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Commentary on the economic situation

Intensifying financial pressures on the corporate sector

Record corporate financial deficit in 1989

Companies are about to enter a financial squeeze similar in severity to that seen in the last two "liquidity crises" in 1974 and 1980. Last year they incurred a financial deficit of more than £23b., equivalent to over 5% of GDP and by far an all-time record. This deficit was financed mostly from the banks. Indeed, bank borrowing of £39b. was somewhat larger than the financial deficit, with the excess used to make acquisitions both in the UK and overseas. As a result of the heavy bank borrowing balance sheets deteriorated, particularly in the second half of the year.

But probably even higher at present

In 1990 profits have been under pressure, while payments of interest and dividends have continued to grow. Companies' undistributed income must therefore have fallen. It follows that, if companies want to prevent the financial deficit widening yet further, they ought to be reducing expenditure on investment and stocks. But - according to official statistics - their investment rose sharply in the first quarter. The implication is that the deficit has widened and is now higher (in relation to GDP) than ever before. The pressures may have been acceptable early in 1990, when the exchange rate against the deutschemark had fallen to the 2.75-2.80 area and hopes of an early move to lower interest rates were still being expressed. But the exchange rate has since moved up to 2.95-3.00 and 15% base rates look likely to persist at least until the fourth quarter.

Need for large cuts in investment and stocks in the second half of 1990

The message is that many companies' balance sheets are sliding into the danger zone where banks have to say "enough is enough". The bankruptices at Coloroll and British & Commonwealth, and the disappointing ICI results, are only symptoms of a wider malaise. One of the main features of the economy in the second half of 1990 will be management efforts to cut back on investments and stocks in order to strengthen balance sheets. The next quarterly CBI survey (on Tuesday, 31st July) may indicate - for the first time in the current slowdown - that significantly more companies expect to reduce output in the next few months than to increase it. In fact, the reductions in investment and stocks required to bring the financial situation back to long-run norms would have catastrophic effects on economic activity. Over the 26 years to 1989 companies on average had a small financial surplus of 0.2% of GDP. To return to that number by, say, early 1991 would mean cutbacks in investment and stocks equal to about 6% of GDP. A move of this scale is not in prospect, fortunately. But the need for a change in direction - from over-expansion in late 1989 to contraction in late 1990 - is inescapable. Without large interest rate cuts over the next six to twelve months, the slowdown will become a full-scale recession.

Professor Tim Congdon 27th July, 1990

Summary of paper on

'Britain's position in the European economy of the 1980s'

Purpose of the paper The startling geopolitical developments of 1990 appear to have put Britain on the economic periphery of Europe. Some commentators have argued that, unless Britain participates more wholeheartedly in the European Community, it and other European countries run the risk of being "dominated" by Germany in the 1990s. Implicit here seems to be a view that Britain has become the "poor man of Europe" and is now deeply unattractive to international investors. The purpose of the paper is to see how far these claims are true.

Main points

* **Using comparisons at constant purchasing power, generally regarded as the best approach, Britain is not now and never was the "poor man of Europe". Moreover, the GDP of Germany - even a united Germany - is not high enough to dominate Europe.**

* **In the 1980s the four large European economies (Germany, the UK, France, Italy) grew at roughly the same rates. There was no tendency for Germany to grow faster than the other three. In fact, in recent years both GDP and private non-residential investment (which influences future growth) have usually increased faster in Britain than in West Germany.**

* **In the late 1980s the UK became the largest destination for international investment flows - particularly, direct investment inflows - in the EC. In 1989 gross direct investment inflows reached almost £20b. and slightly exceeded gross direct investment outflows, probably for the first time in more than three centuries (excluding war periods).**

* **Capital flows to the UK at present are much larger than those expected to go to Eastern Europe at any point in the 1990s. Very far from international companies believing that Britain has been marginalised by the events of 1990, they appears to believe that it is the most attractive place in Europe for investment.**

This paper was written by Professor Tim Congdon.

Britain's position in the European economy of the 1990s

Has Britain been marginalised by the geopolitical events of 1990?

