A Punch *drawing on the eve of Queen Victoria's Golden Jubilee in 1887. Notables, from Germany's Crown Prince to the King of the Cannibal Islands, came to London for the festivities—military parades, balls, a yacht race, a Buffalo Bill Wild West show, a Hyde Park party for 26,000 children. The grand procession of "Royalties," said* Vanity Fair, *"looked like a fine stream of gold."*

Britain

Nowadays, a minority of Americans trace their roots to Britain's shores. Yet the island nation still looms large in the United States—as the source of its early settlers, its national language, and its key institutions and traditions (the justice system, tolerance of dissent, respect for individual liberty), and as an old ally. On occasion, Americans have also looked at Britain with a certain anxiety, wondering what lessons its descent from world economic supremacy might hold for *them*. Britain's recurrent postwar woes (Harold Macmillan, 1961: "It's exciting living on the edge of bankruptcy") drew conflicting appraisals from U.S. scholars. So, for other reasons, did Margaret Thatcher's second re-election this past June. The "iron lady," age 61, seemed to be getting somewhere, and thus had a chance to exceed even William Ewart Gladstone in total service (12 and a half years) as Britain's prime minister. Here, Richard Rosecrance tracks Britain's economic ills, which actually began a century ago, during the imperial reign of Queen Victoria. Paul Johnson recalls the lost opportunities of the post–World War II era. Will Hutton analyzes the "Thatcher Revolution's" zigzag course.

WHY ENGLAND SLIPPED

by Richard Rosecrance

At the Great Exhibition in London in 1851, the first world trade fair, Britain played host to more than six million visitors. Architect Joseph Paxton's "blazing arch of lucid glass" in Hyde Park, the 1,850 foot Crystal Palace, sparkled with exhibits from 34 countries.

The entrants all had something to show; the United States' display included the McCormick reaper and a sewing machine. But more than half of the exhibits came from Britain's industrial cornucopia: a great steam hammer and hydraulic press, locomotives and machine tools, furniture, pottery, textiles, even a functional flush toilet. Britain was already experimenting with electric machines. As London editors did not fail to note, mid-19th-century British science, and economic and political acumen, were the envy of the world. Wrote Queen Victoria in her diary that year: "We are capable of doing anything."

Indeed, the Royal Navy's defeat of the French and Spanish fleets at Trafalgar (1805), and Wellington's victory over Napoleon at Waterloo (1815), had inaugurated a "British century." During Victoria's 64-year reign (1837–1901), Britain's population would more than double (to 37 million). Its gross national product (GNP) would more than quadruple. As early as 1860, Britain produced 20 percent of the world's manufactured goods, more than three times as much as the United States, Germany, or France. By the late 1870s, one-fourth of all world trade passed through Liverpool, Cardiff, Glasgow, London, and other British ports. The mighty pound, tied to the gold standard in 1844, made London banker to the globe. At Victoria's Diamond Jubilee in 1897, Britain's flag waved over a quarter of the world's population and nearly as much of its lands. There were "settler dominions" (Canada, South Africa, New Zealand, and Australia), colonies in Africa, Southeast Asia, and Latin America, and of course India, the "jewel in the crown," a British possession for nearly 150 years.

'Weary Titan'

Mid-Victorian Britain exercised imperial sway at small cost.* Only 70,000 troops, who would be dwarfed by a Super Bowl crowd, garrisoned India. British warships did rule the waves, in the sense that no ship could cross an ocean without at least implicit British consent. In 1850, the foreign minister, Lord Palmerston, dispatched a squadron to Greece to assist one Briton—Don Pacifico, a Portuguese-born moneylender who had acquired British citizenship at Gibraltar—whose home had been burned by a mob. The *civis Romanus sum* principle was upheld; Greek officials provided restitution.

Britain also seemed, in other ways and to many people, "the mirror for our future," as the French novelist Stendahl had put it. The English instructed the world on political and social progress. The Continent was in upheaval: in 1848, there were antimonarchical revolts in France, Germany, and elsewhere. Yet 19th-century Britain was, most of the time, at peace abroad and at home. During what came to be called its Liberal Era, the nation whose mills and mines had launched the Industrial Revo-

*During the 1860s, Britain's military spending was under £30 million per year, a bit more than one percent of its GNP. Two researchers, Harold and Margaret Sprout, find this amount, adjusted for inflation, to be only "one to two percent of average U.S. military expenditures in the 1950s and early 1960s."

