

The United Kingdom's invisible account 1962-72

The United Kingdom has earned a surplus on its invisible transactions with the rest of the world as far back as the records go (apart from one brief interruption just after the Second World War). The significance of this surplus in recent years can be judged from the current account balance. In only two years of the last ten were surpluses earned on visible trade; yet, thanks to the invisible surplus, the current account as a whole – which is the most commonly accepted measure of the country's ability to 'pay its way' – was in surplus in six of them.

In the first part of this period the net invisible surplus tended to decline: though invisible receipts grew fairly steadily, invisible payments more than kept pace. After 1966, however, receipts outstripped payments and the surplus increased nearly five-fold, decisively reversing the decline. The improvement was particularly marked until 1969; growth then began to slow down, and last year, for the first time since 1966, the surplus fell.

Table A
Total U.K. invisibles

£ millions

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Receipts	2,375	2,482	2,646	2,871	2,953	3,239	3,803	4,300	4,910	5,430	5,851
Payments	2,151	2,278	2,509	2,683	2,796	2,997	3,426	3,713	4,234	4,696	5,141
Invisible surplus	224	204	137	188	157	242	377	587	676	734	710

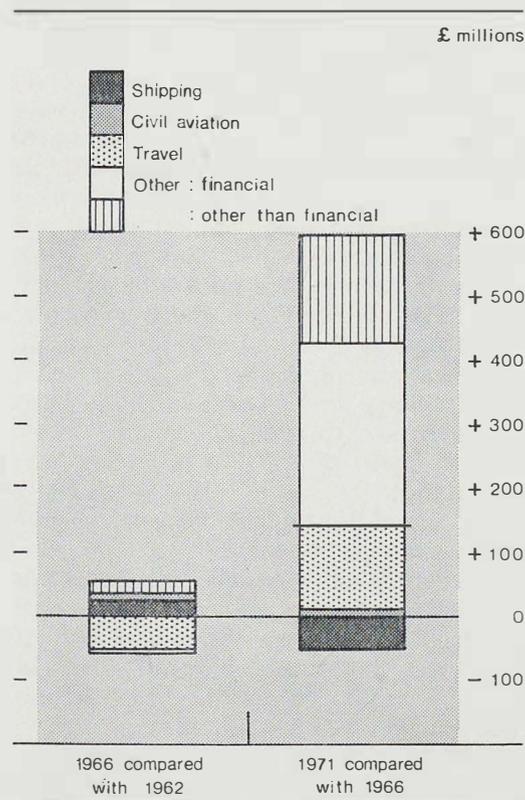
This article looks at the growth of earnings over the ten-year period. In particular, it examines the fast growth in invisible earnings since 1966, and then considers why earnings have risen more slowly since 1970 and whether this slower rate of increase is likely to continue. The analysis is in two parts: first by type of earnings; and secondly, and much more tentatively, according to the geographical distribution of earnings. Finally, the United Kingdom's recent performance is reviewed briefly in the context of world invisible trade.

The turnaround in the invisible surplus

Between 1962 and 1966 the invisible surplus declined by about £70 million; but between 1966 and 1971 it increased by nearly £600 million. Comparing the main categories of transactions in these two periods, it is clear that, while most of them moved in the United Kingdom's favour, by far the greater part of the turnaround was accounted for by the surplus earned on private services.

The improvement of nearly £550 million in private services between 1966 and 1971 was unprecedented. It was con-

Net changes in invisible earnings from private services



centrated in the travel account, which improved by about £130 million, and in "other private services", which improved by as much as £450 million. Almost two thirds of the increase for other private services was accounted for by financial and allied services.

Table B

Net changes in invisible transactions by major category 1962-66 and 1966-71

£ millions	1966 compared with 1962	1971 compared with 1966
Increased receipts/decreased payments +		
Decreased receipts/increased payments -		
Government services and transfers	-110	- 60
Interest, profits and dividends:		
Private	+ 66	+121
Official	- 13	- 40
Private services	+ 22	+548
Private transfers	- 32	+ 8
Change in invisible surplus	- 67	+577

The reasons for the turnaround

This radical improvement is sometimes attributed almost exclusively to the devaluation of sterling in November 1967. Devaluation, however, although undoubtedly important, was by no means wholly responsible. Private services were already improving at that time, and some forms of invisible earnings which are believed to be fairly insensitive to price changes, notably insurance, grew rapidly not only immediately afterwards but also for several more years.

Apart from devaluation, the main reasons for the transformation of the private services account within so short a space of time were the growing popularity of the United Kingdom with foreign visitors at a time when the expenditure of British travellers abroad was constrained; a dramatic change in the fortunes of the insurance industry; the faster development of London as an international banking centre; and the development of new, or comparatively new, sources of earnings such as consultancy, management and agency services, and telecommunications services.

Devaluation

To estimate how far the improvement in the invisible account after 1966 was due to devaluation involves comparing actual performance with what performance might have been if devaluation had not taken place. For most categories of invisibles such a comparison can only be tentative. However, estimates have been made, and these suggest that perhaps one quarter (say, £120-130 million) of the net improvement up to 1970 was a result, direct or indirect, of devaluation, much of it coming through fairly quickly; beyond 1970 the effects of devaluation are thought to be negligible. Although there were effects on both the price and volume of invisible transactions, the former were by far the more pronounced. In some cases the initial 'automatic' increase in the sterling value of transactions invoiced

in foreign currencies gave scope for price reductions, but in general higher sterling values were maintained and receipts or payments increased accordingly. The automatic effect was most marked with receipts of interest, profits and dividends and with insurance earnings.

