the exchange rates between the two key currencies used in world trade would be permitted to fluctuate without limits would have such serious repercussions on all major trading nations that the U. K. authorities could hardly contemplate introducing it without prior international consultation.

Domestic policies -- Less obvious, but equally important, has been the influence of fiscal policies on the international position of the United Kingdom. In previous years, the budget surplus counteracted to some extent the inflationary repercussions of an easy-money policy. In 1952-53, the budget deficit mitigated the deflationary effects of the tight credit policy. Quite recently, some tax concessions have aimed at making the economic system more flexible; it is believed that a lower level of taxation will raise the volume of private savings, stimulate the shift of resources into new enterprises and industries, and thus foster the readjustment of the British economy to the requirements of postwar export markets. On the other hand, the purchase taxes on domestic sales are supposed to foster the exportation of the goods subject to the taxes.

In the field of money and credit, the easy-money policy of the first postwar years contributed to the excess demand for imports; the conservative monetary policy inaugurated in 1951 has helped to reduce the demand for imports, to channel goods from domestic markets to exports, and -- by inducing the members of the outer sterling area to pursue similar policies -- to shift exports from soft-currency areas to the dollar area. (See Appendix, Table 19: U. K. credit expansion, 1946-1952: Treasury and commercial borrowing)

The U. K. authorities are expected to continue their policy of maintaining domestic financial equilibrium. Present conditions make it easier to pursue stabilizing policies than could be done during the immediate postwar period. At that time, the requirements of domestic reconstruction and the pressure to provide capital and credit liberally to the outer sterling area so as to avoid the economic and political disintegration of the Commonwealth encouraged the forces working for an easy-money policy. Now, financial stability has become possible without endangering domestic and international political stability.

Conclusions

Assuming the continuation of appropriate policies in the sterling and dollar areas, there is no indication that events in the foreseeable future, including a possible return to sterling convertibility and a possible relaxation in international tension, would endanger the international financial position of the United Kingdom.

However, restoration of convertibility would make for closer ties between the economies of the United Kingdom and the outside world. These ties will inevitably expose the United Kingdom to problems that cannot be foreseen and for which no solutions can be prepared in advance. It would therefore be idle to pretend that the position of the United Kingdom could be preserved without difficulties, without risks, or without conflicts. It can only be stated that there is a good chance for such preservation. The realization of this chance will depend upon continuous cooperation among the governments of the free nations, upon the activities of the international institutions established to facilitate such cooperation, and upon the attitude of the industrial, commercial, and financial world community.

(Prepared by Frederick R. Dahl)

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19. U. K. Bank Credit, 1946-1953.

APPENDIX

U. K. Financial Position

Table 1

Long-Term Foreign Investments of the United Kingdom

(1914 - 1950)

(In millions of pounds)

Year	MARKET VALUE			NOMINAL VALUE						South Ameri- ca	
	Total 1/ States 2/	United States 2/	Canada 3/	Total 4/5/	Total 6/Canada	Commonwealth Other Indepen- dent members 6/	Colonies	United States	Europe		
1914	4,000	873									
1927				3,990							
1930			574	3,724		2,187					
1933				3,666		(1,981)					
1936				3,764							
1937		555		3,753							
1938				3,515		1,998	420	1,305	268	217	680
1939		4,500	597	3,490		1,978	395	1,316	250	218	665
1945				2,417		1,244	208	787	88	186	558
1946				2,329		1,199	189	764	80	178	546
1947		503	398	2,274		1,170	171	743	76	171	530
1948			398	1,967		1,144	168	729	75	167	247
1949				2,038		1,164	172	729	115	175	229
1950		4,200		2,020		1,168	161	729	124	174	209

Totals may not agree with the sum of components as a result of rounding.

