

## THE BALANCE OF PAYMENTS : METHODS OF PRESENTATION

**Introduction** Balance of payments accounts are normally presented in the form of a double-entry book-keeping account so that for every credit there is a corresponding debit. If each entry is given an appropriate sign (plus or minus) the total will necessarily be zero. Thus, to assess performance from such an account it is necessary to divide the component items in some way, and look at developments in particular groups of items. Without some such grouping and simplification, the presentation and discussion of the balance of payments becomes confused. On the other hand, there is a risk of implying too sharp a contrast, too great a difference of kind rather than of degree between the items allocated to different groups.

Analytically, perhaps the most obvious distinction to make would be between current and capital transactions. On the analogy with company or personal accounting, the strength of the current balance may be said to show whether a country is living within its income or not; to what extent it is adding to or drawing upon its stock of external assets. This distinction is regarded as the fundamental one by some analysts, including a number of foreign monetary authorities; and it is of course given some prominence in the official presentations of the U.K. balance of payments.

Historically, as balance of payments accounts were developed, performance was first judged by changes in the country's gold stock; a distinction was drawn between movements in this item on the one hand and movements of all other items taken together on the other. The reason for this approach was the obvious one that gold was the main ready means of making international payments and that a country had ultimately to protect its gold stock.

Both these approaches are useful but both have their shortcomings. It is often difficult

to make a clear-cut or significant division between current and capital items,<sup>(a)</sup> and a new example of the difficulty has grown up with the increasing importance of economic aid which may take the form either of loans or of outright gifts. Moreover, there may be very strong causal connections between capital and current items; for example, in the case of a country which 'ties' any of its economic loan aid to its own exports. On the other hand, gold reserves are not the only ready means of making international payments. There are other forms of liquid assets and liabilities whose movements might be bracketed with those of the gold reserves to form a more relevant group.

Much thought has been put into devising the most useful and meaningful form of presentation. The International Monetary Fund has done much valuable work in standardising balance of payments concepts and in organising discussion of ways of defining a 'surplus' or 'deficit'. However, the many differences in financial structure between one country and another, and perhaps the different purposes for which the accounts are used, have made it impossible for a uniform definition to be adopted generally. Recently there has been a good deal of interest in this subject, particularly in the United States where a Review Committee for Balance of Payments Statistics is at present considering the presentation of the U.S. balance of payments. The purpose of this article is to discuss three out of a number of possible ways of presenting the accounts, with the aim not merely of showing what can be learned from each of them, but of emphasising that there is no single valid or useful way of presenting balance of payments accounts. Any particular presentation will have more or less merit according to the standpoint from which it is desired to review the record of international transactions and the factors underlying them.

(a) In a private letter written shortly before he died, Sir Dennis Robertson wrote, ". . . the workhouses, gaols and morgues of the world are full of those who have given up as a bad job the admittedly difficult task of distinguishing between capital and income."

**The standard presentation** The method officially employed for the United Kingdom may be seen in Table 1 of *United Kingdom Balance of Payments, 1964* (H.M.S.O., August 1964). For convenience a shortened version covering the years 1957 to 1963 is reproduced in Table I below.

In broad outline, this presentation, like that of most countries, lays stress on changes in what may be called the net liquidity position. In detail there are some points of difference

as the classes of asset and liability included vary from country to country. In the U.K. presentation the last group "monetary movements" contains the movements in defined classes of liquid assets and liabilities, and the upper part of the table analyses the transactions which have led to the gains and losses in the liquid items. The "balancing item" represents a gap in the analysis. That is to say, the monetary movements in a given period reflect not only the net total of known or estimated