The subsequent effects on the volume of transactions were limited to a few categories and sometimes took more than a year to work through. The best example was probably tourist earnings: a reduction in the price of holidays in this country relative to those elsewhere, particularly in Western Europe, seems to have led to increases both in the numbers of foreign visitors coming here and in their average expenditure. However, even with tourism, the price effect should not be over stressed; as will be seen later, there were other reasons for the improvement. Over much of the invisible account, moreover, there was no discernible effect at all on the volume of transactions, for many categories seem to be wholly or largely insensitive to price movements.

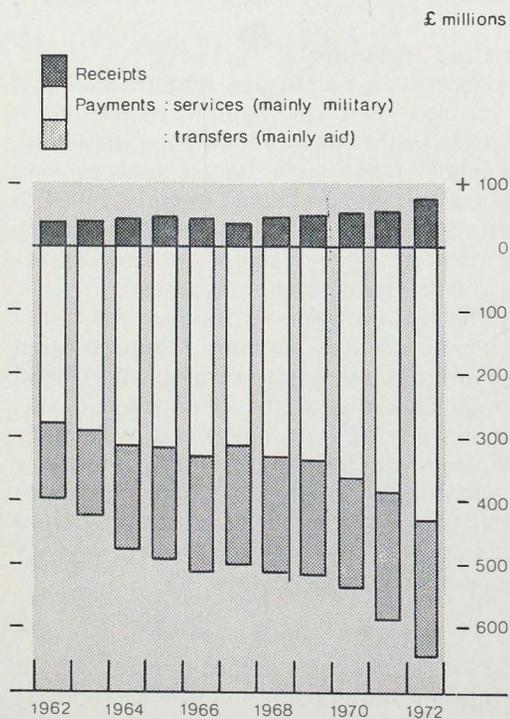
Government expenditure

Government spending abroad (which includes some spending on goods) rose fairly rapidly in total until 1966, when it was cut back in accordance with the policy of restraining aggregate demand and improving the balance of payments. Military spending, which accounts for the greater part of the cost of official services, increased at an average annual rate of about 4% until it reached a peak in 1966. During this period there was a build up of British forces in Western Europe under the North Atlantic Treaty Organisation. Although expenditure in Europe continued to rise after 1966, albeit more slowly, the reduction of British forces in the Middle and Far East helped to hold down the total until 1969. From then onwards, military spending increased again because of higher costs resulting from the deutsche mark revaluation, increases in the forces' pay, world inflation and, since June 1972, the further depreciation of sterling. Even so, apart from pay and price increases, expenditure has declined marginally since 1966.

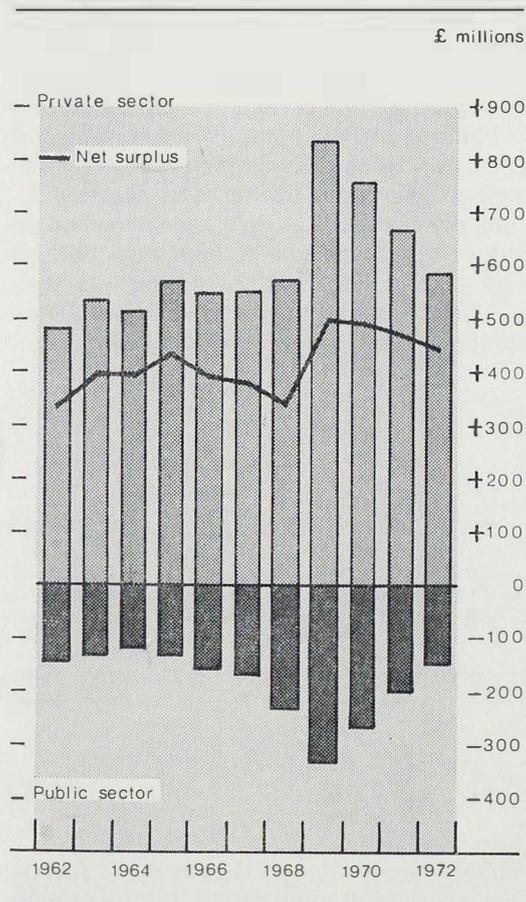
Transfer payments by the Government largely comprise economic grants to the developing Commonwealth countries; these grants increased fairly rapidly up to 1965, and then rose little further, largely because in the later years, when most of the former colonial territories had achieved independence, more aid was given in the form of loans (which are not included in the current account). Military assistance to these territories fell quite markedly from 1967 onwards. Subscriptions and contributions to international organisations, which in many cases represent an effective alternative to bilateral assistance, also rose little further after 1965 (the subscription to the International Development Association, which has increased sharply since 1968, is also not included in the current account).

In sum, the deficit on government account increased in terms of current prices by about 30% between 1962 and 1966, and then remained fairly static until 1970, increasing sharply again in 1971 and 1972. In terms of constant prices, however, government spending abroad has fallen substantially in the last few years.

