Changes in the Supply of Capital for Industry in Britain

by

S. P. CHAMBERS

When changes in a country's economy are of a revolutionary character, it is useful to go back to first principles and to examine the changes in the light of these principles. The changes which are taking place in Britain at the present time in the sources from which manufacturing industry gets its capital are of this kind and are likely to have a deep influence upon the social and political structure of the country.

Current capital formation, we know, is made possible only by production exceeding consumption and, in the absence of an inflow of capital from overseas, this excess arises in two main forms:

(a) saving out of income by private individuals, and

(b) non-distribution of profits by corporate entities.

Reference will be made later to a third form — the excess of taxation over current Government expenditure where this excess is invested in income-producing capital.

In a country where a policy of full employment has led to severe competition for capital resources and to the rationing of capital the demands for capital for purposes other than productive industry and the allocations made for these other purposes are of special significance. It is fortunate, therefore, that an analysis of capital invested is given in the official publication « National Income and Expenditure 1946-1951 » (1). Table 31 of this document gives the following figures for 1951:

THE FINANCING OF GROSS DOMESTIC CAPITAL FORMATION IN 1951 (£ *millions*)

TABLE 31

	Persons (inc. non-corporate businesses)	Companies	Public Corporations (*)	Central Government	Local Authorities	Total
1. Saving and provision for stock appreciation	98	700	25	524	14	1,361
2. Additions to tax reserves	80	456	1	0	0	537
3. Additions to dividend reserves	0	35	4	0	0	39
4. Provision for depreciation	123	502	131	50	64	870
5. Capital transfers	68	34	0	− 53	15	64
6. Taxes on capital	− 194	0	0	194	0	0
7. Net borrowing, less net overseas capital formation	210	33	287	− 398	346	478
8. Gross domestic capital formation and stock appreciation	385	1,760	448	317	439	3,349
of which:						
a) Fixed capital formation	195	700	370	158	439	1,862
b) Increase in value of stocks and work in progress	190	1,060	78	159	0	1,487

(*) Owned, or otherwise controlled, by the Government.

Table 33 analyses the figure of fixed capital formation given in Table 31 as follows:

	£ millions
1. Public road passengers vehicles	23
2. Road goods vehicles	80

(1) Issued by the Central Statistical Office and published by H. M. Stationery Office, August 1952.

3. Passenger cars	58
4. Railway rolling stock	44
5. Ships	70
6. Aircraft	8
7. Plant and machinery and equipment	794
8. New housing	335
9. Other new buildings and works, and improvements to existing buildings (including housing)	397
10. Legal fees, stamp duties, etc.	53
11. Total	1,862

Table 37 analyses the figure of £ 1,487 millions given in Table 31 for capital investment in stocks and work in progress:

Increase in value of stocks and work in progress:

1. Central Government:	£ millions
(a) Trading	55
(b) Strategic	127
(c) *Less*: Disposal of surplus stores	— 23
2. Public corporations	78
3. Companies	1,060
4. Non-corporate enterprises	190
5. Total increase in value	1,487
6. *Less*: Stock appreciation	— 1,100
7. Value of physical increase in stocks	387

The figure of £ 502 millions — « Provision for Depreciation » — in the column for Companies in Table 31 needs careful interpretation. It is made clear in the body of the Report that of this amount no less than £ 217 millions represents special « initial » allowances given for tax purposes for new plant, machinery and buildings erected during the year. These « initial » allowances, which were given in respect of all the tax years from 6th April, 1944 to 5th April, 1952 amounted for plant and machinery in certain years (including 1951) to as much as 40% of the capital cost. The allowances were given to encourage capital investment in industry and then were withdrawn when it was realised that this assistance could have inflationary consequences. As the *normal* depreciation allowances after the first year in which the assets are in operation are given on the capital cost less the initial allowances, the normal allowances for subsequent years are lower than they would have been had no initial allowances been granted. The whole system of giving these allowances has therefore distorted the figures for depreciation and made them most difficult to interpret.

Another point which is made very clearly in the Report is that the normal depreciation provision (*i.e.* excluding initial allowances) is calculated on the original cost of buildings, plant and machinery and not upon the cost of replacement at current prices. As construction costs have risen since much of the capital equipment was installed, the allowances are less than what is necessary to provide adequate funds for the replacement of existing buildings, plant and machinery. The cost of construction today is about three times what it was before the war and, on a fair average, it is reasonable to assume that the depreciation provisions which are being made in the accounts of Companies and the allowances which are being given for tax purposes (not necessarily the same as those in Companies' accounts) are about one-half of what would be necessary to provide adequate funds for replacement at current construction costs.

