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The White Plan and Our Sterling Balances

IN recent months public attention has come to be focussed on the implications and significance of the sterling balances which have been accumulating to our credit at a fast rate. Economists and public men have discussed the question in great detail and gradually a consensus of thought has grown up. It is now generally understood that our sterling balances represent a part of the extreme privations and sufferings we are undergoing as part of our war-effort and represent a measure of the "forced saving" imposed on us by the financial policy of the Government. At the same time we are becoming conscious of the vital part these balances must play if we are to launch an ambitious economic plan for rapid industrialization after the war. Unless we are able to use these balances, either we shall have to substantially whittle down our ambition or to duplicate after the war the privations we are undergoing now.

Naturally there is a great deal of public concern over the fate of our sterling balances and the recent policy of the Government as well as the trend of opinion in Great Britain have done nothing to allay public misgivings in this behalf. It cannot be doubted that accumulation of such "abnormal war balances" by various countries greatly add to the complexity of the post-war international monetary problems and naturally enough the recent Currency Plans published by the American and the British Governments have reverted to the problem. The Keynes Plan itself does not adumbrate any concerted programme for the orderly transfer of these huge balances but merely expresses the hope that some transitional measures may be adopted which will not compromise the liquidity of the balances to the creditor countries and yet at the same time minimize the strain on the debtor country. On the contrary, the White Plan has a clear-cut scheme for the adjustment of these "abnormal war balances."

For us these "war balances" have become surrounded by a penumbra of emotion and we tend to judge the currency plans by their orientation to the question of these balances. The Keynes Plan has, on the whole, received a better reception in India and the very vague and non-committal attitude it adopts on this touchy question has got much to do for this better reception. It appears, however, that there has been some general misunderstanding in India about the nature of the scheme for tackling the war-balances which is contemplated in the White Plan. The misunderstanding is partly due to the highly compressed form in which the White Plan has been drawn up and the extremely technical and complex nature of the proposals suggested to liquidate the war balances. We ourselves in one of our earlier articles on the subject presented the American Plan in a somewhat worse light than is perhaps warranted. The closer scrutiny and examination of the plan which we have now made reveals that whatever other faults it may have, the plan does seek to provide some means by which the abnormal balances may be transferred with the least injury to the world's monetary system and without subjecting any country—debtor or creditor—to any undue strain.

The White Scheme has been generally interpreted to mean that in some way it is contemplated to freeze our balances and release them in dribblets over a period extending over 20 or 23 years. If this were really so, it would indeed be a most ridiculous and absurd position, for the White Plan specifically mentions that one of the purposes of the Stabilization Fund is "to facilitate the effective utilization of the abnormal foreign balances accumulated in some countries as a consequence of the war situation" (I-4). Nevertheless, a closer reading of the relevant parts (III-9) would show that what the scheme contemplates is merely a programme for multilateral transfer, which distributes the burden of adjustment among the several countries and that although there are obvious limits to the rates at which these balances can be utilized, the limits are not of the character of a general freezing order accompanied by thawing in regular instalments. It is, indeed, very different from that. We shall therefore seek in this article to explain clearly how under the scheme the problem of war balances is sought to be disposed of under the American Plan. Our task is not to approve or disapprove; that may be left over to a later occasion. But it is necessary if our criticism is to be fruitful and just that there should not be the slightest misconception or ignorance about the true nature of the proposals.

Thanks to our pitiful experience after the last war in connection with the war debt and reparation problems and the great controversy which this question aroused, our understanding of the international transfer problem is today much fuller than before. The "removal of the veil of money" has enabled us to see the transfer problem essentially as a problem in the relocalization of demand, and productive forces. The idea of a transfer of capital in the abstract, which has been one of the most tenacious of economic illusions, has absolutely no contact with economic reality. The international transfer of capital means the international transfer of purchasing power and although in the short period there may be equalizing and offsetting movements of funds, nevertheless in the final analysis and eventually all claims *must* be exercised and capital fund can only be transferred in the form of commodities and services. The relocalization of purchasing power will, in general, entail a re-adjustment of trade and production in both the creditor and the debtor countries. The international transfer of capital funds is certainly a foreign exchange problem, but it is also and mainly a problem of readjustment of trade and production.