**U.K. BALANCE OF PAYMENTS**  
**TABLE I: THE STANDARD PRESENTATION**

<i>£ millions</i>	1957	1958	1959	1960	1961	1962	1963
<b>Current account</b>							
Imports (f.o.b.) ... ..	3,538	3,366	3,624	4,119	4,019	4,066	4,335
Exports and re-exports (f.o.b.) ...	3,509	3,407	3,522	3,733	3,892	3,994	4,286
Visible trade (net) ... ..	- 29	+ 41	-102	-386	-127	- 72	- 49
Invisibles (net), including government ... ..	+245	+304	+255	+128	+126	+187	+162
Current balance ... ..	+216	+345	+153	-258	- 1	+115	+113
<b>Long-term capital account<sup>(1)</sup></b>							
Inter-government loans (net) ...	+ 75	- 44	-118	- 92	- 16	- 91	- 97
Other U.K. official long-term capital (net) ... ..	- 9	- 6	- 6	- 10	- 29	- 13	- 8
Private investment:							
Abroad ... ..	-298	-307	-311	-314	-321	-253	-309
In the United Kingdom ... ..	+126	+165	+176	+228	+416	+250	+259
Balance of long-term capital	-106	-192	-259	-188	+ 50	-107	-155
Balance of current and long-term capital transactions ...	+110	+153	-106	-446	+ 49	+ 8	- 42
<b>Balancing item</b>	+ 97	+ 49	- 67	+256	- 29	+ 84	-111
<b>Monetary movements<sup>(1)</sup></b>							
Miscellaneous capital (net) <sup>(2)</sup> ...	+ 11	- 6	+ 37	+119	- 8	+126	- 49
Changes in:							
External liabilities in sterling and overseas sterling area currencies (net) <sup>(3)</sup> ... ..	-195	+ 84	+133	+397	-356	- 23	+144
Official holdings of non-convertible currencies ... ..	- 22	+ 23	+ 8	+ 2	+ 1	+ 1	-
U.K. balance in E.P.U. ... ..	+ 11	- 10	+ 9				
Account with I.M.F. <sup>(4)</sup> ... ..	+ 1	- 9	-133	-151	+374	-379	+ 5
Gold and convertible currency reserves ... ..	- 13	-284	+119	-177	- 31	+183	+ 53
Balance of monetary movements ... ..	-207	-202	+173	+190	- 20	- 92	+153

(1) A decrease in liabilities or an increase in assets is shown -, an increase in liabilities or a decrease in assets +.

(2) Including changes in liabilities in non-sterling currencies (net).

(3) Excluding liabilities to the International Monetary Fund. Before 1963, comprising changes in overseas sterling holdings and acceptances outstanding.

(4) Comprising changes in the United Kingdom's subscription to the I.M.F. and in sterling liabilities to the Fund.

transactions (*i.e.*, the line "balance of current and long-term capital transactions") but also some which have not been identified. Moreover, items in "monetary movements" may themselves be incomplete. This gap, which might equally well be called errors and omissions, arises because, in spite of the double-entry form used, the two parts of the account are compiled independently. Visible trade, invisibles and long-term investment are calculated mainly from customs records of trade and a series of reports made by Government Departments, companies and firms, sometimes by or through industrial associations. "Monetary movements", on the other hand, are almost exclusively derived from reports, largely from the banking system, which show outstanding liabilities and assets at the beginning and end of the period. Given the difficulty of recording all transactions as well as all debts and claims, it is not surprising that there is a gap between the net results as calculated in the two different ways.<sup>(a)</sup>

Sources and methods of compilation have been described in official publications and the one cited above contains explanatory notes, including some which assess the reliability of the estimates. One example of the latter may, however, be summarised here. The basic source of the balance of payments figures for visible trade is the Trade Accounts, which are compiled in accordance with a formula laid down by customs regulations. In order to produce a valuation of total imports which answers to the conventions of balance of payments accounting, quite large adjustments need to be made. Deductions are made from trade account values, which include insurance and freight, to remove costs which do not belong in the balance of payments at all (*e.g.*, freight paid to U.K. shipowners) or which belong in another part of the accounts (*e.g.*, freight paid to foreign shipowners). There are many other factors which will cause the amount payable abroad to differ from the customs valuation. But when such adjustments have been made, the entries for visible trade still do not correspond with movements in monetary items, *i.e.*, bank balances, bills, acceptances and overdrafts, by means of which settlements

for this trade are carried out, because the timing of settlements may be very different. Any irregularity in the flow either of customs documents or of cash paid or credit given may cause fluctuations in the total of errors and omissions. The existence of such discrepancies adds to the difficulty of interpreting both current and long-term capital transactions and monetary movements.