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Table 1 ContinuedFOOTNOTES

- 1/ Market Value estimates for all investments. For 1914: estimate of the U. K. Board of Trade quoted in R. Kindersley, "A New Study of British Foreign Investments", Economic Journal, March 1929, p. 21. For 1938 and 1950: estimates made by A. R. Conan in his book, The Sterling Area. His figure for 1938 agrees closely with the estimate (£4.6 billion) of Cleona Lewis in The United States and Foreign Problems. For 1945-1948: estimates of the Economic Cooperation Administration in The Sterling Area -- An American Analysis. For 1938, E. C. A. estimated £4,149 million.
- 2/ From the National Advisory Council report, Foreign Assets and Liabilities of the United States and its Balance of International Transactions, 1947. Converted into Pounds Sterling at the official rates of exchange.
- 3/ Estimates of the Dominion Bureau of Statistics (Canada) quoted in E. C. A., The Sterling Area -- An American Analysis, p. 56. Converted into Pounds Sterling at the official rates of exchange.
- 4/ Includes estimates for areas not listed separately.
- 5/ The Kindersley figures have been used for 1927 - 1937; these include an estimate of unidentifiable investments. Figures in parentheses represent identified investments only. The Bank of England estimates for 1938 - 1950 do not include foreign securities held by U. K. citizens not quoted on or known to the London Stock Exchange, bearer securities of foreign governments and corporations, direct private investments or holdings through foreign nominees. The Kindersley estimate for 1938 was £3,692 million.
- 6/ Includes Eire and Burma for all years.

Source: -- R. Kindersley, annual articles on British foreign investments in the Economic Journal, 1929 - 1939. Bank of England, United Kingdom Overseas Investments 1938 - 1948, 1948 - 1949, 1949 - 1950.

NOT FOR PUBLICATION

Table 2

Gold and Dollar Reserves of the United Kingdom1913 to 1953

(In millions of dollars)

Year *	Gold <u>1/</u> <u>2/</u>	Dollars <u>3/</u>
1913	165	
1918	521	
1924	748	
1930	718	215
1932	689	170
1934	2,060	83
1936	3,475	236
1938	2,877	439
1945	1,980	708
1946	2,430	459
1947	2,020	326
1948	1,605	546
1949	1,305	574
1950	2,900	657
1951	2,200	643
1952	1,500	816
1953 <u>4/</u>	1,875	750

* End of year figures.

1/ Converted into dollars at \$20.67 per fine ounce prior to January 1934 and at \$35 per fine ounce thereafter.2/ Beginning with 1945, estimates of the U. S. Treasury and the Board of Governors of the Federal Reserve System based on U. K. Exchange Equalization Account holdings of gold, U. S. dollars, and Canadian dollars.3/ Demand deposits and other short-term assets in U. S. banks.4/ End of March (rough estimate)Source: --- Board of Governors of the Federal Reserve System, Monetary and Financial Statistics and Federal Reserve Bulletin

Table 3United Kingdom Sterling Liabilities1932 - 1952

(In millions of Pounds)

<u>Year</u> *	<u>Sterling Area</u>		<u>Outside Sterling Area</u>	<u>Total</u>
	<u>Independent Members</u>	<u>Dependent Territories</u>		
1932		246		
1934		316	222	468
1936		258	264	580
1938		339	363	721
			259	598
1946	1,922	495	1,304	3,721
1947	1,787	510	1,306	3,603
1948	1,809	556	1,055	3,420
1949	1,771	582	1,064	3,417
1950	1,980	752	1,011	3,743
1951	1,825	964	1,018	3,807
1952	1,603	1,065	754	3,422

* End of year figures.

Source: -- U. S. Treasury, U. K. Treasury, Command 8201, 8505, and 8808.

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Table 4United KingdomBalance of Current International Payments 1/1913 - 1952

(In millions of Pounds)

	Balance of Visible Trade 2/	Balance on Invisible Items	Total Balance
1913	- 145	+ 339	+ 194
1924	- 338	+ 410	+ 72
1926	- 464	+ 449	- 15
1928	- 352	+ 475	+ 123
1930	- 386	+ 414	+ 28
1932	- 287	+ 236	- 51
1934	- 294	+ 287	- 7
1936	- 345	+ 327	- 18
1938	- 302	+ 232	- 70
1946	- 176	- 15	- 191
1947	- 425	+ 5	- 420
1948	- 203	+ 218	+ 15
1949	- 138	+ 208	+ 70
1950	- 128	+ 458	+ 330
1951	- 748	+ 356	- 392
1952 p/	- 91	+ 275	+ 184

p/ Preliminary

1/ All figures are net

2/ For 1913 - 1936, imports c.i.f. and exports f.o.b.; thereafter,
both imports and exports are valued f.o.b.

