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Great Britain's Balance of Payments Crisis in 1931: A Multilateral Settlements Perspective

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Abstract

By performing estimation of the regional breakdown of Great Britain's current and long-term capital accounts from 1928 through 1931, this paper examines the 1931 balance of payments crisis of Britain from the perspective of multilateral settlements.

Introduction

I Balance of Payments and Multilateral Settlements

(1) Balance of Payments Crisis as the Underlying Force behind Britain's Departure from Gold

(2) Prewar and Restored Patterns of Multilateral Settlements

II A Breakdown of Britain's Basic Balance by Region, 1928-1931

(1) Problems with Estimation

1) General note on the estimates 2) Kahn's Estimates of Britain's basic balance by region for 1929

(2) Estimating a Regional Breakdown of the Current Account

1) Regional distribution of merchandise trade balance 2) Estimating the regional distribution of investment income 3) Estimating the regional distribution of balances on other items

(3) Estimating a Regional Breakdown of the Long-term Capital Account

1) Regional distribution of new overseas issues 2) Estimating the regional distribution of capital repayments

III Estimation Results and Their Implications

(1) Regional Breakdown of Britain's Basic Balance and Changing Aspects of its Multilateral Settlements

(2) A Multilateral Settlements Perspective on the Deterioration in Britain's External Account

Introduction

This paper interprets the development of Great Britain's balance of payments from the late 1920s through 1931 from the perspective of the multilateral settlements network. The rapid deterioration of Britain's balance of payments following the onset of the global Great

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Depression was so serious that Britain was forced to abandon the gold standard in 1931, and the departure of the pound sterling from gold marked the virtual collapse of the restored international gold standard. Despite its importance, Britain's balance of payments crisis in 1931 seems not to have been explored from the viewpoint of the changes in its multilateral settlements. This is probably due to the lack of statistical data relating to Britain's regional balance of payments.

This paper, thus, pays particular attention to the changing pattern of Britain's *regional basic balance* (i.e., the sum of the current account and the long-term capital account, calculated by region), where the specific regional balances considered are those with the Overseas British Empire and the non-British Empire, respectively. Among the issues included are: the pattern of Britain's multilateral settlements in the 1920s; the deterioration in Britain's external payment relationships, by region, during 1928-1931; and the implications of the changes in Britain's regional basic balances. In order to examine these problems, estimation is conducted so as to present a regional breakdown of Britain's current account and long-term capital account. Exploration of these questions based on the estimated data highlights some salient features of Britain's balance of payments crisis in 1931 from the viewpoint of its regional payment relationships.

The paper is organized in the following way. Section I lays the motivational groundwork for the estimation of regional basic balance in Section II. After discussing Britain's balance of payments crisis in 1931 as the underlying force precipitating its departure from the gold standard, Section I argues that historically the successful working of the pre-1914 international gold standard broadly rested on the smooth operation of the worldwide multilateral settlements network. This raises the question of whether the collapse of the restored international gold standard can be attributed to the malfunction of the reestablished network of multilateral settlements. To verify this assumption in the case of Britain, Section II estimates a regional breakdown of the basic balance of Britain's balance of payments. Specifically, after describing the problems relating to the estimation, estimates are made for Britain's bilateral balances with the Overseas British Empire and with the non-British Empire for 1928-1931. Section III then presents the estimates for Britain's balances in current and long-term capital accounts with these two regions in a summarized form, and discusses some salient features of the deterioration in Britain's regional basic balance. Furthermore, the characteristics of Britain's 1931 balance of payments crisis are explored in the context of global imbalances between the British Empire and the rest of world.

I Balance of Payments and Multilateral Settlements

(1) Balance of Payments Crisis as the Underlying Force behind Britain's Departure from Gold

Great Britain suspended the convertibility of sterling into gold in September 1931, and sterling became a floating currency. Within a few months of its departure from gold, many other countries abandoned gold payments or imposed exchange restrictions, or did both, although the United States and France remained on gold until 1933 and 1936, respectively. Since sterling and the U.S. dollar were the key currencies, Britain's departure from the gold standard marked the virtual breakdown of the restored international gold standard.

It has been argued in general that the immediate cause of Britain's going off gold was a loss of confidence in sterling, which led to a wave of withdrawals of sterling balances (other

countries' short-term assets holdings in London) during the summer and early fall of 1931, resulting in a huge external drain of gold and foreign exchange from Britain. The loss of confidence in sterling is alleged to have been brought about by a chain of disturbing events or developments beginning in the early summer of 1931. The first was the financial crisis on the European Continent, in particular the crisis in Germany. Following the German banking crisis and the consequent abandonment of its gold standard, Britain's substantial short-term asset holdings in Germany were frozen. The second development was the deterioration of Britain's international short-term investment position. The Macmillan Report published in July 1931 revealed Britain's position, for the first time, as an international short-term debtor, and suggested that the Bank of England's reserves were inadequate relative to London's external short-term liabilities. The third development was the deterioration in the British government finances. Budget deficits had continued to increase due to the depression, and the May committee, worrying about a growing budget deficit, recommended budget austerity in its Report published in July 1931.

Each of these developments inevitably contributed to the further weakening of confidence in sterling, and helped provoke the flight from sterling. None of them, however, can be considered the fundamental cause for the loss of confidence in sterling. The pound was already weak before the middle of July 1931 (Clarke, 1967, pp.173-177; Cairncross and Eichengreen 1983, pp.57-58; Moggridge, 1972, pp.139-140). Thus, these developments should be regarded merely as possible triggers precipitating the attack on sterling, or as factors accelerating the withdrawals of sterling balances. Instead, the underlying force behind the loss of confidence in sterling is to be found in the growing deterioration of Britain's balance of payments, and particularly in its basic balance. In short, the weakness of sterling, which was already visible before July 1931, should be attributed to the severe deterioration in the British external balance.¹

As shown in Table 1 in the next Section, Britain's balance of payments had rapidly worsened since the onset of worldwide Great Depression. Regarding its balance on current account, the decreasing surplus witnessed between 1928 and 1930 turned in 1931 into a huge deficit, mainly due to the decline in foreign investment earnings and the widening of the trade deficit. The basic balance — that is, the sum of the balances on current and long-term capital accounts — also deteriorated, moving from small surpluses in 1928 and 1929 to a substantial deficit in 1931, in spite of the reduction in long-term capital outflows. Moreover, the overall balance of payments, measured by the change in the stock of gold and foreign exchange held by the monetary authorities, recorded a substantial deficit in 1931.

Given the situation described above, it was almost impossible for Britain to attract short-term capital from overseas. Thus, the rapidly growing deficit in Britain's basic balance can be considered to have been serious enough to weaken confidence in sterling, as reflected in the weakness of the sterling exchange rate. This led to concerns about Britain's ability to maintain sterling's convertibility into gold and hence to severe attacks on sterling. The growing deficit in the basic balance, coupled with large withdrawals of sterling balances caused a massive drain of gold and foreign exchange from Britain, and resulted eventually in Britain's abandonment of the gold standard.

(2) Prewar and restored patterns of multilateral settlements

¹ Recently, Feinstein, Temin and Toniolo argue that “although the banking crisis on the Continent had added to Britain's problems, … the extremely weak balance of payments position … was arguably a more fundamental cause of the inability to sustain the gold standard” (Feinstein, Temin, and Toniolo, 1995, p.40).

With regard to the above arguments, it is necessary to examine the relations between Britain's balance of payments difficulties from 1929 onward and the great changes in international financial relationships during the same period. Of these, the most important is perhaps the malfunctioning of the worldwide multilateral settlements network reestablished after World War I. In historic retrospect, the multilateral settlements network had developed into a distinctive pattern since around the 1870s². Viewed in a highly simplified form in which the world is divided into three regions comprising (1) Great Britain, (2) the Overseas British Empire (i.e., the British Empire excluding Great Britain), and (3) the non-British Empire, including the United States and the countries of Continental Europe, the pre-1914 pattern of multilateral settlements can be depicted as follows: in the regional balance of payments around 1910, Britain had a deficit with the non-British Empire; the latter then had a deficit with the Overseas British Empire, which in its turn had a deficit with Britain. Therefore, Britain's deficit in its balance of all current and financial transactions with the non-British Empire was settled indirectly by its surplus with the Overseas British Empire, which in turn had a surplus with the non-British Empire³. Thus, in terms of the international flow of funds, flows of payment ran as follows: there was a net outflow of funds from Britain to the non-British Empire; these funds were paid by the non-British Empire to the Overseas British Empire; then, from the Overseas British Empire these funds moved back to Britain.