The common feature of the items in "monetary movements", which comprise gold, bank deposits (whether in sterling or other currencies), funds invested in liquid form, claims in the form of bills of exchange and similar external liabilities and assets, is that, from the point of view of the owner or creditor, they all represent money assets having a sufficient degree of liquidity to be regarded as means of settling international debts. Liquidity in this sense is not necessarily to be defined in the same way, and perhaps not so restrictively, as it would be in the context of domestic banking. One item, gold and convertible currencies held in the Exchange Equalisation Account, is obviously available for making international payments. But it is not enough to pay attention to that item alone in assessing the country's ability to pay, and to ignore the changing level of liquid liabilities. The United Kingdom has important external liabilities in its own currency which represent the reserves of other countries or their working balances or short-term investments. These sterling funds play an important part in international settlements generally. It may be noted in passing that Japan for example, whose currency is not greatly used internationally, considers its reserves of gold and convertible currencies alone to be an adequate measure of its exchange position; but the United States, whose currency, like sterling, is widely held by other countries, takes its liquid liabilities also into account in the same context. There are, however, other points in which the U.S. method diverges from the United Kingdom's, the chief perhaps being the extent to which monetary assets are included in the group of liquid items.

The question to what extent it is proper to offset claims against liabilities in an

(a) See the article entitled "Unrecorded movements in the U.K. balance of payments", in the March 1962 issue of this *Bulletin*.

evaluation of the exchange position is one which is open to discussion. Certainly as regards the United Kingdom some important classes of liability are closely related to certain classes of asset. For example, dollar deposits taken from foreigners by banks in the United Kingdom could hardly be counted among U.K. liabilities without regard to the fact that they are almost entirely matched by dollar claims on overseas residents.

The items included in "monetary movements", apart from those so far mentioned, are of less importance. They are described in regular official publications. It is sufficient to note here that they comprise known items of trade credit, advance payments and some assets and some liabilities (such as local authorities' short-term money) which do not fall within the definitions employed for the series "United Kingdom external liabilities and claims in sterling".<sup>(a)</sup> Whether they all properly fall within the description of media for debt settlement (as suggested above) is debatable.

In the group considered as a whole the range of items is thus rather wide, but they possess the qualities of money to a sufficient degree to be thought of as means of settling the debts and credits arising from the transactions set out in the upper part of the table.

**Compensatory financing** No one would claim that the method of analysis discussed above was the only significant or useful one. Experiments have been made with others. For example, one of these seeks to divide the whole range of balance of payments transactions, on the one hand, into those which are entered into in the course of trade or the rendering of services, or for investment, military or diplomatic reasons (characterised as 'autonomous' or 'market' transactions); and, on the other hand, into those which are undertaken by monetary authorities to offset any pressures on the exchange position (broadly interpreted) resulting from the autonomous transactions. The second group has sometimes been called 'compensatory official financing'. This method of dividing the accounts was developed

by the International Monetary Fund and particularly by Mr. Walter R. Gardner, formerly of the staff of the Fund, with the purpose of devising a formula which, more than the varying formulae used by member countries, would provide a standard measure of their payments problems and one which would be relevant to Fund operations. Not unexpectedly it raises some difficult questions of classification apart from those which are due to a lack of the required statistical information. However, an attempt to divide the various items in the U.K. balance of payments on the suggested lines is shown in Table II overleaf.<sup>(b)</sup>

Among autonomous transactions are included exports and imports, services, interest, profits and dividends, direct investment, military and other government current and ordinary capital expenditures, and private transfers. All of these items arise from the commercial and political relations of the United Kingdom with the rest of the world. Also among autonomous transactions is a group called "open market capital" comprising portfolio capital and short-term private capital of all kinds, movements in which, inwards and outwards, are determined by market influences such as interest rates. Here are included changes in net external sterling liabilities except those to monetary authorities. The item "miscellaneous", which includes liabilities and assets of U.K. banks in foreign currencies, is treated as falling entirely within "open market capital". "Errors and omissions" (or the balancing item) are assigned to the autonomous group because compensatory items are nearly always known with precision. All these items together make up the total of autonomous transactions and represent market influences which bear on the exchange rate and which, more generally, tend to strengthen or weaken the United Kingdom's international liquidity position: the monetary authorities provide compensatory financing in order to maintain stability.

The lower half of the table will be seen to include most of the items which make up "monetary movements" in the standard tables.

(a) This series was described in an article in the June 1963 issue of this *Bulletin*.