The normal depreciation provision for 1951, after excluding the « initial » allowances but making the provision on the basis of current replacement costs instead of the original cost, would be, for Companies in 1951, of the order of £ 600 millions (2). This is a better figure than the £ 502 millions in Table 31 to represent what annual current expenditure on capital replacement would be required to maintain intact the fixed capital assets of companies.

The figure for capital formation in stocks and work in progress is similary distorted by inflationary factors. Tables 37 and 38 show that, from the whole increase in the value of stocks and work in progress of £ 1,487 millions, no less than £ 1,100 millions must be deducted as representing no more than the increased money value of stocks due to rising prices. This leaves the value of the *physical*

(2) This is made up of £ 502 millions shown in the table, less £ 217 millions, the figure for initial allowances, included therein, the resulting figure of £ 285 millions being multiplied by two to give the equivalent figure calculated upon current replacement costs.

increase in stocks as only £ 387 millions. As by far the greater part of the stocks relates to stocks and work in progress belonging to Companies (£ 1,060 millions out of £ 1,487 millions), it is reasonable to appropriate the greater part of the stock appreciation figure of £ 1,100 millions to the stocks of Companies. On a proportional basis this brings down the gross figure of £ 1,060 millions (as the capital formation by Companies in stocks) to about £ 260 millions (as the value of the increase in *physical* stocks held by Companies).

From these figures and from those in Table 18, which gives the appropriation of profits of Companies, we can get a better appreciation of the gross and net capital formation by Companies. The figures for 1951 in Table 18 are as follows:

APPROPRIATION ACCOUNT - COMPANIES 1951 — Table 18

Receipts	£ million	Payments	£ million
1. Trading profits of Companies operating in the United Kingdom	1,992	5. Dividends and Interest	
2. Income earned abroad :		a) Payments	
a) Trading profits of British Companies operating abroad	283	i) Debenture Interest	47
b) Balance of payments adjustment	48	ii) Dividends on Preference shares	102
3. Non-trading income	382	iii) Dividends on Ordinary shares	447
		iv) Co-operative Society dividends and interest	45
		v) Interest on building society shares and deposits	34
		vi) Other	144
		b) Additions to dividend reserves	35
		Total provision for dividends	854
		6. Provision for taxation	
		a) Payments	695
		b) Additions to tax reserves	456
		7. Saving and provision for stock appreciation	
		a) Undistributed profits of British Cos.	652
		b) Balance of payments adjustment	48
4. Total	2,705	8. Total	2,705

The figure of £ 48 millions for balance of payments adjustment relates to certain foreign companies and can be neglected for the present purpose. The figure for additions to tax reserves, £ 456 millions, represents reserves necessary to pay, at some future date, tax in respect of current profits where, for one reason or another, including the granting of « initial » allowances, the tax actually paid in the year is less than the full tax appropriate to the profits of the year. It is true that to the extent that current tax payments are less than the full tax liability for the year, cash is released for capital expenditure but this is not true saving since the extra tax will have to be paid in the near future. This leaves the amount £ 652 millions as the undistributed profits of British Companies available for capital investment, both in fixed and current assets. From this figure there must be deducted both (a) the difference between depreciation provided on the original cost and depreciation calculated on replacement cost, about £ 300 millions, and (b) the increased money value of stocks due to rising prices and included in profits, about £ 800 millions, making a total deduction of £ 1,100 millions from a nominal figure of undistributed profits of £ 652 millions — a deficit of about £ 450 millions.

From Tables 31 and 37 we have (a) the gross domestic capital formation of Companies in fixed assets, £ 700 millions, and (b) the value of the physical increase in stocks, £ 260 millions making a total investment in fixed assets and stocks of £ 960 millions. Gross capital formation amounted to about £ 960

millions, and net capital formation some £ 600 millions less, *i.e.* £ 360 millions. Thus, although there may have been a net increase in fixed assets of about £ 100 millions after deducting renewals and replacements of fixed assets (£ 700 millions less £ 600 millions the true depreciation provision) and an increase of about £ 260 millions in physical stocks, it has been necessary for Companies to run down existing cash resources and to raise loans and capital from outside sources to pay for both this increase (£ 360 millions) and for about £ 450 millions of the expenditure needed to renew existing fixed assets. It is clear, therefore, from these figures that industrial Companies in Britain have had no true savings for investment but have had to raise capital and get loans even in order to maintain physical capital intact.

