

INVISIBLES IN THE BALANCE OF PAYMENTS

Recent experience of the United Kingdom and certain other countries

An important element in the recent deterioration in the United Kingdom's balance of payments on current account has been the reduction in net receipts from invisible transactions. The importance of these transactions in the United Kingdom's balance of payments is illustrated by the fact that both as regards debits and credits invisibles are equal to over 50% of transactions on visible account, *i.e.*, imports and exports. Net invisible receipts fell from £285 million in 1958 to £59 million in 1960 at which level they were equivalent to less than one week's imports. The purpose of this note is to describe some of the changes which have occurred since 1955 and to see if any parallels can be found in the experience of some other countries which, like the United Kingdom, are developed rather than developing countries.

The term "invisibles" has been given to all those current transactions which do not represent trade in goods. It covers four main groups: (a) current payments and receipts by governments, in the case of the United Kingdom chiefly military and diplomatic expenditure overseas and grants to dependent territories and to other countries; (b) income received on all forms of investment abroad and conversely income payments on capital liabilities to foreigners; (c) the value of services provided to or received from other countries in fields as varied as shipping, travel, banking, insurance, etc.; and (d) gifts and similar transfers not included under government transactions. For the purposes of this note it is convenient to consider shipping and travel services separately and to combine the other

services of group (c) with transactions included under group (d). The other countries discussed vary from section to section in order to select the most relevant comparisons with the United Kingdom.

The figures for the United Kingdom used in this note are as officially published; those for other countries are so far as possible taken from a common source, the International Monetary Fund's "Balance of Payments Yearbook", to whose definitions the U.K. statistics closely conform. Even so, considerable differences exist between individual countries' sources and methods of compilation and this should be borne in mind throughout. Generally speaking this means that it is safer to compare changes from year to year in the various countries' figures rather than their absolute totals. Moreover by their nature invisibles are far more difficult to record statistically than imports and exports so that often the available estimates of absolute totals are rough and cannot sustain detailed analysis. A particular difficulty arises over the French figures which relate to transactions between France and countries outside the franc area; those between France and the rest of the franc area are not covered. For all these reasons only broad conclusions can be drawn from international comparisons.

Government The following table shows net payments or receipts on government account of certain countries. Interest on government securities and on inter-government loans is not included under this heading, but under "Interest, profits and dividends".

Table I: Government (net)

<i>£ millions</i>				1955	1956	1957	1958	1959	1960
United Kingdom	...	...	...	- 136	- 167	- 144	- 223	- 232	- 284
United States ^(a)	...	...	...	-1,662	-1,671	-1,646	-1,766	-1,670	-1,640 ^(b)
Belgium-Luxembourg	...	...	...	- 1	- 7	+ 1	- 4	- 21	- 35
France	...	...	...	+ 349	+ 191	+ 129	+ 105	+ 52	+ 27
Western Germany	...	...	...	+ 39	+ 56	+ 79	+ 173	+ 107	+ 120
Italy	...	...	...	+ 58	+ 41	+ 43	+ 31	+ 25	+ 21
Japan	...	...	...	+ 178	+ 178	+ 143	+ 60	+ 106	+ 121 ^(b)

(a) Excluding military grants: receipts of these grants are also excluded from totals for other countries.

(b) Partly estimated.

The United States' net deficit is conspicuous and is largely due to a high level of military expenditure and grants for economic assistance. The United Kingdom also has extensive overseas commitments. Most other countries, in spite of grants made (including, in some cases, reparations), have been in surplus on government account, chiefly owing to receipts from U.S. and other foreign troops stationed in their territory and, in the earlier years, from grants by the U.S. Government.