(b) The method used here has much in common with, but is not the same as, the 'analytic' presentation used by the I.M.F. in their current *Balance of Payments Yearbook*. The Fund have not adopted the method of 'compensatory official financing' currently, either in their *Yearbook* or in their *Balance of Payments Manual* (Third Edition); though the principles are explained in the Second Edition of the *Manual* (1950).

**U.K. BALANCE OF PAYMENTS**  
**TABLE II: COMPENSATORY OFFICIAL FINANCING**

<i>£ millions</i>	1957	1958	1959	1960	1961	1962	1963
<b>Autonomous transactions</b>							
Current transactions (net):							
Visible trade ... ..	- 29	+ 41	-102	-386	-127	- 72	- 49
Invisibles including government	+208 <sup>(1)</sup>	+304	+255	+128	+126	+187	+162
Capital transactions (net): <sup>(2)</sup>							
Direct investment ... ..	. . <sup>(3)</sup>	- 57	- 50	-112	+ 10	- 75	- 73 <sup>(4)</sup>
Official long-term capital excluding compensatory ... ..	- 49 <sup>(5)</sup>	- 50	- 49	- 65	-105	- 88	- 90
Open market capital:							
Portfolio ... ..	. . <sup>(3)</sup>	. . <sup>(3)</sup>	. . <sup>(3)</sup>	+ 71	+119	+ 76	+ 15
Non-official short-term sterling investment <sup>(6)</sup> ... ..	- 39	+214	+ 52	+364	-400	+ 57	+ 20
Miscellaneous ... ..	+ 11	- 6	+ 37	+119	- 8	+126	- 49
Other private investment <sup>(7)</sup> ...	-172 <sup>(8)</sup>	- 85 <sup>(9)</sup>	- 85 <sup>(9)</sup>	- 45	- 34	- 4	+ 8
Errors and omissions ... ..	+ 97	+ 49	- 67	+256	- 29	+ 84	-111
<b>Total autonomous balance</b> ...	<u>+ 27</u>	<u>+410</u>	<u>- 9</u>	<u>+330</u>	<u>-448</u>	<u>+291</u>	<u>-167</u>
<b>Compensatory official financing<sup>(2)</sup></b>							
Reserves of gold and convertible currencies ... ..	- 13	-284	+119	-177	- 31	+183	+ 53
Official holdings of non-convertible currencies ... ..	- 22	+ 23	+ 8	+ 2	+ 1	+ 1	—
U.K. balance in E.P.U. ... ..	+ 11	- 10	+ 9	—	—	—	—
Account with I.M.F. ... ..	+ 1	- 9	-133	-151	+374	-379	+ 5
Other sterling liabilities (less claims) to monetary authorities ... ..	-156	-130	+ 81	+ 33	+ 44	- 80	+124
Waiver of interest on U.S. and Canadian loans ... ..	+ 37	—	—	—	—	—	—
Long-term capital, compensatory:							
Exim Bank Loan ... ..	+ 89	—	- 89	—	—	—	—
Loan from Switzerland ... ..	—	—	—	—	+ 18	—	—
Liquidation of E.P.U. debts (net)	—	—	- 39	- 29	+ 4	- 8	- 8
Advance repayment of debt by Western Germany ... ..	—	—	+ 23	—	+ 60	—	—
Writing-off of part of the fore-going <sup>(10)</sup> ... ..	—	—	—	—	—	- 8	- 7
Treasury Bond purchased by Western Germany ... ..	—	—	+ 37	—	—	—	—
Use of foregoing to repay debt	—	—	- 7	- 8	- 22	—	—
Waiver on U.S. and Canadian loans ... ..	+ 26	—	—	—	—	—	—
<b>Total compensatory official financing</b> ... ..	<u>- 27</u>	<u>-410</u>	<u>+ 9</u>	<u>-330</u>	<u>+448</u>	<u>-291</u>	<u>+167</u>

(1) Including -37, interest on U.S. and Canadian loans due but waived.

(2) A decrease in liabilities or an increase in assets is shown —, an increase in liabilities or a decrease in assets +.

(3) Not identified separately but included within "other private investment".

(4) Including outward investment by the insurance industry (included in "other private investment" in 1957-62).

(5) Including -26, repayment of U.S. and Canadian loans due but waived.