***Perestroika* and single European currency appear to marginalise UK and so justify surrender of sovereignty**

Two unexpected geopolitical developments in 1990 - the political liberalisation of Eastern Europe and proposals for a single European currency - appear to have put Britain on the economic periphery of Europe. Political liberalisation in Eastern Europe seems to have made West Germany even more definitely the continent's industrial powerhouse, because it has resulted in unification with East Germany and opened new trading opportunities with other Eastern European countries; the debate on a single European currency has aroused fears of a "two-speed" or "two- tier" Europe, with Britain relegated to the slow lane or lower tier. The media increasingly talk of Britain being marginalised in the European economy of the 1990s. Implicit in this characterisation are a diagnosis that Britain is already unattractive for international investment and rather poor by European standards, and a prognosis that the various gaps (in terms of income per head, investment and so on) between Britain and the rest of Europe will widen in the 1990s. The prospect seems unappealing. For many people the obvious response is to plunge further into Europe, surrendering sovereignty and even national identity in order to capture more fully the supposed benefits of an economic grouping always and inevitably more successful than Britain on its own.

Argument important as it affects portfolio decisions

This argument needs to be assessed critically. Media stereotypes of countries - no matter how sloppily constructed - tend to stick. They can then influence important decisions, including the direction of portfolio investment flows between countries. For example, there is no doubt that in 1990 Japanese institutional investors have been neglecting the UK equity and gilt markets, and committing more money to West German equities and bonds. This preference has persisted even though, on the basis of traditional yield comparisons, German equities have been expensive relative to UK equities for much of the year. (As we shall, Japanese industrial companies have been behaving very differently.)

and arouses worries about German "domination" of Europe

There is another reason for checking the facts. Several commentators have suggested that, since in future Germany will "dominate" Europe, the best way of keeping it under control is to assimilate all the nations of Europe into one European political unit (a "United States of Europe") with a common government. This anxiety has been expressed more openly since the outburst against the Germans by Mr. Nicholas Ridley, the former Secretary of State for Trade and Industry. It is therefore important to find out to what extent Germany "dominates" Europe at present and how much more (or less) it might do so in future.

The paper will have three main sections. The first will discuss the relative sizes of the main European countries, in terms of output, according to recent data; the second will consider their growth experiences in the 1980s, with an analysis of trends in investment (investment here is to be understood as spending on capital equipment and buildings, not purely financial flows); and the third will see which of the European countries has been most successful in attracting inward investment (both direct and portfolio). This third section is most directly relevant to the question "has Britain been marginalised by the events of 1990?" and it turns out to have a very surprising answer.

Section One, what are the relative sizes of Europe's economies?

The purpose of first section, then, is to examine the statistics on output and both in the nations of the European Community and in Europe more widely. Figures are readily available in regular publications from the OECD, but a warning is necessary. Conceptual difficulties in cross-country comparisons of output and incomes are severe. One of the most serious problems is that the spending power of a particular level of money income, converted into the same currency at market exchange rates, can vary widely between different countries because of different price levels. In principle, competition should equalize the price level of traded goods, if trade is unrestricted and transport costs are low.

Conceptual problems suggest comparisons at constant purchasing power most appropriate

But in practice these conditions are not met in full, while the forces tending to equalize the prices of non-traded goods are uncertain in effect and not particularly strong. This difficulty is important in comparing Britain with other countries, because the evidence seems to be that productivity in the non-traded service sector of the British economy compares more favourably with the European norm than productivity in the traded, mostly manufacturing sector.

