

They had no dollars, but they did have these large sterling accumulations: it was therefore not unnatural that in addition to getting what dollars they could from the United Kingdom (and the amounts have been substantial) these countries should have wished to use their sterling accumulations to buy goods in the United Kingdom or elsewhere in the sterling area. From the United Kingdom point of view, exports paid for out of these sterling balances do not produce dollars or other foreign exchange which can be used to pay for imports. They extinguish a liability but they do not create an asset.

It is not generally realized what a drain these so-called "unrequited exports" have been on the British economy. The use of sterling balances is only one of the ways in which British unrequited exports have been paid for. Another has been the outflow of private capital from the United Kingdom to other sterling area countries (such as South Africa) which has enabled the countries receiving the capital to make purchases in the United Kingdom over and above the amounts they could afford to buy out of their own earnings, including gold production. Still another form of unrequited exports has been the British contribution of large amounts of sterling to certain of her partners in the European Recovery Program, notably France.

In one form and another, these unrequited exports from the United Kingdom have added up to a very large sum and they represent an impressive contribution which the United Kingdom has made to the economic recovery and political stability of the rest of the world. These exports are one reason why it was possible for the United Kingdom to have its over-all international accounts virtually in balance and at the same time have a large dollar deficit. Another reason is the fact that, as banker for the sterling area, the United Kingdom has been called upon to meet the net dollar requirements of other sterling area countries. For the past 18 months or more, the United Kingdom has been in the position of a man who is earning about enough to cover his own cost of living but not nearly enough to repay his debts at the rate at which he is in fact repaying them. The gap is covered by accepting gifts or going into debt himself. The British have in a sense been borrowing (or rather taking gifts) from Peter to pay Paul. To put the matter in another way, while the United Kingdom was achieving a notable degree of success in balancing her own international expenditures and earnings, the rest of the sterling area taken as a whole was greatly increasing its international deficit. Since sterling is the currency of the whole area, the burden of the deficit falls on the United Kingdom. The question which is involved here is not whether it is desirable for the countries concerned to have a deficit - in many cases, as I have said, their standard of living is desperately low - but whether the United Kingdom has been in a position to bear this burden.

There is another way in which these unrequited exports have weakened the British economy. The countries having large amounts of sterling available and undergoing severe inflations at home have bid up the prices of British export goods to levels at which they could not be sold in dollar markets.

The result of all this was, of course, an impairment in the British capacity to earn dollars at the prevailing rate of exchange. The United Kingdom dollar problem was aggravated to some extent by the American recession last Spring which led to reduced purchases of sterling area products by the United States; and the drain on British dollar reserves was aggravated by the rumours of impending devaluation propagated during the Spring and early Summer of this year. Reserves fell below the point