(6) Including changes in overseas sterling area currencies. In 1957-62, changes in non-official overseas sterling holdings and in acceptances outstanding. In 1963, changes in external sterling liabilities (net) except to central monetary institutions and international organisations.

(7) Including investment by the oil and insurance industries, except for outward investment by the insurance industry in 1963.

(8) Including direct and portfolio investment.

(9) Including portfolio investment.

(10) See text, page 282.

But the sterling liabilities included here are only those to overseas central monetary authorities; these are assumed to be influenced mainly by the settlement of general balance of payments surpluses and deficits. Other sterling liabilities have been classified as autonomous, in the section called "open market capital", as already noted above.

The substantial withdrawal of private short-term sterling investments early in the year stands out in the figures for 1961 and dominates the "total autonomous balance". It was met in part by assistance received by the United Kingdom under the Basle arrangements, which is clearly to be classified as compensatory. In the event all this assistance was repaid during the year except the £18 million lent by Switzerland, which was funded. The drawing on the I.M.F., which enabled the Basle assistance to be repaid, is included in the table in the item "account with I.M.F." as an increase in the United Kingdom's liability to the Fund, and a separate entry has been made for the Swiss funding loan. The items which were temporarily affected by the Basle arrangements, namely, reserves, sterling liabilities and official liabilities in foreign currencies, show, over the year as a whole, no net movement attributable to this assistance.<sup>(a)</sup> It will be noted that the total of official financing shown for this year, viz., £448 million, is very different from the favourable balance of monetary movements of £20 million shown in the standard table, where the fall in private overseas sterling holdings is in effect offset against the rise in official holdings. Indeed, the largest divergences of this presentation from the standard version are caused by the different treatment of liabilities to non-official overseas holders, principally in sterling but also in foreign currencies. It is the cause of large divergences in 1958 and 1962 and very markedly in the change shown between 1960 and 1961. In the standard estimates the large fall in non-official sterling holdings which took place in 1961 is treated as a favourable monetary movement. By contrast the compensatory financing method regards the

same movement as a factor adding to the deficit which needed to be financed, and therefore it shows 1961 as a year of considerable strain. This is certainly a realistic treatment which agrees with exchange market experience. On the other hand, the standard method takes a forward-looking view in regarding the year 1960, with its sizeable trade deficit, as the true period of weakness in the balance of payments, although pressure on the reserves was then postponed by a large building-up of external liquid liabilities.

In January and March 1963, sterling again came under pressure and losses to the reserves were largely offset by borrowings from overseas monetary authorities. These borrowings were not in sterling and so, like some of the assistance received in 1961, would require a separate entry in the lower half of Table II. But as they were repaid a few months later in the same year there is, once more, no net movement to enter.

Another important point of divergence is that the compensatory part of the table includes, for 1957, the loan obtained by H.M. Government from the Export-Import Bank, as part of the official action taken to relieve pressure on the reserves which was aggravated by a withdrawal of private sterling balances;<sup>(b)</sup> in the standard table the loan is included with other long-term capital and is not treated as a financing item. Repayment of the loan was made in 1959. This also has been classified as compensatory in Table II, naturally with the opposite sign (minus). There are some arguments for treating repayments as autonomous, even if the loans were compensatory, as there is a contractual obligation to repay, whatever may be the state of the balance of payments. On the other hand, the fact that the loan, when made, was compensatory provides a reason for treating the repayment as compensatory (with the opposite sign). The second course (the one taken in the table) would seem to have advantages when it is desired to combine figures covering several years. The intention of compensatory borrowings is to

(a) Changes in official liabilities in foreign currencies are included in "miscellaneous capital" in the published quarterly estimates for 1961. They would need to be removed from autonomous transactions were quarterly figures to be shown in this way. The same applies to an element of the non-official sterling holdings, see page 10 of the September 1961 issue of this *Bulletin*.

(b) Loans made by the Export-Import Bank are not necessarily to be classified as compensatory; many of its loans to other countries have financed particular projects, and would in such cases be regarded as autonomous.

strengthen liquid assets in a period of weakness at the expense of some future period when liquid assets are expected to be greater. In the event the Export-Import Bank loan was repaid before maturity, for the Line of Credit Agreement required instalments to commence three years after the date of any advance to be made.