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Lord Northbrook (center), Viceroy of India, in Simla, a British-built mountain resort north of Delhi, in 1875. Once a summer capital, Simla remains, as V. S. Naipaul noted, "an English country town of fairyland."

lution during the 1760s became not only "the workshop of the world," but the first society to spawn a large urban middle class. It had an agenda of progress. Richard Cobden, a textile merchant and leader of the "Manchester Liberals," toured Continental cities preaching peace and prosperity through world trade. Other nations were starting to industrialize; Britons were prospering—real wages grew—and moving on to what reformers such as John Stuart Mill called "improvement." Laws such as the Factory Act of 1847, which limited the workday for women and for youths (aged 13 to 18) to 10 hours, were passed to help better "the condition of England."

With a few exceptions, mid-Victorian Britain did not have to fight to govern or extend her empire; once colonized, native peoples generally complied with British requests. In the settler dominions, the Colonial Office was mostly a servant to local sentiment. Since Britain did not obstruct political development, the settlers had no reason to oppose her. Until the end of the century, the British ruled their empire, and secured obedience around the world, on the cheap.

Yet by 1913, Britain's economic primacy was gone. The nation's share of world trade had fallen to 14 percent, and the leading industrial power was now the United States, followed by Germany. From three percent before 1850, Britain's industrial growth rate sank to 1.5 percent during the 1890s. In 1870, Britain produced twice as much steel as Germany; in 1913 Germany made twice as much as Britain. U.S. and

German firms won old British markets in machinery, chemicals, and textiles. Britain, lamented Colonial Secretary Joseph Chamberlain in 1901, had become a "weary titan."

What had happened? At the time, not many asked the question. The ambitions of Britain's rising men of commerce, Thomas Carlyle's "captains of industry," shaped the Liberal Era. The Anti-Corn Law League, which opposed the tariffs on imported food that protected the landed gentry, became a symbol of the dawning conviction that Britain's future required free trade abroad and minimal government at home. After the Corn Laws were repealed in 1846 by Robert Peel's Tories—stealing the Liberals' thunder—all British parties moved to support Free Trade.

Taking on Water

A boom began during the early 1850s and continued for 20 years, despite a "cotton famine" that struck the Lancashire textile mills during the 1860s, when the U.S. Civil War reduced supplies of cotton. Thousands of jobs were created by the railways—by 1855 Britain had seven times more track than France or Germany—which hauled coal and iron to the works that built British ships and steam engines (and to the vessels supplying the industrializing Continental nations).

The turn came during the 1870s. Britain's capital was growing, but Britons chose—without any real debate—*not* to use it to modernize their now-aging industrial base. The "Tory democracy" of Victoria's favorite prime minister, Benjamin Disraeli, had other priorities. During his 1874–80 regime, Disraeli sought lasting power for his long-sidelined Conservatives by winning the affection of the working classes via new government activity. Parliament passed a Public Health Act and Rivers Pollution Act, and legalized picketing by trade unions and collective bargaining with employers, with whom the unions won equal rights. Disraeli bought control of the French-built Suez Canal (1875), the route to India; and, in deference to rising imperial sentiments, he had Queen Victoria crowned Empress of India (1876).

The British imperialist movement did not really take hold, however, until new Continental tariffs proved that Europeans would surround their new colonies with high duties. Then Britain had to enter the lists to maintain her overseas trade. After Britain occupied Egypt in 1882, the imperial race for Africa was on in earnest.

The Empire was popular with Britons, and, for all its inequities, brilliantly managed. Of the 10 million who emigrated from the British Isles during 1870–1910, three-fourths went to the Empire. A thriving enterprise, employing, among others, 20,000 administrators and nearly 150,000 officers and men, it was governed by stalwarts from Eton, Harrow, and other public schools. As Bernard Porter observed in *The Lion's Share* (1975), "many were good at what they did, but good for little else, which made their dependence on the empire even greater."