Gross domestic products in the European Community

	(1) GDP per capita constant purchasing power, 1989 USA = 100	(2) Population m. 1988	(3) GDP, $b. at constant purchasing power (i.e. 1 x 2, standardised relative to US GNP 1989*)	(4) GDP, $b. at current prices and exchange rates, 1989
West Germany	75	61.5	967.5	1,196.0
France	71	55.9	832.5	948.2
Italy	68	57.4	818.8	866.1
UK	70	57.1	838.4	826.6
Spain	50	39.0	409.0	377.1
Netherlands	67	14.8	208.0	223.5
Belgium	67	9.9	139.0	151.4
Denmark	70	5.1	74.9	104.1
Greece	35	10.0	73.4	53.8
Portugal	36	10.3	77.8	45.2
Ireland	43	3.5	31.6	32.8
Luxembourg	81	0.4	6.8	6.6
USA	100	246.3	5,166.5	5,166.5
Japan	76	122.6	1,954.5	2,818.0

*i.e., US GDP 1989 at current prices and exchange rates is taken as the benchmark, with the sizes of the various economies relative to it being determined by population multiplied by GDP per capita at constant purchasing power.

Source: OECD *Main Economic Indicators*

As a result, the price of services is lower in Britain than elsewhere in Europe. Since the prices of traded goods tend to be equalized across the whole continent, the British price level as a whole is also lower. It follows that figures for GDP per capita converted at market exchange rates tend to understate the true value of British incomes relative to those elsewhere in Europe.

The OECD supplies a corrective to this problem with a table at the back of its *Main Economic Indicators* publication on "per capita volume indices for GDP" at purchasing power parity. The numbers for the EC Twelve in 1989, in order of relative affluence (USA = 100), are as follows:

Luxembourg	81
West Germany	75
France	71
United Kingdom	70
Denmark	70
Italy	68
Netherlands	67
Belgium	67
Spain	50
Ireland	43
Portugal	36
Greece	35

There is ample room for disagreement about the figures. For example, different countries have different approaches to measuring the value of government output and the informal/black economies. (Italy includes an estimate of the "black economy" in its GDP, other countries do not.) But the OECD statisticians are aware of the problems and the above figures should be regarded as an attempt to be authoritative and impartial.

With comparisons based on purchasing power parity, Britain not the "poor man of Europe"

The obvious conclusion is that Britain is not "the poor man of Europe". On the contrary, if Luxembourg is excluded as a special case, incomes per head in the UK are the third highest in the EC. They are less than 10% behind those in West Germany and are only slightly lower than in France. Moreover, on this measure of GDP per head the UK actually moved up the ladder in the 1980s. In 1980 GDP per head (at purchasing power parity) in the UK was 67% of the US figure, which was less than in all the present members of the EC except Spain, Ireland, Greece and Portugal.

It is a mechanical exercise to multiply GDP per head on this basis by population to arrive at national GDP, also in constant purchasing power terms. Column (3) in the table on page 4 presents the results. They are rather artificial. GDP per head in 1989 has been multiplied by population in 1988, while - in order to give the results as actual money (i.e., in $b.) - it has been necessary to work out the relationship between each of the countries' GDP and the USA's, and apply the relevant factors to the USA's GDP (at current prices). But, since virtually every