Now, suppose India finds herself at the end of the war credited with a sterling balance of £750 mn. or Rs. 1,000 crores. This sum represents a certain quantum of goods and services which we parted with during the war and we can get back the sum only in the form of goods and services, although it may be a different quantum on account of the changed price relationships under the impact of the transfer process. Further, since Great Britain is the debtor, it is she who must send the required quantum of goods and services either directly to us or indirectly through a multilateral route. These considerations constitute the inescapable elements of economic reality.

Obviously, if we agree to direct, bilateral transfer, *i.e.*, if we choose to spend the whole of the sum in Great Britain, then there is no transfer problem provided Great Britain can re-adjust her production and supply us all the goods and services we need. But if we desire to buy in other countries as well, it will involve an extensive and strenuous readjustment in the production and trade of a number of

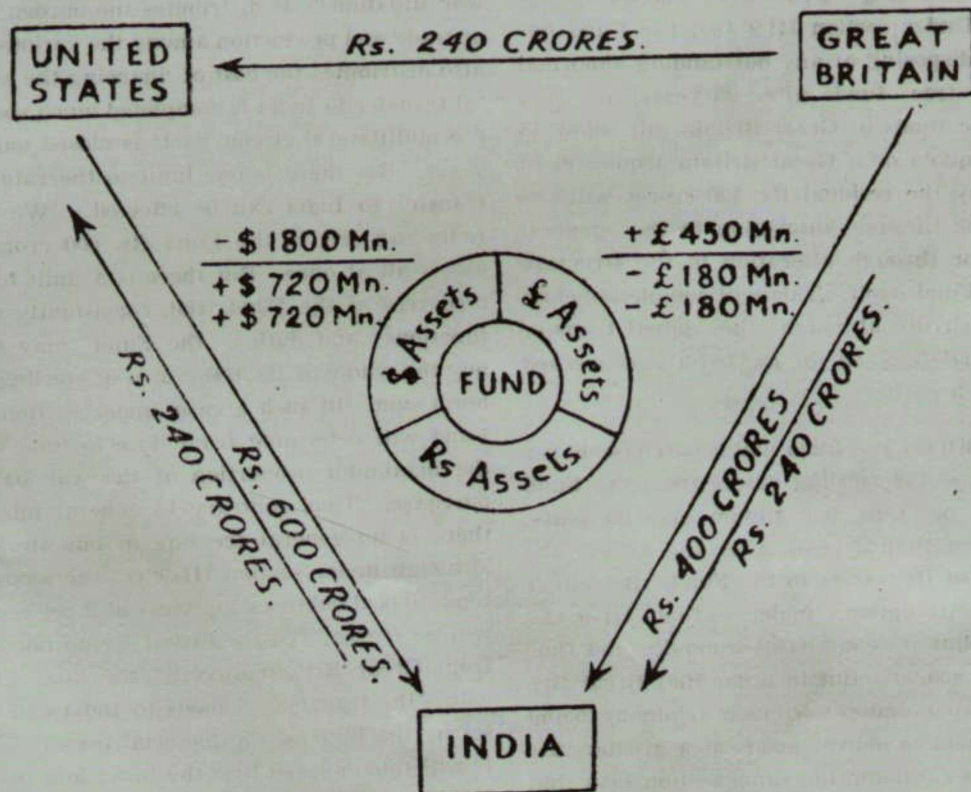
countries. The White Plan proposes that in such a case the burden of adjustment should be distributed among the various countries in accordance with a programme and the Stabilization Fund itself will partially finance the transfer so as to smoothen the process. Let us see how this is envisaged to work out.

Let us assume that total sterling balances standing at India's credit is Rs. 1,000 crores or £750 mn. For simplification of exposition, we shall assume that there are only three countries in the world, *viz.*, India, Great Britain and the "rest of the world" which we shall call the "United States". This is only for simplification of exposition. At a later stage, if we like, we may substitute for the "United States" the various countries of the world excluding India and Great Britain, in the form of an epicycle, and thus visualize the complete picture of the multilateral route of transfer. Again, at any moment, the Stabilization Fund has got certain financial resources consisting of the quotas contributed by the member countries, the deposits it may have received, funds that may have come in its possession in the course of international trade, its own obligations it may have issued and which it can discount in the member countries, and so on.

