The balance of payments in the inter-war period

This research paper was prepared in the Bank's Economic Intelligence Department and is largely the work of M. D. K. W. Foot

Introduction

Under the Bank's auspices, Professor R. S. Sayers is preparing a history of the Bank in the first half of this century. Certain research projects have been undertaken in the Bank to provide background material for his work, one of which gave rise to this article. Up to now, a number of interesting studies of this period have touched upon various aspects of the balance of payments. But there has not been a comprehensive review of the statistics collected then, nor a detailed analysis of the weight which can be attached to them; this is a gap which this article is intended to fill.

Until very recently, there had also been no attempt to bring more than isolated elements of the balance of payments accounts for the period up to date, by drawing on the evidence which has become available since 1939. This seemed another deficiency worth remedying; but the publication, late in July, of new research in this area has delayed the completion of a comprehensive revision of the original balance of payments estimates[**5**]. It is hoped to make this available in a later issue of the *Bulletin.*

The picture given by the material presented below is, at first sight, surprising. At the beginning of the period virtually no statistics on the balance of payments were collected at all and, even by 1939, coverage was still very inadequate. We have become accustomed to having a wide range of reasonably accurate and up-to-date information readily available. But this multiplicity of figures is essentially a post-1945 phenomenon. In contrast, when the Royal Statistical Society petitioned the then Board of Trade (B.O.T.) in 1919 for an improvement in the quality and quantity of official data, one of their complaints in a different field of economic information was that nothing had been gathered on wages for thirteen years.

Presentation

This article briefly describes, in Section 1, the inadequacy of the available statistics of the United Kingdom's balance of payments, with reference to some of the economic events of the period, and to occasions when better information might have modified the direction or timing of monetary policy. Section 2 deals with the various items in the balance of payments individually, showing their scope and how contemporary estimates for them were developed. Both should be read in conjunction with the chart on page 350 and Tables C and D towards the end of the article. Detailed references to the tables are made in the text where appropriate. It should be noted that the tables are summaries, showing only global totals for calendar years; they do not show the geographical detail which is in some cases available.

References in bold type are listed on page 363.

Section 1

Before 1914

The only official statistics on the items making up the balance of payments collected before 1914 were the monthly import and export figures. Private surveys also provided a few very tentative estimates of some of our invisible earnings in particular years, as well as series showing the volume of new loans raised on the London market by overseas borrowers.

In a sense, there was no need for further figures. What little evidence is available suggests an immensely strong balance of payments position before 1914. For the best part of a century, the United Kingdom seems to have earned a surplus from its invisible exports sufficient to finance a regular deficit on visible trade and still allow heavy investment overseas.[1] As the volume of this investment grew (much of it in the form of U.K. holdings of loans issued by foreigners in London) so too did the income subsequently earned from this source. U.K. exports also benefited, at least in the short term, because much of the money raised by foreigners in London was used to buy British capital goods.

It also seems (judging from later statistics and a very tentative estimate of the effect of the First World War) that the United Kingdom's short-term financial position was very strong before 1914. Certainly, because of the strength of the current account position and the central role played by sterling in the international monetary system, pressure on sterling (fixed, on the gold standard, in its parity with other leading currencies) was occasional and rarely serious.

1919-25

Because of the lack of statistics, it was – and is – impossible to gauge accurately the impact of the First World War on the United Kingdom's external position but it must have been considerable[**14**]. Trade was severely disrupted; and many overseas investments were either liquidated to meet the foreign exchange costs of the war or were in default. There was also a serious deterioration, of perhaps £250-300 million, in the United Kingdom's net short-term financial position [**15**]. General confidence was greatly weakened and the war also left the difficult question of war debts and reparations to be settled. This uncertainty was reflected in an increase in the volatility of private capital after 1918, a development which affected sterling not only because it was so widely held, but also because it was no longer the currency automatically sought in times of crisis.

When, therefore, the B.O.T. published their first current account figures (see Table C) it was not surprising that their estimate for the surplus in real terms in 1920 was down on that shown for 1913[**2**].[2] In nominal terms, the surplus was thought to have risen slightly but between 1913 and 1920

---

1 The pattern of deficit on visible trade and surplus on invisible account has, of course, been a regular feature of the post-1914 period as well. However, the burden of the visible trade deficit relative to the surplus on invisibles has, on average, been much heavier since 1914.

2 Previous articles, the earliest being in the *Board of Trade Journal* for 12th August 1920, had covered one or two items in the invisibles account. Not until 29th March 1923 was a set of current account figures published; very tentative estimates for 1920 and 1922 were then given, with even less firmly based figures for 1907, 1910 and 1913. The basis for this material is discussed in Section 2.

the general price level had increased sharply; the figures for 1920 were in any case bolstered by a number of temporarily favourable factors (notably, heavy world demand for U.K. shipping services). The effects of the war and its aftermath on sterling were even more evident; by early 1920 the pound sterling had fallen to about $3·30, nearly one third below its pre-war parity with the U.S. dollar of just over $4·86.

The few available balance of payments figures suggested that a surplus was being earned on current account and encouraged the hope of a recovery in the sterling exchange rate. But capital outflows, mainly caused by foreign pressure to raise loans in the United Kingdom, were a frequent source of concern to the authorities, who sought to restrict access to the London market[**3**]. Substantial amounts were raised by foreigners in this period (see Table D, line 1), largely offsetting the surplus earned on current account. The reserves rose only slowly and it was not until 1925 that sterling regained its pre-war exchange rate with the U.S. dollar.