Analysis by the method of compensatory official financing envisages loans or other financing arrangements being made in compensation of a surplus on autonomous transactions as well as of a deficit. In practice it often appears that other motives also play a part, perhaps a decisive part, in influencing a government agency in making loans of the kind in question. An excess of liquidity is less often embarrassing than a shortage.

The postponement of the interest (£37 million) and the amortisation (£26 million) payable in 1957 on the U.S. and Canadian loans had the same effect as a borrowing by the monetary authorities for balance of payments reasons but perhaps raises a more difficult problem. The principles of the method suggest that the total amount (£63 million) should be treated as a compensatory loan, offsetting the amounts due but not paid, which are included among autonomous debits.<sup>(a)</sup> Balance of payments accounts are not a statement of cash payments and receipts, and it is not so novel as might appear at first sight that they should include entries which do not represent payments actually made. Nevertheless, items which are entirely notional are apt to introduce a note of unreality. Similar procedures are necessary in order to bring out the compensatory nature of the advance repayments by Western Germany in 1959 and 1961 compounding certain instalments on the post-war settlement. The repayment in advance is treated as though a compensatory loan had been made to the United Kingdom. In 1962 and 1963 the instalments of this settlement which became contractually due are included as credits in the autonomous group (in official long-term capital); but they are also written off from the notional loan by means of minus entries in the compensatory part; in this way a readjustment is made between the autonomous and compensatory parts. Repayments by and

to the United Kingdom under the arrangements for winding-up the European Payments Union have here been treated as compensatory for reasons similar to those given above.

The entries in 1957-59 for "U.K. balance in E.P.U." are clearly compensatory. Under the payments Agreement then in operation, credits and debits in account with the Union were part of the arrangements for settling deficits and surpluses between members; the entries for "official holdings of non-convertible currencies" are also in the main connected with these arrangements.

Other, perhaps more fundamental, problems of classification arise in the application of this method. Non-official sterling balances, although their changes are treated as autonomous, are often compensatory in their behaviour. So far as the overseas sterling area is concerned, the sterling holdings of commercial banks reflect seasonal and cyclical developments in trade; a rising trend of trade brings a rise in working balances; the acquisition of sterling funds purely as an investment (which would properly be an autonomous movement) is less important. On the other hand, official holdings may rise or fall for investment reasons, and are thus not always purely compensatory.

Perhaps it would be fair to say that the concept of compensatory official financing is not easy to translate into a group of items which can be selected from the available statistics and which can retain the same components in all periods, but that it is a useful and enlightening approach to employ on occasion in the right context.

#### **Analysis by sector**

The two systems so far discussed use a classification according to economic or financial categories of transactions. It is also possible to classify transactions according to the domestic sector to which the transactor belongs, or by 'agency' as it is sometimes called. In this approach there is some analogy with sector analysis. The *Bulletin* provides, notably in Table 26 of the Statistical Annex, some material for making, for more recent periods, an approximate distribution of monetary assets and liabilities into those of the three main sectors

<sup>(a)</sup> The U.S. and Canadian loans originated mainly in the settlement of war-time claims and in consideration of the post-war commitments of the United Kingdom and have not here been regarded as compensatory.

which are usually distinguished, namely, public, banking and private. An analysis of these items, which is concerned with net changes in relationships between debtors and creditors, represents a very different line of enquiry from an analysis of current and long-term capital transactions. Unlike the former, the latter—which alone is attempted in Table III overleaf—illustrates the distinctive nature of the external transactions performed by the government sector. Since the banking sector enters into current transactions almost entirely as an intermediary for the payments and receipts of the other two sectors, the table simplifies to a division into H.M. Government and the remaining sectors, here described as private.<sup>(a)</sup>

Naturally here also there are problems both of principle and of the availability of statistics. A classification by sector tends to cut across economic categories. An example is the treatment of interest on government debt paid abroad. In the official tables all interest paid abroad, whoever pays it, is included in a single category. In this case it is possible to make an estimate of the government element which has been included in the government sector. Accordingly, interest, profits and dividends are divided between the two sectors and are further analysed in the government part. Among credits, which are offset in the government part, is the income on H.M. Government's dollar portfolio and on some loans to other governments.