At the center of the pre-1914 multilateral settlements network stood Britain. Its substantial overseas investment played a vital role not only in smoothing the operation of, but also in developing the system of multilateral settlements. The imbalance between the regions was settled on a multilateral basis through London, largely because most international settlements were conducted in sterling. In this sense, London was "the greatest international exchange clearing house in the world" (Williams, 1963, p.513). Viewed from this perspective, it can be said that the successful working of the classical international gold standard rested on the smooth functioning of a worldwide network of multilateral settlements.

Both the international gold standard and the multilateral settlement system broke down with the outbreak of World War I, but were reestablished in the 1920s. Surprisingly, the restored multilateral settlements network displayed much the same pattern as prevailed before 1914 (Hirata, 1982)⁴. This was in spite of the fact that international trade and monetary relations in the 1920s were considerably different from those before 1914. Based on the author's estimates, it can be inferred that in 1928 Britain's deficit with the non-British Empire was settled by Britain's surplus with the Overseas British Empire, which in turn had a surplus with the non-British Empire. The bilateral balance between the regions is measured here by the basic balance, and each region's global basic balance appears to have been very small in 1928, regardless of whether it was in surplus or deficit.

It should be noted, however, that the restored multilateral settlements network was no longer centered solely on Britain. It differed significantly in this respect from the pre-war network. In particular, the United States had become the world's greatest capital exporting country, replacing Britain in the 1920s. A large amount of international lending by the U.S. was

² F. Hilgerdt explains the emergence, development and disintegration of the worldwide network of multilateral trade (Hilgerdt, 1942; 1943), and S.B. Saul conducts more detailed research on the pre-1914 worldwide network of multilateral payments in terms of balance of payments (Saul, 1960, Chap.III).

³ This explanation of the pre-1914 pattern of multilateral settlements is largely inferred from the analysis by Saul (1960, pp.57-60).

⁴ In the author's estimates for the restored pattern of worldwide multilateral settlements (Hirata, 1982), the world is divided into four regions: Great Britain, the United States, the Continental Europe and the other region. For more detailed explanation of this pattern, see Hirata (1982; 1988; 2000).

essential to the smooth functioning of the restored multilateral settlement system. To give a simple example, capital flows from the United States to Germany enabled the latter to improve its balance of payments and led to an overall increase in its imports from the rest of the world. As a result, on aggregate, American investment in Germany enabled the rest of the world to improve its balance of trade.

Another aspect of these developments was that, while sterling continued to be a key currency, the U.S. dollar also came to play a key currency role as well. Some portion of international settlements were conducted in dollar, and many countries held considerable working balances in New York (dollar balances) to settle their accounts, as well as in London. It still seems, however, that the U.S. dollar was not as widely used as sterling during the 1920s in spite of the fact that the United States was the world's greatest financial power during the 1920s. Taken as a whole, the restored network of multilateral settlements was thus different from its predecessor, in that the world's two principal international capital markets, in New York and, to a lesser extent, in London, played central roles in its functioning, with both national currencies used as key currencies.

These considerations raise the question of how the Great Depression affected this multilateral settlements network. It may be assumed that the Great Depression seriously impaired the functioning of the network. In the case of Great Britain, the rapid and serious deterioration of Britain's balance of payments might have been related to a breakdown in its pattern of multilateral settlements. In order to verify the validity of such a hypothesis, it is necessary as a first step to find out how Britain's bilateral balance of payments with each of its partner country groups or regions changed between 1928 and 1931. More specifically, when Britain's transaction partners are divided into the two broad regions specified earlier, namely the Overseas British Empire and the non-British Empire, the problem can be re-formulated as follows: was the deterioration of Britain's balance-of-payments position from 1928 to 1931 caused by either an increase in the deficit with the non-British Empire or a decline in the surplus with the Overseas British Empire, or by a combination of both? Answering this question clarify the characteristics of the deterioration of Britain's balance of payments in the period of the Great Depression from the viewpoint of the multilateral settlements network. The issue, however, has not yet been explored, largely due to the lack of statistical data concerning Britain's balance of payments by region. For this reason, the next Section will attempt to estimate a regional breakdown of Britain's current account and long-term capital account between 1928 and 1931.

II A Breakdown of Britain's Basic Balance by Region, 1928-1931

(1) Problems with estimation

1) General note on the estimates

In order to estimate a country's balance of payments by region, it is necessary to obtain, in advance, a statement of that country's global balance of payments, that is, the balance of payments between that country and the rest of the world. However, the statement of Britain's balance of payments with the rest of world during the interwar period published by the Board of Trade provides only the data on current account, and does not include the transactions on capital account⁵. Accordingly, attempts have been made to make up more complete balance of

⁵ For the components and form of official statements, and their improvements of Britain's balance of payments statistics in the interwar period, see Foot (1972), and Wasserman and Ware (1965 Chap. 5).

payments statistics for Britain which include the requisite figures for the current account and capital account. These include the estimates by the Royal Institute of International Affairs (1937), A. E. Kahn (1946), T. C. Chang (1951), and D. E. Moggridge (1972). The most recent estimates are by R. G. Ware (1974) (a member of staff at the Economic Intelligence Department of the Bank of England). Table I shows the estimated global balance of payments of Britain for 1925-1931 produced by Kahn, the Board of Trade, and Ware in summarized form. The data on the current account in Kahn's series are taken from those in the Board of Trade series, and there is no fundamental difference in the trends for current and long-term capital accounts between the estimates by Kahn and Ware, apart from some details in the items for various accounts⁶.

Table 1 Summary of Balance of Payments of Great Britain, 1925-1931

	(£ million)						
	1925	1926	1927	1928	1929	1930	1931
I By A. E. Kahn							
Current Account	46	-14	83	122	103	27	-104
Merchandise trade	-392	-463	-386	-353	-381	-387	-408
Shipping	124	120	140	130	130	105	80
Investment income	250	250	250	250	250	220	170
Other services	64	79	79	95	104	89	54
Long-term capital account	-88	-85	-105	-108	-47	-59	-14
New issues	-88	-112	-139	-143	-96	-98	-41
Repayments	n.a.	27	34	35	49	39	27
Errors and omissions	31	106	23	-13	-63	34	87
Gold Movements	11	-7	-1	-1	7	-2	31
II By the Board of Trade							
Current Account	46	-15	82	123	103	28	-104
Merchandise Trade	-392	-464	-387	-352	-381	-386	-408
Shipping	124	120	140	130	130	105	80
Investment Income	250	250	250	250	250	220	170
Other Services	64	79	79	95	104	89	54
Gold Movements	9	-12	-4	13	15	-5	35
III By R. G. Ware							
Current Account	31	-39	78	104	76	15	-114
Merchandise trade	-265	-346	-270	-237	-263	-283	-322
Private Services and Transfers	53	57	91	82	78	60	31
Investment Income	254	254	251	251	250	220	169
Other Services	-11	-4	6	8	11	18	8
Long-term Capital Account	-73	85	-132	-108	-47	-59	-14
New investment overseas	-88	-112	-166	-143	-96	-98	-41
Repayments	15	27	34	35	49	39	27
Errors and Omissions	40	147	72	-14	-37	51	94
Official Financing	2	-23	-18	18	8	-7	34
Reserves (additions to -)	2	-23	-18	18	8	-7	-48
Assistance	-	-	-	-	-	-	82

Notes: 1) The definition of each item is not necessarily the same between the series. 2) For merchandise trade balance, the valuation of imports is on c.i.f. basis in both Kahn's series and the Board of Trade series, and on f.o.b. basis on Ware's series. 3) The data for some types of long-term capital transactions not available for each year between 1925 and 1931, and the data for short-term capital movements are included in "Errors and Omissions." 4) "Assistance" in Ware's series refers to special assistance (£ 130 million) from the United States and France, some of which was repaid in 1931. Sources: Taken from Kahn (1946, Table 13); U.K. Board of Trade (1938, Table No.294); Ware (1974, Table B).

⁶ The trade balance is estimated to be larger in the estimates by the Board of Trade and by Kahn than in those by Ware, because imports were recorded not c.i.f., but f.o.b. in Ware's estimates. However, the current account as a whole is not affected by this difference of approaches.