At home, the Empire provided a "sense of pride and achievement."*

Great Britain's tangible gains were elusive. India was important; for a while, it accounted for 40 percent of Britain's cotton-cloth exports. But other lands—notably those in Africa—produced scant economic rewards. As the Empire grew, few noticed ominous trends close to home. Britons lived well—perhaps too well—during the late 19th century. They paid cash for their imports and sold their exports on credit supplied by the bankers in the City of London. As late as 1872, they still sent 42 percent of their exports to Europe. Then Continental tariffs rose, and Britain needed other markets, prompting a focus on the Empire and agricultural countries. Britain still had abundant capital, because Britons invested and saved when they were a rising power, aiming for long-term growth. As they reached preeminence, however, they were tempted to rest on their oars.

The boat seemed to be riding high; in reality, for many years it had been steadily taking on water.

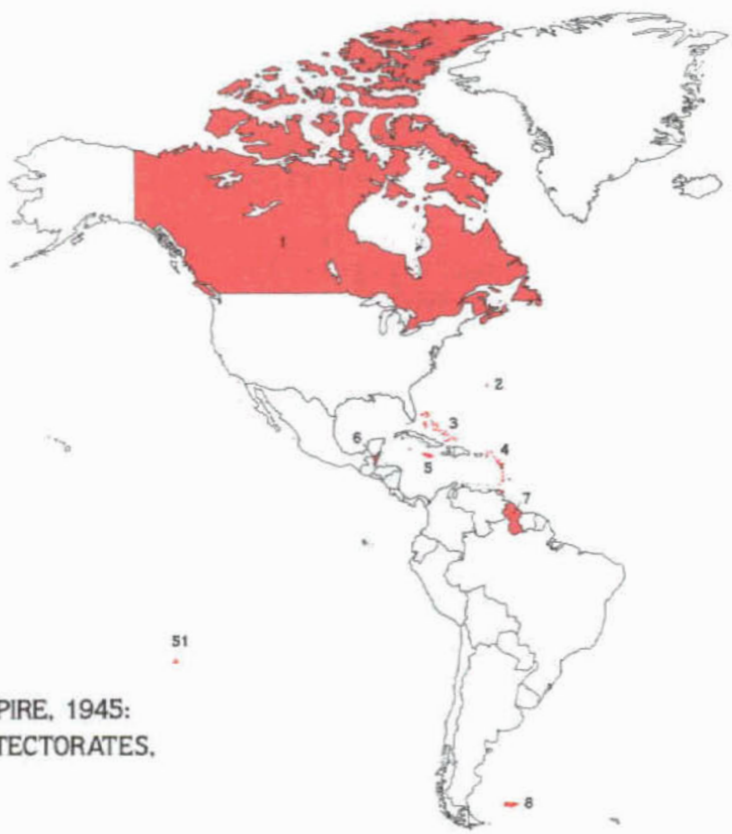
Advantages of Backwardness

Only later would economic historians note that, all through the 19th century, Britain's "visible" trade was in deficit. The British sold fewer goods abroad than they purchased. That their national balance of payments remained in surplus was due to "invisibles"—earnings from shipping, insurance, and financial services—and to income from foreign investment. Especially during the second half of the 19th century, when earnings on British securities dropped to 4.6 percent, savers sought higher returns abroad. London bankers and officers at the big investment houses obliged by scouting out foreign ventures.

During the 1820s, British capital flowed to Latin American countries newly independent from Spain. The focus shifted to the United States in the 1840s, then to Europe and back to Latin America. The investments—typically in securities of railways, gold mines, ports, canals, and gasworks—carried risks. Defaults were common, first in Latin America and then in the United States. Some Britons lost their fortunes in Peru or the American Midwest. During the 1880s, London's Baring Bank collapsed as a result of shaky ventures in the Argentine. Nonetheless the outflow of investment rose. By 1914 Britain had shipped £4 billion abroad—41 percent of all foreign investment around the world.