Net expenditure overseas by the U.K. Government has increased each year since 1955 except in 1957 and rose particularly sharply in 1958 and 1960. The main component is military expenditure which rose from £157 million in 1955 to £213 million in 1960. Most of the extra expenditure was incurred in Western Germany where the net cost of maintaining British troops rose from an insignificant amount in 1955 to nearly £50 million in 1960 when the arrangements for direct contributions from the West German Government came to an end. Expenditure in overseas sterling area countries, though much larger than this, has changed less. Between 1955 and 1959 it fluctuated around £120 million a year but in 1960 it increased to £137 million partly owing to larger expenditure by U.K. troops stationed abroad following a rise in forces' pay^(a) granted in April 1960 and to heavy expenditure on military bases in East Africa and Aden.

Grants for economic aid^(b) are another important constituent of U.K. government expenditure. After changing little between 1955 and 1958, they rose by £11 million to £65 million in 1960. Grants to dependent and former dependent territories have increased markedly in recent years. At the same time economic assistance to other developing countries, in the form of subscriptions to the United Nations Special Fund for Economic Development and to other international organisations, has grown.

While government expenditure has expanded, receipts have diminished. Defence aid from the United States, amounting to £46 million in 1955, had become negligible by 1958. Other government receipts, including those from U.S. forces stationed in the United Kingdom, reached a peak of some £80 million in 1957 but then declined to some £50 million from 1958 onwards.

Despite the decrease in payments to the U.K. Government the U.S. deficit was at its largest (in the period under review) in 1958. Thereafter it declined owing to smaller military expenditure: U.S. economic aid has changed little in the last three years. Western Germany's surplus has declined since 1958 although receipts from U.S. and U.K. troops have continued at a high level. Grants were made to France in connection with the transfer of the Saar and to the Overseas Development Fund of the European Economic Community and war indemnities paid abroad rose steeply. The French surplus is shown as falling steadily since 1955, chiefly because military receipts from abroad have declined, but the figures do not include French government expenditure in Algeria and other parts of the franc area. Lower expenditure by U.S. troops explains why Japan's surplus was tending to decline in the early years. It dropped sharply in 1958 owing to an economic grant to Indonesia but has since recovered. Contributions to the Overseas Development Fund and grants to the Congo account for a large part of the rise in Belgium's deficit since 1958.

Interest, profits and dividends

The chief components of interest, profits and dividends in a country's balance of payments are: (a) profits or other income accruing to companies from their branches and subsidiaries abroad (usually called "direct investments"): in principle, profits retained for reinvestment are included as well as those remitted, but these are more difficult to measure and are often not fully covered; (b) interest and divi-

(a) Troops abroad are regarded in balance of payments statistics as residents of the countries from which they come. Therefore only that part of troop pay which is spent abroad outside military establishments, is recorded.

(b) U.K. aid in the form of loans and the use of the United Kingdom's subscriptions to the International Bank for Reconstruction and Development and to the International Development Association is larger than aid in the form of grants but is included in the capital account of the balance of payments and therefore falls outside the scope of this article.

dends paid and received on long-term loans and securities which are not direct investments ("portfolio investments"); (c) interest paid and received on other liabilities and assets includ-

ing short-term loans and securities and inter-government loans.

It is more convenient in this section to look at credits and debits separately.

Table II: Interest, profits and dividends

<i>£ millions</i>			1955	1956	1957	1958	1959	1960
United Kingdom:								
old series:(a)	credits	...	346	381	342	337		
	debits	...	- 269	- 265 ^(b)	- 262 ^(b)	- 296		
	credits	...				708	686	688
new series:(a)	debits	...				- 415	- 426	- 450
United States:								
	credits	...	1,194	1,290	1,516	1,381	1,476	1,593
	debits	...	- 225	- 250	- 275	- 281	- 367	- 381
Belgium-Luxembourg:								
	credits	...	47	60	58	54	54	64
	debits	...	- 32	- 35	- 34	- 36	- 46	- 47
France:								
	credits	...	57	77	77	60	66	76
	debits	...	- 53	- 57	- 60	- 60	- 67	- 61
Western Germany:								
	credits	...	18	25	35	36	52	72
	debits	...	- 69	- 62	- 68	- 89	- 140	- 142
Italy:								
	credits	...	9	13	21	19	33	30
	debits	...	- 16	- 23	- 31	- 31	- 35	- 41
Netherlands:								
	credits	...	69	66	80	86	115	116
	debits	...	- 39	- 43	- 57	- 55	- 61	- 72
Switzerland:								
	credits	...	59	65	65	64	68	75
	debits	...	- 17	- 17	- 18	- 18	- 19	- 20