Government services and transfers



Interest, profits and dividends: private sector and public sector



Interest, profits and dividends

The largest change in interest, profits and dividends was in the net income which accrues to this country from direct investment abroad. Over the ten years, the income of U.K. companies from their subsidiaries and branches abroad increased by more than two and a half times (or at an average annual rate of about 10%), even though exchange controls to limit the use of official exchange for new investment were tightened. The growth was fastest in 1968, when the effects of the devaluation of the pound, which increased the sterling value of foreign currency earnings, combined with buoyant economic conditions in several of the major developed countries to produce a rise of as much as 30%. There was also a substantial rise in 1969. On the debit side of the account, income earned in this country by the branches, subsidiaries and associates of foreign companies also rose quickly, particularly during the second half of the period; there were, however, some marked fluctuations in line with movements in the domestic economy, such as in 1966 and 1969, when the profits of companies in this country fell.

By contrast, the surplus of income from portfolio investment fell by almost two thirds up to 1971. Despite the increase in the sterling value of foreign currency receipts which followed automatically upon devaluation, receipts of interest and dividends from abroad rose more slowly than payments to overseas investors. Part of the explanation is that U.K. investors were unable to acquire foreign currency securities unless they did so with investment currency at a premium or by borrowing abroad; and 25% of the net proceeds of the sales of such assets had to be surrendered at the official rate of exchange and so was drained out of the investment currency pool.

There was little change during the period under review in the net income accruing from "other" investment, a

Table C

Interest, profits and dividends

£ millions

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Receipts:											
Direct investment ^(a)	274	330	370	400	429	438	568	650	681	694	778
Portfolio investment	134	137	143	158	153	145	164	161	171	166	166
Other ^{(a)(b)}	346	375	375	434	380	394	375	525	515	558	595
Total receipts	754	842	888	992	962	977	1,107	1,336	1,367	1,418	1,539
Payments:											
Direct investment ^(a)	134	168	203	235	204	216	329	308	345	371	457
Portfolio investment	51	63	70	78	83	85	96	100	113	136	155
Other	235	213	222	244	288	297	347	431	415	443	490
Total payments	420	444	495	557	575	598	772	839	873	950	1,102
Net earnings	+334	+398	+393	+435	+387	+379	+335	+497	+494	+468	+437

(a) Income on direct investment includes reinvested profits, which are not in fact remitted.

(b) The larger part of this item is the earnings of the oil companies and is tantamount to direct investment income.

rather misleading aggregate of very diverse items of investment on both the credit and debit sides of the account. The largest element of the credits here is the overseas

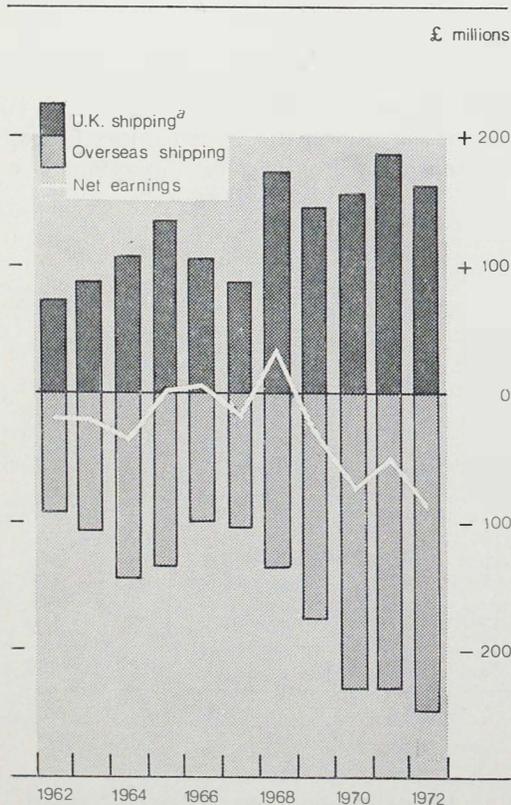
earnings of the oil companies; during the period under review these grew rather sluggishly, thanks to the successful efforts of the producer states to secure a larger share of the profits from oil production and to the inability of the oil companies to pass on their increased costs in full to their customers round the world. Among the other credit items, interest on the official reserves and on export credit expanded after 1969 as the balance of payments strengthened; and the increase in the sterling value of foreign currency receipts after devaluation helped to improve the account. Meanwhile, debits increased sharply in 1969, as interest payments on the large borrowings from overseas monetary authorities reached a peak, as sterling liabilities to overseas holders began to increase again, and as interest rates rose. They fell back in 1970 and increased more slowly thereafter.

Table D
Private services

£ millions

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Shipping	- 21	- 21	- 37	+ 1	+ 5	- 17	+ 35	- 31	- 75	- 44	- 87
Civil aviation	+ 22	+ 27	+ 27	+ 28	+ 30	+ 27	+ 29	+ 41	+ 37	+ 45	+ 62
Travel	- 27	- 53	- 71	- 97	- 78	- 38	+ 11	+ 35	+ 50	+ 52	+ 10
Other services	+266	+240	+267	+275	+305	+398	+488	+561	+690	+757	+865
Total private services	+240	+193	+186	+207	+262	+370	+563	+606	+702	+810	+850

Shipping



Private services

The growth of private services after 1966 was by no means uniform. The travel account turned round from growing deficit to satisfactory surplus, and there was a substantial improvement in the already large net surplus earned on "other services", thanks very largely to the growth in earnings of the insurance industry and the rest of the financial services sector. Elsewhere, however, changes were much less marked.

Shipping

Over the last ten years, the shipping account has generally been in modest deficit, and fluctuations in the balance have been fairly small—a slightly surprising result, perhaps, when the world shipping industry is particularly prone to periods of boom and slump. The operations of British ship-owners produce a substantial surplus; this averaged about £105 million a year before 1967 and has grown to about £170 million a year since then. On the other hand, payments by residents of this country for the use of foreign shipping (which carries a substantial part of U.K. imports) usually exceeds by a small margin the surplus earned by British ships. Since 1969 the deficit has been larger than usual. There was a sharp increase in world charter rates; and this depressed the tanker account, because the U.K. oil companies habitually charter more foreign tonnage than foreign operators charter from the United Kingdom.