The net increase in physical capital, £ 360 millions, even financed in this unsatisfactory manner, appears to be a very small proportion of a gross national product of about £ 12,000 millions for the year.

In an attempt to get a better appreciation of the facts the Federation of British Industries made a sample survey, or « Case Study », of the capital position of a number of companies in 1938, 1945 and 1949. The results of this survey, though not conclusive for British industry as a whole, afforded striking evidence of the inadequacy of the depreciation allowances and the inadequacy also of the supply of capital to British manufacturing industry at the present time. This survey (3), which covered eighty companies with over 600,000 employees and over £ 1,000 millions of capital, showed that, for the companies concerned, fixed assets *in real terms*, i.e. after eliminating inflationary influences on money values, remained in 1949 at about the same level as in 1938. The value of the physical increase in current assets was about 10%. Retained profits, after making no adjustment for the inadequacy of depreciation allowances, were less than the amount needed to finance the increased prices of stocks. Thus, if it is at all representative the sample survey affords further evidence that British Industry had to raise fresh capital and to borrow from the Banks, not for the purpose of expanding its scale of operations, but to maintain intact its real capital.

The conclusion reached in the Survey is that the amount of undistributed profits put to reserve, so far from enabling industry to extend, has been inadequate to maintain real capital. Yet the proportion of profits *distributed*, and the value of dividends in current purchasing power, were lower in 1949 than in 1938. Profits (and prices) were thus too low to bear the heavy tax burden on industry and also to maintain both productive capacity and dividends.

The results of the Survey by the Federation of British Industries are supported by other evidence, including the figures produced by British bankers in their evidence to the Royal Commission on the Taxation of Income and Profits (4). The figures produced by the banks show that, notwithstanding the inadequacy of investment in fixed assets and stocks the current cash resources of industry have been declining sharply.

The Survey by the Federation of British Industries also gives valuable information about the current depreciation charges made in the books of the eighty companies examined. The depreciation made by these companies in 1949 amounted to £ 19.4 millions but the full amount of depreciation needed, by reference to the cost of replacement of plant at 1949 prices, would have been £ 40.1 millions. These figures are consistent with the figures in the official « National Income ad Expenditure 1946-1951 » and afford further evidence that current depreciation provisions are about one-half of what is necessary on a replacement cost basis.

Some further evidence of the falling off of undistributed profits of industrial companies is given in the 94th Report of the Commissioners of Inland Revenue for the year ended 31st March, 1951 (Cmd. 8436). This Report gives for the first time some interesting analyses of

(3) « The Effects of Inflation on Industrial Capital Resources »; a case study by the Federation of British Industries, November, 1951.

(4) This Royal Commission is still sitting and taking evidence (1952).

the accounts presented for income tax purposes. One set of tables (Nos. 54 to 67) gives, in tabular form for each industrial group, the costs and appropriations of income for companies. The figures are given for the years of assessment 1937-38, 1938-39, 1939-40 and 1949-50, the corresponding accounting years being generally one year earlier. These tables show that, *as a proportion of turnover*, distributions of profits were much smaller in 1949-50 than in pre-war years. The balance of profits undistributed showed increases in some cases and decreases in others but as these figures include as « profit » the price increase of stocks at unchanged physical levels, the true figures of undistributed income (*i.e.* the net increase in physical assets) must in many cases, and perhaps in most cases, have been a minus quantity in the year 1949-50. The figures for « Chemicals and Allied Trades » afford a fair illustration of this point:

Year of Assessment	1937 1938	1938 1939	1939 1940	1949 1950
	(*Percentages*)			
Turnover	100.0	100.0	100.0	100.0
Costs:				
a) Material	59.0	62.1	60.0	71.8
b) Personnel	18.6	18.1	18.3	13.3
c) Other	11.0	10.2	10.2	5.4
Increase in Stocks	1.2	2.4	0.1	1.4
Trading Profit	12.6	12.1	11.7	10.9
Depreciation allowances	2.4	2.4	2.3	1.8
Net trading profit	10.2	9.7	9.4	9.1
Losses	—	—	0.1	0.2
Other income	10.6	9.9	9.5	2.5
Total income	20.8	19.6	18.8	11.4
Distributions (gross):				
a) Dividends	15.9	14.6	14.8	5.0
b) Loan interest	0.5	0.4	0.3	0.1
c) Royalties	0.2	0.2	0.2	0.1
Profits tax	—	0.3	0.5	1.3
Income tax	1.2	1.3	1.7	2.2
Balance	3.0	2.7	1.4	2.7