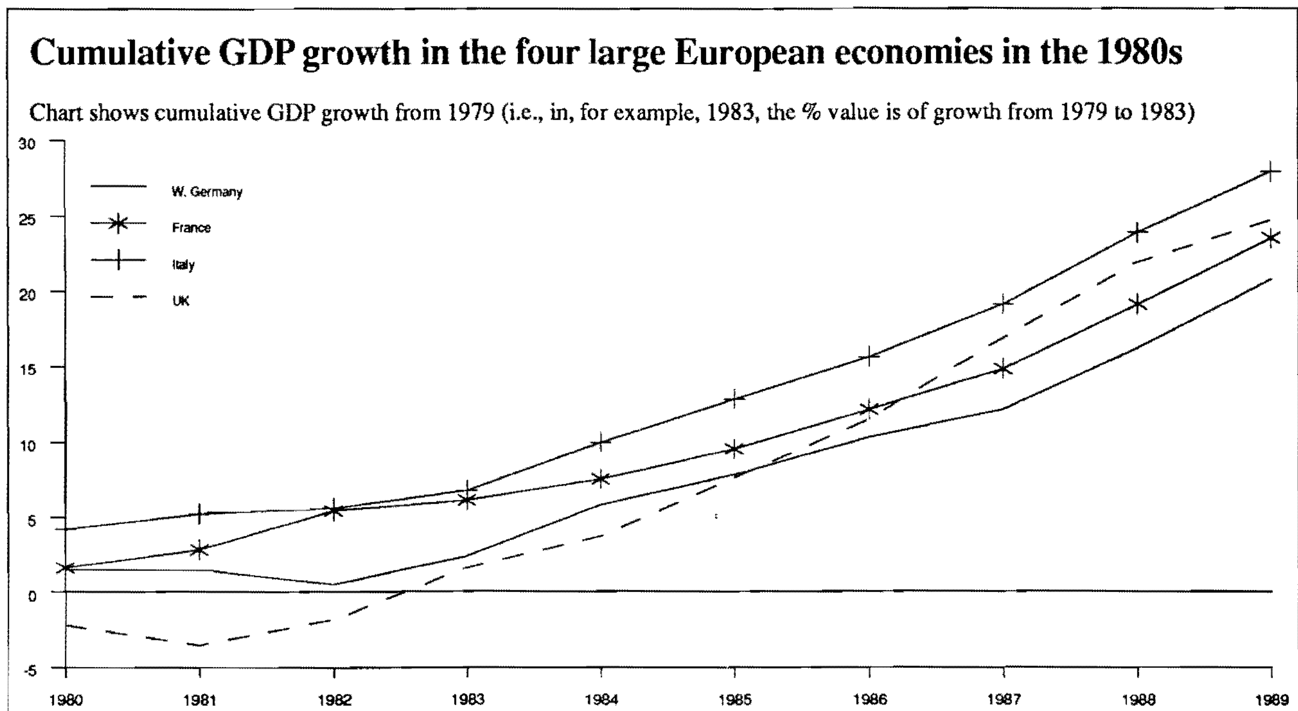
calculation in national income accounting is artificial to a degree, there is nothing particularly reprehensible about what we have done.

and West German GDP somewhat ahead of UK, France and Italy which are roughly the same in size

The conclusion is that last year the GDP of West Germany approached $1,000b., while the GDPs of the UK, France and Italy were more or less the same at between $800b. and $850b. The GDP of the EC as a whole was nearly $4,500b. It follows that, viewed simply from the standpoint of the size of GDPs, the UK was no more "marginal" than France and Italy. West Germany had the largest economy in the EC, but it was not disproportionately big relative to the other countries and the use of the word "domination" is fanciful. The combined GDP of the other EC states was almost four times larger than West Germany's. (For some years the OECD's bi-annual publication *Economic Outlook* has had a tendency to refer to the USA, Japan and "Germany" and so bracket Germany in a notional Big Three. This is - on the OECD's own data - clearly very misleading.)

Addition of East Germany makes some difference, but no dramatic change

The addition of East Germany changes these comparisons somewhat, but not dramatically. It is generally believed that the GDP of East Germany is about 10% - 12% of that of West Germany. A united Germany would therefore have a GDP equal to about 23 1/2% of the EC's and the output of the other countries' would still be more than three times larger. Of course, East Germany may over time "catch up" with the levels of productivity and living standards enjoyed in West Germany, which would boost united Germany's share of EC output. However, this process is likely to occur while the current members of EFTA, the newly-liberalized nations of Eastern Europe and perhaps even the Soviet Union (or the Russian Republic) are becoming more closely associated with



Cumulative GDP growth in the four large European economies in the 1980s

Chart shows cumulative GDP growth from 1979 (i.e., in, for example, 1983, the % value is of growth from 1979 to 1983)

the so-called "European economic space". In that larger entity it is obvious that no one nation would be dominant.

German lead greater if GDP measured at current prices and exchange rates

Of course, GDP can be measured in other ways. The table on page 4 also gives numbers on the basis of current prices and exchange rates, a procedure which - because of its wide productivity differential between traded and non-traded sectors - tends to overstate the relative size of the West German economy. The position of the UK in the league table is altered, with its economy being demoted to beneath that of France and Italy. But the difference is rather small and is very sensitive to differences in national-income-accounting practice. The UK, France and Italy are in fact still similar in size. The gap between Germany and the UK is, however, quite large, at about 45% of the UK's GDP. It would widen further if East Germany were included. But it would be narrowed if, for example, the capital gains and net income from foreign assets were added, because the market value of Britain's foreign assets remains higher than Germany's.