^a Includes ships on charter to U.K. operators as well as ships owned by them.

Civil Aviation

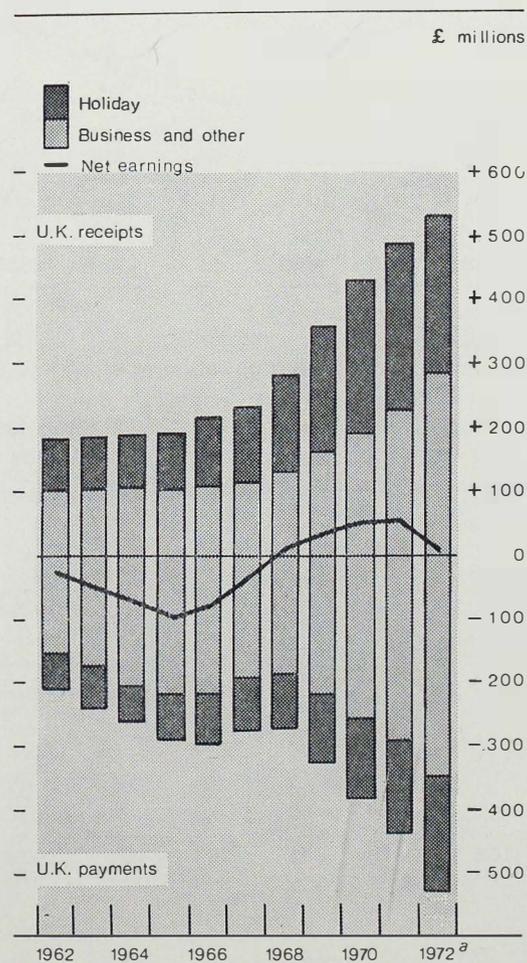
The world's airlines grew faster than most other service industries during the ten years; the civil aviation account was in constant surplus; and between 1962 and 1972 the surplus increased three-fold to some £60 million. Part of

Table E
Civil aviation
£ millions

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Net transactions											
U.K. airlines	+37	+44	+51	+55	+59	+62	+75	+94	+88	+94	+122
Overseas airlines	-15	-17	-24	-27	-29	-35	-46	-53	-51	-49	-60
	<u>+22</u>	<u>+27</u>	<u>+27</u>	<u>+28</u>	<u>+30</u>	<u>+27</u>	<u>+29</u>	<u>+41</u>	<u>+37</u>	<u>+45</u>	<u>+62</u>

the improvement in the surplus after 1968 may have been a delayed effect of devaluation, but there was also a general increase in the numbers travelling by air. The earnings of British airlines improved towards the end of the period, particularly after the jumbo jets were brought into service; in fact, much of the improvement was on the long-haul scheduled routes. Disbursements in this country by foreign airlines and in other countries by U.K. airlines have each increased rapidly in the last few years, reflecting not only the growth in traffic but also the rapid pace of inflation.

Travel



The travel account

Until 1965 expenditure abroad by British travellers increased faster than receipts from overseas visitors to this country. By 1965 the deficit on the travel account was almost £100 million. Between then and 1971, however, the trend was reversed. Expenditure by British travellers rose by about 50% while receipts from overseas visitors doubled, producing by 1971 a net surplus of just over £50 million.

The statistics suggest that the greater part of the turn-around in the travel account was due to "business and other" travel rather than to tourism, but this may be largely because of difficulties in classifying visitors to this country as accurately as British travellers abroad are classified. Just under half of the visitors coming to this country say that they are on holiday (as distinct from two thirds of British travellers going abroad),¹ but many of those from the Commonwealth and the United States combine a visit to relatives here with a holiday, though giving only the former (which is classified as "other travel") as the reason for their stay.

There were several reasons why the travel account improved after 1965. The British tourist industry mounted a campaign to promote this country as a holiday centre, and London was becoming increasingly attractive to the younger type of visitor. On the other side of the account, the numbers of holidaymakers going abroad and the amount they could spend there were held down by a credit squeeze in this country and by exchange control restrictions.

¹ The travel estimates are based primarily on sample surveys of air and sea travellers entering and leaving the United Kingdom.

^a Provisional.

After 1967, devaluation made foreign travel relatively expensive for British holidaymakers while it increased the attraction of this country for foreign visitors.

In the longer run, however, the constraints on travel abroad, particularly the limitations on what could be spent, may, perversely, have helped to increase holiday expenditure. They certainly appear to have stimulated the demand for continental package holidays, which began to grow rapidly and which by 1972 accounted for over half of all holiday visits abroad. This, combined with the easing of exchange control restrictions, has led to a very rapid growth in expenditure since 1969; and on the credit side of the account, the number of overseas visitors has fallen back in the last two years as the remaining benefits of the 1967 devaluation have worn off and as inflation has weakened this country's position as a cheap holiday centre.