Of these estimates, Kahn's estimates seem the most useful for estimating a regional breakdown of Britain's basic balance, partly because only Kahn provides the estimates of Britain's bilateral balance in current and long-term capital accounts with the British Empire in 1929 as explained below. Therefore, except where otherwise specified, Kahn's estimated figures for balance of payments is adopted as the global balance in this paper to estimate Britain's regional basic balance for 1928-1931.

The period, items in the accounts, and the classification of regions for estimating the bilateral balance of payments between Britain and individual regions are as follows.

- (1) The period covers each year from 1928 to 1931. The year 1928 was a year of relative economic stability not only in Britain but also in other parts of the world, and the multilateral settlements network was functioning smoothly as explained earlier. The year 1931 saw, in contrast, the deepening of worldwide depression and the collapse of the restored international monetary regime.
- (2) Estimation is carried out for the following regional balances in various accounts: the trade balance, the investment income balance, the shipping balance, the other service balances, and the long-term capital account balance. Needless to say, the first four balances comprise the balance on current account, and the sum of the balances on current and long-term capital accounts is regarded as the *basic balance*⁷. Regional breakdowns cannot be estimated for either the short-term capital account or changes in holdings of reserve assets.
- (3) The world other than Britain is divided into two regions as described earlier: the Overseas British Empire and the non-British Empire. The former includes the economies classified as "British countries" in the *Statistical Abstract for the United Kingdom* and the *Statistical Abstract for the British Empire*, or those that were later referred to as overseas "British Commonwealth countries", such as India, the Dominions, and the British dependencies. Meanwhile, the most important economies included in the "non-British Empire" region are the United States and the industrial economies of Continental Europe, although some primary producing countries are included. Thus, Britain's bilateral basic balance is to be estimated with each of these two regions.

It should be noted that the following estimates are subject to a very large margin of error, and that the estimated figures are highly approximate. However, it seems fair to say that the estimates indicate broadly the changing trend of Britain's current and long-term capital account surpluses or deficits with the Overseas British Empire and with the non-British Empire, even though the levels themselves are somewhat unreliable.

2) Kahn's estimates of Britain's basic balance by region for 1929

Before proceeding to estimate yearly regional balances on individual items in the current and long-term capital accounts, it would be pertinent to make up Britain's basic balance by region in 1929 based on Kahn's balance of payments series. As noted above, Alfred E. Kahn provides estimates of Britain's bilateral balance with the Overseas British Empire in 1929. According to these, Britain received from the British Empire "a sum of perhaps £240 million" as its "invisible income" which included investment income of about £150 million and shipping income of around £40 million, and, in addition, £25 million as a merchandise export surplus. On long-term capital account, there were new capital issues on the London

⁷ Since the basic balance includes the fundamental transactions and excludes volatile and short-term transactions in the balance of payments, it can be said that a significant change in the basic balance reflects the fundamental change in the external account.

capital market for the Overseas British Empire account of some £55 million, and repayments of former loans to the Empire of the order of £30 million (Kahn, pp.221-222)⁸. Thus, the estimates by Kahn indicate that in 1929, with the Overseas British Empire, Britain's current account registered a surplus of approximately £265 million and its basic balance recorded a surplus of around £240 million. These figures are given in Table 2.

Table 2 Kahn's Estimate of the Regional Breakdown of Britain's Basic Balance, 1929

(£ million)

	Total	With Overseas British Empire	With Non-British Empire
I Current Account			
Merchandise Trade	-381	25*	-406
Services	484	240*	244
Investment Income	250	150*	100
Shipping	130	40*	90
Other Services	104	50	54
Balance in Current Account	103	265*	-162
II Long-term Capital Account			
New Issues	-96	-55*	-41
Repayments	49	30*	19
Balance in Long-term Capital Account	-47	-25*	-22
III Basic Balance	55	240*	-185

Notes and Sources: 1) The figures in column "Total" are taken from Table 1. The figures marked with an asterisk * are the estimated figures by Kahn, taken from Kahn, (1946, pp.221-222). Other figures in the table are from the author's calculations. 2) The figures should be regarded as approximate.

The data on both Britain's global balance of payments statistics estimated by Kahn and its bilateral basic balance with the Overseas British Empire make it possible to calculate Britain's basic balance with the non-British Empire. For instance, Britain's current account balance with the non-British Empire can be obtained by deducting its current account balance with the Overseas British Empire from Britain's *global* (total) current account balance. The results of similar calculations are also shown in Table 2. According to this table, in the year 1929 Britain's basic balance was in deficit with the non-British Empire, while in surplus with the Overseas British Empire. Measured by basic balance, the surplus with the Overseas British Empire was used for financing the deficit with the non-British Empire.

The remaining part of this section provides estimates of Britain's bilateral current and long-term capital accounts with the Overseas British Empire and with the non-British Empire for 1928-1931. It also describes estimation procedures.

⁸ According to Kahn, the figures were estimated from his compilation of "detailed estimates of major components of Britain's bilateral balance of payments." However, he emphasized that the estimates were approximate (Kahn, 1946, pp.221-222).

(2) Estimating a Regional Breakdown of the Current Account

1) Regional distribution of merchandise trade balance

There is no need to estimate Britain's merchandise trade balances with the Empire and the non-Empire (the Overseas British Empire and the non-British Empire are abbreviated to the Empire and the non-Empire, respectively, in the remainder of this section). The Board of Trade provides statistical data on British merchandise trade by country in the *Statistical Abstract for the United Kingdom*. Table 3 shows the figures for Britain's exports to and imports from the Empire and the non-Empire based on the *Statistical Abstract* (Board of Trade, 1938, Table No.280 and No.281)⁹, and from these figures British merchandise trade balances with each of these two regions can be straightforwardly obtained.

Table 3 Britain's Merchandise Exports, Imports and Trade Balance, by Region, 1928-1931

(£ million)

	Exports to				Imports from				Trade balance with			
	1928	1929	1930	1931	1928	1929	1930	1931	1928	1929	1930	1931
Overseas British Empire												
India	83.9	78.2	52.9	32.3	50.2	48.8	40.1	28.4	33.7	29.4	12.8	3.9
Australia	55.7	54.2	31.7	14.5	42.1	45.3	39.0	40.7	13.6	8.9	-7.3	-26.2
Canada	34.5	35.1	29.1	20.6	54.2	43.7	35.8	30.9	-19.7	-8.6	-6.7	-10.3
New Zealand	19.3	21.4	17.9	11.2	39.2	40.7	40.3	33.7	-19.9	-19.3	-22.4	-22.5
Others	134.3	135.6	116.7	92.1	106.9	120.4	103.6	82.4	27.4	15.2	13.1	9.7
Subtotal	327.7	324.5	248.3	170.7	292.6	298.9	258.8	216.1	35.1	25.6	-10.5	-45.4
Non-British Empire												
Germany	40.9	37.0	26.8	18.4	61.4	66.3	63.3	62.3	-20.5	-29.3	-36.5	-43.9
Netherlands	21.8	21.8	18.9	13.7	42.0	41.5	38.7	34.7	-20.2	-19.7	-19.8	-21.0
France	25.2	31.7	29.7	22.6	56.8	52.8	46.1	38.9	-31.6	-21.1	-16.4	-16.3
U.S.A.	46.7	45.6	28.7	18.2	177.9	184.0	144.0	97.5	-131.2	-138.4	-115.3	-79.3
Others	261.3	268.8	218.3	147.0	444.8	467.7	406.2	347.9	-183.5	-198.9	-187.9	-200.9
Subtotal	395.9	404.9	322.4	219.9	782.9	812.3	698.3	581.3	-387.0	-407.4	-375.9	-361.4
Total	723.6	729.3	570.8	390.6	1,075.3	1,111.1	957.1	797.4	-351.7	-381.8	-386.3	-406.8

Note: Exports cover "produce and manufactures" of the U.K. and are valued f.o.b. Imports cover imports retained in the U.K. and are valued c.i.f.

Source: U.K. Board of Trade (1938, Tables No.280 and No.281).