(a) The main differences are that the new series includes estimates of the overseas earnings of U.K. oil companies (not, however, profits in the accounting sense) and of the earnings of U.K. subsidiaries of overseas oil companies, both of which were previously included under "Other invisibles (net)"; and that unremitted profits accruing to overseas companies are fully instead of partially covered. See "Economic Trends", March 1961.

(b) In 1956 and 1957 interest payments on the U.S. and Canadian post-war credits and the Lend-Lease Settlement loan—some £40 million a year—were deferred.

The United Kingdom's income fell slightly between 1955 and 1958 (old series) and again between 1958 and 1960 (new series). At the same time debits went up between 1955 and 1958 (old series) and again between 1958 and 1960 (new series). The break in continuity to some extent obscures the picture, especially because 1958 was a turning point for U.K. oil companies' earnings from overseas. Thus, in the period up to 1958, total credits would probably have risen if oil companies' earnings had been included. The further fall after 1958 is in contrast made up of a decline in oil companies' earnings and a rise in all other income. U.K. oil companies, like those of other countries, have suffered in recent years from the tendency for productive capacity to

rise faster than demand for oil and from the resulting intensive competition in its marketing. Meanwhile the pressure from producing countries for an increased share of income has remained severe.

The rise in investment income other than oil companies' earnings between 1958 and 1960 included an increase from £195 million to £258 million in income from direct investments overseas (excluding oil and insurance) and an increase from £115 million to £131 million in income from portfolio investments. In 1960 about two-thirds of income on direct investments and about a half of income from portfolio investments came from the overseas sterling area.

Outgoings on overseas direct investments in the United Kingdom (excluding oil and insurance) also increased between 1958 and 1960, from £95 million to £136 million. On the other hand, outgoings on portfolio investments (£67 million in 1960) have changed little since 1958. In both 1958 and 1960 over three-quarters of total earnings from direct investments in the United Kingdom accrued to North American companies. The increase of over 40% in the total of these earnings between 1958 and 1960 is rather steeper, it may be noted, than the rise of about one-third in the corresponding credit item for income on U.K. direct investments overseas. This contrast over such a short period may have little significance: to comment adequately it would be necessary to have more information than is available about the size and nature of the investments on which the income accrues. Nevertheless, one difference may be particularly relevant: in 1958 three-quarters of overseas earnings in the United Kingdom but only half of U.K. earnings from overseas came from manufacturing industry. This difference arises in part from the geographical distribution of U.K. investment overseas. Much of U.K. investment in the overseas sterling area has been used for developing agricultural and plantation crops, mining and public utilities. On the other hand, the marked industrialisation of the developing countries and the consequent tendency to control imports of manufactures have prompted U.K. manufacturers to build factories in those countries in order to retain their markets. This must have increased earnings from industrial investment but it seems unlikely that this has progressed sufficiently far to alter the basic pattern.

Among the other important constituents of U.K. debits, interest payments on overseas sterling holdings have increased considerably since 1958. Interest rates in London and the outstanding total of overseas sterling holdings were both higher in 1960 than in 1958. Interest on the North American and other loans to H.M. Government, also included in the debit item, have recently cost about £50 million a year (in two of the earlier years under

review, 1956 and 1957, interest payments amounting to some £40 million a year were deferred—see footnote ^(b) to Table II).