If India buys entirely from Great Britain, the problem is much reduced in proportion and the rate at which we can utilize our sterling balances, is determined entirely by the rate at which Great Britain can readjust her production and supply us the goods and services required. But suppose India decides to spend directly only Rs. 400 crores in Great Britain and for the rest to buy from the "United States". Now the problem emerges. For Great Britain must in any case part with goods worth Rs. 1,000 crores—Rs. 400 crores directly to us and Rs. 600 crores through a mutlilateral route. Meanwhile, we are procuring Rs. 600 crores worth of goods from the "United States". Evidently, this implies an adjustment of the trade and production of the whole world. How is this to be effected?

The White Plan proposes that India will have the option (provided she, along with Great Britain, is a member country) to sell £450 mn. (=Rs. 600 crores) of our sterling assets to the Fund and get the foreign exchanges ("dollars") to buy goods from the "United States." But there is a proviso. The Fund will give us foreign balances in exchange of the sterling assets, only if we genuinely want to buy goods and services from the "United States" and have consequently an adverse balance of payments to meet. But if we want to convert our sterling assets into "dollars" merely because we distrust the £ sterling and want to hoard in the form of either gold or "dollars", then the Fund will not pay us in "dollars," but only in rupees which the Fund possesses. [Section III-9 (*e*)]. The rupee assets of the Fund really represent, so much rupee purchasing power at the disposal of foreigners who have claims on us and so much liability for us to export. When, therefore, the Fund re-imburses us in rupees, we are absolved from the liability of exporting so much goods and services which are now available for our domestic use. We may call this "virtual import": it is as if we have imported so much goods and services in return for our sterling assets. In other words, we must either actually import or virtually import, but we cannot hoard in the form of gold or "dollar." This is understandable; for it is unreasonable to expect the Fund to help us to hoard and thereby exert a deflationary pressure on the world.

The Multilateral Circuit



Now suppose we have bought the goods and services worth Rs. 600 crores from the "United States". Then, we have already got goods and services worth Rs. 1,000 crores in return for our sterling assets. But the sterling assets of the Fund have increased by £450 mn. and "dollar" assets have fallen by $1,800 mn. and the structure of assets has been disturbed. Again, Great Britain has still to deliver Rs. 600 crores of goods and the "United States" is entitled to get back this amount of goods which she has supplied to India on behalf of Great Britain. In other words, the transfer of goods to India has been effected but the multilateral circuit has not yet been closed. Meanwhile, India has secured the advantage of a free choice of markets and Great Britain the advantage of deferring delivery of Rs. 600 crores of goods.

In order to close the multilateral circuit, it is proposed that India and Great Britain will each repurchase 40 per cent. or £180 mn. (=Rs. 240 crores) from the Fund in exchange of gold or "dollars" in regular instalments over 20 years [III-9 (*b*) and (*c*)]. Thus India will have to (on top of her balancing international trade) supply extra goods worth Rs. 12 crores per year for 20 years to the "United States." The "dollars" thus received ($720 mn.=Rs. 240 crores) will be given to the Fund in exchange for equivalent sterling assets (=£180 mn.) with which India will purchase Rs. 240 crores worth of goods from Great Britain. Under section III-9 (*h*), Great Britain cannot either freeze or block this repurchased sterling assets, so that the sum would be free for purchases in Great Britain. There is no current burden on India because she will get from Great Britain what she delivers to the "United States." Similarly, Great Britain also will supply Rs. 240 crores (=£180 mn.=$720 mn.) worth of goods to the "United States" and with the "dollars" thus received repatriate £180 mn. of the sterling assets deposited with the Fund. Thus in all the "United States" will have got back Rs. 480 crores out of Rs. 600 crores of goods which she had supplied to India on behalf of Great Britain. Great Britain also has delivered Rs. 480 crores of goods out of Rs. 600 crores which was outstanding—of which Rs. 240 crores are by direct but deferred transfer to India, and another Rs. 240 crores by multilateral and deferred transfer. There is still a gap of Rs. 120 crores to close the multilateral circuit; in other words, Great Britain must deliver goods worth another Rs. 120 crores, and the "United States" must get back same value of goods, in order that everybody may be quits. Under section III-9 (*g*), the Fund has the privilege of disposing of any outstanding abnormal war balances as free funds after 23 years, or even sooner if the free funds of Great Britain fall below 15 per cent. of her quota or if Great Britain acquiesces in this. In this way the residual Rs. 120 crores will be transferred either through absorption in the general trading system or through alteration in the structure of assets of the Fund itself. This will completely close the multilateral circuit, although the actual transfer of the sterling balances *so far as India is concerned* was effected much earlier.