Bundesbank's reputation does *not* rest on size of German economy

Readers must decide for themselves from these numbers whether they find plausible remarks like "the UK has a weak economy compared to the rest of Europe", "Britain is the poor man of Europe" and "Germany dominates/will dominate Europe". On the usual meanings of ideas like "economic weakness", "relative poverty" and "economic domination", such sentences are clearly wrong. But in geopolitical discussions words sometimes assume meanings quite beyond the conventional understandings and dictionary definitions. One by-product of our discussion is that the financial leadership of the Bundesbank in Europe - which is an undoubted fact and is resented in France and Italy - does not rest on overweening German economic power. It is instead the result of the Bundesbank's past success in keeping inflation down and other European countries' sense of humiliation if their currencies have to be devalued against the deutschemark. References to Germany as a "key country" and to the deutschemark as a "key currency" disguise this truth.

A small country can set the currency standard for larger countries

It needs to be emphasized that even quite a small country can become a financial leader, if its reputation for good management is stronger than that of economically larger neighbours. In the late 1970s and early 1980s Switzerland approached this position in Europe. To give a more extreme example, the Hong Kong dollar is treated with respect in China, whereas the Chinese currency is regarded with contempt in Hong Kong. Historically - meaning over the last three centuries - Britain has had the best inflation performance and the most admired currency in Europe. It could continue to have this status in future if its monetary policies were sufficiently responsible. If politicians in Britain and the rest of Europe want to have their money run by Germans, they would - in this sense - be submitting to "German financial domination". But, in logic, this outcome is far from necessary or inevitable. Indeed, if British politicians wanted to have a lower inflation rate than Germany or to pursue their stated objective

of price stability, they may be well-advised to run an independent monetary policy and have nothing to do with "German financial domination" or the EMS.

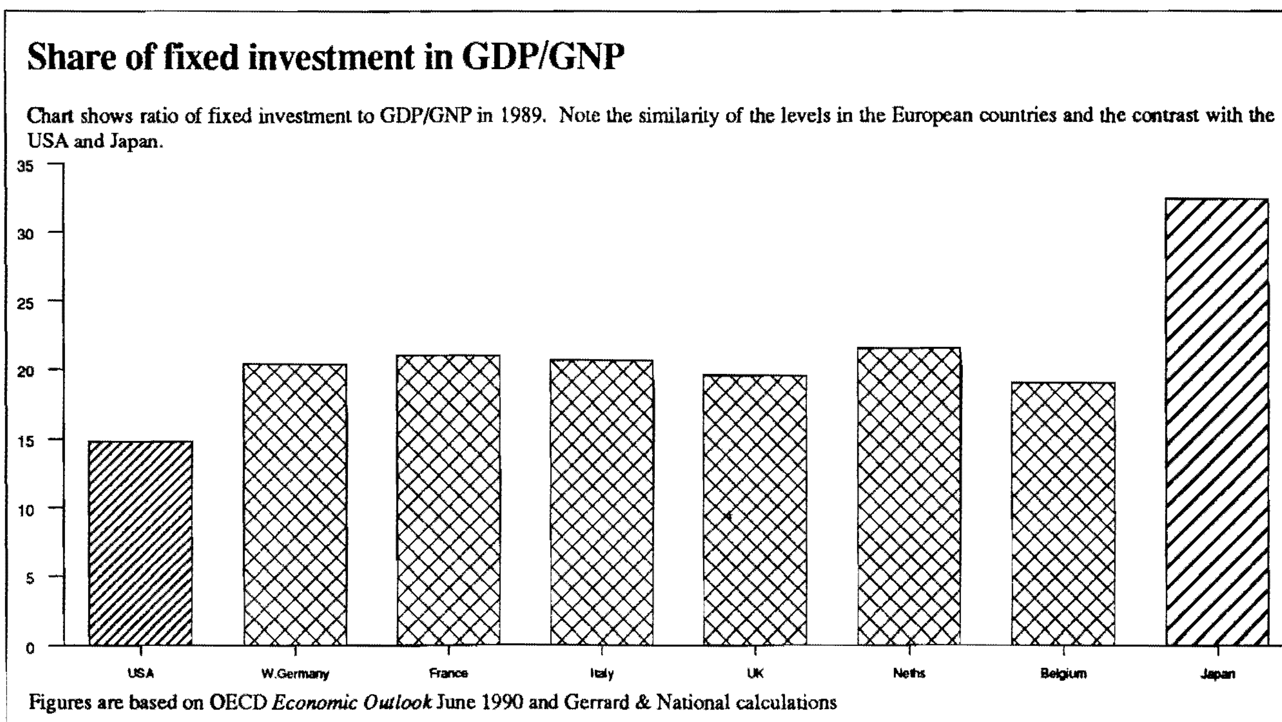
Section two, what has been the growth experience of European economies in the 1980s?