The United States like the United Kingdom has large investments in the international oil industry. U.S. total income was raised in 1957 by increased oil earnings from countries such as Venezuela where production was pushed ahead because of the Suez crisis. Later totals were depressed as U.S. companies met many of the difficulties encountered by U.K. companies. U.S. earnings from other industries also fell back in 1958 but rose afterwards and, unlike the experience of the United Kingdom, this more than made good the decline in oil companies' earnings. The outgoings of the United States include sizeable payments to foreigners on their currency reserves as do those of the United Kingdom. Payments on dollar holdings, like those on overseas sterling holdings, increased between 1958 and 1960 because of higher interest rates and a growth in foreign holdings of dollars.

The credits of the other countries given in Table II have all expanded in recent years, some quite sharply. This represents increased income not only from developing countries but also from larger investment by industrialised countries, particularly West European countries, in each other. Their debits for interest, profits and dividends thus also rose substantially. In particular, the recent large inflow of short and longer-term funds into Western Germany is reflected in a rise of 60% in that country's debits since 1958.

Shipping A country's balance on shipping account includes not only its own shipping industry's earnings from overseas (net of disbursements in foreign ports) but also the cost of employing the services of foreign shipowners (net of their disbursements in domestic ports).^(a) Earnings may include a large element of freight received for the carriage of exports and a large part of outgoings may be accounted for by freight on the country's imports. For this reason disparate movements in the volume of exports and imports can often lead to changes in the shipping balance.

^(a) For most countries all international freight costs are excluded from the value of imports and exports and the shipping account therefore has to exclude the domestic shipping industry's earnings from the carriage of imports and payments to foreign shipowners for the carriage of exports.

Table III: Shipping (net)^(a)

£ millions	1955	1956	1957	1958	1959	1960
United Kingdom:						
old series ^(b)	+104	+ 77	+ 73	+ 86		
new series ^(b)				+ 50	+ 3	- 58
Belgium-Luxembourg	+ 8	+ 5	+ 22	+ 20	+ 13	+ 2
France	- 42	- 84	-131	- 48	- 20	- 8
Western Germany	- 26	- 48	- 59	- 29	- 29	- 66
Italy	- 5	- 4	- 19	- 12	- 23	- 37
Netherlands	+ 51	+ 57	+ 62	+ 55	+ 63	+ 84
Norway	+101	+141	+163	+139	+147	+152
Sweden	+ 77	+ 92	+109	+ 97	+ 96	+107
United States	+ 77	+ 83	+154	+ 13	- 40	- 45
Japan	- 53	-108	-179	- 59	- 64	-103

(a) The figures for countries other than the United Kingdom include small amounts for civil aviation and overland freight.

(b) For various reasons the two series are not comparable. The main difference is that the new series includes estimates of tanker transactions and the cost of oil bunkers taken up abroad, previously included under "Other invisibles (net)". See "Economic Trends", March 1961.

The United Kingdom is both a big seller and a big buyer of shipping services. Payments for foreign shipping, arising from the carriage of U.K. imports and from charter hire, have grown much more rapidly in recent years than the earnings of the U.K.-owned and chartered fleet. As a result the surplus on shipping account declined during the 1950's, and in 1960 a deficit was recorded. Time-charter payments for foreign tankers to be employed in the growing international trade of U.K. oil companies rose throughout the 1950's. They increased particularly sharply in 1956 and 1957 following the Suez crisis. At this time also many long-term contracts with foreign owners were entered into at the high time-charter rates then ruling. Some of the tankers had not then been built and have come into service at a time when a large fall in freight rates has much reduced the ships' earning power in the hands of the charterers. Freight payments by U.K. importers for space in dry cargo vessels rose particularly quickly in 1960 because of the increase in the volume of U.K. imports.

The greater use of foreign shipping for carrying imports into the United Kingdom and for international oil movements reflects not only the increased volume of trade but also a decline in the share carried by U.K. ships. U.K. ships likewise now carry a smaller proportion (though not necessarily a smaller volume) than before of U.K. exports and of dry cargo trade between other countries. The declining share of trade carried in U.K. ships is in turn associated with, though not fully

explained by, a declining U.K. share of world tonnage.