Source: -- For 1913 - 1936: B. I. S., The Sterling Area.
 For 1938 - 1952: U. K. Treasury, Balance of Payments
White Papers.

NOT FOR PUBLICATION

Table 5United Kingdom Exports1938 - 1953

	<u>Value</u> (In millions of Pounds)			<u>Volume Index</u> <u>1/</u> (In per cent)
	<u>Ordinary Exports</u> <u>2/</u>	<u>Re-exports</u>	<u>Total</u>	
1938	471	61	532	100
1946	915	50	965	99
1947	1,139	59	1,198	109
1948	1,583	64	1,647	138
1949	1,786	58	1,844	152
1950	2,171	85	2,256	175
1951	2,580	127	2,707	177
1952	2,583	143	2,727	166
1953 *	2,520	117	2,637	165

* January-April figures expressed at annual rates.

1/ Volume of ordinary exports only. For 1938 - 1947 quantities are weighted according to 1938 prices. Thereafter they are weighted according to 1950 prices.

2/ Exports of domestically produced merchandise.

Source: — Central Statistical Office, Annual Abstract of Statistics, 1952, and Monthly Digest of Statistics.

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Table 6

United Kingdom Exports 1/By area of destination

(1938 - 1953)

	<u>Sterling Area</u>		<u>Dollar Area</u>	<u>OEEC Countries 2/</u>	<u>Non-Dollar Western Hemisphere</u>	<u>Rest of World</u>
	<u>Colonies</u>	<u>Independent members</u>				
(In millions of Pounds)						
1938	43	169	51	118	30	60
1946		413	82	259	41	120
1947		555	113	266	62	143
1948	198	589	171	372	91	162
1949	245	684	167	399	106	186
1950	263	772	281	544	112	199
1951	342	967	325	614	112	220
1952	403	868	339	650	98	225
1953 *	416	796	352	700	48	192

(In per cent)

1938	45	11	25	6	13
1946	45	9	28	4	12
1947	49	10	23	5	13
1948	50	11	23	6	10
1949	52	9	22	6	11
1950	48	13	25	5	9
1951	51	13	24	4	8
1952	49	13	25	4	9
1953 *	48	14	28	2	8

* January-March figures expressed at annual rates.

1/ Excludes re-exports.

2/ Including possessions. Eastern Germany excluded after 1950.

Source: -- Central Statistical Office, Annual Abstract of Statistics, 1952,
and Monthly Digest of Statistics.

Table 7United Kingdom Imports1938 - 1953

	<u>Value</u> ^{1/} <u>(In millions of Pounds)</u>	<u>Volume Index</u> ^{2/} <u>(In per cent)</u>
1938	920	100
1946	1,301	67
1947	1,795	76
1948	2,078	78
1949	2,275	85
1950	2,608	85
1951	3,914	96
1952	3,499	88
1953 *	3,336	91

* Value figures for January-April expressed at annual rates. Volume index for January-March only.

^{1/} C.i.f. values.

^{2/} For 1938 - 1947 quantities are weighted according to 1938 prices. Thereafter, they are weighted according to 1950 prices.

Source: -- Central Statistical Office, Annual Abstract of Statistics 1952 and Monthly Digest of Statistics.