Other private services

Receipts from "other private services" nearly trebled during the period under review and the surplus more than trebled. This item comprises a wide variety of services and only the

Table F
Other private services

£ millions

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Receipts:											
Financial and allied	124	98	103	103	116	162	231	301	387	400	428
Other	398	412	455	491	534	602	680	737	804	901	1,052
Total receipts	522	510	558	594	650	764	911	1,038	1,191	1,301	1,480
Payments ^(a)	256	270	291	319	345	366	423	477	501	544	615
Total (net)	+266	+240	+267	+275	+305	+398	+488	+561	+690	+757	+865

(a) A very small element of payments relates to "financial and allied" services, and most relates to "other" services.

large ones are reviewed here. The most striking change was in receipts from "financial and allied services", a relatively homogeneous group. These increased well over three-fold during the period and their share of total receipts from "other private services" rose from just over one fifth to nearly one third.

Table G
Financial and allied services

£ millions

	1962 ^(a)	1963 ^(a)	1964	1965	1966	1967	1968	1969	1970	1971	1972 (provisional)
Insurance			36	31	39	75	116	166	230	270	291
Banking			18	19	22	26	36	41	42	44	48
Merchanting			23	25	26	26	28	34	36	36	32
Brokerage ^(b)			26	28	29	35	51	60	79	50	57
Total net earnings	124	98	103	103	116	162	231	301	387	400	428

(a) A breakdown of figures for 1962 and 1963 is not available.

(b) Of which:

<i>Baltic Exchange</i>	17	19	21	25	33	33	47	25	31
<i>Stock Exchange</i>	4	4	2	4	9	9	9	10	14
<i>Lloyd's Register of Shipping</i>	2	2	3	3	3	4	5	6	6
<i>Other</i>	3	3	3	3	6	14	18	9	6

The insurance industry played by far the largest part in this rapid growth. Before 1966 the net overseas earnings of British insurers had been under pressure, mainly because of an abnormally large number of natural disasters. After 1966, when most of the cost of the damage to U.S. property in 1965 from Hurricane Betsy was settled, claims declined to a more normal scale; meanwhile premium rates were raised and inflation added to the size of the risks insured. Since 1967 devaluation has also helped to raise the sterling value of the insurance industry's receipts from abroad. Recently, however, the growth in earnings has slowed down a little, one reason being increased competition in the United States, where much of the non-life business done by Lloyd's and the insurance companies is concentrated.

The banks' earnings from services provided to customers abroad are nothing like as large in total as the insurance industry's, nor have they risen as fast; nevertheless, they have made a growing contribution. Much of the increase since 1966 has come from foreign exchange dealing. This seems to have been stimulated partly by the large number of foreign-owned banks which have established themselves in London, partly by activity in the euro-currency market, and partly by the exceptional expansion of world trade and payments. Other banking services which have also contributed to the rise in earnings include new issue business (much of it in foreign currencies), the management of security portfolios, and handling other security transactions.

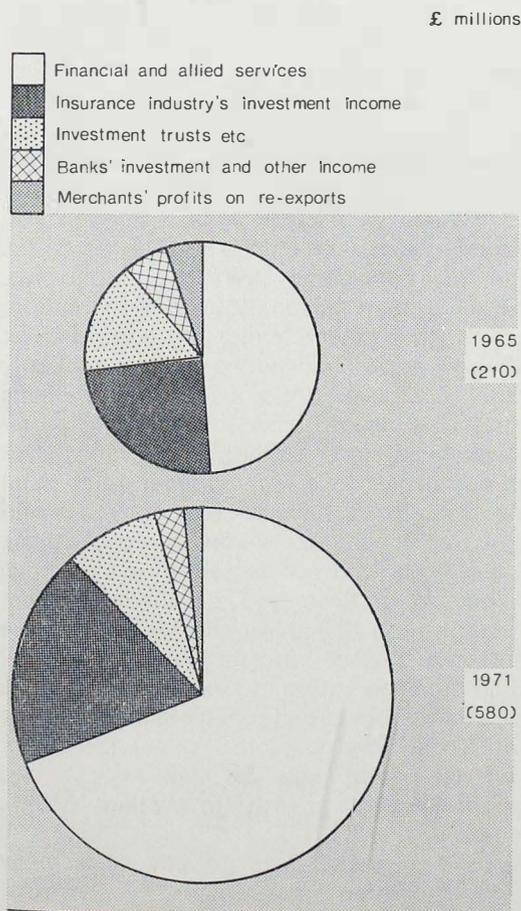
The net earnings of merchants from third country trading did not expand as much as earnings by other services. To some extent this probably reflected the declining share of world trade handled by U.K. traders; in particular, many of the developing countries with which the United Kingdom has traditionally had strong trading links have been establishing their own marketing arrangements.

By contrast, brokerage earnings of all kinds trebled between 1964 and 1970. The rapid growth in 1968 and 1970 was mainly achieved during a boom in world shipping by firms trading on the Baltic Exchange; these earnings received a sudden check in 1971 when the boom came to an end. Other brokerage earnings, including those of the stock exchange, have maintained a slower but steadier growth.

The institutions which are responsible for these earnings from financial and allied services are mostly centred in, or are traditionally associated with, the City of London. What are sometimes loosely referred to as the 'City's overseas earnings', however, are considerably larger than the earnings from financial and allied services alone, because they also include the investment income of the insurance industry, the banks, the investment trusts, and the unit trusts. Between 1965 and 1971 the City's overseas earnings grew nearly three-fold.