The rough and ready nature of these early statistics cannot be too strongly emphasised, as can be seen from the detail in Section 2. Aware of these inaccuracies, the B.O.T. endeavoured to err on the side of caution in their estimates; and indeed, through the 1920s, the view that the current account surplus was being understated was widely held. As late as 1931, the argument is found in the Macmillan Committee's Report[**12**]. However, evidence from the late 1920s and early 1930s (see below and Section 2) casts doubt on whether this was in fact so; it certainly seems likely that, particularly in the second half of the 1920s, the income from investment overseas – the main source of invisible earnings – was, at that time, being overestimated.

1925-31

The trade figures apart, the few balance of payments statistics available received virtually no consideration in the deliberations preceding the return to the gold standard in 1925, as recent research has shown[**14**]. Indeed, in contemporary discussion, the external position was mentioned in only the vaguest of terms. To most people the benefits of a fixed parity seemed obvious and a rate against the U.S. dollar other than that of 1913 unacceptable. If this left sterling overvalued, then the classical remedy under the gold standard – enforced deflation at home, inflation abroad – would induce the necessary readjustment of prices and costs.

But unemployment was already so high that, when it came to the point, the authorities could not willingly contemplate further deflation and, as the 1926 General Strike demonstrated, it was difficult to achieve a reduction in money wages. Therefore, although the United Kingdom remained on the gold standard until 1931, the maintenance of external balance was an unrelenting problem, impinging upon domestic policies. The relative weakness of the reserves during much of this period, for example, made sterling particularly vulnerable to outflows of capital. As a result, interest rates in this country were kept above those in the United States for long periods, to discourage outflows of funds and to make London less attractive than New York for foreign borrowers.

The current account figures published for these years made fairly encouraging reading, with a recovery from near balance in 1926 to a moderate surplus averaging about £120 million a year between 1927 and 1929. As noted earlier, however, these estimates may have overstated the surplus being earned; in any case, most of it was being absorbed (see Table D lines 1 and 2) as before by foreign loans. In 1929, despite an apparently healthy current account surplus, of over £100 million the combination of a number of influences (including a boom on Wall Street and the Hatry crisis at home) caused a run on sterling almost sufficient to drive the United Kingdom off gold[**3**].

Rather more is known about the external position after 1925 because the quality and range of the statistics available gradually improved – though the extent of the improvement should not be overestimated. A number of changes were instigated by the Trade Figures Committee,[1] set up in 1925[**18**]. The value of some of the items on the invisibles account (for example "net short interest and commissions" – see Section 2·5) was examined for the first time in some detail. The committee's report in April 1926 clearly shows, however, that although the principles of balance of payments accounting were fully understood, the statistics were still very limited in practice. As Keynes complained in 1927, invisibles remained so in the literal sense[**9**].

From 1928, new light was thrown on a number of aspects of U.K. investments overseas, first by annual private surveys by Sir Robert Kindersley and later by *The Economist* (see Section 2·4) [**4, 11** and **17**]. Kindersley's early results seem to have been misleadingly optimistic. Similarly, when the Macmillan Committee made the first attempt, during the period 1930-31, to collect figures for short-term financial assets and liabilities, the estimates derived were markedly at variance with later evidence. The committee's figure for the United Kingdom's net short-term indebtedness showed a net liability of only £250 million, but many of these liabilities were unlikely ever to be liquidated.

Events quickly demonstrated, however, that these estimates were incorrect – a year later Keynes put the net liability at about £500 million – and within a few months of the committee's report a number of complex considerations forced the United Kingdom off the gold standard[**10**]. A major liquidity crisis in Central Europe had a serious effect on the U.K. financial position, the impact of which was compounded by the emergence of a sizable deficit on current account (a result of the rapidly deepening world recession). Confidence, already frail, was further jolted by the publication of several government reports which were interpreted abroad as emphasising the weakness of the economy.[2] The repatriation of French sterling balances had been a persistent worry to the authorities for some time and to this was now added an increasingly large outflow of other foreign funds. Between July and September, the authorities used

1 The committee consisted of Lord Bradbury, S. J. Chapman, R. H. Brand, W. T. Layton and Sir Otto Niemeyer. Its terms of reference were "to report on the existing estimates of the annual balance of payments, with particular reference to the power of this country to make overseas investments".

2 Reports by the Macmillan Committee, the May Committee on National Expenditure [**13**], and the Royal Commission on Unemployment Insurance [**7**].

some £200 million of gold and foreign credits to support the sterling exchange rate; but the outflow continued and the United Kingdom was forced off the gold standard in September.

There is no doubt that the extent of the flight from sterling took the authorities by surprise. But, at the time, only the Macmillan Committee's estimates offered an indication of how serious the crisis might turn out to be. Indeed, the general state of ignorance is well evidenced by an internal memorandum produced in the Bank's Statistical Section in September 1931:

> We estimate an adverse balance on Income [*i.e.* current] account for the year 1931 of £70 to 80 millions in Gold values. . . .
>
> In view of the enormous Capital movements taking place this year, an estimate based purely on Income items may, at first sight, seem of little use. Efforts are being made to estimate the more important Capital movements but information is not at present sufficiently up to date to justify even the broadest hint at a figure.

1932-38

The Macmillan Committee made a number of recommendations on the improvement of the available balance of payments statistics. Of those taken up, the suggestion that a regular and comprehensive review should be made of the short-term financial position was the most significant. The Bank started collecting these figures from about the end of 1932 (see Section 2·9) and although initially accuracy was probably not high, the series proved a welcome aid in policy making.