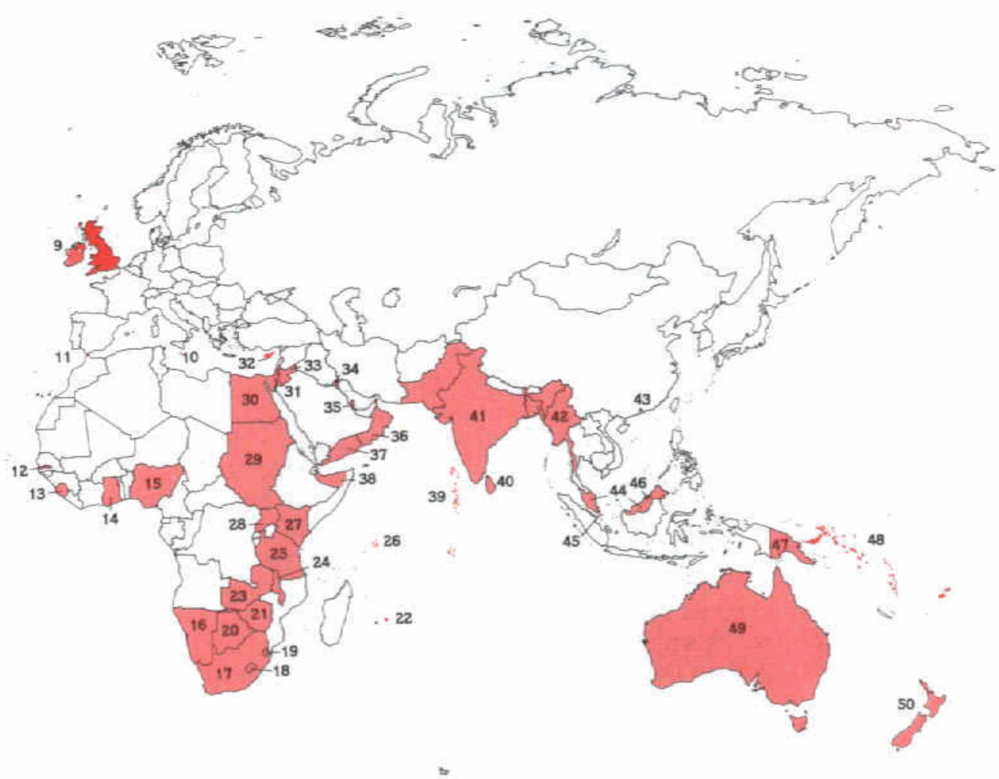
During 1860–80, Britain was investing in its own economy to the tune of 10 percent of its GNP, with only three percent going overseas. By the decade before World War I, however, domestic investment had

*For a while. The "new imperialism" that emerged during the 1880s was cheered on by a jingoist British press. But dark headlines soon recalled Rudyard Kipling's worry about Britain becoming "drunk with the sight of power." Massacres of British units occurred during fighting with the Zulus (1879) and in Khartoum (1883). The Boer War (1899–1902) in South Africa, which involved 100,000 British and colonial troops and cost more than all other late 19th-century British military ventures combined, ended in the Boers' defeat. But the war persuaded many that Britain's days of easy invincibility were over.



THE BRITISH EMPIRE, 1945: DOMINIONS, PROTECTORATES, & COLONIES

1 Canada
2 Bermuda*
3 The Bahamas
4 The Caribbean Islands:
  Turks & Caicos
  British Virgin Islands
  Cayman Islands
  Anguilla
  St. Kitts-Nevis
  Antigua & Barbuda
  Montserrat
  Dominica
  St. Lucia
  Barbados
  St. Vincent & The Grenadines
  Grenada
  Trinidad & Tobago
5 Jamaica
6 Belize
7 Guyana
8 Falkland Islands
9 Republic of Ireland
10 Malta
11 Gibraltar
12 The Gambia
13 Sierra Leone
14 Ghana
15 Nigeria
16 Namibia
17 South Africa
18 Lesotho
19 Swaziland
20 Botswana
21 Zimbabwe
22 Mauritius
23 Zambia
24 Malawi
25 Tanzania
26 Seychelles
27 Kenya
28 Uganda
29 Sudan
30 Egypt
31 Israel
32 Cyprus
33 Jordan