Much of the uncertainty in discussing the relative economic position of European countries arises because of the difficulty of measuring the level of output. International comparisons of changes in output are easier, as each country compiles its own numbers on a reasonably consistent basis. What, then, of economic performance in the past? Has the UK been left behind and is there convincing evidence pointing to future German "domination"?

As is well-known, UK economic growth was lower than in other European countries in the first 30 years after the Second World War. The explanation is a matter for debate, but there is one obvious hypothesis. It is that the rest of Europe was catching up with levels of income and output which had once been unusually high in the UK because of its advanced role in the industrial revolution and its position as victor in two world wars. What has happened since the equalization of income and output levels in the 1970s? (The figures above on GDP in constant purchasing power agree with the notion of equalization. As we have seen, the idea of Britain as "the poor man of Europe" cannot be sustained.)

In 1980s growth was similar in the four large European countries

The answer is that in the 1980s economic growth was very similar in the large nations of Europe. The UK enjoyed slightly faster growth than West Germany and France, but somewhat less than Italy. Although the UK's growth was clearly above that in the rest of Europe in the late 1980s, this may have reflected a more fortunate cyclical position. But any ranking is controversial because of



Share of fixed investment in GDP/GNP

Chart shows ratio of fixed investment to GDP/GNP in 1989. Note the similarity of the levels in the European countries and the contrast with the USA and Japan.

Figures are based on OECD *Economic Outlook* June 1990 and Gerrard & National calculations

differences in national income accounting, problems with the choice of base dates for comparisons and similar difficulties. The chart of page 6 shows the course of growth in the four large nations since 1979. The cumulative growth totals for two periods (i.e., % increase in real GDP/GNP from 1979 to 1989, and from 1984 to 1989) for the twelve members of the EC are as follows:

Increase (%) in GDP/GNP:	1979-89	1984-89
West Germany	20.8	14.2
France	23.5	14.9
Italy	28.0	16.5
UK	24.4	19.9
Spain	30.4	23.1
Netherlands	17.8	14.2
Belgium	22.2	13.9
Denmark	17.9	8.4
Portugal	31.3	23.6
Greece	17.3	11.1
Ireland	16.7	10.8
Luxembourg	32.1	19.2

Source: OECD *Economic Outlook* June 1990

The growth experience of the 1980s also disagrees with the theory of "German domination". Quite simply, before the incorporation of East Germany into a united Germany there was no evidence that the "German industrial machine" was growing so quickly that it would overshadow the rest of Europe. As yet there is also no definite evidence that East Germany will change the story. On the contrary, East Germany has been afflicted in 1990 by rising unemployment, bankruptcies and collapsing output, and seems to have many symptoms of chronic economic weakness.

The outlook for growth in the 1990s depends on many influences and is difficult to predict. However, one variable which is undoubtedly relevant is the level of investment. In general terms, the higher is the ratio of investment to national output in a country, the higher is its rate of growth. How do investment/output ratios compare in the main European countries?