There were few subsequent improvements in balance of payments statistics between 1932 and 1939. This was not because the current account position improved dramatically. Indeed it appears to have remained in deficit, 1935 apart, with invisible earnings suffering, in particular, from the depression of world trade, from low commodity prices (which reduced the profits of U.K. companies trading abroad) and from the default of a number of foreign debtors.

Nevertheless, the freedom given by a flexible exchange rate reduced the impact of external conditions on domestic policy and, therefore, concern with the balance of payments position. Capital inflows in various forms relieved the pressure on sterling which the current account deficit would otherwise have caused. A large amount of private capital seems to have been repatriated over this period, with demand even for investments on Wall Street – previously the most attractive foreign market for U.K. capital – subdued for several years after 1931. The strain imposed on the exchanges by foreign lending was also reduced, partly because there were fewer credit-worthy borrowers and partly as a result of the increasingly tight regulation of new loans. In some years the value of sinking funds on, and repayment of, existing foreign loans held by U.K. residents exceeded the total of new loans raised.

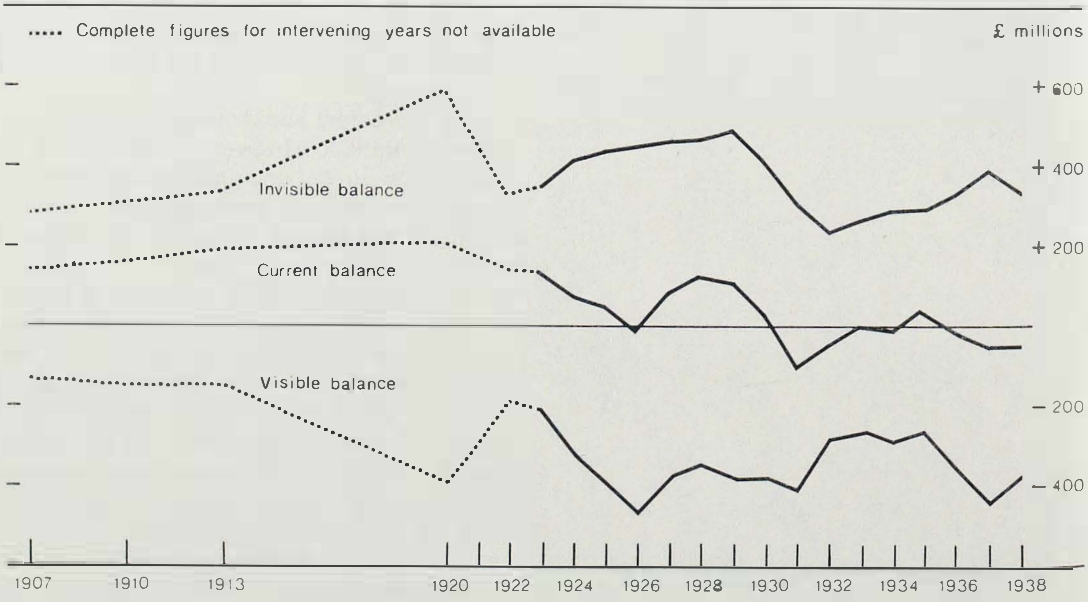
Also, after the initial shock and rapid depreciation of sterling against the dollar, a good deal of foreign money apparently returned to London. Countries which had by this time moved on to a sterling standard (these included most of the Empire) had an incentive to maintain sterling balances and, as confidence in the major continental currencies weakened, foreign funds sought refuge in sterling.

As a result of these various inflows, the country's net gold and foreign currency reserves rose by an unprecedented amount – some £700 million at market prices between 1932 and 1937. However, contemporary observers recognised that this was the result of a number of factors which could easily be undermined if confidence in sterling were to be shaken. The validity of this argument was demonstrated in 1938 when, with the threat of war, the reserves fell by over £200 million. There could be no question of returning to the gold standard under these conditions.

Summary

The main conclusion to emerge from the material presented above and in Section 2 is fairly clear. Although considerable improvements were effected over time, the collection of balance of payments statistics in the inter-war period could never be described as 'adequate', in the sense we would use that term today. As it is hoped to show in a later article, economic historians still face problems in interpreting the facts discussed here which are nearly as great as confronted contemporary policy makers.

Contemporary estimates by the Board of Trade of the balance on current account 1907–38



Source: figures for 1907, 1910, 1913 and 1920 Table C lines 1(a), 7(a), 8(a); figures for 1922-38 Table C lines 1(b), 7(b), 8(b).

Even if the current account statistics for the period are accepted as being roughly correct (a considerable assumption) the almost total lack of information about capital movements leaves a very unbalanced picture. This point is demonstrated in the chart. Up to 1930, the current account seems generally to have been in surplus, and yet the maintenance of external equilibrium was an almost constant problem, which impinged on domestic policies. From 1932 onwards, however, although the current account was apparently in slight deficit, it became markedly less difficult to maintain external balance. It was just those items in the balance of payments for which, even today, very little reliable information is available which were crucial for short-term policy decisions in the monetary field. Unfortunately, many of the gaps in our knowledge cannot be filled; too little source material exists for such work to succeed.

Section 2

Items in the balance of payments – contemporary sources and methods

The description of each component of the balance of payments is divided into two:

A lists the items covered.

B discusses the method and accuracy of estimation.

---

1 *The visible trade balance (excluding gold)*[1]

A Imports c.i.f. (*i.e.* cost, insurance and freight).
Exports f.o.b. (*i.e.* free on board).