Table 8

United Kingdom Imports *By area of origin

1938 - 1953

	<u>Sterling Area</u>		<u>Dollar Area</u>	<u>OEEC Countries</u> 1/	<u>Non-Dollar Western Hemisphere</u>	<u>Rest of World</u>
	<u>Colonies</u>	<u>Independent members</u>				
(In millions of Pounds)						
1938	50	237	215	220	62	136
1946		426	473	193	111	98
1947		558	604	308	176	149
1948	198	554	463	431	169	264
1949	245	607	501	537	132	252
1950	319	670	480	656	171	312
1951	548	852	776	1,010	204	524
1952	602	837	725	861	100	374
1953 2/	608	944	528	776	156	264

(In per cent)

1938	31		23	24	7	15
1946	33		36	15	9	7
1947	31		34	17	10	8
1948	36		22	21	8	13
1949	37		22	24	6	11
1950	38		18	25	7	12
1951	36		20	26	5	13
1952	41		21	25	3	10
1953 2/	47		16	24	5	8

* C.i.f. values

1/ Including possessions. Eastern Germany excluded after 1950.

2/ January-March figures expressed at annual rates.

Source: -- Central Statistical Office, Annual Abstract of Statistics, 1952, and Monthly Digest of Statistics.

APPENDIX

U. K. Financial PositionTable 9United KingdomTerms of Trade

(1938 = 100)

1913 - 1953

1911-13	70
1921-30	88
1932	99
1934	101
1936	98
1938	100
1946	94
1947	86
1948	84
1949	85
1950	79
1951	71
1952	76
1953 *	80

* Average January-April

Source: -- Economic Cooperation Administration,
The Sterling Area - An American
Analysis, p. 162.
International Monetary Fund,
International Financial Statistics

Table 10

United KingdomService Account in the Balance of Payments 1/1913 - 1952

(In millions of Pounds)

	<u>Shipping 2/</u>	<u>Investment Income</u>	<u>Government Transactions 3/</u>	<u>Other 4/</u>	<u>Total</u>
1913	+ 94	+ 210		+ 35	+ 399
1924	+ 140	+ 220		+ 50	+ 410
1926	+ 120	+ 250		+ 79	+ 449
1928	+ 130	+ 250		+ 95	+ 475
1930	+ 105	+ 220		+ 89	+ 414
1932	+ 70	+ 150		+ 16	+ 236
1934	+ 70	+ 170		+ 47	+ 287
1936	+ 85	+ 200		+ 42	+ 327
1938	+ 20	+ 175	- 16	+ 53	+ 232
1946	+ 29	+ 71	- 210	+ 95	- 15
1947	+ 33	+ 80	- 105	- 3	+ 5
1948	+ 76	+ 76	- 51	+ 117	+ 218
1949	+ 83	+ 87	- 112	+ 150	+ 208
1950	+ 124	+ 144	- 107	+ 297	+ 458
1951	+ 129	+ 116	- 141	+ 252	+ 356
1952 p/	+ 108	+ 61	- 152	+ 258	+ 275

p/ Preliminary

1/ All figures are net.

2/ Figures before 1938 not comparable with those since that date because imports are valued c.i.f. prior to that year and f.o.b. thereafter.

3/ Includes U. S. troop expenditures in the U. K., and government overseas transactions (net of aid and of sales of surplus war equipment)

4/ Includes oil royalties, private remittances, travel, and all transactions not otherwise specified.

Source: -- For 1913 - 1936: B. I. S. The Sterling Area.For 1938 - 1952: U. K. Treasury, Balance of Payments White Papers.

Table 11

Net U. S. Long-Term Capital Movements with the Sterling Area *

(In millions of dollars; outflow (-) or inflow (+))

1945 - 1952

	Total L area	U. K.
1945: Total	- 608	n.a.
Private	- 12	
Government	- 596	
1946: Total	- 775	n.a.
Private	- 58	
Government	- 717	
1947: Total	- 2912	n.a.
Private	- 51	
Government	- 2861	
1948: Total	- 611	- 532
Private	- 115	- 28
Government	- 496	- 495
1949: Total	- 153	- 67
Private	- 65	- 32
Government	- 98	- 35
1950: Total	- 122	- 19
Private	- 99	- 50
Government	- 23	+ 31
1951: Total	- 113	+ 57
Private	- 77	- 32
Government	- 36	+ 89
1952: Total p/	- 154	+ 21
Private	- 24	+ 16
Government	- 130	+ 5
Total: 1948-1952	- 1163 <u>1/</u>	- 531
Private	- 380	- 126
Government	- 783	- 405