The growth of net earnings from the remaining items making up "other private services" increased by over three times (from about £140 million in 1962 to about £440 million in 1972). It was also a fairly steady increase, though a little more marked after devaluation. One of the larger items is commissions. The commissions earned by agents in this

City of London earnings 1965 and 1971^a



^a 1965 is the earliest date for which these figures are available and 1971 is the latest.

country acting on behalf of foreigners exporting goods here have nearly trebled, the larger part of the increase taking part in the second half of the period. Meanwhile commissions paid by British exporters to agents overseas have risen more steadily, so the balance in favour of this country has grown bigger since 1967.

Another activity from which the United Kingdom is a sizeable net earner is the sale or licence of television programmes and films, though the surplus has fallen back since 1967 because fewer films are now produced over here by U.S. companies. There are also considerable net receipts from fees earned by British consulting engineers, architects, and surveyors while engaged on construction projects overseas. The other professions, and the presence here of foreign diplomats, trade missions, military forces, students, and journalists, are also important, if smaller, sources of income. Such receipts grew substantially during the period under review and most of them exceed by a considerable margin similar payments made abroad by U.K. residents.

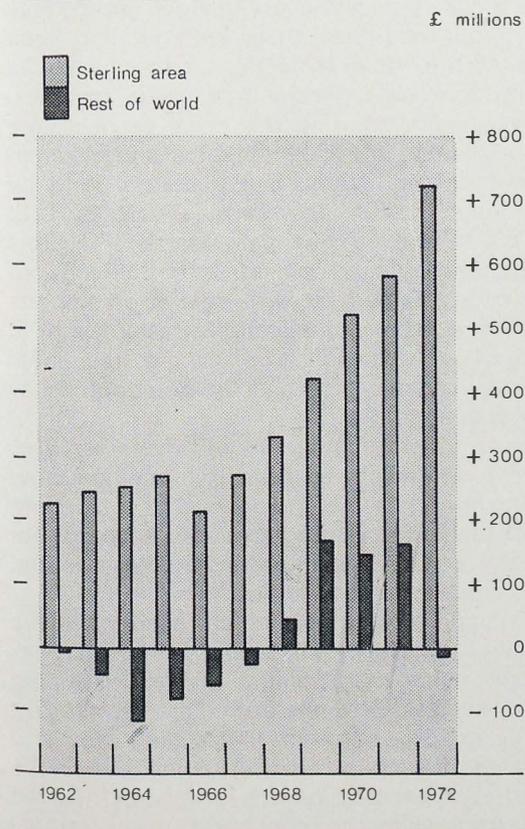
Among other sources of income, the United Kingdom now earns about £150 million gross from royalties, largely from industrial patents and technical know-how, but pays away about four fifths as much in royalties to overseas, leaving a small surplus. There is also a wide range of services between related companies, covering management arrangements and agency services of various kinds, particularly advertising and promotion; but the United Kingdom's net earnings from these activities are small too.

The last two years and the implications for the future

As noted earlier, the invisible surplus grew less rapidly after 1969, and by 1971 there were clear signs that growth in some important categories of net earnings had slowed down. Last year, for the first time since 1966, the surplus fell. There seem to be three main reasons for the deterioration. First, the value of government expenditure abroad at current prices (though not at constant prices), particularly military expenditure, accelerated under the combined effects of increases in pay, the deutschemark revaluation, world inflation, and the depreciation of sterling since June 1972. Secondly, the oil companies' overseas earnings have been depressed because their costs have risen and, with world activity still patchy, they have been unable to recover these increases in full. Lastly, private services in aggregate have shown little or no net growth recently. The shipping account has gone quite sharply into deficit, largely because of the depression in the tanker market; and the surplus on travel has been eroded as the expenditure of travellers abroad has continued to rise and the numbers of foreign visitors coming here have eased off. These developments have been sufficient to offset an improved performance on civil aviation and continuing, though slower, growth in "other private services".

Looking a year or two ahead there are almost as many reasons for taking a cautious view about the invisible account as for taking a sanguine one. Government expenditure will go on rising, not only because there are some large net contributions to be made to the European Community

Net invisible earnings from sterling area and from rest of world



Budget (estimated at about £65 million in 1973 and £90 million in 1974) but also because the effects of the depreciation of sterling since June 1972 and of recent world inflation will continue to be apparent. The profits of foreign-owned companies in this country are also likely to continue to rise, even though moderated perhaps by the Government's prices and incomes policy. Moreover, interest payments in total to overseas holders of sterling are likely to increase to the extent that interest rates have risen. The travel account is also likely to continue to deteriorate, because any beneficial effects of the depreciation of sterling on numbers of visitors coming here will probably be outweighed by the deterrent effects of rising hotel prices and the addition of value added tax to much holiday spending. In the longer run, it is hardly to be expected that the travel account will remain permanently in surplus.

The other side of the coin, however, is that world economic activity is likely to pick up. This should enable the British oil companies to recover from world sales more of their increased costs, boost income from other direct investment abroad, and benefit the shipping account. Meanwhile, the depreciation of sterling will have increased the sterling value of foreign currency receipts; earnings from financial services are likely to continue growing, albeit more modestly; and some of the newer, faster-growing categories, notably earnings from construction work carried out overseas, should remain buoyant. On balance, the favourable factors are probably rather stronger in aggregate, so the invisible surplus should pick up a little over the next year or so, even though the exceptional rate of growth experienced after 1966 seems unlikely to be regained.

The territorial distribution of the invisible account

The territorial pattern of the United Kingdom's invisible trade also has implications for growth, although these are perhaps a little more distant.