We are thus faced with what is a serious position. In the nineteenth century a very large part, probably the greater part, of the capital needed for the development and expansion of British industry came from undistributed profits. Today this source has disappeared; it is either a negligible or a minus quantity. There is little doubt that during the nineteenth century the investment of surplus profits by British industrial and trading companies in all parts of the world, particularly in North and South America and India, had not only a powerful influence in the development of these countries, but had also a stabilizing influence on foreign exchange rates. To a large extent the amount of capital invested overseas represented the amount which industrial and trading companies could spare from surplus profits for this purpose. There was no question in those days, as there is today, of working to a very exact balance of payments, or of planning capital investment for which the sources have to be found by special devices, such as President Truman's Point IV Programme and the operations of the International Bank.

The cause of this collapse of the main source of supply of capital for British Industry is to be found in the combination of extremely high taxation, accompanied by a system of price controls which has been dictated more by political factors than by economic needs.

Industry's tax burden in Britain at present is exceedingly heavy. Income-tax is charged at 47½ per cent; undistributed profits tax takes another 2½ per cent; distributed profits tax takes a further 20 per cent; and now there is an excess profits levy, which will take 30 per cent of the profits above a certain standard. Income-tax is deducted from dividends, but profits tax and excess profits levy cannot be deducted from dividends and have, therefore, to be paid out of undistributed profits that would otherwise be available for development and expansion.

The tax burden in Britain — and this applies also, to some extent, to other countries, including the United States — is, in fact, even heavier than the actual rates of tax indicate. This is because the rules for computing profits for tax purposes are arbitrary, and, during a period of rising prices, profits for tax purposes are considerably overstated. The two most important causes of this over-statement are: (a) the allowance for depreciation on plant and machinery is based upon the original cost, instead of replacement cost; and (b) stocks of raw materials, semi-finished and finished goods are brought in at the end of an accounting period, during which prices have risen, at

values much in excess of the values at the beginning of the period so that profits include a substantial element of mere price increases for existing stocks.

In other countries, including the United States, the same problem arises, but it is not so acute because the effective rates of taxation are lower, and tax rules are more liberal.

If industry is unable to provide, from its internal resources, the savings needed for the building up of real capital, it must turn its attention to external savings — *i.e.* to the investing public or to the banks.

In Britain the banks are not regarded as a proper source of permanent capital. Borrowing from banks is regarded as quite proper in order to finance stocks of raw materials and products awaiting sale, and to cover temporary fluctuations between receipts and payments; but such borrowing is regarded as improper as a source of funds for the erection of buildings, plant and machinery, because it can become the starting point of a serious inflationary movement and lead to an acute crisis when the banks want their money back.

For more permanent capital, industry has to issue either share capital or long-term loans. Who are the people who subscribe to this share capital and to these loans? It is these people who must be saving in the sense that they are consuming less than they are producing; or, to put it another way, are spending less than their incomes.

Before the war the main savings for investment in industry came from individuals with large or medium incomes. Wage-earners fall into the category of small-income-earners, and although their numbers are large and the aggregate of their incomes is large, their savings have always been a small proportion of their total income. This, of course, is natural. Moreover, insofar as there are any savings in this income group, they have tended to go into fixed-interest-bearing Government loans or National Savings, and not into industrial issues.

The medium and large income groups are now so heavily taxed that, as a direct source of savings for industry, they, too, have almost disappeared.

Income-tax and surtax in Britain now take away 97½ per cent of all income in excess of £ 15,000 a year. In addition, there are very heavy death duties which take away more than half of the large estates. A gross income of £ 25,000 a year amounts to about £ 4,000 after income-tax and surtax, and even £ 100,000 a year is less than £ 6,000 net. The combined effect of income-tax (including surtax) and death duties is that it is now no longer possible for anybody, however large his income, to build up a fortune, whether in the form of direct ownership of property or in the form of shares in companies, in the way that was characteristic of British industry in the nineteenth century and in the first quarter of this century.