Additional remarks relating to the data are as follows. First, since imports, contrary to the current practice of valuation, are valued c.i.f., and exports f.o.b., merchandise trade deficits (surpluses) are overstated (understated) by an amount equivalent to the value of services provided by Britain's shipping and insurance (Foot, p.351; Kahn, p.293). Second, the figures on trade balances are those based on so-called special trade in merchandise, i.e., "exports of produce and manufactures of the U. K.," and imports retained in the U. K. Third, the figures given in Table 3 do not include the trade of silver, which was "almost entirely entrepôt trade" (Kahn, 1946, p.293).

As shown in Table 3, Britain continued to maintain the traditional regional pattern of its merchandise trade balance in the late 1920s. It had a large deficit with the non-Empire region

⁹ British Empire countries are grouped under the heading of British Countries in the *Statistical Abstract for the United Kingdom*, 82nd Number (1938).

and a surplus with the Empire region. Yet, the amount of the deficit with the former was much larger than that of the surplus with the latter. In other words, the offset ratio (the amount of surplus / the amount of deficit) was just 9% in 1928, and a mere 6% in 1929. Moreover, as part of the sharp decline in Britain's merchandise trade from 1929 onwards, the traditional pattern of Britain's regional merchandise trade balance began to dissolve: the export surplus in Britain's balance with the Empire disappeared and moved instead into deficit. The surplus of £ 35 million recorded in 1928 had shifted to a deficit of £ 11 million in 1930, and this deficit expanded significantly to £ 45 million in 1931. On the other hand, the deficit in merchandise trade with the non-Empire fell by £ 46 million, from £ 407 million in 1929 to £ 361 million in 1931. The key point, however, was that the traditional function of the trade surplus with the Empire to offset partly the trade deficit with the non-Empire was lost entirely.

It is of interest to note that the drastic deterioration in Britain's trade balance with the Empire resulted mainly from a sharp decline in exports, while the gradual decrease in its trade deficit with the non-Empire resulted largely from a reduction in imports. Over the period 1929-1931, British exports to the Empire fell by £ 154 million to £ 171 million, while its imports from the same region decreased by £ 83 million to £ 216 million. By contrast, British exports to the non-Empire declined by £ 185 million to £ 220 million, while its imports from the region decreased by £ 231 to £ 581 million for the same period. As a result, from the late 1920s to 1931 Britain's merchandise trade deficit with the rest of world widened sharply due to a marked deterioration in its trade balance with the Empire region, despite the decline in its trade deficit with the non-Empire region.

2) Estimating the regional distribution of investment income

The income from British investments overseas provided the largest contribution to the surplus on Britain's current account, but there are no estimates which provide a regional breakdown of this income except the estimates for 1929 by Kahn. Although he estimated the investment income from Empire to be roughly £ 150 million for 1929 as noted earlier, he did not explain his estimation methodology. Therefore it is necessary to estimate the regional distribution of investment income for each year for the period under consideration.

In this regard, Sir Robert Kindersley's series of surveys on *British Oversea Investments*¹⁰ are very helpful, since they include estimates for the regional distribution of income from some kinds of British overseas investment¹¹. Kindersley estimated British investment income (interest and dividends) from its overseas investments in 1) securities of central and local governments overseas (dominion, colonial and foreign); 2) securities of British companies (i.e., companies registered in the U.K.) operating abroad; and 3) securities of foreign and colonial companies operating abroad. Therefore, his estimates for investment income are classified not by region but by type of securities.

However, of the investment income included in the above three categories, income from loans to governments abroad in the first category, and from investments in overseas railways in the second and third categories, were estimated according to region. Table 4 shows the regional investment income (interest and dividends) from overseas investments in govern-

¹⁰ Kindersley conducted surveys of "British Foreign Investments" annually beginning in 1928 and the results of his annual surveys were published in the *Economic Journal*. His estimates are based on information supplied by many banks, issuing houses and other companies.

¹¹ Kindersley's survey does not count certain kinds of income from British overseas investments such as receipts from holdings of foreign securities not officially dealt in on U.K. markets and certain receipts from private U.K. companies operating abroad (Kindersley, 1933, p.188; Foot, 1972, p.353).

ments and railways for 1929-1931. According to this table, with regard to British investment income from overseas governments and railways, income earned from the Empire exceeded that from the non-Empire for each year between 1929 and 1931, and the difference in income between them tended to widen rapidly during these three years: while the income from the former remained a little less than £65 million, the income from the latter fell by 25%, from £43 million to £32 million.

Table 4 Income from British Overseas Investments in Governments and Railways, by Region, 1929-1931

(£ thousand)

	1929	1930	1931	1929	1930	1931	1929	1930	1931
	From Overseas British Empire			From Non-British Empire			Total		
Income from Overseas Governments									
Interest (1)	46,416	46,878	48,405	18,245	17,788	17,515	64,661	64,666	65,920
Income from Overseas Railways									
British Companies operating abroad									
Dividends and Interest (2)	6,281	6,391	6,125	19,360	17,478	9,892	25,641	23,869	16,017
Other Companies operating abroad									
Dividends and Interest (3)	11,992	11,457	10,102	5,489	5,111	4,522	17,481	16,568	14,624
Subtotal (4)=(2)+(3)	18,273	17,848	16,227	24,849	22,589	14,414	43,122	40,437	30,641
Dividends	7,501	7,005	5,365	12,283	11,386	5,055	19,784	18,391	10,420
Interest	10,772	10,843	10,862	12,566	11,203	9,359	23,338	22,046	20,221
Total (5)=(1)+(4)	64,689	64,726	64,632	43,094	40,377	31,929	107,783	105,103	96,561

Notes: 1) Based on the surveys by Sir Robert Kindersley. The estimates do not cover the income from overseas investments such as individual investments in private companies and investments in foreign securities not dealt in on the London market. 2) The income indicates the interest and dividends payments made to residents in the U.K. 3) "British companies" refer to companies registered in the U.K. "Other companies" refer to foreign and colonial companies registered abroad.

Sources: Based on Kindersley (1932, Tables II, III A, III B, IV and V); (1933, Tables II, IV and V).

Kindersley provides no data on the regional distribution of income from overseas investments in sectors other than governments and railways. Where investment income lacks a regional distribution, Kindersley provides estimates of investment income by industry and by type of company. These are shown in Table 5. Many groups of industries classified in Kindersley's survey are reclassified broadly into three groups (public utilities, mines and miscellaneous) in this table. For our current purpose of estimating the regional distribution of income from investments in each of these three groups, a bold assumption is made that there is a relationship between the investment income from a specific industry group and the outstanding overseas investments in that industry group. In other words, the share of regional investment income in total investment income is assumed to be equal to the share of outstanding regional investments in total outstanding investments.

Table 5 Income from British Overseas Investments in Sectors other than Governments and Railways, 1929-1931

(£ thousand)

Investment in:	1929			1930			1931		
	Dividends	Interest	Total	Dividends	Interest	Total	Dividends	Interest	Total
I	5,111	1,770	6,881	4,348	1,690	6,038	3,766	1,281	5,047
Public Utilities II	1,257	3,171	4,428	1,593	3,090	4,683	1,879	2,905	4,784
III = I + II	6,368	4,941	11,309	5,941	4,780	10,721	5,645	4,186	9,831
I	6,950	225	7,175	4,731	257	4,988	1,864	584	2,448
Mines II	13,523	246	13,769	7,339	202	7,541	4,008	273	4,281
III = I + II	20,473	471	20,944	12,070	459	12,529	5,872	857	6,729
I	42,126	4,160	46,286	37,514	4,057	41,571	21,803	3,432	25,235
Miscellaneous II	14,653	5,123	19,776	14,196	5,508	19,704	10,571	4,947	15,518
III = I + II	56,779	9,283	66,062	51,710	9,565	61,275	32,374	8,379	40,753
I	54,187	6,155	60,342	46,593	6,004	52,597	27,433	5,297	32,730
Total II	29,433	8,540	37,973	23,128	8,800	31,928	16,458	8,125	24,583
III = I + II	83,620	14,695	98,315	69,721	14,804	84,525	43,891	13,422	57,313

Notes: 1) Based on the surveys by Sir Robert Kindersley. For the coverage of the estimates, see the notes in Table 4. 2) I: British Companies (i.e., companies registered in the U.K.) operating abroad. II: companies both registered and operating abroad. 3) Various commercial and industrial groups classified in Kindersley's survey are reclassified into three groups in this table. See the text.