34 Kuwait

35 Qatar & Bahrain

36 Oman

37 South Yemen

38 Somalia

39 Indian Ocean Territory:
Maldives
Chagos Archipelago

40 Sri Lanka

41 India
Pakistan
Bangladesh

42 Burma

43 Hong Kong

44 Malaysia

45 Singapore

46 Brunei

47 Papua New Guinea

48 South Pacific Islands:
Nauru
Kiribati
Solomon Islands
Tuvalu
Vanuatu
Western Samoa
Fiji
Tonga

49 Australia

50 New Zealand

51 Pitcairn Islands

(Not pictured: British Antarctic Territory and St. Helena)

*Places listed in red remain British-ruled. All names are current (e.g., Belize was British Honduras in 1945). The largely symbolic British Commonwealth has 49 members; Ireland withdrew in 1948, South Africa in 1961, Pakistan in 1972.

sunk to 8.7 percent of the GNP, with more than five percent being invested abroad. At this time domestic investment exceeded 20 percent of GNP in both the United States and Germany.

The results were dramatic. Between 1875 and 1900, Britain's productivity increased at a solid 1.2 percent per year. During the next 40 years, however, it fell to 0.4 percent—far below Germany's 0.9 and America's 1.2 percent. Economic historians excused this by citing the "advantages of backwardness" that accrue to latecomers, who can buy new technology off the shelf from industrial pioneers. But Britain's slowdown was not just relative; it was absolute.

28 Britons and 3,828 Germans

The country's failure to invest in plant and machinery was shaped by failures of labor and management. First, leaders of the stronger trade unions that supplanted the old craft unions pressed for higher wages and shorter hours, often with success. If these gains had been offset by higher productivity, the economic impact would have been slight; they were not. And unlike some of their overseas competitors, British managers did not try to reduce friction with labor through incentive payments, bonuses, and overtime. Already by the end of the century, any change in working practices led to strikes.

Second, when British managers were under pressure to reduce costs, they preferred lowering wages to economizing through labor-saving machinery, afraid that the latter might not yield quick returns. But wage cuts would only further reduce productivity, by alienating workers and further delaying mechanization. As late as 1913, when more than 25 percent of U.S. coal was being cut at the mineface by machine, only eight percent of British coal was hewn this way.

British management was weak. The early enterprises were family firms. They went through a cycle: from the grandfather whose drive and imagination had started the firm, to the solid entrepreneurial father who lent it new strengths, to the indolent third generation. "Tired of the tedium of trade and flushed with the bucolic aspirations of the country gentleman," economic historian David Landes notes, "the children of affluence . . . worked at play and played at work."

Training workers interested neither businessmen nor politicians in Britain. The Germans, who were spending a hefty 2.5 percent of their GNP on education by 1914, stressed technical training. The British, who did not even introduce compulsory primary education until 1880 (free schooling began only in 1891), tended to rely on the fortuitous emergence of talented tinkerers, especially in the metal trades and engineering. (Example: Isambard Kingdom Brunel, the idiosyncratic mid-century builder of the Great Western Railway and the 18,000-ton ship *Great Eastern.*) German managers took pains to develop new products in chemicals and other areas; British entrepreneurs focused research on

WAGES OF PROGRESS

In his novel *Sybil, or the Two Nations* (1845), Benjamin Disraeli described Britain as a land of "the rich and the poor." Prosperity slowly eased some of the inequities he saw, but Victorian Britain remained a lopsided society.

If the future belonged to commerce, landed nobles still had great wealth. At one time, there were 44 owners of more than 100,000 acres. The Duke of Sutherland's 1,358,000 acres were larger than Bedfordshire, Berkshire, and Buckinghamshire combined. The Duke of Bedford's annual income exceeded £300,000 (about £20 million today). To the Duchess of Marlborough, "trouble" was readying 30 rooms for guests at Blenheim Palace.

The other England had humbler concerns. An 1868 *Fortnightly Review* article told of flats for Lancashire factory hands which had a room dubbed "a parlour," often with a bookcase or a piano. But such amenities were rare.