The relatively slow growth of the U.K. fleet has been attributed to various causes. The industry itself, (*e.g.*, in the "Survey of British Shipping with Recommendations as to Policy" issued by the General Council of British Shipping in December 1960) has emphasised the increasing tendency towards flag discrimination in favour of their own fleets by some countries, foreign subsidies and the advantages to some competitors of 'flags of convenience'. These last advantages have become temporarily less important in recent years because the fall in shipping profits has reduced the advantages of low taxation. In addition U.K. companies have been helped since 1957 by an increase, from 120% to 140% of cost, in the tax allowances on their ships. The size of the British fleet may also have grown more slowly because some shipowners took a more cautious view of future prospects than their competitors abroad; this may help to explain the relatively slow expansion of the tanker fleets of U.K. companies, other than oil companies, which has led to the increased chartering of foreign vessels.

Apart from the slow growth of the U.K. fleet, its net earnings from overseas have been affected in other ways. Many U.K. ships are engaged in carrying goods between Commonwealth countries; a trade which has expanded less quickly during the last ten years than world trade. British ships, too, earn relatively more from passenger fares than nearly all other

fleets, and have therefore suffered particularly from the competition of airlines. The increase of port costs in relation to freight rates affects all shipowners, but is less important to those countries such as Norway which usually charter a large part of their tonnage to other operators and do not therefore themselves incur port costs. The point is particularly relevant to the U.K. balance of payments, first because, as already mentioned, the United Kingdom is a heavy net charterer of foreign tonnage (on which the U.K. charterer would usually pay the port costs) and secondly because to an important extent the British-owned and chartered fleet is engaged in trade between overseas countries and thus tends to incur a higher than usual proportion of port charges abroad.

Other maritime countries like Norway, Sweden and the Netherlands have fared much better than the United Kingdom, in spite of meeting some similar or even additional difficulties, such as flag discrimination against the Netherlands' traditional trade in the Far East. To a considerable, though an unknown, extent, they seem to have gained at the United Kingdom's expense. For example the increase in Norway's receipts reflects, in part, increased chartering of tankers by the United Kingdom. These countries benefited greatly in 1956 and 1957 from the jump in freight rates caused by the Suez crisis. They suffered a set-back subsequently, when a world-wide surplus of tonnage developed and freight rates dropped, but by 1960 they had recovered most if not all the ground lost.

The experience of countries such as France, Western Germany and Japan, which are

customarily net buyers of shipping services was more or less the reverse. They suffered from the increase in freight rates in 1956 and 1957 but benefited from the later fall which, for France and Japan, coincided with a drop in the level of imports. A more recent expansion of imports and some recovery in freight rates have increased the deficits of Japan and Western Germany, though not of France, whose expenditure has been reduced by the increased availability of Saharan oil. The United States had an increased surplus in 1957, mainly due to bigger disbursements in U.S. ports by tankers collecting oil at the time of the Suez crisis, but subsequently the balance moved into deficit. In 1958 and 1959 earnings of U.S. ships were reduced by smaller exports and lower freight rates although by 1960 there was some recovery. Meanwhile a rise in imports in 1959 brought sharply increased payments to foreign shipping.

Travel Foreign travel in balance of payments statistics covers all expenditure by tourists or other travellers from abroad within the country visited, but not the fares for the journeys to and from the country. These are added to the "shipping" (or "transportation") category rather than to travel. Payments and receipts on account of travel have increased rapidly in many countries in recent years. In all developed countries, a rising standard of living, with longer holidays, has led more people every year to make visits abroad. Such holidays are also becoming more attractive as travel agents and passenger carriers succeed in reducing costs and journey times and as private motoring becomes more widespread.