Both Great Britain and India will repurchase 40 per cent. (£180 mn.) of the sterling assets from the Fund at the rate of 2 per cent. per annum over 20 years, beginning not later than 3 years after the date of the original transfer of the assets to the Fund. But either country may, at its option, under section III-9 (*f*), increase the amount it repurchases annually and thus finish off the job sooner. But in order that Great Britain may not be put under too much strain by being called upon by India to deliver goods at a greater rate than 2 per cent. per annum, the same section says that although India may, if she chooses, repurchase the sterling assets at a greater rate per annum, not more than 2 per cent. per annum of the original sum taken over by the Fund shall become free and only after 3 years shall have elapsed since the sale of the balances to the Fund. For the same reason, under section III-9 (*i*), the Fund also is debarred from selling without acquiescence of or request by Great Britain the sterling assets it has acquired. Thus under these sections, Great Britain's liability to deliver the goods per annum to India, either bilaterally or multilaterally, is strictly limited and cannot be increased without her consent.

Now how has the transfer process been financed? The Fund will, of course, initially come by extra £450 mn. of sterling assets, but this will be in the nature of a special blocked deposit account and the Fund cannot take punitive measures against this under section III-3 (*c*) and (*e*). But its "dollar" assets will be lower by $1,800 mn. If the Fund acquiesces in this dimunition of assets, it is implicitly financing the transfer process. On the other hand, the Fund may strive to take corrective measures under section III-6 and pass on a part of the cost to the "United States." But both India and Great Britain have derived benefits—India by immediate delivery of goods and free choice of markets in which to buy; and Britain by deferment of delivery of goods. Therefore, section III-9 (*d*) contemplates that India and Great Britain should also pay part of the cost of financing the scheme, by a levy of 1 per cent. on the war balances *plus* another 1 per cent. on the unrepurchased amount of the balances. The levy on the unrepurchased amount of the balances will, of course, be an inducement to Great Britain and India to expedite the completion of the transfer process.

Thus we find that the White Plan does not contemplate any general freezing of the sterling balances; on the contrary, it attempts just what it professes, *viz.* "to facilitate the effective utilization of the foreign balances accumulated in some countries as a consequence of the war situation." It distributes the burden of adjustment of trade and production among the various countries and also distributes the cost of financing the scheme. The total transfer to India is completed much sooner, although the multilateral circuit itself is closed only in about 23 years. But there is one limit to the rate at which the transfer to India can be effected. We assumed that India can sell to the Fund Rs. 600 crores of sterling assets all at once. But there is a limit to the financial resources of the Fund, and, consistently with its other functions and duties, the Fund may be unable to buy the whole of Rs. 600 crores of sterling assets in one lump sum. In such a case, under section III-9 (*j*), the Fund will determine from time to time what shall be the maximum proportion of the war balances it will purchase. Thus contrary to general misapprehension, there is no general freezing of our sterling balances, although under section III-9 (*f*) the amount of India's repurchased balances in excess of 2 per cent. per annum will be frozen. To the extent we do not choose to buy from Great Britain directly, the limit to the rate at which the transfer of goods to India can be effected is set by the limit of the financial resources of the Fund. It will thus be seen that the provisions of the U.S. plan for the redemption and utilization of the abnormal balances are more precise. They fix responsibility both on the creditor and debtor countries to ensure that the liquidation of such debts is effected without unduly disturbing the monetary system of any country. A clear understanding of the part of the American scheme should enable us to decide what modifications, if any, India should press for, so as to make the scheme subserve our interests more fully.