For coal miners, who numbered 118,000 as the 1840s began, home life was tolerable only in comparison with the pits. "The men work in a state of perfect nakedness," noted an 1842 study, aided "by females of all ages . . . naked down to the waist." Dickens described brickmakers' homes as "hovels" with "pigsties close to the broken windows." Textile workers toiled *and* lived in "sweat-shops." In 1890, lawmakers heard testimony about a room of nine by 15 feet "in which a man, his wife, and six children slept and in which same room 10 men were usually employed, so that at night 18 persons would be in this one room [with] three or four gas jets flaring, a coke fire burning in the fireplace, sinks untrapped, closets without water . . . "

•

Ship owner Charles Booth, studying poverty in London during the 1870s and '80s, found thousands living hand-to-mouth. One example: "Michael H.," age 38, a docker "in poor health." His wife, Booth recorded, "is consumptive. A son of 18 who earns 8s regular wages as a car man's boy, and two girls of eight and six, complete the family. Their house has four rooms but they let two." Although clergymen "send soup two or three times a week," practically "no meat is bought,"and "the food consists principally of bread, margarine, tea, and sugar. No rice is used nor any oatmeal; there is no sign of any but the most primitive cookery . . . "

Such conditions reflected Britain's early reliance on a subsistence wage theory (if people earned more than they needed to live, they would simply work less). A result of dependence on this theory was pressure for reform, reflected in Chartism (a movement calling for, among other things, the enfranchisement of workingmen), trade unions, and a general politics of labor. It was soon accepted that even employers in trouble must not, as Tory Robert Peel said, take steps that "bear on the comforts of the labouring classes." What finally brought social peace during the mid-Victorian era was a shift to high-wage employment, spurred by railway construction and shipbuilding. Better pay brought worker contentment (as it conspicuously did not in the industrializing United States), even as it also opened the way for other countries' fateful advances in world trade, at Britain's expense.

ideas that would return quick profits. Even so, staff scientists and engineers were indifferently paid. As late as 1910 at the Woolwich Arsenal, a major munitions works, chemists earned only £100 a year, the same as ordinary workers.

While American firms had integrated production and marketing groups by the end of the 19th century, British managers kept separate organizations. The marketers frequently got and gave short shrift. In 1899, Britain sent 28 salesmen to hawk British wares in Switzerland; they had to compete with a horde of 3,828 German drummers. Elsewhere, British salesmen, as historian D. H. Aldcroft observed, often were "ignorant" of the countries to which they were sent.

Churchill's Mistake

Rising foreign competition presented British manufacturers with three choices: to make higher-quality products (enhancing profits); to reduce costs (through labor-saving devices); or to send traditional products to new markets. Mostly they took the third option. While sales to Europe declined (accounting for only 35 percent of Britain's exports in 1912), shipments to Africa, Asia, Australasia, and Latin America rose. But this would work only until Britain's competitors turned their sights on the developing world, including Britain's own free-trading empire.

Britain might also have tried to innovate. But here, too, the record is undistinguished. Take steel. Along with textiles (wool first, and then cotton), metalmaking had been at the core of the Industrial Revolution. But the conversion of pig iron into steel long remained difficult. Then, spurred by the need for arms occasioned by the Crimean War (Britain's blundering struggle with tsarist Russia during 1854–56), inventor Henry Bessemer devised a method of low-cost, quantity production. From the steelworks he set up in Sheffield in 1858 and from the sale of licenses, Bessemer made a fortune. But odd things happened. Threatened by steel, ironmakers invested heavily—not to make steel, but to increase the number of iron-puddling furnaces. And, when ways of making higher-quality steel in open-hearth furnaces were developed in England by Sir Charles William Siemens and others, most British steelmakers clung to the Bessemer process. On the eve of the First World War, 22 percent of British steel came from Bessemer converters, which the Germans had all but abandoned.