Sources: Calculated from the data in Kindersley (1932, Tables III A, III B, IV and V); (1933, Tables IV and V).

Table 6 Geographical Distribution of British Overseas Investments at the end of 1930

(£ million)

	Govern- ments	Railways	Public Utilities	Mines	Miscel- laneous	Total
Overseas British Empire	1,087	354	63	92	391	1,987
(%)	(75.5)	(44.9)	(36.6)	(78.0)	(58.5)	(62.4)
Non-British Empire	353	434	109	26	277	1,199
(%)	(24.5)	(55.1)	(63.4)	(22.0)	(41.5)	(37.6)
Total	1,440	788	172	118	668	3,186
(%)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Notes: 1) Estimates by Sir Robert Kindersley. The total amount of £3,186 million in this table is estimated to have accounted for 85% of Britain's total overseas investments at the end of 1930. 2) "Governments" refer to colonial governments and municipalities.

Source: Based on Kindersley (1933, Table IX).

Fortunately, Kindersley produces estimates for British overseas investments, amounting to £3,186 million¹² by area and by industry group at the end of 1930. His estimates are summarized in Table 6. The corresponding estimates for 1929 and 1931 are not available, but it might not be unreasonable to assume that the regional share of outstanding overseas investments in each of industry groups was the same in 1929 and 1931 as it was in 1930. Based on these assumptions, it is then possible, from the data in Table 5 and Table 6, to calculate the regional distribution of investment income in each of industry groups (other than railways) for the years 1929 to 1931. For instance, total investment income of £11,309 thousand in 1929 from overseas investments in public utilities can be assumed to have been distributed between

¹² According to Kindersley, this figure covered 85% of British outstanding overseas investments at the end of 1930 (Kindersley, 1933, pp.199-200).

income of £4,139 thousand ($=11,309 \times 0.366$) from the Empire and income of £7,170 thousand ($=11,309 \times 0.634$) from the non-Empire. Results from such calculations are presented in Table 7, in which the estimated regional distribution of income from overseas investment in each group of public utilities, mines and “miscellaneous” is shown.

Table 7 Estimates of Income from British Overseas Investments in Sectors other than Governments and Railways, by Region, 1929-1931

(£ Thousand)

	Total Investment Income								
				From Overseas British Empire			From Non-British Empire		
	1929	1930	1931	1929	1930	1931	1929	1930	1931
Public Utilities	11,309	10,721	9,831	4,139	3,924	3,598	7,170	6,797	6,233
Mines	20,944	12,529	6,729	16,336	9,773	5,249	4,608	2,756	1,480
Miscellaneous	66,062	61,275	40,753	38,646	35,846	23,841	27,416	25,429	16,912
Total	98,315	84,525	57,313	59,121	49,543	32,688	39,194	34,982	24,625

Notes and Source: 1) Total investment income (Kindersley series) is taken from Table 5. 2) The figures for investment income from the Overseas British Empire and the non-British Empire are the author's estimates. The Estimating procedures are explained in the text.

Thus, Kindersley's estimates of Britain's total income from its overseas investments can be distributed between income from the Empire and that from the non-Empire. Lines (1)~(5) in Table 8 shows the regional distribution of investment income from overseas governments and railways (given in Table 4) together with that from other overseas investments (given in Table 7) for the years 1929-1931.

However, some problems remain unsolved. The first problem is to adjust Kindersley's estimates of investment income so that they can be consistent with Kahn's. Kindersley's estimates of total investment income (line C in Table 8) are lower than Kahn's (line D). Although the difference between them shows a tendency to decrease (from around £19 million in the estimates for 1929 to £1 million in those for 1931), this narrowing difference does not necessarily reflect higher statistical accuracy in the estimation. The difference between Kindersley's and Kahn's estimates arises largely from the different concepts underlying their estimates and their different coverage. Kindersley's estimates, for example, do not count undistributed earnings directly reinvested, nor do they count receipts by Britain's residents from their overseas investments in securities not officially dealt in on British markets¹³. Furthermore, while Kindersley's figures were for gross investment income, those of Kahn were for net investment income in which payments to non-residents on their investments in Britain were deducted. For these reasons, Kindersley's figures for total investment income are not comparable to those of Kahn.

In spite of this, however, there is no realistic alternative but to use the regional shares of investment income calculated above (line (7) in Table 8) in order to distribute regionally the figures for total investment income given by Kahn. The following facts help to justify the use of this method. First, the income from foreign investments in Britain was evidently much less than that from British overseas investments¹⁴. Second, the amounts reinvested or put to

¹³ For more details of this difference, see Foot (1972, pp.352-356); Royal Institute of International Affairs (1937, pp.336-337); League of Nations (1938, pp.186-187).

¹⁴ According to Feinstein's estimates, the ratio of investment income paid abroad to that from abroad was 21% for 1929 and 23% for 1931 (calculated from Feinstein, 1972, Table 38).

Table 8 Estimates of Britain's Investment Income, by Region, 1929-1931

(£ million)

	Total Investment Income								
				From Overseas British Empire			From Non-British Empire		
	1929	1930	1931	1929	1930	1931	1929	1930	1931
A Investments in:									
Governments (1)	64.7	64.7	65.9	46.4	46.9	48.4	18.2	17.8	17.5
Railways (2)	43.1	40.4	30.6	18.3	17.8	16.2	24.8	22.6	14.4
Public Utilities(3)	11.3	10.7	9.8	4.1	3.9	3.6	7.2	6.8	6.2
Mines (4)	20.9	12.5	6.7	16.3	9.8	5.2	4.6	2.8	1.5
Miscellaneous (5)	66.1	61.3	40.8	38.6	35.8	23.8	27.4	25.4	16.9
Subtotal (6)	206.1	189.6	153.9	123.8	114.3	97.3	82.3	75.4	56.6
(%) (7)	(100.0)	(100.0)	(100.0)	(60.1)	(60.3)	(63.2)	(39.9)	(39.7)	(36.8)
B Others (8)	24.8	19.4	14.9	—	—	—	—	—	—
C = (A+B) (9)	230.9	209.0	168.7	—	—	—	—	—	—
D Adjusted investment income (10)	250	220	170	150	133	107	100	87	63

Notes and Sources: 1) The data in lines (1) and (2) are from Table 4. The investment income data in lines (3), (4) and (5) are from Table 7. 2) The data in line (8) are for the investment income not covered or identified by above (calculated from the data in Kindersley, 1932, Table IV, Table VII; 1933, Table V, and Table VII). 3) "Adjusted investment income" in line (10) refers to investment income adjusted to balance of payments basis. The total investment income data in line (10) are derived from Kahn's series of balance of payments (Table 1). The data for regional distribution of investment income in line (10) are based on the author's estimates. The estimating procedures are described in the text. For the regional distribution of adjusted investment income for 1928, see the text.

reserves from profits were assumed to be very small in 1931 (Royal Institute of International Affairs, 1937, p.336). Thus, Kahn's figures for total investment income for the years 1929-1931 can be distributed by region according to the estimated regional shares indicated in line A (7) of Table 8. For example, investment income from the Empire in 1929 is estimated to have been £150 million ($=250 \times 0.601$). The results are shown in line D of this table. The figures in this line are subject to a large margin of error¹⁵, but, surprisingly, the amount of investment income from the Empire (£150 million) for 1929 estimated here by the author is the same as that estimated by Kahn (see Table 2).

The second problem is how to estimate the regional distribution of investment income for 1928. Kindersley provided for 1928 only the estimated regional distribution of income from British overseas investments in government securities, making no estimate of investment income from other sectors. According to Kindersley's estimates, total investment income from overseas governments amounted to £61.9 million for 1928, of which £43.8 million were from the Empire and £18.1 million from the non-Empire (Kindersley, 1931, Table II). If the figure of £61.9 million is deducted from the total investment income (£250 million) given in Kahn's series, investment income other than that from overseas governments will be overestimated. The reason for this is that, as already explained, total investment income in Kahn's series exceeds total identified investment income in Kindersley's series, for example by 21%

¹⁵ Since the United States and some industrial countries in Continental Europe seem to have accounted for a large portion of the outstanding investments in Britain at the time under review, investment income from the non-Empire might be overestimated.

for 1929 (Table 8).