* Excludes unilateral transfers

n.a. Not Available

p/ Preliminary

1/ Totals for 1945-1952 are (in millions of dollars): -5,458; -501; -4,957 respectively.Note: U. S. long-term investment in the United Kingdom was estimated at \$884 million in 1943. See U. S. Treasury, Census of American Owned Assets in Foreign Countries.Source: -- U. S. Department of Commerce, Balance of Payments of the United States 1946-1948, 1949-1951, Survey of Current Business, March 1953.

APPENDIX

U. K. Financial Position

Table 12 Continued

- * Half-year figures expressed at annual rates.
- p/ Preliminary
- n.s.s. - Not shown separately.
- 1/ No sign indicates credit; minus sign indicates debit.
- 2/ Except as otherwise stated, a plus (+) sign indicates capital inflow or receipt; minus (-) sign indicates capital outflow or payment.
- 3/ Includes relief and rehabilitation grants to international organizations, net payments to the civil population in Germany, and revaluation payments, less gifts of Australia and New Zealand.
- 4/ Includes all dollar grants and loans to the U. K. net of repayments less U. S. share of counterpart and intra-European drawing rights (extended).
- 5/ Sterling area and all other countries.
- 6/ Includes all long- and short-term private capital movements net of repayments, changes in non-sterling balances, and errors and omissions.

Source: -- United Kingdom Treasury, Balance of Payments White Papers.

NOT FOR PUBLICATION

Table 13

United Kingdom Balance of Payments with the Dollar Area, 1946 - 1952

(In millions of Pounds)

Year	1946	1947	1948	1949	1950	1951	I*	1952 p/ II*
Current Account: 1/								
Imports (f.o.b.)	- 389	- 565	- 403	- 442	- 431	- 732	- 708	- 482
Exports (f.o.b.)	98	127	188	190	315	390	394	418
Trade Balance	- 291	- 438	- 215	- 252	- 116	- 342	- 314	- 64
Shipping	- 10	- 14	---	4	12	3	- 2	10
Investment Income	11	7	7	6	14	25	14	6
Travel	- 5	- 4	4	14	17	18	18	28
Government	- 5	- 60	1	4	1	8	2	6
Private Remittances	+ 3	- 6	- 12	- 8	---	- 1	---	2
Other	- 13	- 56	- 48	- 61	- 15	- 89	- 126	- 98
Balance on Current Account	- 310	- 571	- 263	- 301	- 89	- 444	- 408	- 192
Capital Account: 2/								
I.M.F. Subscriptions, Drawings 3/	- 9	+ 2	+ 26	+ 8	---	---	---	---
Foreign Aid: Grants and Loans 4/	+ 227	+ 776	+ 306	+ 337	+ 242	+ 34	+ 150	+ 94
Private Capital Movements 5/	+ 53	- 4	- 28	+ 37	+ 172	- 49	---	+ 82
O. S. A. Dollar Deficit (-) or Surplus (+)	- 64	- 266	- 77	- 80	+ 149	+ 94	- 72	+ 138
O. S. A. Gold sales to U. K.	+ 82	+ 84	+ 55	+ 68	+ 100	+ 78	+ 104	+ 40
Other Gold and Dollar receipts or payments 6/	+ 75	- 173	- 73	- 72	+ 2	- 57	- 238	- 48
Gold and dollar reserves; increase (-); decrease (+)	- 54	+ 152	+ 54	+ 3	- 576	+ 344	+ 464	- 114
Balance on Capital Account	+ 310	+ 571	+ 263	+ 301	+ 89	+ 444	+ 408	+ 192

APPENDIX

U. K. Financial Position

Table 13 Continued

- * Half-year figures expressed at annual rates.
P/ Preliminary
1/ No sign indicates credit; minus sign indicates debit; except as otherwise stated.
2/ Plus (+) sign indicates capital inflow or receipt; minus (-) sign indicates capital outflow or payment.
3/ Total Sterling Area.
4/ Includes all dollar grants and loans to the U. K. and Eire net of repayments less U. S. share of counterpart, and South African gold loan in 1948. Excludes the extension of intra-European drawing rights.
5/ Includes all long- and short-term capital movements net of repayment, changes in commercial balances, and errors and omissions.
6/ Includes settlements with E.P.U. and transactions with non-dollar, non-sterling area countries financed in dollars.