Similarly, Britain had early success in autos, chemicals, and electrical products. But here U.S. producers could offset high labor costs by investing large sums in machinery; the Germans benefited from both low wages and high investment. The story was repeated over and over. Britain built the first functional electric power station at Godalming in 1881, but the United States and Germany were quicker to use electric motors in manufacturing and to press urban electrification. Eventually the lead reversed. It was Chicagoan Charles Yerkes who built the first

London's financial district, circa 1909. The Bank of England (center) was founded in 1694 to finance parliamentary government. The monarchy lost the power of the purse in the Glorious Revolution (1688–89).

underground rail network in central London; by 1913, subsidiaries of the U.S. firms General Electric and Westinghouse were two of the four main producers of electrical equipment in England. Herbert Austin and then William Morris launched the small, cheap motor car in Britain before 1914, but by then others had shown the way; Henry Ford had begun mass production of the Model T in 1910.

Finally, two world wars wrote "finis" to British economic power. The British government could pay for only 36 percent of its World War I costs. John Maynard Keynes, managing Britain's wartime finances, borrowed abroad (e.g., from the Morgan Bank in New York), levied taxes, peddled bonds, and disposed of British foreign assets (half of which were eventually sold off). Losses of merchant shipping to German U-boats, and of overseas markets for textiles, added to the drain. One day in February 1917, Keynes calculated that Britain's gold supply would not last "more than four weeks." Only U.S. entry into the war averted financial ruin.

Post–World War I inflation priced British exports out of many markets. The high value set for the pound after 1925—when Winston Churchill, as chancellor of the Exchequer, proudly returned the pound sterling to its prewar value—helped to control inflation. But it ruined the British export trade, worsening both unemployment and labor tensions, which culminated in the great General Strike of 1926. Then came the 1930s Depression; the remaining British exports fell by 50 percent. Domestic investment increased, but much of it was devoted to housing and to remedying past depreciation of plant and equipment. During the interwar period, unemployment never fell below one million, or about 10 percent of the work force. The years after World War II saw a renewal of the old trends—inflation, low productivity, an aging manufacturing base. Decline became irrevocable.

Is It America's Turn?

Recently, many U.S. politicians, businessmen, and others have speculated that the United States is catching the "English disease." Japanese officials, Harvard's Ezra Vogel finds, believe that the United States is "going the way of England very fast." There are indeed a number of parallels between what Americans face today and what happened to the British economy during the 50 years prior to World War I:

1. During the reign of Victoria and her two successors, Britain's growth in worker productivity slipped well below one percent a year. In comparative terms, U.S. productivity growth has fallen from nearly three percent as recently as the early 1960s to one percent today.

2. Britain's domestic investment and savings rates fell below those of foreign competitors. The contemporary U.S. savings rate, three percent of its GNP, is at an all-time low. The 17 percent of America's GNP that is invested, much of it in office buildings, is largely provided by foreign loans. Concentrating on quarterly profits, U.S. corporate chiefs have invested abroad (e.g., Mexico, Taiwan, Singapore) rather than in new plant and technology at home.

3. Increasingly, British exporters turned away from the toughest export markets (especially Continental Europe) and toward less-developed agricultural countries. Facing difficulties selling much more than farm products in Japan and Western Europe, Americans are now trying to expand industrial markets in the Third World.

4. Although Britain was the largest market for imports, London failed to respond to Continental tariffs with retaliatory trade restraints of its own—which might have forced the tariff countries to reconsider their course. (Britain did not finally abandon Free Trade and adopt tariffs until the Depression year 1932.) Today, Washington has stewardship over the largest and freest market, but its leaders have not generally sought to bargain with U.S. trading partners to open their markets.

5. British innovation lagged in chemicals, the electric industry, and low-cost automobiles. U.S. firms have largely deserted consumer electronics, including video cassette recorders, compact discs, televisions, and stereo equipment. They are suffering in steel, autos, construction, machine tools, shipbuilding, and semiconductors.

6. British public education failed to meet the standards of Germany, the United States, and other countries. Today, U.S. high school and college education, expensive as it is, does not assure competence in mathematics and science equivalent to that provided to Japanese and West German youths. A U.S. business school graduate knows about the same amount of math as a Japanese eighth-grader.