For medium incomes, direct taxation, though proportionately lower than on large incomes, is still very high, but on these medium incomes the burden of indirect taxation (customs, excise, purchase-tax, etc.) is particularly heavy. British rates of tax upon tobacco and alcoholic drinks would be regarded as fantastic in any other country. The combined effect of direct and indirect taxation on the man with a medium-sized income is that he has great difficulty in maintaining his standard of living even on a lower scale than he was accustomed to before the war, and he has no chance at all of savings out of his income.

The Government publication (National Income and Expenditure 1948-1951) to which reference has already been made, confirms the general conclusion that personal savings in Britain are at a very low ebb indeed. The figures of income and saving are given in Table 2, which shows the following figures for 1951.

For 1951, out of total personal incomes of approximately £ 12,000 million, personal saving was less than £ 100 million — less than one percent — and, as this included the increase in the value of stocks of private businesses and farms, the true figure for personal saving must be either quite negligible or a minus quantity.

It may be asked what source of saving is available to industry if its own internal savings are non-existent, and if there is virtually

no saving by private individuals, whether they have large, medium or small incomes. The answer is that a substantial amount of saving *is* being done by individuals of all classes, but it is being done *indirectly* through insurance companies and pension funds. The rapid growth of these financial institutions, as a source of savings, is one of the outstanding phenomena of the last 20 or 30 years.

to save directly out of their net incomes? The answer is a fairly easy one. There are special tax allowances for savings through insurance and through pension funds; there are no tax allowances for direct savings. With the very high rates of tax now in force in Britain, the incentive to put all savings through the channel that gives tax relief is irresistible. Indeed, most of the millions who save through insur-

PERSONAL INCOME AND OUTLAY — Table 2

Income (inc. stock appreciation)	1951	Current outlay and saving	1951
	£ millions		£ millions
1. Wages and salaries	7,735	10. Consumption	9,880
2. Pay and allowances of the Armed Forces	326	11. Remittances abroad (net)	4
3. Employers' insurance contributions	205	12. Provision for taxes on income :	
4. Professional earnings	208	a) Payments	1,184
5. Income from farming	295	b) Additions to tax reserves	80
6. Profits of other sole traders and partnerships	885	13. National insurance contributions	452
7. Rent, dividends and interest received by persons	1,256	14. Total current outlay	11,600
8. National insurance benefits and other current grants from public authorities	788	15. Saving and provision for stock appreciation	98
9. Total	11,698	16. Total	11,698

The figures for the growth of life insurance business in Britain in the last few years are quite striking. Taking 1938 as 100, the amount of new business added rose to 162 in 1946, 207 in 1947, 237 in 1950 and 282 in 1951 (5). The growth of pension funds is even more remarkable.

Life-assurance companies and pension funds receive, either directly or by deduction from pay, millions of pounds each month, and these amounts, after the payment of expenses, pensions, etc. are available for investment according to the rules of the company or fund.

As these amounts represent, in the final analysis, income of salary and wage earners and other members of the community who, to this extent, have less to spend on consumption, the savings of these institutions represent the indirect savings of millions of individuals. Why are these individuals prepared to save on such a large scale through insurance companies and pension funds when they are not prepared

(5) From « The Bankers' Magazine », March, 1952.

ance or pension funds could not possibly save more than the merest fraction of these amounts if they had to pay them out of their net income after taxation.

Insurance companies and pension funds, therefore, now form, in Britain, the largest block of investors. Is this change of pattern from private individual saving to indirect saving through insurance companies and pension funds a phenomenon that we should welcome? This is a matter of personal judgment, but there are solid grounds for the contention that this change in the pattern in savings is socially and politically undesirable.

From the point of view of industry, the change from private to institutional savings means less flexibility. Insurance companies and pension funds tend to play safe and to put their money very largely into debentures and fixed-dividend preference shares. Insofar as they invest in ordinary shares, they tend to go for the safer and older companies. Because of their position as trustees for pensioners and

policy-holders, institutions are less inclined to put money into new enterprise and into ventures of a more forward-looking and speculative character.

In Britain in the nineteenth century much of the manufacturing industry of the country was built up by family businesses based upon private saving, and the really enterprising individuals backed their progressive ideas with their own money. Sometimes they were backed by friends or relatives. The progressive family business in Britain has now disappeared because of taxation, including death duties.