Assuming the rate of excess for 1928 to be the same as for 1929, total investment income from overseas governments is adjusted to £75 million ($=£61.9 \times 1.2$), of which £53 million are from the Empire and £22 million from the non-Empire. Since £75 million is thus attributed to income from overseas governments, the remaining £175 million ($=250-75$) can be regarded as income from overseas investments other than those in government securities in Kahn's series. The regional distribution for the remaining figures can be estimated according to regional shares of outstanding overseas investments in the sectors other than governments. The regional shares of outstanding overseas investments in these sectors are $51.5\% = (354+63+92+391) / (788+172+118+668)$ for the Empire and 48.5% for the non-Empire (calculated from the data in Table 6). Based on these shares, the remaining income of £175 million can be distributed as income from the Empire (£90 million), and income from the non-Empire (£85 million). Thus, the total investment income of £250 million for 1928 in Kahn's series can be broken down by region: investment income from the Empire and the non-Empire is estimated to have been £143 million ($=53+90$) and £107 million ($=22+85$), respectively.

Table 9 Estimates of Investment Income in Britain's Balance of Payments, by Region, 1929-1931

	(£ million)			
	1928	1929	1930	1931
Total	250	250	220	170
From Overseas British Empire	143	150	133	107
From Non-British Empire	107	100	87	63

Sources: 1) The data for "Total" for each year are derived from investment income in Kahn's series of balance of payments in Table 1. 2) The data for regional distribution for 1929-1931 are taken from Table 8. For 1928, the data are from the text, pp.116-117.

Table 9 summarizes the resulting estimates for the regional distribution of total investment income for the years 1928-1931 in Kahn's series of balance of payments. According to this table, total British income from overseas investments declined significantly by 32%, from an annual average of £250 million in 1928-1929 to £170 million in 1931. The rate of decline in investment income from the non-Empire was larger than that from the Empire. From 1929 to 1931, investment income from the non-Empire fell by 37%, compared with 28% from the Empire. However, in terms of absolute amounts, the decrease in the latter amounted to £43 million against £37 million in the former.

3) Estimating the regional distribution of balances on other items

The various items in the current account excluding merchandise trade and investment income in Kahn's series are grouped in this paper under two headings: (1) net shipping income and (2) other services. Net shipping income is in the main the balance between gross earnings by British shipping and British payments to foreign shipping. Under "other services" are included "short interest and commissions," "government transactions" and "other receipts." The figures for balances on these items in Kahn's series of balance of payments are taken from the Board of Trade series (Kahn, 1946, Table 13; Board of Trade, 1938, Table No. 294).

It is almost impossible to distribute the balances on these items by region. With regard to

shipping income, it can be observed that the income from the Empire seems to have declined more than that from the non-Empire, largely because the reduction in Britain's merchandise exports to the Empire was larger than to the non-Empire for 1928-1931, while at the same time British shipping was used in a larger share of its trade with the Empire. However, there are no further clues to help in estimating the regional allocation of shipping income. Moreover, earnings by British shipping from transport between third countries appear to have been huge, but are impossible to allocate regionally. The same may be said of the items grouped under "other services."¹⁶

Kahn estimated the shipping income from the Empire to have been roughly £40 million, accounting for 31% of total shipping income, while "other services" income from the Empire accounted for around £50 million, some 48% of the total for 1929 (Table 2). Our current estimation of the regional distribution of shipping income and income from "other services" for 1928 and 1930-1931 makes use of these percentage shares: the estimates are made based on the crude assumption that, for example, the share of shipping income from the Empire for the year 1928 and 1930-1931 was the same as in 1929. The figures obtained in this way for the regional breakdown of shipping income and of "other services" income are entered into the subsequent table¹² which shows the regional distribution of Britain's basic balance.

(3) Estimating a Regional Breakdown of the Long-term Capital Account

The long-term capital account in Kahn's balance of payments series consists of "new overseas issues" in the London market, "capital repayments" and "other long-term capital movements." Among the items in the long-term capital account, "other long-term capital movements" refer to transactions in outstanding securities, direct investments etc., but there are no estimates for them for 1928-1929. Moreover, transactions involving existing securities are often short-term investments (Lary, 1942, pp.106-107). For these reasons, no estimate of the regional breakdown is made for "other long-term capital movements."

1) Regional distribution of new overseas issues

The data for total new overseas issues in Kahn's series for 1928 are taken from Midland Bank's estimates, while those for 1929-1931 are taken from Kindersley's estimates. The estimates by Midland Bank for new issues for overseas account cover all capital issues floated in London excluding those for refunding, and take no account of subscriptions to new issues by overseas residents (Midland Bank, 1932, p.4; Royal Institute of International Affairs, 1937, p.338). On the other hand, the estimates by Kindersley are based on those by Midland Bank, but are adjusted to include refunding issues and to exclude the amount subscribed by non-residents (Kindersley, 1932, p.194; 1933, pp.202-203). From a balance-of-payments point of view, Kindersley's estimates are more suitable than those of Midland Bank. However, the estimates by Midland Bank are very useful, because, in contrast to Kindersley's estimates, the Midland Bank series includes the geographical distribution of the overseas capital issues and covers each year during the 1928-1931 period. The quantitative difference between these two estimates is not so large as to affect the basic trend of new overseas issues (see Table 10). For this reason, the new capital issues in the Midland Bank series are adopted in the subsequent table for Britain's regional basic balance.

¹⁶ Each item in "other services" is made up of different varieties of external service transactions. For example, "short interest and commissions" include commission on acceptance credit, discount on foreign bills, interest on banks' short-term deposits and liabilities, insurance remittances from abroad, etc." (Foot, 1972, p.356).

Table 10 New Overseas Capital Issues in the London Market, by Region, 1929-1931

(£ million)

	1928	1929	1930	1931
I For British Countries Account	86.1	54.4	70.0	36.8
Public authorities	52.1	30.6	56.0	30.6
Private undertakings	34.0	23.8	14.0	6.3
II For Foreign Countries Account	57.3	39.9	38.8	9.2
Public authorities	19.8	4.1	12.6	0.2
Private undertakings	37.5	35.8	26.2	9.0
III = I + II	143.4	94.3	108.8	46.1
Public authorities	71.8	34.7	68.6	30.8
Private undertakings	71.6	59.6	40.2	15.3
Memorandum: Kindersley's estimates	n.a.	96	98	41

Notes and Sources: 1) The data for I and II are taken from Midland Bank (1932, pp.3-5). The estimates exclude the issues for the purpose of conversion or redemption. "Public authorities" refer to governments, municipalities and public boards. 2) Kindersley's estimates of new overseas issues (Kindersley, 1933, p.204) include refunding issues, but exclude subscriptions to new issues by non-U.K. residents.

Table 10 shows the regional distribution of capital issues for overseas accounts between 1928 and 1931. According to this table, the total amount of new overseas issues on the London market declined sharply (by 34%) to £ 94 million in 1929, after recording £ 143 million in 1928, its highest level since World War 1 (Midland Bank, 1930, p.7). Overseas issues recovered to some extent in 1930, but contracted again by almost 58% in 1931 compared with the previous year. In the course of this sharp reduction in overseas issues, the regional distribution of overseas issues also changed. The Empire's share of total issues for overseas accounts rose from around 60% in 1928 to 80% in 1931. This reflected the fact that in the same period the issues for non-Empire accounts decreased more significantly than those for Empire accounts.

2) Estimating the regional distribution of capital repayments

The data in the item "capital repayments" in Kahn's balance of payments series are taken from Kindersley's estimates of capital repayments. Kindersley's estimates for repayments are principally made by type of borrower, i.e., overseas "governments," "British companies operating abroad" and "companies registered abroad." Kindersley, therefore, makes no attempt to estimate the regional distribution of (total) capital repayments by borrowers with the exception of the repayments by overseas governments and railways. The procedures adopted here to estimate the regional distribution of capital repayments by other sectors ("public utilities," "mines" and "miscellaneous") for the years 1929-1931 are the same as those adopted for estimating the investment income by region for the same years. The results of calculations made according to these procedures are shown in lines (5), (8) and (11) in Table 11. Line (14) in this table shows the estimated regional distribution of the total capital repayments for 1929-1931. It should be noted that the figure for repayments by the Empire is estimated here to have been £ 30.7 million in 1929 (see last line in Table 12), against roughly £ 30 million according to Kahn's estimate (Table 1).