B In contrast with current practice imports were recorded c.i.f. rather than f.o.b. This resulted in the foreign exchange cost of imports being overstated – because part of the import value recorded was in fact the result of services provided by U.K. shipping and insurance. Conversely, the foreign exchange earnings of U.K. shipping and insurance were overstated in the current account estimates, because they included payments by U.K. importers.[2]

The current account as a whole was unaffected by this approach and, in other respects, the total estimates for visible trade were probably fairly accurate. Recording errors apart, there was no reason, until the late 1920s, for goods to be valued incorrectly. The existence from then on of widespread tariff barriers may have encouraged false recording, and so adversely affected the accuracy of the figures; but it is impossible to say how important this may have been.

2 *Net government payments and receipts*

A All current and capital items on government account including:[3]
Payment of war debts and receipt of reparations (both interest and capital).
Admiralty and War Office expenditure abroad.

B The size of this item was known with a fair degree of certainty throughout the period, but it was not shown separately until the Board of Trade's 1926 article.

---

1 For the treatment of gold see Table C, footnote (*f*).
2 A further small difference between practice then and now is that imports and exports before 1939 were recorded at the time when it was estimated that payment was made; but they are now recorded at the time declaration is made for customs purposes.
3 These would now be recorded as "official long-term capital".

3 *Net national shipping income*

A Gross earnings by U.K. shipping on all but purely domestic routes,[1] minus U.K. payments to foreign shipping.

Bunkering and stores bought in the United Kingdom, and U.K. port dues paid for by foreign ships, less similar costs borne abroad by U.K. vessels.

B Early in 1921, the B.O.T. published two estimates (arrived at by independent methods) of net national shipping income in 1913 and 1920[**2**]. The difference between the two figures for 1920 was some £30 million (a little under 10% of the total involved) and an average of the two was included in the current account for that year.

Estimates for subsequent years were compiled by reference to changes over the previous year in freight rates and the volume of traffic. This procedure created the possibility of a cumulative error, and there was also the problem that the various freight-rate indices available did not always move in the same way. However, periodic checks were carried out to ensure that the figures were 'of the right order of magnitude'. One such survey was made by the B.O.T. for its evidence to the Trade Figures Committee in 1926. Independent surveys were also carried out in 1931 and 1936 by the Chamber of Shipping and the Liverpool Steam Ship Owners' Association.[2]

The Bank also calculated the net value of this item – independently of the B.O.T. It is not clear when this separate calculation began; but in a brief prepared in September 1931 by the Bank's Statistical Section, a comparison was made for 1924-30 between the Bank and the B.O.T. series, which broadly agreed over that period. This, in conjunction with the surveys noted above, suggests that contemporary B.O.T. estimates for this item of the current account can be accepted with some degree of confidence.

4 *Net income from overseas investment*

A Interest and dividends due to U.K. holders of investments overseas, minus similar receipts by non-residents on their holdings in this country.

That part of the undistributed profits of British companies operating overseas which was transferred (into sterling) to boost company reserves in the United Kingdom, minus similar profits made by foreign companies operating in this country.[3]

Government receipts and payments, both capital and current, before this item was shown separately.

B In every year except 1920 in the period under consideration, income from investment overseas provided the largest net credit to the current account. The method of estimating this very important item, however, left much to be

---

1 See Section 2·1 above for a discussion of this method of recording.
2 This was the first example of an industry establishing a regular survey of overseas receipts and payments, at the request of the B.O.T.
3 The rest of the undistributed profits was effectively ignored; had capital account estimates been published (see Section 2·8 below), they would have been included as capital receipts subsequently reinvested. Present balance of payments practice is to regard all profits as income (*i.e.* a current account receipt) and ploughed-back profits, as before, as capital reinvestment.

desired, especially before 1930. The freedom allowed to the movement of capital before 1914 and during the inter-war period meant that, in the absence of voluntary surveys, no obvious machinery existed through which the information required could be obtained.

Until 1928, the B.O.T. had very little source material from which to derive annual estimates. Sir George Paish had published some limited research, in 1909 and 1911, on the total value of and income from investments abroad [**16**]. But, as the Trade Figures Committee noted in 1926, his work "was by no means free from many elements of doubt"; there was the additional problem of revising it to take account of items such as the capital movements which occurred during the First World War. Tax returns provided some help in updating Paish's work; but these returns inevitably covered the recent past rather than the present and were based on a definition of income for tax, rather than national accounting, purposes.

Despite these known inadequacies and the fact that until the 1926 Trade Figures Committee's Report there appears to have been no real attempt to estimate the debits in this category, the B.O.T. and outside observers throughout the 1920s regarded the figures entered in the current account for this item as being a conservative statement of the true surplus. The evidence available to the Trade Figures Committee supported this view and a subsequent enquiry by Sir Robert Kindersley, in 1928, gave further weight to the argument [**17**].

Kindersley's contribution was based on a private survey which estimated the gross income from British owned capital invested abroad excluding:

(1) shareholdings in financial trusts investing money abroad;[1]

(2) certain private receipts; *inter alia* those of private U.K. companies operating abroad and those from holdings of real estate etc.;

(3) receipts from holdings by U.K. residents of securities of foreign companies and governments not officially dealt in on U.K. markets; and

(4) some U.K. companies who operated both at home and abroad.

Largely because of problems of identification, therefore, Kindersley's survey did not count a considerable amount of the income from overseas investment. Even so, his preliminary figures for the gross income (which he put at nearly £300 million) slightly exceeded the Board of Trade's estimate for net income in the same period. Because it was felt that the credits which Kindersley had not counted at least equalled the gross debits on this item, the official estimates for each year from 1926 onwards were raised by £15 million in the 1929 *Journal* article. The justification for this change appeared even stronger during the course of 1929, because Kindersley's detailed estimates for 1926-27 supported his

---

1 This was done to avoid 'double-counting'.

preliminary results [**11**]: and the 1930 B.O.T. article included a further upward revision of £20 million a year.

