# BRITISH CAPITALISM GOES IN PAWN

THERE has been much talk recently about the increase in Britain's "unfavourable balance of trade," and about the possible reasons for it and the consequences of it. Much of this talk has been wrapped about with a bewildering technical jargon, in which phrases about "invisible exports" and "balance available for investment" float across the ear. Separated from this technical jargon, what does all this mean?

When reduced to its simplest terms the question is not a very difficult one. A capitalist country, like an individual trader, carries on its business by selling certain things to other countries and buying certain things in return. If it sells more than it buys, it has a *credit balance*—it is owed more than it owes. On the other hand, if it buys more than it sells, it has a *debit balance*—it owes more than it is owed. Now this latter state of affairs cannot go on for very long, unless it can cover its debit balance by *borrowing*—borrowing by short-term credits or long-term loans. Unless the debtor country can cover its balance of indebtedness by borrowing in either of these ways, then the rate of foreign exchange will turn *against it*, as a sign that it owes more than it is owed. This turn of the exchange against it will either directly, or by an outflow of gold forcing a deflation of the price-level, check imports and stimulate exports until a balance between what it owes and what it is owed is restored. (*c.f.* my pamphlet, *Money and Prices*, L.R.D. Syllabus No. 16, Section 7.)

If, on the other hand, the country has a *credit balance*, then it can safely *lend* up to that extent to other countries, either by short-term bank credits or long-term foreign investments. But it cannot for long go on lending or investing abroad an amount larger than this credit balance ; because, if it does, it will be paying away more than it is being paid, and this will turn the foreign exchange rates against it, with the same results as have just been mentioned above.

Now, the things for which a country owes and is owed money consist very largely of *imports and exports of goods* ; but not entirely so. A country may also be owed money as interest on foreign investments or as repayment of a former loan, and as the price of banking, insurance, shipping services, etc. These latter are sometimes known as *"invisible exports."* In financial parlance a country is said to have an "unfavourable balance of trade" if its *visible imports* of goods (as shown in the Board of Trade statistics) exceed its *visible exports* of goods. The use of the phrase is a relic of mercantilist notions which thought an excess of exports desirable ; but a surplus of visible imports may not be really unfavourable if it is balanced by "invisible exports" of various kinds.

For example, the following figures show the position for Britain for 1924-26, as estimated by the Liberal economist, Mr. J. M. Keynes, in *The Nation* for October 23rd.† :—

| (In £ million) | 1924. | 1925. | Jan.-Sep. 1926. | Oct.-Dec. 1926 |
|---|---|---|---|---|
| Net favourable balance of all "invisible" items ......... | 447 | 474 | 355 | 119 |
| Excess of "visible" imports over exports ............... (i.e., the "unfavourable balance") | 324 | 386 | 317 | 140 |

† Keynes considers the Board of Trade estimates of "invisible exports" too low, and so adds about £60 million on to the Board of Trade figures. His figures in the first line are, therefore, probably on the high side. The Oct.-Dec. figures are estimates.

If one subtracts the figures in the second line from those in the first line, one finds the extent of the *credit balance* on all the items ("visible" and "invisible") of British trade. The Board of Trade is accustomed to refer to this as the "Balance available for foreign investment"—that is, the amount of capital that can be exported without tipping over the balance between money-incomings and money-outgoings so as to upset the foreign exchange rates. If we make this subtraction, we get the following result :—

| (in £ million) | 1924 | 1925. | Jan.-Sep. 1926 | Oct.-Dec. 1926 |
|---|---|---|---|---|
| Balance available for Foreign Investment .................. | 123 | 88 | 38 | —21 |

And if we place against these figures the actual export of capital from Britain in the last three years, we get this result :—

| (in £ million) | 1924. | 1925. | Jan.-Sep. 1926. |
|---|---|---|---|
| Actual Foreign Investments ...... | 134 | 88 | 72 |

What do these figures mean? They show that Britain's net "credit balance" of trade has steadily declined in the last three years, and at the end of 1926 has become an actual "debit balance" (and this on the most favourable estimates of the value of "invisible exports" !). And, moreover, the actual export of capital has exceeded in every year except 1925 (when an embargo on foreign investments was enforced by the Bank of England) the "credit balance" available. This means that Britain is paying away more than it is being paid, a condition which cannot last for long without upsetting the foreign exchange rates and undermining the stability of the gold standard—a fact shown in recent heavy outflows of gold —except in so far as Britain can *borrow from abroad to redress the balance*. And borrowing from abroad with one hand while investing in foreign shares with the other hand, seems the only explanation of the figures given above. How large this borrowing has been is difficult to say. The City Editor of the *M.G. Commercial,* in an article headed, "Are we paying our way?" suggests the possibility of an annual borrowing up to £100 millions; although the Midland Bank monthly review declares it difficult to discover in what ways this borrowing is being done. Mr. Keynes' estimate of the "credit balance" is probably on the favourable side, and is at any rate some £60 millions higher than the Board of Trade estimate; and the figure of actual foreign investments in the first nine months of 1926, as given by the *M.G. Commercial,* is some £10 millions higher than the figure quoted above. The extent to which British capitalism has had to borrow from abroad (presumably, mainly from U.S.A.), or sell out some of its capital, in the course of 1926 cannot be far short of £70 million, and may be considerably more.

British capitalism, therefore, which before the war was the creditor of the world, drawing annual interest on foreign investments to the extent of some £200 million and reinvesting abroad each year some £100 million, is now faced with complete loss of her power to invest abroad, let alone to regain her pre-1914 position by replenishing the £600 million or so of foreign capital which she had to sell out for war purposes. While other European countries have fast sunk into added indebtedness to U.S.A. during recent years, British capitalism has striven to keep its head above water, to rival the financial influence of U.S.A., and by Locarno, etc., to rally the rest of Europe to her side. Now she, too, may have to go to pawn in Wall Street.

In this position there have arisen two trends of policy in British capitalism. The one, of which Mr. Keynes is a representative, would reimpose the embargo on foreign investment,† and concentrate capital and attention on reviving the home market and home production. This is to renounce the financial struggle in the international sphere in favour of internal stability. With this would probably be coupled a certain degree of "Americanisation" of British industry. The second, which is at present in the ascendant and seems likely to remain so, strives to reduce wages and lengthen hours at home, so as to stimulate exports and diminish working-class consumption of imported food, and so leave available a larger "credit balance" for investment abroad, whereby to rival American capital in annexing and exploiting potential colonial areas. The former is an attempt to produce relative and the latter to produce absolute surplus-value. Official Labour (and Mr. Newbold) lend their support to the former policy.

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† On going to Press there comes the information that the Bank of England intends to reimpose the unofficial embargo on foreign investments as a temporary measure.