Source: -- United Kingdom Treasury, Balance of Payments White Papers.

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APPENDIX

U. K. Financial Position

Table 14

United Kingdom Balance of Payments with the Sterling Area, 1946 - 1952

(In millions of Pounds)

Year	1946	1947	1948	1949	1950	1951	I*	1952 p/ II*
Current Account: 1/								
Imports (f.o.b.)	- 383	- 493	- 657	- 764	- 949	- 1,276	- 1,218	- 1,254
Exports (f.o.b.)	383	536	741	921	1,008	1,275	1,518	1,128
Trade Balance	---	43	84	157	59	1	300	- 126
Shipping	30	39	54	52	66	111	126	106
Investment Income	43	63	65	73	122	145	104	92
Travel	- 14	- 21	- 26	- 19	- 14	7	2	- 20
Government	- 159	- 59	- 13	- 74	- 71	- 89	- 106	- 96
Private Remittances	13	- 30	- 20	- 10	8	2	---	4
Other	58	74	98	119	108	153	178	190
Balance on Current Account	- 29	+ 109	+ 242	+ 298	+ 278	+ 314	+ 604	+ 150
Capital Account: 2/								
Colonial Grants	- 10	- 7	- 10	- 16	- 18	- 17	- 36	- 20
Government Loans and Grants 3/	+ 10	+ 4	---	- 64	4	---	2	2
Private Capital Movements 4/	+ 50	- 244	- 229	- 210	- 168	- 182	- 98	- 42
Transfer Payments 5/	+ 98	+ 351	- 16	+ 72	- 367	- 94	+ 104	- 230
Gold Sales to United Kingdom	- 82	- 84	- 55	- 68	- 100	- 78	- 104	- 40
Changes in Sterling Balances: decrease (-); increase (+)	- 37	- 129	+ 68	- 12	+ 379	+ 57	- 468	+ 226
Balance on Capital Account	+ 29	- 109	- 242	- 298	- 278	- 314	- 604	- 150

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Table 14 Continued

- * Half-year figures expressed at annual rates.
- 1/ Preliminary
- 2/ No sign indicates credit; minus sign indicates debit. Except as otherwise stated, plus (+) sign indicates capital inflow or receipt; minus (-) sign indicates capital outflow or payment.
- 3/ Includes all government capital transactions net of repayments, gifts from Australia and New Zealand, and the South African gold loan of 1948.
- 4/ Includes all long- and short-term capital movements net of repayments and errors and omissions.
- 5/ Includes inter-area transfers in sterling. O. S. A. subscription to and drawings on the I. M. F., and U. S. aid to Eire. Further details in Table 16.

Source: --- United Kingdom Treasury, Balance of Payments White Papers.

Table 15

United Kingdom Balance of Payments with OEEC Countries, 1946 - 1952

(In millions of Pounds)

Year	1946	1947	1948	1949	1950	1951	I*	1952	II*
Current Account: 1/									
Imports (f.o.b.)	- 146	- 241	- 340	- 456	- 573	- 924	- 842	- 634	
Exports (f.o.b.)	261	262	399	426	605	709	746	746	
Trade Balance	115	21	59	30	32	215	96	112	
Shipping	3	3	5	1	12	29	60	30	
Investment Income	9	12	11	9	6	17	20	32	
Travel	12	30	13	28	29	39	14	18	
Government	8	58	7	2	10	17	26	30	
Private Remittances	1	10	11	---	2	3	4	2	
Other	28	50	89	82	142	143	114	118	
Balance on Current Account	+ 126	+ 74	+ 111	+ 12	+ 139	- 177	- 106	+ 118	