Investment/GDP ratios now also similar in large European countries

The chart on page 8 sets out the information. The ratio of fixed investment to GDP or GNP last year was clearly very close in the four large European countries. Indeed, the gap between them is trivial compared to possible differences in accounting procedures. Thus, in most countries construction is usually responsible for half or more of investment. But construction output is not as highly traded as capital equipment and there is ample room for debate about the appropriate price deflators. Countless problems of categorization should also be mentioned. For example, where does "renovation" (investment?) end and "repair" (consumption?) begin? The best conclusion is surely that the four large European countries invest more or less the same proportion of their national output.

Interestingly, the investment/national output ratio is very similar to the EC average in Belgium and the Netherlands, but somewhat lower in the USA and much higher in Japan. It almost seems that EC countries, belonging to a customs union and so being subject to similar economic forces, are harmonising investment behaviour. Again, there is no obvious reason for expecting German so-called "domination" to be greater or less in the 1990s than it is today. The most plausible hypothesis is that the nations of Europe will grow over the medium term at roughly the same rates.

Investment in UK growing faster than elsewhere in Europe in late 1980s

However, one important caveat should be noticed. Historically, the UK has had a lower investment/output ratio than other European countries. For most of the 1970s and early 1980s the UK ratio was in the band of 15% - 20% whereas in other European countries it was typically between 20% and 25%. The UK's recovery has been very much a feature of the last five years, coinciding particularly with the period when UK growth was above that in the rest of Europe. In fact, during the 1980s the growth of private non-residential investment was much faster in the UK than in the other three large European countries. By 1989 the ratio of this kind of investment to GDP was also higher here than elsewhere. If private non-residential investment is regarded as likely to make a more worthwhile contribution to future growth than public or residential investment, its rapid increase in the UK should help our relative growth performance.

Section three, is the UK an attractive destination for international capital?

Is this sanguine view of the UK's growth prospects shared by international investors? It would make no sense to claim that the UK has been marginalised in Europe if foreign companies have been active participants in the UK investment boom of the late 1980s. So what is the evidence on capital flows into and out of the UK, and on the scale of international investment here?

Deterioration of UK's current account, while running a budget surplus, indicates large net private capital inflows

If a nation is running a balanced budget or a budget surplus, a good summary measure of private sector capital inflows is the current account deficit. (When there is a budget deficit, the current account deficit may partly reflect the need to finance the public sector's position, which can involve reductions in the reserves, government borrowing from abroad, IMF facilities and the like. These financial flows clearly have little to do with boosting private investment and future growth.) Since the UK has had a strong fiscal position in recent years, the swing from approximate current account balance in the mid-1980s to a deficit of 3% - 4% of GDP today measures the increase in net private foreign investment in the UK. Since the "deterioration" on the UK's current account has been unique in its scale, no other country in Europe can have had a comparable increase in foreign investment. In the late 1980s the UK became the largest destination for international capital in Europe.

Some readers may object at this point. They may complain that, if our argument were right, a current account deficit would be a sign of economic strength. Perhaps the best way to respond is to ask them, "is it possible for a country both to have a current account surplus and to be a net exporter of capital?". A remarkably large number of people seem to believe that the answer is "yes". But they are as wrong as someone who thinks that 2 + 2 = 0. It is a matter of definition and simple arithmetic that a current account deficit on the balance of payments must be equal to a capital account surplus. If foreign companies and individuals want to invest in the UK on a heavier scale than British companies and individuals want to invest abroad (i.e., there is a private-sector capital account surplus), and the Government is running a budget surplus, the UK must have a private-sector current account deficit.