In dealing with capital items two different principles of classification are theoretically possible. When a foreigner buys a British government security from a 'private' resident of this country, the transaction belongs to the private sector if attributed to the sector to which the seller belongs. But the foreigner acquires a claim on the British Government and in this sense the transaction involves the government sector. Moreover, where new issues are concerned or where Government Departments provide the stock which the foreigner buys in the market, the government sector enters into the transaction both as seller and debtor. The foregoing are credit items in the balance of payments. On the debit side there are likewise

cases where the Government is both buyer and debtor, namely redemptions and purchases for sinking funds or for other purposes. The relative importance of these special cases and other transactions respectively is unknown. Official statistics of overseas net investment in British government stocks are derived from the register of stockholders and thus correspond to the 'debtor' rather than the 'transactor' principle of attribution.<sup>(b)</sup> They have been included in the government sector in Table III. Some additional justification for the method followed is that the choice made by a foreign investor is between a government issue and some other investment, and that he is indifferent to the identity of the other party to the deal.

Statistical and security reasons make it impracticable to identify government imports of defence equipment and materials or exports under Military Aid programmes, which are accordingly included in the totals of private visible trade. The imports and exports of the nationalised industries are also included in the private sector. It is normal balance of payments practice to treat these as part of ordinary merchandise trade and not as government transactions; in this way tables are more suitable for international comparisons, as the degree to which economic enterprises are carried on by government varies greatly from country to country. Non-military imports which are acquired for government through private intermediaries also appear in Table III in the private balance. An analysis of direct payments and receipts from overseas therefore does little to show the contribution of the government sector to the visible trade balance.

Nor can it go very far in assessing the effect of government transactions in general on the balance of payments. A much more radical treatment would be needed to assess, if indeed it were possible, all the effects, direct and indirect, of total government expenditure, civil and military, whether outside the United Kingdom or within. Large-scale expenditure on education, technology, scientific and industrial research, health services, housing, roads and railways (the list is not exhaustive) plays a most important part in enabling industry to compete

(a) The "public sector" as defined for the purpose of sector analysis includes more than the Central Government alone, and the "private sector" includes less than it does here.

(b) The series is not quite consistent throughout. See *United Kingdom Balance of Payments, 1964*, footnote (5) to Table 15. Statistics are not available for years before 1960.