Table IV: Travel (net)

<i>£ millions</i>				1955	1956	1957	1958	1959	1960
United Kingdom	...	...	...	- 14	- 11	- 17	- 17	- 20	- 17
Austria	...	...	...	+ 22	+ 33	+ 43	+ 47	+ 58	+ 61
France	...	...	...	+ 12	- 24	- 29	+ 22	+ 67	+ 85
Western Germany	...	...	...	+ 24	+ 40	+ 41	- 14	- 43	- 70
Italy	...	...	...	+ 68	+ 77	+115	+147	+160	+196
Spain	...	...	...	+ 34	+ 33	+ 26	+ 25	+ 50	+ 88
Switzerland	...	...	...	+ 47	+ 52	+ 60	+ 63	+ 69	+ 77
United States	...	...	...	-178	-203	-210	-226	-253	-277

U.K. debits for travel abroad rose from £125 million in 1955 to over £200 million in 1960. Virtually the whole of this increase was in expenditure on the Continent. Nevertheless, the net cost of travel in the U.K. balance of

payments has remained fairly small, thanks in part to the success of the British tourist industry in attracting visitors from overseas. Credits in total rose by about the same extent as debits, from £111 million to £188 million.

British travellers to foreign countries in fact greatly outnumber overseas visitors to this country, but those from the United States for example spend more (some £100 per head) than British travellers in Europe (some £50 per head). This is partly because overseas travellers stay longer here than British travellers stay in Europe. For example the average length of stay of Canadian visitors to the United Kingdom is over sixty days whereas that of British travellers in Europe is probably not much more than two weeks.

Tourist receipts are a more important source of income for many continental countries. In the United Kingdom tourist receipts are equal to about 5% of export earnings; for Spain the proportion is nearly 40%, for Austria 20%, for Italy and Switzerland about 18% and for France 8%. (For Greece, not shown in the above table, the proportion is about 25%.)

The largest increase in net receipts from tourism has been recorded by Italy where expansion of hotel accommodation has been very rapid. Tourists to Italy seem to have been predominantly West German with Americans, British and French next in order of importance. Increased travel abroad by residents is the main reason why Western Germany is the only West European country selected for comparison to show a large deterioration on net travel account between 1955 and 1960. Among other countries, Spain's earnings have increased rapidly in the last two years and Austria and Switzerland have increased earnings steadily. On the other hand, the net travel account of France has

fluctuated considerably. The improvement in the French travel account in 1958 followed the restrictions that were applied to outward travel and was further assisted by the devaluations in 1957 and at the end of 1958, which made France a cheaper country to visit. Although the restrictions on French travel abroad have been relaxed the improvement in net receipts has been maintained.

The United States is by far the most important source of travellers from outside Europe and U.S. tourists' total expenditure (about half of it in Europe) continued to increase throughout the years under review. In 1961, however, there seems to have been a check, partly because of the greater international political tension.

Other invisibles The transactions covered in this section include import, export and banking commissions, insurance, profits on merchanting trade, licence fees and royalties, agency, management and advertising fees. The personal transfers covered include remittances by those working overseas to their dependants at home and transfers of funds by emigrants and immigrants. The information available in the United Kingdom and elsewhere on many of these transactions is very incomplete. The figures in the table thus provide no more than a rough guide to recent trends. In particular, insufficient information is available about the composition of most other countries' totals to permit comparative comment.

Table V: Other invisibles (net)

<i>£ millions</i>	1955	1956	1957	1958	1959	1960
United Kingdom:						
old series ^(a)	+233	+241	+264	+361		
new series ^(a)				+182	+179	+180
Belgium-Luxembourg	+ 20	+ 31	+ 33	+ 44	+ 53	+ 60
France	+ 6	- 24	- 52	- 58	+ 11	+ 91
Western Germany	- 85	-123	-158	-185	-220	-218
Italy	+100	+124	+159	+181	+157	+178
Netherlands	+ 65	+ 44	+ 41	+ 62	+ 56	+ 48
Sweden	- 5	- 8	- 14	- 19	- 29	- 34
United States	- 65	- 40	- 25	- 29	+ 15	+ 5 ^(b)
Japan	- 13	- 23	- 28	- 28	- 34	- 55 ^(b)

^(a) The main difference is that the old series included certain items relating to oil companies' transactions later shown under "Shipping" and "Interest, profits and dividends". See "Economic Trends", March 1961. The difference between the old series and the new series cannot be taken as a measure of these oil transactions because the new series figure for 1958 includes revisions to the estimates of transactions common to both series.