Direct investment a more stable, and perhaps healthier, form of payments financing than banking flows

Of course, potential worries about how the deficit is financed may remain. In broad terms a current account deficit financed through the banking system (by foreigners increasing their holdings of sterling bank deposits and/or UK residents borrowing from foreign banks) is less satisfactory for policy-makers than a current account deficit financed by inflows of portfolio capital or direct investment. (Portfolio investment consists of purchases of bonds and shares; direct investment includes the purchase of land, building of factories, warehouses, etc. However, note that a 100% acquisition of the share capital of an existing business is regarded as direct investment.) A country whose deficit is financed by the banking system is more vulnerable to a sudden shift in international market sentiment than one whose deficit is covered by direct investment. If the UK has become the largest destination in Europe for international capital flows via the banking system, there may be few grounds for celebration.

Happily, direct foreign investment in UK very strong at present

The financing structure of the UK's payments deficit was unhealthy in late 1987, 1988 and early 1989, at the peak of the Lawson boom.According to official statistics, in 1988 the UK acquired £22.0. of claims on the international banking system, but in curred liabilities of £39.9b., giving net borrowing from the international banking system of £17.9b.; in 1989 new claims were £32.7b., new liabilities £58.0b. and net borrowing £25.4b. Meanwhile in 1987 and 1988 direct investment by the UK abroad far exceeded direct investment in the UK from other companies. However, in the last 18 months these trends have changed remarkably. Overseas direct investment in the UK soared from £8.5b. in 1987 and £9.2b. in 1988 to £19.6b. in 1989 (or 4.5% of GDP at factor cost) and reached £6.8b. (6.0% of GDP) in the first quarter of 1990. By contrast, UK direct investment abroad has been fairly stable since 1987 at about £20b. a year. As a result, the UK last year received net direct investment inflows from abroad, probably the first occasion this has happened in peacetime for three centuries, and the net inflow increased in the first quarter of 1990.

No other large European nation has gross direct investment inflows exceeding 4% of GDP. On this criterion the UK is by far the most popular location for new business operations in Europe. The conclusion is reinforced by examining evidence on the geographical destination of American and Japanese international investment. According to the latest *Annual Report* of the Invest in Britain Bureau, part of the Department of Trade and Industry, at end-1989 the UK accounted for 41% of the stock of all US direct investment in the EC, much higher than West Germany (16%) and the Netherlands (11.5%) which were in second and third places respectively. Japanese involvement is also growing. At end-1988 391 Japanese companies were manufacturing in the EC, of which 92 were in the UK; at end-1989 501 Japanese companies were in the EC (up 28%) and 132 in the UK (up 43%). Moreover, in the *Report*'s words, "The surge in Japanese projects which began in 1987 has been maintained for the third year in succession and available evidence suggests that the UK's share of Japanese investment in the EC is growing."

The UK far more important than Eastern Europe as destination for international capital

The evidence is clear that in the last few years internationally-mobile capital has preferred to come to the UK rather than other European countries. Of course, the position may change later in the 1990s and eventually Eastern Europe may emerge as a meaningful competitor for investment funds. But - at the time of writing - there are few signs that the many forecasts of "massive" capital flows to Eastern Europe are materializing, whereas the UK's foreign investment boom (e.g. the Toyota plant in Derby; Scandinavian purchases of British property companies) continues unabated. It also needs to be emphasized that the foreign investment boom in the UK has occurred while the pound has been outside the exchange rate mechanism of the EMS. The frequent statements from industrialists that they need exchange rate stability before they can invest do not appear to stand up.

The UK is not, and never was, the "poor man of Europe"; its growth performance in the 1980s was, if anything, somewhat higher than the European norm, while the recent buoyancy of investment suggests it should continue to grow at least as quickly as the other nations in the EC during the 1990s; and it has not been marginalized in the EC by the geopolitical events of 1990. Indeed, there is something ludicrous in the volume of commentary this year on the lines "investment flows to Eastern Europe will be a major factor disturbing world capital markets and raising real interest rates in the 1990s". Has no one noticed that capital flows to the UK *at present* are a multiple of the highest plausible estimates of capital flows to Eastern Europe at any time in the 1990s? And why, pray, is foreign investment in the UK never thought to be relevant to real interest rates whereas capital flows to places like Poland and Hungary are deemed crucial to the future level of international bond yields?