Table 11 Estimates for Britain's Receipts of Capital Repayments, by Region, 1929-1931

(£ Thousand)

	Total Repayments								
				From Overseas British Empire			From Non-British Empire		
	1929	1930	1931	1929	1930	1931	1929	1930	1931
Governments (1)	30,425	19,681	16,267	20,284	9,819	5,507	10,141	9,862	10,760
Railways									
(2)=(3)+(4)	5,432	11,104	2,809	3,521	9,572	1,522	1,911	1,532	1,287
I (3)	3,488	6,675	1,430	2,895	6,228	1,282	593	447	148
II (4)	1,944	4,429	1,379	626	3,344	240	1,318	1,085	1,139
Public Utilities									
(5)=(6)+(7)	3,419	2,013	3,077	1,251	737	1,126	2,168	1,276	1,951
I (6)	821	669	1,326	301	245	485	521	424	841
II (7)	2,598	1,344	1,751	951	492	641	1,647	852	1,110
Mines									
(8)=(9)+(10)	1,284	276	295	1,002	215	230	282	61	65
I (9)	236	53	54	184	41	42	52	12	12
II (10)	1,048	223	241	817	174	188	231	49	53
Miscellaneous									
(11)=(12)+(13)	7,946	5,859	4,304	4,648	3,428	2,518	3,298	2,431	1,786
I (12)	3,943	2,158	2,090	2,307	1,262	1,223	1,636	896	867
II (13)	4,003	3,701	2,214	2,342	2,165	1,295	1,661	1,536	919
Total (14)	48,506	38,933	26,752	30,706	23,771	10,903	17,800	15,162	15,849

Notes and Sources: 1) The data in lines (1), (3) and (4) are taken from Kindersley (1932, Table II, Table III and Table V); (1933, Table II, Table IV and Table V). 2) The data for total repayments in lines (6), (7), (9), (10), (12) and (13) are from Kindersley (1932, Table III and Table V); (1933, Table IV and Table V). For definition of I and II, see the notes in Table 5. 3) The data for regional distribution in lines (5) ~ (14) are author's estimates. The procedures for the estimation are explained in the text.

In Kindersley's survey for the year 1928, estimates for the regional distribution of capital repayments are confined only to repayments by overseas governments. Here, in order to estimate the regional distribution of other capital repayments, the same procedure is used as for calculating the investment income by region for 1928. According to this procedure, repayments for 1928 can be estimated to have been some £ 15 million from the Empire and around £ 20 million from the non-Empire.¹⁷

As shown in Table 11, there was a significant reduction in capital repayments from 1930 to 1931 partly due to an increase in defaults on loans abroad (Kindersley, 1934, p.369). Furthermore, reduced repayments by both governments and non-government sectors in the Empire region accounted for a large portion of the decline in total repayments in this period.

¹⁷ Kindersley estimates that, of the total capital repayments of £ 15 million by overseas governments for 1928, £ 5 million were from the Empire and £ 10 million from the non-Empire (Kindersley, 1932, Table II C). Since the total amount of repayments by all the overseas borrowers is estimated to have been £ 35 million for 1928 in Kahn's series (Table 1), the remaining £ 20 million is estimated to have been presumably repaid by non-government sectors. This £ 20 million is distributed between the Empire and the non-Empire according to the procedure described in the text. The resulting repayments from these regions are estimated to be £ 10 million each. Thus, the total repayments by the Empire and the non-Empire for 1928 are estimated to have been £ 15 million and £ 20 million, respectively. These figures are entered in Table 12.

III Estimation Results and their Implications

(1) Regional Breakdown of Britain's Basic Balance and Changing Aspects of its Multilateral Settlements

Table 12 summarizes the results of the estimations detailed in the preceding Section: presented in this table are the estimates of Britain's regional basic balances with the Overseas Empire and the non-British Empire for the years 1928-1931. The balances for individual items in the current and long-term capital accounts by region are also indicated. The arrangement of individual items is based on conventional usage and the item "investment income" is included under the item "services." It should be noted again that there remains sizable uncertainty about the accuracy of the regional figures, largely because most estimates of regional balances on individual items had to be made based on somewhat *ad hoc* assumptions. Despite their highly approximate nature, the estimates in the table can be seen as offering a broad indication of the changes in Britain's basic balances with both the Overseas Empire and the non-British Empire during the period 1928-1931.

The table allows us to remark on some salient features of the development of Britain's regional basic balance from 1929 onward. First, by 1928 Britain had restored the pre-1914 pattern of multilateral settlements in its international economic relations. As explained earlier, the pre-war worldwide network of multilateral settlements which had developed since the 1870s collapsed with the onset of World War 1, but, probably around the middle of the 1920s, was reestablished in much the same pattern as had prevailed in the pre-war period. Thus, Britain was once again settling its bilateral imbalances in a multilateral manner. In 1928, measured at the level of the basic balance (i.e., the combined balances on current and long-term capital accounts), Britain had a deficit of roughly £180 million with the non-British Empire, in which are included the United States and major industrial countries on the European Continent. On the other hand, Britain had a surplus of about £190 million with the Overseas British Empire, comprising countries mostly characterized as primary producing exporters. From Britain's point of view, its bilateral imbalance with each of these regions was settled in a multilateral manner: the deficit with the non-British Empire was settled by the surplus with the Overseas British Empire, and, as a result, Britain's basic balance with the rest of world was approximately in "equilibrium" in 1928.

Second, with the deepening of the worldwide depression, Britain's basic balance with both the Overseas British Empire and the non-British Empire tended to deteriorate. While the surplus on basic balance with the Overseas British Empire declined by just over £100 million, from roughly £190 million in 1928 to approximately £90 million in 1931, the deficit with the non-British Empire widened for the same period by about £30 million, growing to roughly £210 million. As a result, Britain's global basic balance shifted from a situation approximately "in balance" to a record deficit of some £120 million.

In this connection, the following points should be emphasized. 1) The sharp deterioration of Britain's basic balance between 1928 and 1931 was mainly due to the significant decrease in the surplus with the Overseas British Empire. Of the deterioration in Britain's global basic balance of some £135 million for 1928-1931, nearly 80% was accounted for by the contraction in the surplus with the Empire. 2) The ratio of Britain's deficit on basic balance with the non-British Empire covered by its surplus with the Overseas British Empire tended to decline rapidly from 1929 onward. For 1929 Britain's deficit with the non-British

Table 12 Estimates of the Regional Breakdown of Britain's Basic Balance, 1928-1931

(£ million)

	I Current Account						II Long-term Capital Account			III Basic Balance	IV Gold Movements (outflows,+)
	Merchandise Trade	Services				New Capital Issues	Repayments				
		Investment Income	Shipping	Other Services							
Total											
1928	123	-352	475	250	130	95	-108	-143	35	15	13
1929	102	-382	484	250	130	104	-45	-94	49	57	15
1930	28	-386	414	220	105	89	-70	-109	39	-42	-5
1931	-102	-406	304	170	80	54	-19	-46	27	-121	35
With the Overseas British Empire											
1928	264	35	229	143	40	46	-71	-86	15	193	-30
1929	266	26	240	150	40	50	-23	-54	31	243	-43
1930	198	-10	208	133	32	43	-46	-70	24	152	-67
1931	113	-45	158	107	25	26	-26	-37	11	87	-77
With the Non-British Empire											
1928	-141	-387	246	107	90	49	-37	-57	20	-178	43
1929	-163	-407	244	100	90	54	-22	-40	18	-185	58
1930	-170	-376	206	87	73	46	-24	-39	15	-194	62
1931	-215	-361	146	63	55	28	7	-9	16	-208	112

Note: Most of the estimated data are subject to a wide margin of error. See the text.

Sources: 1) The data for "merchandise trade" are from Table 3. 2) The data for "investment income" are from Table 9. 3) The data for "shipping" and "Other services" are calculated according to the procedures explained in the text p.118. 4) The data for "new capital issues" are taken from Table 10. 5) The data for "repayments" for 1929-1931 are from Table 11. Estimates for 1928 are from footnote 17 in the text. 4) The data for "gold movements" are taken from U.K. Board of Trade (1938, Table No.290).

Empire was more than offset by its surplus with the Overseas British Empire, but for the year 1931 when Britain abandoned the gold standard, its surplus with the Overseas British Empire offset only 42% of its deficit with the non-British Empire. Thus, from the multilateral settlement point of view, this means that Britain's pattern of international settlements on a multilateral basis came to be undermined. It would be no exaggeration to say that, viewed in the level of the basic balance, the restored pattern of Britain's multilateral settlements broke down in the course of global Great Depression.