Not surprisingly, the United Kingdom has long had a surplus on its invisible trade with the countries of the overseas sterling area. During the period under review the surplus more than trebled. Moreover, these countries largely accounted for the increase of some £550 million in the total invisible surplus between 1966 and 1972. Australia and New Zealand probably contribute about a quarter of gross receipts from the overseas sterling area (mostly of a commercial nature), and South Africa another 15%; most of the remaining 60% comes from what are broadly termed developing countries. A similar proportion of gross invisible payments goes to the developing countries, much of it in the form of economic aid or military assistance. However, the sterling area share of U.K. invisible trade is on the decline: in 1962 receipts from the area were 41% of total receipts; by 1972 they had fallen to 35%; and payments to the area fell from about 34% to some 25%.

The increase in the share of invisible trade done with non-sterling countries was accompanied until 1972 by a marked swing in the United Kingdom's favour: the balance of such trade moved from small deficit into comfortable surplus. In 1972 this movement was reversed. The surplus

on "other private services" continued to increase, but all other parts of the invisible account deteriorated. Government expenditure increased sharply, particularly in Western Germany, and rising profits in the British economy resulted in a substantial increase in the income earned by foreign companies from their British subsidiaries and branches.

The United States and Canada account for nearly half of all receipts from countries outside the sterling area. Western Europe and Japan are also important, and growing, customers. On the payments side, the original E.E.C. countries probably account for nearly a quarter, and the United States for a rather smaller proportion, perhaps 15%; the balance is mostly distributed between the rest of Western Europe and Japan.

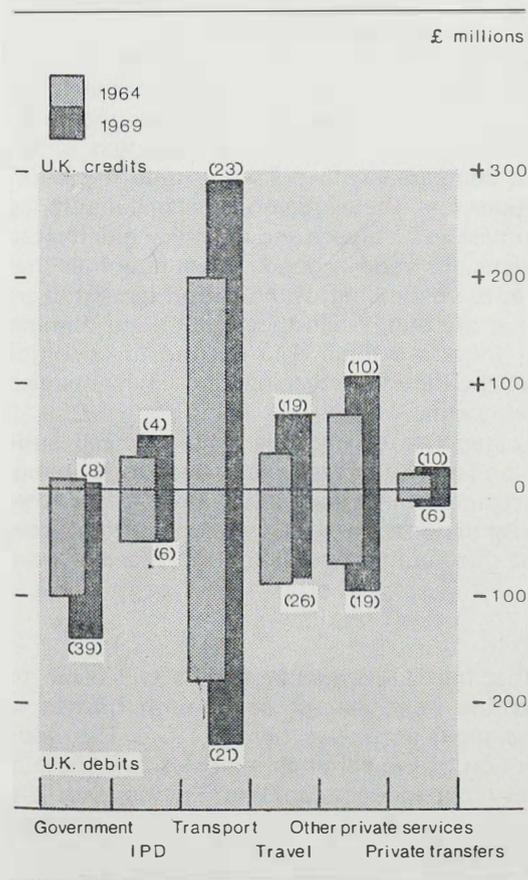
Even though quite a large part of the invisible account cannot be analysed in greater country or area detail than this, it is still possible to get a broad idea of the way in which the geographical pattern of many transactions has been shifting, and to draw some tentative conclusions about the future. Above all, it is clear that the growing share of the non-sterling countries is mainly accounted for by travel and "other private services". During the period, receipts from tourists coming here from these countries increased three-fold, and most of the increase was due to visitors from the United States and Western Europe; receipts from visitors from sterling area countries barely doubled. Expenditure by British travellers in non-sterling countries also expanded a lot faster than in the sterling area; much of the growth again lay in Western Europe, particularly Spain, France and Italy.

Trade in "other private services" also expanded appreciably faster with the other countries than with sterling area countries. Some of the more dynamic services, such as insurance, banking, brokerage, films and television, royalties, services to overseas companies, and agency services, are predominantly supplied to the United States and Western Europe. Another important category, expenditure here by foreign military forces, is of course almost wholly by U.S. forces. In fact, it is doubtful if more than a quarter of receipts from "other private services" now comes from the sterling area – notably commissions earned by U.K. agents on imports into this country and telecommunications receipts – or if more than a sixth of such payments, of which a substantial part is made up of remittances to their home countries by immigrant workers, goes to the area.

As for the slower growing categories of private services, less than one third of receipts by British shipowners now comes from sterling area countries and only a fifth of shipping payments goes to them; the sterling area also accounts for about a third of this country's transactions in civil aviation, much of it with the developing countries.

Interest, profits and dividends, which account for a quarter of all invisible receipts and about a fifth of all payments, are perhaps rather more related to the developing countries than are services. Earnings from direct investment abroad are evenly divided between the sterling area and other countries, with the emphasis in the sterling area on the developing countries where British firms have been involved for a long time. Outgoings on the other hand are very largely

Invisible transactions with original E.E.C. countries 1964 and 1969^a



^a The only two years for which this information is available. Figures in brackets are the E.E.C. shares (%) in the totals for each category of debit and credit in 1969.

to North America, reflecting the large amount of direct investment in this country by U.S. companies. Income on portfolio investment is not very dependent on the developing countries; but probably the bigger share of income on "other" investment comes from them, partly because the oil companies' producing activities are concentrated in these countries and partly because they account for a substantial share of the interest earned on export credits and other trading claims.