However, *The Economist* conducted its own private survey, for 1928, of the United Kingdom's overseas investments, which suggested a rather more pessimistic estimate of the resulting income than Kindersley's (see Table A below) [**4**]. The latter's next survey (published in September 1931 and relating to 1929) was also more pessimistic, identifying a gross income of only £212 million. To this Kindersley felt at least £19 million could safely be added for unidentified credits; but even so, this total was some £60-70 million below his figure for 1927. There was no evidence to suggest that world trading and investment conditions had worsened markedly between 1927 and 1929 and the implication, given *The Economist's* independent survey, was that his initial estimate for 1926-27 had been too high.

It is not possible to compare *The Economist* and Kindersley surveys for the same year but the table below gives an idea, for two years where conditions overseas were roughly comparable, of which credits were being measured, which guessed and which left unquantified:

Table A

£ millions

Source of income	Economist's estimate for 1928 (published November 1930)	Kindersley's estimate for 1929 (published September 1931)
1 U.K. holdings of foreign and colonial governments' and local corporations' stocks	61·7 (figure provided by Kindersley)	64·7
2 Interest and dividends from U.K holdings of shares in companies registered in this country but operating wholly abroad	65·3	86
3 Interest and dividends from U.K. holdings of foreign and colonial companies' stocks and shares	56·7	61·7
4 Income from other private assets (including real estate)[a]	at most 70	not estimated
5 Undistributed profits in sterling of U.K. companies operating abroad, head office expenses etc.[b]	not estimated	not estimated
Total of gross income from overseas investments	at most 254	212 plus at least 19 for unidentified credits

a *The Economist* put the capital in this category at £700 million and the rate of return at 10% at the most. In judging whether such a high figure could have been achieved, it may be noted that the rate of return on capital from sources 2 and 3 in Kindersley's study of 1929 was only 7·3%. Kindersley's later surveys provided very tentative estimates for this category in the mid-1930s (but, by this time, the amount of capital involved had probably been greatly reduced); these suggested an income then varying between £15 million and £25 million a year.

b The only part of this item which was measured at all before 1939 – head office expenses in the United Kingdom – was put by Kindersley at £6 million in 1938.

The B.O.T. reacted cautiously and perhaps inadequately to this additional information. What revisions were made had not been completed before the 1931 crisis (see Table B below).

Table B

Official and private estimates for income from investment overseas in the years 1928-29

£ millions

Estimate by	Estimate for:[a] 1928	1929
Board of Trade: net income	285 (Feb. 1929) 285 (Mar. 1930) 270 (Feb. 1931)[b]	285 (Mar. 1930) 270 (Feb. 1931) 250 (Feb. 1932)
Economist: identified credits only	at most 254 (Oct. 1930)	. .
Kindersley: identified credits only	. .	at least 231 (Sept. 1931)

. . not available.

a The date of publication is shown in brackets.

b This estimate was published in the *Board of Trade Journal* and in later issues of the *Statistical Abstract* [1], it was brought down to £250 million.

An additional feature of the work by Kindersley and *The Economist,* which largely escaped notice at the time, was the indication it gave of how the timing, or indeed the size, of the cash inflow of income across the exchanges may have varied from the current account entries, even assuming these entries to have been correct. The Board of Trade's normal practice, then as now, was to record income when it was earned. But, of course, because of what we would now know as 'leading and lagging' there was a good deal of freedom as to when (or whether) the income was brought into the United Kingdom.

Though this was true for all the components of the current account, the detail of the private surveys on overseas investment made it possible to estimate roughly the importance of 'leading and lagging' for this one item. All the income from source 1 and almost all from source 2 in Table A was apparently payable only in the United Kingdom. For the rest, greater freedom of movement was possible. Some of the income may have been reinvested in the country of origin; while payment of income from source 3 was often possible in any one of a number of financial centres. This last fact made it possible for some U.K. residents to receive dividends and maintain balances in Paris or New York. The sums liable to 'leading and lagging' on this one item may, therefore, have been considerable. For example, only about £150 million can be taken from Kindersley's figures for 1929 as definitely payable solely in London, out of an identified total of £212 million.

After the downward revisions made by the B.O.T. between 1930 and 1932, little additional information became available. Kindersley's annual surveys continued and, as these developed, a couple of new credit items were tentatively estimated for the first time [see footnotes (*a*) and (*b*) of

Table A]. By comparison with the 1920s, the coverage of this category was now fairly extensive. As the Bank's Statistical Section commented in 1936, "The figures published by the Board of Trade are therefore subject to a margin of error, but the year to year movement is probably fairly reliable".

5 *Net short interest and commissions*

A Commission on acceptance credits, brokerage and merchanting transactions

Discount on foreign bills

Short interest (*i.e.* interest on banks' short-term deposits and liabilities)

Commissions, stamp duty and expenses on new issues paid by overseas borrowers

Insurance remittances from abroad

Earnings on exchange transactions.

B In 1903, Sir Robert Giffen valued the commissions earned by bankers, brokers, etc. at £20 million a year after making a number of crude assumptions [**6**]. Using this as a starting point, for want of a better, the B.O.T. put the net figure for this item in 1920 at £40 million on the argument that, "although some business had been lost during the war, what remained was transacted on a higher level of prices". Earnings for subsequent years were estimated by judging how much better/worse business had been than in the previous year – an approach which, of course, created the possibility of a cumulative error.