Capital Account: 2/

Government Loans and Grants 3/

Private Capital Movements 4/

Gold and Dollar transfers

Other transfers 5/

Changes in Balances: decrease (-); increase (+)

E.P.U. position and drawing rights; credit extended (-); credit received (+)

Balance on Capital Account

Government Loans and Grants 3/	- 18	- 86	- 22	- 39	+ 23	+ 1	+ 10	+ 40
Private Capital Movements 4/	+ 16	- 26	2	20	- 38	- 83	+ 16	- 130
Gold and Dollar transfers	- 94	+ 84	+ 44	+ 40	---	+ 35	+ 250	+ 86
Other transfers 5/	---	- 107	- 17	- 31	+ 124	- 74	- 182	+ 16
Changes in Balances: decrease (-); increase (+)	- 30	+ 61	- 112	+ 84	- 72	+ 52	- 110	- 114
E.P.U. position and drawing rights; credit extended (-); credit received (+)	---	---	- 6	- 46	- 176	+ 246	+ 122	- 16
Balance on Capital Account	- 126	- 74	- 111	- 12	- 139	+ 177	+ 106	- 118

Table 15 Continued

- * Half-year figures expressed at annual rates.
 p/ Preliminary
 1/ No sign indicates credit; minus sign indicates debit.
 2/ Except as otherwise stated, plus (+) sign indicates capital inflow or receipt; minus (-) sign indicates capital outflow or payment.
 3/ Includes government loans net of repayments, net payments to the civilian population in Germany, and revaluation payments.
 4/ Includes all long- and short-term capital movements net of repayments and errors and omissions.
 5/ Includes drawings of OEEC countries on sterling held by the I. M. F.

Source: -- United Kingdom Treasury, Balance of Payments White Papers.

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Table 16

Transfer Payments between Sterling Area and other Areas 1/1946 - 1952

(In millions of Pounds)

	Transfers from O.S.A. to non- sterling	Gold purchases from O. S. A.	Other Transfers 2/	Total
<u>1946:</u>				
Dollar Area	- 64	+ 82	+ 66	+ 84
OEEC Countries	---	---	- 94	- 94
Sterling Area	+ 64	- 82	+ 34	+ 16
Rest of World	---	---	- 6	- 6
<u>1947:</u>				
Dollar Area	- 266	+ 84	- 171	- 353
OEEC Countries	---	---	- 23	- 23
Sterling Area	+ 266	- 84	+ 85	+ 267
Rest of World	---	---	+ 109	+ 109
<u>1948:</u>				
Dollar Area	- 77	+ 55	+ 33	+ 11
OEEC Countries	---	---	+ 27	+ 27
Sterling Area	+ 77	- 55	- 173	- 151
Rest of World	---	---	+ 113	+ 113
<u>1949:</u>				
Dollar Area	- 80	+ 68	- 46	- 58
OEEC Countries	+ 39	---	- 30	+ 9
Sterling Area	+ 98	- 68	- 26	+ 4
Rest of World	- 57	---	+ 102	+ 45
<u>1950:</u>				
Dollar Area	+ 149	+ 100	+ 22	+ 271
OEEC Countries	+ 162	---	- 38	+ 124
Sterling Area	- 347	- 100	- 20	- 467
Rest of World	+ 36	---	+ 36	+ 72
<u>1951:</u>				
Dollar Area	+ 94	+ 78	- 49	+ 123
OEEC Countries	+ 36	---	- 75	- 39
Sterling Area	- 86	- 78	- 8	- 172
Rest of World	- 44	---	+ 132	+ 88
<u>1952: p/</u>				
Dollar Area	+ 33	+ 72	- 143	- 38
OEEC Countries	+ 12	---	+ 73	+ 85
Sterling Area	- 63	- 72	---	- 135
Rest of World	+ 18	---	+ 70	+ 88

Table 16 Continued

p/ Preliminary

1/ Plus (+) sign indicates a decrease in liabilities to an area;
minus (-) sign indicates an increase in liabilities to an area.

