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## Sterling Balances

The large dollar and gold holdings that are being accumulated by Latin American and European neutral countries will provide these nations with substantial buying power for purchases from the United States after hostilities cease. Similarly, nations within the sterling area have been accumulating huge balances in London which can finance heavy imports from Great Britain for a long time to come.

A computation of foreign-owned London balances published in the current issue of the National City Bank's monthly letter shows that India held some \$2,500,000,000 at the end of 1943, and other countries in the sterling area a somewhat larger sum. By the end of the war, these balances may reach \$8,000,000,000, it is suggested.

Great Britain incurred this short-term indebtedness in financing her participation in the war. In the process, she has provided these countries with cash with which to pay for British goods. Unless exchange restrictions are withdrawn, these funds would not be available for the purchase of goods outside the sterling area.

The existence of this huge short-term debt from Britain to other sterling countries is a powerful incentive for expanding the principle of imperial preference embodied in the Ottawa agreements. So long as these balances remain abnormally large, there can be little patience in Great Britain with well-meaning suggestions from this side of the Atlantic that Britain return to the gold standard and multilateral trade policies when hostilities cease.

The short-term indebtedness, as well as the sharp decline in income from abroad on investment and service accounts, makes this impracticable unless the United States or an international monetary fund will make available huge liquid resources to liquidate London's outstanding short-term debt and to replenish British gold reserves. If this is not done, Great Britain must perforce take strong measures to push exports to sterling area countries, and limit imports from other sources, in order to balance her international payments and gradually reduce London's indebtedness to other sterling area countries to more normal proportions. There is little reason to expect the British to agree to a general lowering of trade barriers after the war so long as her international financial position remains highly vulnerable.