The Trade Figures Committee's own estimate in 1926 was rather more closely reasoned and £60 million was suggested as "a more probable minimum". The Board of Trade's figure for 1925 was therefore raised from £40 million to £60 million and entries for the years up to 1930 remained of this order.

However, an internal Bank memorandum of September 1931, using figuring independent of the B.O.T. methods, suggested that the net credit was being overstated, a comment which by then may well have been valid for some time. Late in 1934 this opinion was repeated more strongly (the overstatement being put at £15 million a year) and a committee was tentatively suggested to review the problem. It is not clear if anything came of this suggestion but the published estimates for this item were certainly not lowered.

6 *Net miscellaneous receipts*

A Tourism

Sales and purchases of second-hand ships

Film royalties

Remittances by emigrants and migrants

Other (miscellaneous).

B The Trade Figures Committee saw no reason to disagree with the sum of the entries made by the B.O.T. for these items; but the entries were described in 1932 by a retired B.O.T. official as purely conventional. Only for second-hand shipping and tourism (after 1932-33) was any serious attempt made to estimate accurately the sums involved. More typically, the figure for emigrants' remittances, at least in the early B.O.T. articles, was based on a survey carried out (apparently) in the late 1870s.

As with "short interest and commissions" the Bank took the view during the 1930s that the small net credit of £10-15 million a year traditionally ascribed to this item was an optimistic interpretation of the few statistics available.

7 *New overseas issues in the London market*

A The total of new issues made by foreigners in the London market net of sinking fund payments on, and repayments of, outstanding issues.

B Throughout the period, several non-official series of the total of new loans being raised were compiled. The most widely used of these was produced by the Midland Bank which covered all new loans except those for the purpose of converting or refunding existing issues [see Table D footnote (*b*)].[1] From 1927 a rather more useful set of figures was compiled by Kindersley from the same source as his estimates for income from investments overseas. He adjusted the Midland series to make allowance for subscriptions to new loans by non-U.K. residents [see Table D footnote (*c*)]. By also including conversion and refunding issues and estimating (as an offsetting capital credit which had not previously been estimated) sinking funds on and repayments of existing loans, Kindersley's figures gave a much closer idea of the true balance of payments cost of these loans.

The Macmillan Committee recommended that the figures collected by Kindersley should "be regularly and precisely ascertained from the banks and issuing houses concerned [and that] the net proceeds to the borrower of new foreign issues currently made in London should be supplied in every case by the issuing houses". However, this recommendation was not followed up and it is therefore impossible to gauge the scope or accuracy of Kindersley's statistics.

8 *Change in other long-term private investment abroad*

A Changes in the value of U.K. investment overseas other than that covered in 7.

B Kindersley's surveys from 1930 on also provided a very tentative estimate for annual changes in the nominal value of capital involved in this item. The assets covered were a heterogeneous collection, ranging, for example, from security investments on Wall Street (for which, after 1935, there were at least some official American estimates) to purchases of real estate in the Empire.

Kindersley's figures do not appear to have been used in official commentaries on the external position but they have

---

1 From March 1928 onwards, the Bank published their own series in the *Summary of Statistics* but, although rather more comprehensive, the series seems to have been little used.

Table C

Contemporary 'current account' estimates published by the Board of Trade for the period 1907-38[a]

The first set of estimates for the current account was published in the *Board of Trade Journal* in March 1923. This covered 1920 and 1922 and gave very tentative figures for 1907, 1910 and 1913 for comparison. Thereafter, the Board of Trade published an annual article, between January and March, giving estimates for the previous year and revisions to the two years before that. Subsequent changes were recorded in the annual *Statistical Abstract* [1].

Two rows of figures are shown for each item in the 'current account' in this table; (i) is the first estimate published for each year, while (ii) shows the final figure produced in the period. Ditto marks in (ii) indicate no revision from the original estimate.

£ millions

		1907	1910	1913	1920	1922	1923	1924	1925
1 Visible trade balance excluding gold[d,e,f]	(i)	−136	−153	−145	−385	−180	−216	−355	−396
	(ii)					−181	−208	−338	−392
2 Net government payments −/receipts +[g,h]	(i)								− 15
	(ii)						− 25	− 25	− 11
3 Net national shipping income	(i)	+ 85	+ 90	+ 94	+340	+110	+110	+130	+124
	(ii)					"	+133	+140	"
4 Net income from overseas investment	(i)	+160	+187	+210	+200	+175	+150	+185	+250
	(ii)					"	+200[i]	+225[j]	"
5 Net short interest and commissions	(i)	+ 25	+ 25	+ 25	+ 40	+ 30	+ 30	+ 40	+ 40
	(ii)					"	"	+ 60	+ 60
6 Net miscellaneous receipts	(i)	+ 10	+ 10	+ 10	+ 15	+ 10	+ 10	+ 15	+ 15
	(ii)					"	"	"	"
7 Balance of invisible exports (2 to 6 inclusive)	(i)	+280	+312	+339	+595	+325	+300	+370	+414
	(ii)					"	+348	+410	+438
8 Balance on current account excluding gold (1+7)	(i)	**+144**	**+159**	**+194**	**+210**	**+145**	**+ 84**	**+ 15**	**+ 18**
	(ii)					**+144**	**+140**	**+ 72**	**+ 46**
9 *Excess of gold exports/imports over imports +/ over exports −*	(i) (ii)	*− 6*	*− 6*	*− 13*	*+ 42*	*+ 10*	*+ 13*	*+ 14*	*+ 8*

— nil or less than £½ million.

a The term 'current account' was not used during this period. Up to and including the 1926 article, it was known as the "income available for investment overseas" and, thereafter, rather more cautiously as the "estimated total credit or debit balance on items specified above".

b The figures for 1934-35 contain silver transactions which may properly be regarded as capital items. If they are treated as such, the visible trade balance becomes −285 for 1934 and −276 for 1935 and the current balance +9 in 1934 and +22 in 1935. (Source: internal Bank memorandum.)

c Alterations to the partially revised figures for 1937, shown in brackets in (ii), and the initial estimates for 1938 were not published because of the outbreak of war.