Such savings as there are today flow with a strong bias towards the older, larger concerns. Semi-Governmental institutions designed to encourage inventors and others with bright ideas are no substitute for the direct investment of private savings in new and growing enterprises.

From the point of view of the individual, also, the change is undesirable. There is a growing tendency to seek security. Security takes the form of a safe job with a pension; but this means less opportunity to change from one job to another. Loss of pension rights becomes a great deterrent to a man who might, otherwise, seek a more progressive job in another concern. Fifty years ago, a man's private savings were very much his own property, and gave him a freedom that he does not get in a pension fund. The longer term effects upon democratic institutions are difficult to assess but every transfer of savings from the individual sphere to the institutional, particularly where the institution is in danger of nationalisation, eats away one of the foundations of democracy.

Another aspect of this danger is the growth of Governmental investment in productive industry. In Britain, coal mining, transport, electricity and gas, are owned by Government, either central or local, while the steel industry hangs in the balance between public and private ownership, and there is an ever present threat of nationalisation to other industries and to insurance. If private savings are not forthcoming for private industry the way is made clearer for a Government to step in and provide the finance in one form or another — obtaining the funds from budget surpluses or from public loans. The cost is the steady decline of private industry and the growth of publicly owned industry. It is difficult to see how democracy can survive if this tendency persists.

There is, also, the effect of this change upon the attitude to work. If harder work brings more money that can be saved and invested at the worker's own discretion, there will be a greater incentive to the energetic and enterprising worker. If, however, taxation takes away the greater part of the reward of extra effort, and the saving is done through insurance or a pension fund, the incentive to hard work and enterprise is materially weakened.

For these reasons, British industry is going to have great difficulty in the next few years in raising the kind of capital it needs if it is to maintain a progressive outlook. In other countries the position is less unsatisfactory because rates of tax have not been pushed to Britain's extremely high levels. There is no doubt whatever as to the course that must be followed in Britain if British industry is to keep its place in the world. Reduction of taxation, both corporate and private, is no longer a matter of theoretical discussion; it has become a vital and urgent necessity.

So far, we have been considering Britain and the supply of capital to British industry; but it is interesting to look, briefly, at the supply of British capital to other countries in the light of these considerations.

In the nineteenth century, when British industry reigned supreme, and her manufactures reached every part of the world, Britain had a substantial export surplus, which was available for investment overseas. British capital was used for the development of countries as far apart as India, Australia, the United States and South America. Much of the capital was found in the form of undistributed profits ploughed back into the overseas branch or business. This export surplus, which represented one part of the savings of British industry (because, to this extent, income exceeded consumption), was available for the development of industry in various parts of the world. It served another very valuable purpose, which has received little or no attention. The pound sterling was exchangeable into gold without question, and was the currency used to finance business all over the world, including business that had no connection with Britain whatever. One reason for the strength and stability of the pound sterling was the existence of this substantial export available for capital investment overseas. When profits fell short, the amount of overseas investment was correspondingly contracted; and, on the other hand, when overseas profits expanded, more was available for this capital investment. In this way, the investment of capital in both fixed and current assets all over the world acted as a buffer, which took the knocks and strains of changing trade conditions, and left the pound sterling stable and strong.

Today, there is no such export surplus, and although the pound sterling remains the principal currency for international trade, it takes the direct shock of trade fluctuations, and we move from one currency crisis to another. If, with its large export surplus, the United States, in the middle of the twentieth century, performed the same function in capital investment overseas that Britain performed in the nineteenth century, there would be far less financial strain in the world today. There are various reasons why the United States is not playing this role, and is unlikely to do so.

One reason is that the modern system of imposing currency restrictions, because of balance of trade troubles, is itself a deterrent to capital investment overseas by persons in the United States who might, otherwise, be tempted to let some part of their wealth go overseas. Another reason is the fear of expropriation; and yet another is the high levels of taxation.

Countries such as South Africa, Australia and India could become powerful manufacturing areas if adequate capital were forthcoming. Before these countries are likely to get capital on the very great scale that the economic conditions would warrant, there must be, so far as Britain is concerned, a really substantial cut in taxation and a return to a state of affairs in which there is an export surplus and full convertibility of the pound sterling. Before any substantial private overseas investment from the United States can be expected, there must be greater internal stability in other countries and a state of affairs in which the American investor is as confident about the safety of his capital and the profits he makes overseas as he is about a corresponding investment in his own country.