Third, the factors contributing to the deterioration in Britain's basic balance with the Overseas British Empire differed significantly from those with the non-British Empire. This can be verified from Table 12. With the Overseas British Empire, Britain had a surplus on current account in 1928 as before, the magnitude of which more than offset the deficits on its long-term capital account, thus leaving a surplus on its basic balance of nearly £200 million. However, between 1928 and 1931 Britain's basic balance surplus with the Overseas British Empire, despite the improvement of the balance on long-term capital account, is estimated to have decreased by just over £100 million, falling to around £90 million in 1931. Therefore, a large and rapid shrinkage in Britain's current account surplus with the Empire caused its basic balance surplus with the Empire to decline significantly during 1928-1931. The shift from surplus to deficit in merchandise trade and the decrease in investment income receipts were the major factors behind the deterioration in Britain's current account with the Overseas

Empire. Of the overall shrinkage of some £150 million in its current account surplus with the Empire, the deterioration in merchandise trade balance accounted for 53%, while the decrease in investment income accounted for 25%.

On the other hand, with the non-British Empire, Britain had a deficit on its merchandise trade as well as its long-term capital account, although there was a surplus on its service account. For the year 1928, since the service account surplus covered less than 60% of the combined deficits on merchandise trade and long-term capital accounts, Britain's basic balance with the non-British Empire was in deficit amounting to around £180 million. Following the onset of the depression in 1929, Britain's basic balance deficit with the non-British Empire widened to roughly £210 million in 1931. The widening deficit with the non-British Empire was contributed to by a large decrease of around £100 million in Britain's surplus on non-merchandise current transactions such as the receipts of investment income and shipping. As for other transactions with the non-British Empire, the deficit in Britain's long-term capital account shifted to a slight surplus due mainly to the sharp reduction in capital issues for non-British Empire accounts in the London market, while, at the same time, the deficit in its merchandise trade balance declined to a small extent. However, the effect of these factors improving Britain's basic balance was not large enough to prevent the basic balance with the non-British Empire from deteriorating overall. Thus, the growing deficit in Britain's basic balance with the non-British Empire for 1928-1931 was attributable to the decline in its service trade surplus being larger than the improvement in the combined balances on merchandise trade and long-term capital accounts.

(2) A Multilateral Settlements Perspective on the Deterioration in Britain's External Account

Broadly, the above analysis reveals that the serious deterioration in Britain's basic balance during 1930-1931 was due largely to the sharp decline in its basic balance surplus with the Overseas British Empire rather than the increasing deficit with the non-British Empire. Consequently, in 1931 the ratio of the surplus with the Overseas British Empire to the deficit with the non-British Empire declined to merely 42% compared with some 100% in 1928. These facts explain how Britain's restored pattern of multilateral settlements broke down in the face of global depression.

The defining characteristics of this collapse will be made clearer by viewing the changes that took place in the bilateral basic balance between the Overseas British Empire and the non-British Empire. There is, unfortunately, no statistical data available for verifying the changing bilateral balance between these two regions. However, it seems evident that the Overseas British Empire's basic balance with the non-British Empire deteriorated from the late 1920s through the early 1930s. The author's preliminary and very rough estimates, which are, of course, subject to a large margin of error, indicate a serious deterioration in the Overseas British Empire's current account balance with the non-British Empire between 1928 and 1931. The Overseas British Empire's balance on current account – not including gold movements – with the non-British Empire is estimated to have shifted from a surplus of around £125 million in 1928 to a deficit of some £30 million in 1930 and £50 million in 1931¹⁸, although the estimated figures might overstate the deterioration. Since the long-term

¹⁸ These figures can be roughly estimated by deducting the Overseas British Empire's current account balance with Britain (see the data in Table 12, with sign reversed) from its global current account balance. Annual data on the latter are from Hirata (1988, Table 2-19) and the author's revised estimates based on the figures given in United Nations (1949, Table 3); League of Nations (1933, p.117); Bank for International Settlements (1953, p.28); The Economist (Aug. 6, 1938, p.280); Williams (1963, p.521).

capital movements between these regions appear to have been small, the extent of the deterioration in the Overseas British Empire's basic balance with the non-Empire can be reasonably approximated as the change estimated on the current account balance.

From the viewpoint of the Overseas British Empire, the shift in its basic balance with the non-British Empire from surplus to deficit meant the complete collapse of its multilateral payment pattern. In 1928, the Overseas Empire's deficit with Britain (Table 12) could be more or less settled by its surplus with the non-British Empire and by its normal exports of gold. However, in 1930 and 1931, the Overseas British Empire added substantial deficits with the non-British Empire to its existing deficit with Britain. This development suggests that the decrease in the region's basic balance deficit with Britain reflected the result of some adjustment to the growing deterioration in its basic balance with the non-British Empire. Meanwhile, the sharp deterioration of its basic balance with the non-British Empire was attributable largely to a significant decline of merchandise exports along with the cessation of long-term capital inflows from outside the Empire.

Viewed in these ways, Britain's balance of payments crisis in the early 1930s can be characterized as follows. First, as discussed above, the serious deterioration in Britain's basic balance from a surplus in 1928-1929 to a huge deficit in 1931 was caused both by a rapid decline in its surplus with the Overseas British Empire and by a gradual increase in its deficit with the non-British Empire. From a multilateral payments point of view, this change in Britain's regional basic balance revealed the collapse of the traditional pattern of Britain's multilateral settlements. At the same time, this breakdown was closely related to a similar foundering of multilateral settlements pattern of the Overseas British Empire. Measured by basic balance, the restored multilateral settlements pattern, as discussed earlier, worked smoothly based on payment relationships in which Britain's deficit with the non-British Empire was settled by its surplus with the Overseas British Empire, and, in turn, the Overseas British Empire's deficit with Britain was settled by its surplus with the non-British Empire. However, in the crisis years after 1929, the bilateral imbalances between these major regions could no longer be settled on this multilateral basis.

For the British Empire as a whole, 1) the Overseas British Empire's pattern of multilateral settlement collapsed due to the shift from surplus to deficit with the non-British Empire. 2) This shift then led the Overseas British Empire to reduce its deficit with Britain. 3) Both Britain's decreasing surplus with the Overseas British Empire and its growing deficit with the non-British Empire led to a surging deficit on Britain's global basic balance. In this sense, Britain's increasing basic balance deficit was affected indirectly by the deterioration of the Overseas British Empire's basic balance with the non-British Empire.

Second, in both 1930 and 1931, while Britain was faced with the serious problem of how to settle the huge deficit in its basic balance, the burden of financing a large deficit in the Overseas British Empire's basic balance was in part placed on Britain. Although the Overseas British Empire's deficit on its basic balance was partly financed by methods such as gold exports and short-term borrowings in London (Williams, 1963, p.522), ultimately the remainder needed to be financed by drawing on London funds (sterling balances) held by banks and governments in the Overseas Empire. According to Nurkse, "central foreign exchange reserves" held by Australia, the Union of South Africa and India decreased by about £ 32 million, to around £ 40 million from the end of 1929 through 1931 (Nurkse, 1944, Appendix III). With the exception of gold exports, the above methods of deficit financing would be factors not only worsening Britain's overall balance of payments but also intensifying the pressure on the sterling exchange rate.

Third, as suggested above, the marked deterioration in Britain's external balance from the late 1920s to the early 1930s closely reflected the global imbalances between the British Empire and the non-British Empire. Based on data compiled by the author, the consolidated balance on current account for the British Empire as a whole¹⁹ is broadly estimated to have moved from a surplus of some £35 million in 1928 to a deficit of roughly £150 million in 1931 (see footnote 18). These figures might be overestimated, but it is evident that, for several years preceding the British departure from the gold standard, there was rapid growth in the global current account imbalances between the British Empire and the rest of the world. In this sense, the floating of sterling, the formation of the "sterling bloc" and the institution of Empire tariff preference following the British departure from gold may reasonably be regarded as the means by which the British Empire sought to correct its growing imbalances with the non-British Empire countries as a whole.

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¹⁹ The consolidated balance on current account for the British Empire includes the Overseas British Empire's gold movements.

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