**U.K. BALANCE OF PAYMENTS**  
**TABLE III: ANALYSIS BY SECTOR**

<i>£ millions</i>	1957	1958	1959	1960	1961	1962	1963
<b>Government</b>							
Current invisible transactions:							
Payments:							
Military ... ..	-157	-180	-167	-206	-225	-243	-251
Economic grants ... ..	- 49	- 51	- 52	- 58	- 73	- 74	- 69
Other grants <sup>(1)</sup> ... ..	- 5	- 5	- 6	- 12	- 12	- 15	- 26
Subscriptions and contributions to international organisations	- 10	- 11	- 13	- 18	- 21	- 21	- 29
Administrative, diplomatic, etc.	- 21	- 22	- 24	- 26	- 29	- 30	- 35
Pensions ... ..	- 11	- 12	- 14	- 15	- 18	- 17	- 19
Receipts:							
U.S. and Canadian forces' ex- penditure ... ..	+ 36	+ 25	+ 18	+ 21	+ 16	+ 17	+ 12
Other military receipts ...	+ 44	+ 27	+ 22	+ 24	+ 20	+ 13	+ 25
Defence aid ... ..	+ 21	+ 3	—	—	—	—	—
Other ... ..	+ 5	+ 2	+ 3	+ 4	+ 7	+ 7	+ 5
Interest and dividends (net):							
Interest on North American loans ... ..	- 4	- 46	- 45	- 40	- 39	- 39	- 38
Interest on Aid loans <sup>(2)</sup> ...	+ 1	+ 1	+ 2	+ 6	+ 9	+ 12	+ 16
Other <sup>(3)</sup> ... ..	-110	-110	-100	-120	-140	-130	-100
Total current invisible expenditure (net) ... ..	-260	-379	-376	-440	-505	-520	-509
Long-term capital: <sup>(4)</sup>							
Inter-government loans:							
Aid loans <sup>(2)</sup> ... ..	- 13	- 19	- 46	- 59	- 61	- 59	- 63
Repayments of Aid loans ...	+ 11	+ 12	+ 11	+ 11	+ 12	+ 12	+ 11
Other loans by or to the United Kingdom ... ..	+ 86	- 2	+ 35	- 2	+ 18	- 3	- 3
Other repayments (net) ...	- 9	- 35	-118	- 42	+ 15	- 41	- 42
U.K. subscriptions to I.D.A. and European Fund ... ..	—	—	- 4	- 10	- 9	- 9	- 9
Other U.K. official long-term capital (net) ... ..	- 9	- 6	- 2	—	- 20	- 4	+ 1
Overseas investment in U.K. government securities (net) ...	. . <sup>(5)</sup>	. . <sup>(5)</sup>	. . <sup>(5)</sup>	- 20	+ 53	+ 24	+ 45
Balance of long-term capital ...	+ 66	- 50	-124	-122	+ 8	- 80	- 60
<b>Total government</b> ... ..	<u>-194</u>	<u>-429</u>	<u>-500</u>	<u>-562</u>	<u>-497</u>	<u>-600</u>	<u>-569</u>
<b>Private</b>							
Imports (f.o.b.) ... ..	3,538	3,366	3,624	4,119	4,019	4,066	4,335
Exports and re-exports (f.o.b.) ...	3,509	3,407	3,522	3,733	3,892	3,994	4,286
Trade balance ... ..	- 29	+ 41	-102	-386	-127	- 72	- 49
Interest, profits and dividends (net)	+358	+452	+413	+388	+414	+486	+499
Other invisibles (net) ... ..	+147	+231	+218	+180	+217	+221	+172
Invisible balance ... ..	+505	+683	+631	+568	+631	+707	+671
Balance of long-term capital <sup>(4)</sup> ...	-172 <sup>(5)</sup>	-142 <sup>(5)</sup>	-135 <sup>(5)</sup>	- 66	+ 42	- 27	- 95
<b>Total private</b> ... ..	<u>+304</u>	<u>+582</u>	<u>+394</u>	<u>+116</u>	<u>+546</u>	<u>+608</u>	<u>+527</u>
<b>Balance of current and long-term capital transactions</b> ... ..	<u>+110</u>	<u>+153</u>	<u>-106</u>	<u>-446</u>	<u>+ 49</u>	<u>+ 8</u>	<u>- 42</u>

(1) Mainly of a military nature.

(2) Loans by the U.K. government except those to Western Europe.

(3) Mainly interest on overseas holdings of U.K. government securities (including Treasury Bills), less income from H.M. Treasury's holdings of dollar securities, estimated to the nearest 10.

(4) A decrease in liabilities or an increase in assets is shown —, an increase in liabilities or a decrease in assets +.

(5) Transactions in U.K. government securities are not identifiable for 1957-59.

in export markets or against imported goods. As against this, it must be remembered that these and other types of government expenditure absorb real resources which, if used in different ways, might make a more direct contribution to the balance of payments. Moreover, heavy government expenditure affects the cost-consciousness of the suppliers concerned.

One last qualification is that the two halves of the table are not independent of each other but have important interactions. As was noted in connection with the discussion of the significance of the current balance there are causal connections between apparently unrelated items. Government grants and loans and, to a lesser extent, defence expenditure overseas have an effect on exports by the private sector, and are linked with receipts by the private sector derived from the expenditure of U.S. and Canadian forces in this country; government receipts shown in Table III represent only a part of the total external income which results from the presence of those forces. Conversely, the direction of trade and investment may be factors in determining the amount of government aid. Again, interest on that part of the

national debt which is held abroad is a cost of possessing a currency which is used internationally; the considerable benefits of this are widely diffused and not confined within the compass of this table alone.

Thus, both the necessary limitations of any one presentation of the accounts, and the nature of the activities of the government of a major industrial country with overseas responsibilities, are likely to result in its showing a deficit. Similarly, because of the interconnection between all the items in the accounts, the private sector would, in these circumstances, be likely to show a surplus. However, the record of recent years shows that in the private sector, no less than in the public, resources need to be redeployed if a satisfactory external balance is to be achieved. No simple inferences can therefore be drawn from Table III about the adequacy of the contribution of either sector to the balance of payments. Nevertheless, with all these reservations, it does provide some indication of the large and continuing divergence between what the private sector earns and what the public sector spends.

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