1926	1927	1928	1929	1930	1931	1932	1933	1934 *b*	1935 *b*	1936	1937 *c*	1938 *c*
−466	−389	−352	−381	−387	−411	−289	−264	−295	−261	−347	−443	−377
−464	−387	−351	,,	−386	−408	−287	−263	−294	,,	−345	(−442)	
—	—	+ 13	+ 22	+ 21	+ 16	− 25	—	+ 9	− 2	− 2	− 4	− 13
+ 4	+ 1	+ 15	+ 24	+ 19	+ 14	− 24	− 2	+ 7	,,	− 3	(,,)	
+120	+140	+130	+130	+105	+ 80	+ 70	+ 65	+ 70	+ 75	+ 95	+130	+100
,,	,,	,,	,,	,,	,,	,,	,,	,,	+ 70	+ 85	,,	
+270	+270	+285	+285	+235	+165	+140	+155	+175	+185	+195	+220	+200
+250	+250	+250	+250	+220	+170	+150	+160	+170	,,	+200	(+210)	
+ 60	+ 63	+ 65	+ 65	+ 55	+ 30	+ 30	+ 30	+ 30	+ 30	+ 30	+ 35	+ 35
,,	,,	,,	,,	,,	,,	+ 25	,,	,,	,,	+ 35	(+ 40)	
+ 15	+ 15	+ 15	+ 15	+ 15	+ 10	+ 15	+ 10	+ 10	+ 10	+ 10	+ 10	—
,,	,,	,,	,,	,,	,,	,,	,,	,,	,,	,,	(,,)	
+465	+488	+508	+517	+431	+301	+230	+260	+294	+298	+328	+391	+322
+449	+469	+475	+484	+414	+304	+236	+263	+287	+293	+327	(+386)	
− 1	**+ 99**	**+156**	**+136**	**+ 44**	**−110**	**− 59**	**− 4**	**− 1**	**+ 37**	**− 19**	**− 52**	**− 55**
− 15	**+ 82**	**+123**	**+103**	**+ 28**	**−104**	**− 51**	**—**	**− 7**	**+ 32**	**− 18**	**(− 56)**	
− 11	*− 3*	*+ 13*	*+ 15*	*− 5*	*+ 35*	*− 15*	*−196*	*−134*	*− 70*	*−228*	*− 80*	*+ 70*

d Imports – cost, insurance and freight. Exports – free on board.

e There are small discontinuities in 1923 and 1938 in the coverage of the visible trade balance. The more significant of these, in 1923, resulted from the creation of the Irish Free State.

f Up to 1932, the Board of Trade included gold movements in the visible trade balance and, consequently, in the current account. From 1932 on, they were excluded – the practice adopted for the whole period in this article – on the grounds that they were often related to capital, rather than current, account transactions.

g Both current and capital items were included.

h Included before the 1926 article in "net income from overseas investment".

j 25 of this revision results from the change in the treatment of "net government payments/receipts", (see *h* above).

Table D

Contemporary published estimates of items outside the 'current account' for the period 1907-38[a]

£ millions

	1907	1910	1913	1920	1922	1923	1924	1925
1 New overseas issues in the London market:								
(a) Midland Bank series[b]	−91	−207	−198	−53	−135	−136	−134	−88
(b) Kindersley series[c]								
2 Sinking funds on and repayment of outstanding overseas issues[e]								
3 Change in other long-term private investment abroad (increase −)[f]								
4 Change in net external short-term liabilities (increase +)[g]								
5 Change in the level of the Bank's gold reserves (increase −)[h]	−2	+1	−5	−37	+1	−1	—	−16

— nil or less than £½ million.

a Estimates for 1a and 4 were also published for the years not shown in this table.

b The nominal value of new overseas issues raised in the United Kingdom excluding issues for the purpose of conversion and refunding. Source: *Midland Bank Review*.

c This is the Midland Bank series adjusted by Kindersley to include conversion and refunding issues. Allowance was also made for the purchase of these new loans by non-residents. This was done by assuming that the percentage of new loans taken up by non-residents equalled their share (which could be estimated from tax data) of existing loans. Source: annual articles by Kindersley in the *Economic Journal* 1929-38.

d Separate estimates not given by Kindersley.