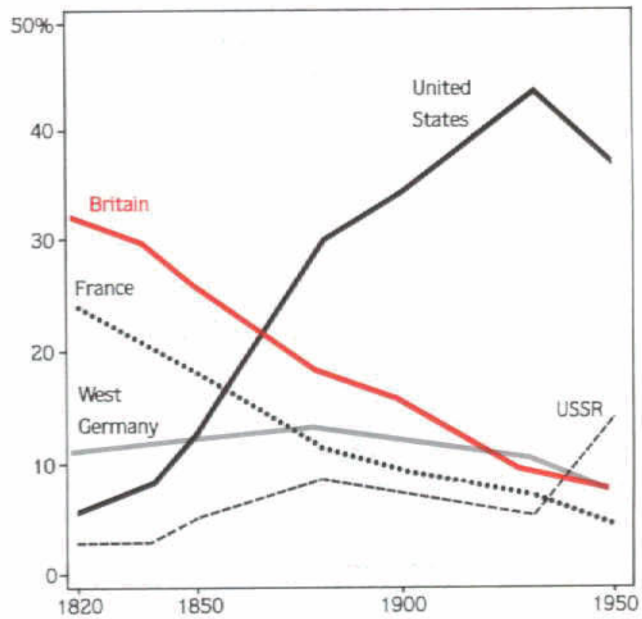
7. Finally, British military exertions in two world wars inexorably exhausted overseas assets and reduced earnings that might otherwise have been devoted to reinvestment at home. Today, U.S. peacetime military commitments and high defense spending have led to huge deficits, absorbed investment capital, and otherwise swallowed up resources. The U.S. government has had to borrow abroad. While present-day Britain is a creditor nation, the United States became in 1986 the largest debtor nation; today, according to congressional estimates, U.S. government and private borrowers owe $400 billion to foreign lenders, notably those in Japan which emerged in 1986 as the leading creditor nation.

One should not make too much of the similarities between Empire Britain and present-day America. The United States remains Number One in terms of its GNP (which is nearly double that of Japan and at least three times that of Germany) and total industrial output. Britain had few resources beyond coal. The United States still has large reserves of coal, natural gas, iron, and much else.

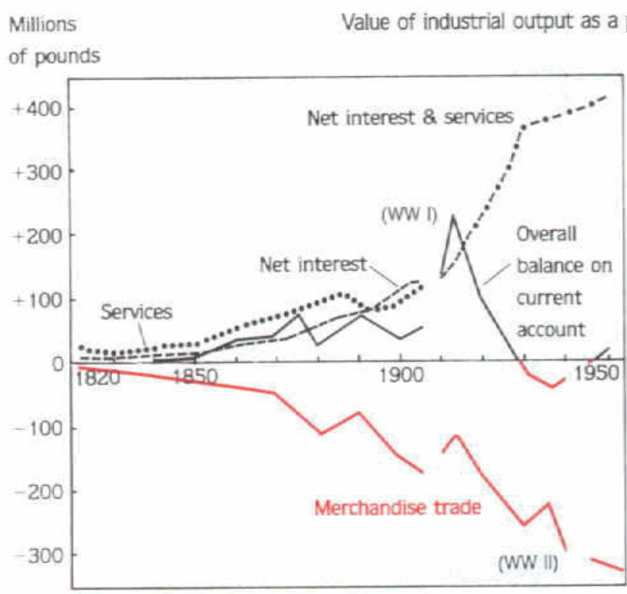
But, to repeat, U.S. investment in *domestic* plant and equipment in recent years has been low relative to that of other industrial countries (even Britain). And since 1950, the U.S. share of world GNP has been halved to about 20 percent. In key industries, the United States is losing ground.

The 1986–87 decline in the value of the dollar and the rise of the yen have slowed this process but not reversed it.

Further detail could be added, but the net picture would not be affected. It seems fairly clear that America's recent behavior, at home and abroad, has already begun to have consequences in 1987 for economic growth not unlike those ignored by that onetime "mirror" for the future, 19th-century Britain.



PRODUCTION
Value of industrial output as a percentage of world total.



BALANCE OF PAYMENTS
For a time, Britain's income from interest and services—such as earnings on foreign investments and revenue from shipping—offset its deficit in merchandise trade.