2/ Includes I.M.F. subscriptions and drawings of O.S.A., E.R.P.
receipts of Eire, receipts of gold and dollars through E. P. U.,
and all other transfers not otherwise specified.

Source: -- United Kingdom Treasury, Balance of Payments White Papers.

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Table 17

Balance of Payments of Total Sterling Area with the Dollar Area 1/1948 - 1952(In millions of dollars) 2/

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u> <u>p/</u>
Current Account: <u>3/</u> <u>4/</u>					
Imports	-2,943	-2,792	-1,973	-3,217	-3,119
Exports	1,898	1,808	2,224	2,941	2,493
Trade Balance	-1,045	- 984	251	- 276	- 626
Net Services :	- 188	- 248	141	- 109	28
Balance on Current Account	-1,233	-1,232	+ 392	- 385	- 598
Capital Account: <u>5/</u>					
Government Loans and Grants <u>6/</u>	+ 934	+1,229	+ 704	+ 240	+ 518
All other Capital Movements <u>7/</u>	+ 299	+ 3	-1,096	+ 145	+ 80
Balance on Capital Account	+1,233	+1,232	- 392	+ 385	+ 598

p/ Preliminary1/ U. S. and Canada only.2/ Canadian dollars converted into U. S. dollars at average annual free market rate.3/ No sign indicates credit; minus sign indicates debit.4/ Imports of goods and services are adjusted to exclude military-end-use items financed through grants under the U. S. military aid program.5/ Plus (+) sign indicates capital inflow or receipt; minus (-) sign indicates capital outflow or payment.6/ Excluding military aid.7/ Includes all private capital transactions, changes in gold and dollar balances, inter-area transfers, and errors and omissions.Source: -- U. S. Department of Commerce, Balance of Payments of the United States, 1949 - 1951U. S. Department of Commerce, Survey of Current Business, March 1953.Dominion Bureau of Statistics (Canada), The Canadian Balance of International Payments.

Table 18Balance of Payments of Outer Sterling Area1949 - 1952

(In millions of Pounds)

	United Kingdom <u>1/</u>	Dollar Area <u>2/</u>	OEEC Countries <u>3/</u>	Rest of World <u>4/</u>	Total
1949	- 282	- 12	+ 39	n.a.	n.a.
1950	- 260	+ 249	+ 162	n.a.	n.a.
1951	- 297	+ 172	+ 36	- 44	- 133
1952 <u>p/</u>	- 349	+ 105	+ 12	+ 18	- 214

n.a. - Not Available

p/ - Preliminary1/ Current account balance plus colonial grants.2/ Including capital transactions and gold sales to the U. K. Includes only that part of South Africa's dollar balance settled through the U. K.3/ Includes capital transactions.4/ Residual item.Source: -- United Kingdom Treasury, Balance of Payments White Papers,
Economic Survey 1953.NOT FOR PUBLICATION

Table 19

United Kingdom Bank Credit ^{1/}1946 - 1953

(In billions of Pounds)

End of Year	Government		Business		Aggregate	
	Total	Change	Total	Change	Total	Change
1946	5.79	----	1.01	----	6.80	----
1947	5.81	+ .02	1.24	+ .23	7.05	+ .25
1948	5.81	----	1.42	+ .18	7.23	+ .18
1949	5.81	----	1.56	+ .14	7.37	+ .14
1950	5.71	- .10	1.69	+ .13	7.40	+ .03
1951	5.28	- .43	2.15	+ .46	7.43	+ .03
1952	5.79	+ .51	1.85	- .30	7.64	+ .21
1953 *	5.51	- .28	1.87	+ .02	7.38	- .26

* Middle of May. Figures for corresponding month of previous year were 5.02, 1.98, and 7.00 respectively.

^{1/} Bank of England and London Clearing Banks.

Source: -- International Monetary Fund, International Financial Statistics.

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