1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
−112	−139	−143	−94	−109	− 46	− 29	− 38	− 43	− 21	− 26	− 32	− 25
	−134[d]	−108[d]	−95	− 98	− 41	− 37	− 83	− 63	− 51	− 61	− 60	− 29
			+48	+ 39	+ 27	+ 48	+ 67	+ 42	+ 81	+107	+ 61	+ 39
				—	+ 10	+ 5	+ 5	− 20	− 50	− 50	—	—
		+ 75	−59	− 11	Known to Bank but not published until 1951							
− 7	− 1	− 2	+ 8	− 2	+ 27	+ 1	− 71	− 1	− 8	−114	− 13	—

e Kindersley's estimates. Source: as for line 1b.
f Source: as for line 1b.
g Source: for 1928-30, the Macmillan Committee's Report.
h Source: the weekly Bank Return. Changes in the Bank's holdings of foreign currency and in official assistance are excluded. The valuation of the gold is that adopted by the Bank namely £3·89½ (approximately) per standard ounce; this differed markedly from the market price for most of the period in which the United Kingdom was off the gold standard. The only information published on other official holdings of gold and foreign currency (those of the Treasury up to 1932 and of the Exchange Equalisation Account thereafter) were for the account's gold stocks. As only end-March and end-September figures (for the period March 1937 – March 1939) were given, they are not shown here.

been included in contemporary and subsequent private studies [8].

9 *Net external short-term liabilities*

A U.K. external short-term liabilities and assets.

B Despite the intermittent and often heavy pressure upon sterling after the First World War, no statistics for this very important and volatile item were collected until the Macmillan Committee's investigation. The resulting figures, compiled by the Bank and published in Appendix I of the committee's report in June 1931, were taken from returns made by selected offices of the London clearing and the Scottish banks, and from a number of other banks and accepting houses. It is clear that the statistics were incomplete; they covered only "deposits and sterling bills held in London on foreign account and sterling bills accepted on foreign account". On the liabilities side, the most important omission was the holdings of sterling bills by foreign institutions in their own portfolios. The most significant assets missed were short-term U.K. deposits held abroad.[1]

Following the committee's recommendations, the Bank started to collect these figures regularly from about the end of 1932, though they were not published until 1951. Passing references in such of the Bank's files as remain from this period suggest that the accuracy of reporting, in the early returns at least, left a good deal to be desired.

10 *The reserves*

A Changes in official holdings of gold and foreign currencies and of assistance given by and extended to this country.

B Very little was published on this item in the period up to 1939 although, of course, the details were available to the authorities. The weekly Bank Returns showed the Issue and Banking Departments' holdings of gold. But, as no information on the Bank's foreign currency reserves or on what we would now call official assistance[2] was published to supplement them, they were of limited value to the public.[3]

The position was further complicated by the fact that, throughout the inter-war period, the Bank were not the sole official holders of reserves. Up to 1932 the Treasury held a certain amount of foreign exchange, details of which were not disclosed to the public. From 1932 onwards, the Exchange Equalisation Account contained a significant quantity of gold and small working balances of foreign currency. Published information on the E.E.A. was limited, up to 1939, to the balance at end-March and end-September for the period March 1937 – March 1939.

---

1 The effect of the various omissions is discussed, in relation to the 1931 crisis, in Section 1.

2 The opening of lines of assistance was sometimes publicised – *e.g.* the £130 million advanced by Paris and New York in 1931. However, the actual use made of such credits (and of assistance given by the Bank) was not made public.

3 There was also a valuation problem which is discussed in footnote (*h*) to Table D.

References

1 **Board of Trade** *Statistical Abstract for the United Kingdom 1924 to 1938* Cmd. 6232 July 1940 page 434; see also earlier annual publications in this series

2 **Board of Trade Journal** "Shipping earnings and the balance of trade" 3rd February 1921 pages 115-17. Subsequent annual articles were published beginning in 1923; see footnote on page 346

3 **Clay, Sir Henry** *Lord Norman* London: Macmillan, 1957 pages 134-71 and 218-71

4 **Economist, The** "British capital abroad – III" 1st November 1930 pages 799-801

5 **Feinstein, C.H.** *National income expenditure and output of the United Kingdom 1855-1965* Cambridge: University Press, 1972 pages 85-8 and 110-27

6 **Giffen, Sir Robert** "The present economic conditions and outlook for the United Kingdom" *Economic Inquiries and Studies* Volume II, 1904 pages 405-30

7 **Home Department, Secretary of State for the** *First Report of the Royal Commission on Unemployment Insurance* Cmd. 3872, 1931

8 **International Affairs, The Royal Institute of** a report by a study group of members *The problem of international investment* London: R.I.I.A., 1937 (for example)

9 **Keynes, J.M.** "The British Balance of Trade, 1925-27" *Economic Journal* Volume XXXVII, December 1927 pages 551-65

10 **Keynes, J.M.** "Reflections on the Sterling Exchange" *Lloyds Bank Review* April 1932 pages 143-59

11 **Kindersley, Sir Robert** "A new study of British foreign investments" *Economic Journal* Volume XXXIX, March 1929 pages 8-24; see also subsequent annual articles up to 1939

12 **Macmillan Committee** *Report of the Committee on Finance and Industry* Cmd. 3897, June 1931

13 **May Committee** *Committee on National Expenditure Report* Cmd. 3920, 1931

14 **Moggridge, D.E.** *British monetary policy 1924-31* Cambridge: University Press, 1972

15 **Morgan, E.V.** *Studies in British financial policy 1914-25* London: Macmillan, 1952 pages 303-67

16 **Paish, Sir George** "Great Britain's Capital Investments in Other Lands" *Journal of the Royal Statistical Society* Volume LXXII, September 1909 pages 465-80: see also "Great Britain's Capital Investments in Individual Colonial and Foreign Countries: with discussion" *Journal of the Royal Statistical Society* Volume LXXIV, January 1911 pages 167-87

17 **Times, The** "New light on savings – Sir R. Kindersley's calculations" 9th May 1928 page 22

18 **Trade Figures Committee** Report of 28th April 1926 unpublished but may be found in the Public Records Office (reference T.160/244/F9390)