A fairly large (though declining) share of invisible earnings comes, therefore, from the developing countries. This must be regarded as a less assured source of income than the rest, simply because the emergent nations naturally aspire to take over the operation and ownership of vital sectors of their economies themselves. Sometimes this impels them to set up national enterprises to compete with the foreigner, often on subsidised terms; national shipping lines and airlines are common examples. Sometimes it leads to outright nationalisation of foreign-owned undertakings or the acquisition of majority shareholdings in them; thus, over large parts of Africa, the expropriation of British banks, insurance companies and other firms has become common in recent years. In the Middle East, the oil exporting states are now taking steps to acquire an eventual controlling interest in oil production. More developments along these lines in other parts of the invisible account may be expected, with consequent losses to this country's earnings. The main conditions which helped the United Kingdom to build up its invisible surplus in the first place, notably maritime supremacy and the ability to invest a surplus of wealth in dependent territories, no longer exist.

For these reasons, and because opportunities will arise of increasing invisible exports to and investments in commercially more stable areas such as the European Community, the decline in the developing countries' share of the United Kingdom's invisible trade seems more likely to speed up than to slow down. There is certainly room for improvement in invisible trade with Western Europe, for example, in that transactions with the original E.E.C. members have been growing relatively slowly in recent years and in absolute terms still do not amount to more than a fairly small part of the total.

Looking a few years ahead, therefore, the growth of the United Kingdom's invisible earnings may well speed up if the shift in the territorial pattern towards the industrialised countries becomes more pronounced. This may be partly offset by rather larger payments of economic assistance to developing countries.

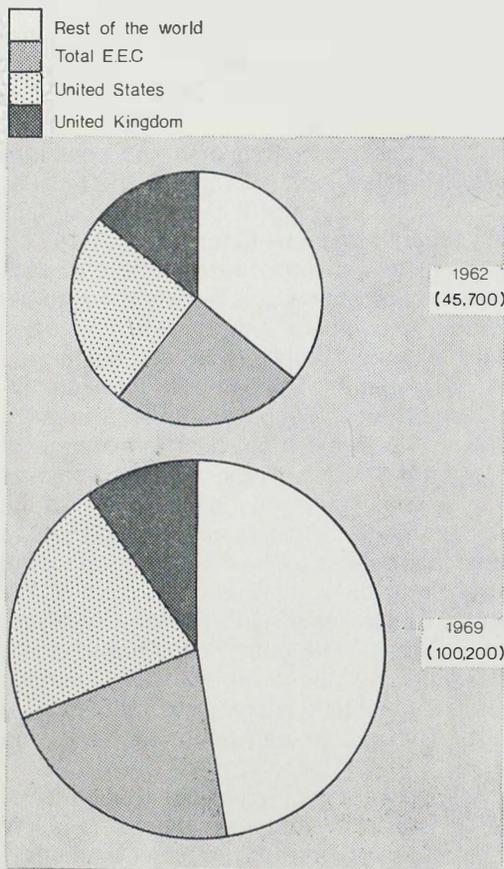
World invisible trade

The United Kingdom is second only to the United States in the size of its invisible earnings and is some way ahead of its nearest European rival. Moreover, as noted earlier, invisible earnings are more important for the United Kingdom than for most other countries, because the maintenance of a sizable invisible surplus has enabled this country to sustain the deficits which are a normal feature of its external trade in goods.

It is therefore a matter of some concern that, despite the rapid growth in invisible earnings over the last ten years, the

World invisible trade^a

\$ millions



^a 1969 is the latest date for which these figures are available.

United Kingdom's share of world invisible receipts has fallen rather faster than its share of world trade in manufactured goods. In 1960, its share of invisibles was just over 17½%; by 1969, the last year for which completed figures are available, this had fallen to little more than 11½%. The comparable figures for its shares of the trade in manufactured goods by the main industrial countries were 16½% and 11½%.

The United Kingdom's share of invisible trade declined because it lost ground in shipping, income from foreign investment, and to a lesser extent, tourism – categories in which other countries have expanded faster, and seem likely to continue to do so. To take investment income, for example, other major industrial countries have stepped up their foreign investment; some now probably invest more heavily than this country; and, as has been noted, British investment is weighted towards the developing countries.

World invisible transactions now account for about a quarter of world trade in goods and services (the latest figure available is 24·7% in 1969). The average annual rate of increase in invisibles between 1962 and 1969 was 11·6% at current prices, compared with 9·4% for trade in goods, which was itself quite fast. There is a good deal of consistency in the pattern of invisible surpluses and deficits – much more than with the balance of trade in goods. Most countries that were in surplus at the beginning of the period tended to be in larger surplus at the end, while those that were running deficits generally increased them. The ranking of countries in order of size of their invisible receipts and payments also changed remarkably little.

Although all categories of invisible trade enjoyed substantial growth, the largest increases have been in shipping, tourism and investment income. Other private services, though of particular importance to the United Kingdom, grew more slowly, and this country obtained an increasing share of them.

Conclusion

It seems likely that the U.K. invisible surplus will begin to grow again over the next year or so, though growth is unlikely to be as rapid as it was before 1972. The geographical distribution of the earnings indicates that there is still a fairly heavy dependence on transactions with the developing countries. This reinforces the fairly cautious assessment of the prospects, because some categories of earnings from these countries are plainly at risk. On the other hand, there has been a switch in invisible trade towards the industrialised countries which may now speed up, partly because of entry into the European Community. To this extent, the outlook for earnings a few years ahead is probably more encouraging than prospects in the next year or so. Nevertheless, no more than modest optimism seems justified, if only because the United Kingdom has been losing its share of world invisible trade at a faster rate than its share of visible trade.