^(b) Partly estimated.

The United Kingdom's net income is estimated to have changed hardly at all between 1958 and 1960: debits and credits have risen almost in step. Earnings from banking and similar financial services have been impeded by the continuance of Exchange Control. The earlier trend in the same group of transactions cannot be readily identified because the old series was differently composed. The estimated deficit or surplus of most other countries has also remained fairly stable since 1958 but this appearance of stability is perhaps not surprising considering how difficult it is to identify changes in these particular estimates. Exceptionally, receipts by France grew rapidly between 1958 and 1960, but no detailed information is available.

Summary and conclusion

The table and chart on the opposite page show the estimates of the United Kingdom and other countries for all invisibles taken together.

The United Kingdom's surplus on invisible account declined between 1958 and 1960 by more than £200 million because, as the preceding analysis has shown, several components simultaneously took a turn for the worse. Government military payments abroad and economic grants grew larger; debits for interest, profits and dividends rose while receipts fell; and shipping debits increased steadily while earnings stagnated. Of the other countries, only Western Germany experienced a deterioration of this order. Some causes were similar, such as a worse shipping balance and bigger government grants of various kinds, but in the case of Western Germany the net cost of travel abroad also rose. Belgium did badly, again chiefly because of increased government and shipping payments. Other maritime nations in Europe, such as Norway, Sweden and the Netherlands, and those heavily dependent on income from tourists, Italy and Switzerland, have broadly maintained or increased their net receipts in recent years. The U.S. deficit has declined

because of a drop in government payments and a rise in net receipts of interest, profits and dividends. French government net receipts have fallen but net receipts from other invisible transactions have risen sufficiently to improve the balance by about £200 million. The statistics available are subject to considerable limitations and in particular are not adequate to illustrate at all precisely how the transactions are interwoven. Nevertheless it seems inescapable that in many fields the United Kingdom's recent experience has been notably worse than that of other countries.

In reviewing this experience, especially since 1958, two points should not be overlooked. First, a large unidentified net credit has emerged in official estimates of the U.K. balance of payments in recent years. This net credit (the "Balancing item") reached £364 million in 1960 and £222 million in the first nine months of 1961. The existence of this large unknown area inevitably raises doubts about the validity of the estimates in various parts of the balance of payments accounts. Although there is no direct evidence it may be that U.K. net receipts from invisibles are being underestimated. Secondly, the latest figures suggest that the deterioration which took place between 1958 and 1960 had ceased in 1961.

Nevertheless the immediate outlook is discouraging. Only by adjustment of existing commitments and policy can government expenditure overseas be appreciably reduced, although the United Kingdom has made a claim for assistance in meeting the cost of forces in Western Europe, the outcome of which should be to reduce government expenditure overseas. The shipping balance seems unlikely to improve until the annual bill for foreign charters begins to decline, perhaps in 1963. The prospects for oil earnings remain doubtful and it is not to be expected that trends in other investment income will alter quickly.

Table VI: Net invisible receipts

<i>£ millions</i>	1955	1956	1957	1958	1959	1960
United Kingdom:						
old series ^(a)	264	256	256	254		
new series ^(a)				285	190	59
Belgium-Luxembourg	44	61	88	101	43	34
France	329	79	- 66	21	109	210
Western Germany	- 99	-112	-130	-108	-273	-304
Italy	214	228	288	335	317	347
Netherlands	135	107	107	136	157	156
Norway	92	128	147	127	137	149
Sweden	68	86	97	81	68	78
Switzerland	121	118	121	127	136	146
United States	-859	-791	-486	-908	-839	-745
Japan	99	35	- 78	- 38	-	- 45

(a) Differences between the two series are described in an article in "Economic Trends", March 1961.

NET INVISIBLE RECEIPTS

CHANGES BETWEEN 1958 AND 1960

£ MILLIONS

