IV

THE POST-WAR PERIOD

(1945 TO 1947)

THE POST-WAR INFLATION

At the end of the Second World War, the Indian economy was confronted with many acute economic problems. The most serious amongst them was the continuation of wartime inflation in the country. Another problem was the shortage of consumers' goods. It was also felt that the control on prices and distribution of essential commodities should be removed. The people had become tired of wartime controls which had given rise to many evils in the country like black-marketing and hoarding of essential commodities.

At the end of the war, India emerged out from a debtor to a creditor of Britain. We had not only paid off most of our Sterling debts, but on the contrary had amassed a huge amount of Sterling assets. During the war period import of goods was severely restricted and as such at the end of the war, it was felt that import licences should be liberally issued in order to meet the shortages in the supply of consumers' goods.
During the war period the mills and factories in the country could not replace their worn out parts. And as such at the end of the war, many of their plants were in a worn out condition. The replacements of such worn out machineries was therefore, most urgently felt. War had provided employment both in civil and defence services to a very large number of people. Providing gainful employment to all of them at the end of the war became a serious problem for the Government. The Government of India prepared a plan for post-war Reconstruction and asked the Provincial Governments also to make similar plans. Government expenditure at the end of the war also went down, due to the declining defence expenditure.

The two other most crucial questions on which we had to take decisions immediately after the cessation of hostilities were — (i) whether India should be a member of the International Monetary Fund? and (ii) How to resist the moves of the British Government to reduce the amount of our Sterling balances?

There was not much of structural change in the Indian economy during the war. People who joined the armed forces were surplus labour in peace time. Very few factories or plants were set-up to produce entirely war requirements. Even a small proportion of the products of the firms and factories which had their existence in the pre-war days were utilised for war purposes. Rarely, any industry, which produced
consumers' goods, was changed into munitions producing industry, was therefore maintained by the Reserve Bank that "since no very profound structural changes were brought about in Indian economy, it would appear that the transition to peace would be easy".  

THE TEMPORARY PRICE RECESSION

The prices which rose very rapidly from 1941 - 42, fell in 1945 - 46 but went up again in 1946 - 47. At the end of the war, price situation in most of the countries had improved. In the U.S.A., U.K. and Canada, prices reached the highest level in July, 1945, but declined thereafter. The prices in India started declining from January, 1945 and upto July, 1945, the index number of wholesale prices declined from 303 to 284 (Calcutta : Base : January - June, 1939). That is within six months they fell by 19 points. The downward trend was short-lived. The prices had declined most probably in anticipation of a slump which many had anticipated. It is also possible that the decline was a temporary lull in the continuously rising prices, for the inflationary forces having exhausted themselves for the time being. From the middle of 1945, prices again started rising. The rise was


noticeable in many parts of the world. A U.N. report said, "A large part of the world is at present (i.e., during the post-war period) subject to inflationary pressures. Even in the United States, where output has been greatly expanded as a result of the war, inflationary price movements have taken place".  

THE ANTICIPATION OF POST-WAR DEPRESSION

This situation of rising prices was most unexpected in India, because it was hoped that at the end of hostilities India was likely to come under the grip of economic depression. In the words of Mr. C.D. Deshmukh - "In fact fears regarding a severe depression and economic collapse were entertained in many quarters and people were asked to be prepared". Similar view was expressed by Prof. B.K. Muranjian, who maintained, "that public and private investment (during the post-war period) must maintain the existing volume of income if we are not to be involved in a disastrous deflationary movement". The post-war development plan in India was mainly made in order to deal with such an anticipated deflationary situation. The Central Government had - as we have already stated - asked the Provincial Governments to prepare Five Year Reconstruction Plans and at the end of hostilities in

3. Prof. B.K. Muranjian: Economics of Post-war India, p. 15.
1945, they were asked to select schemes from their plans for immediate implementation to create employment. The Government of India had its own development plans which included amongst others, provision for the expansion of housing, post and telegraphs and post trusts. The following remark in the Budget Speech of 1946 of Sir Archibald Rowland, the Finance Member of the Viceroy's Executive Council would clearly explain that the post-war Reconstruction and Development Plans were primarily aimed at countering the slump that was expected in the post-war period. Sir Archibald said, "No Government whether Central or provincial can afford to contemplate with complacency the onset of deflation or allow purely financial considerations to stand in the way of maintaining the economic health of the country". The predictions of those who expected depression in the immediate post-war period were falsified. Even theoretically, it was incorrect to predict depression in India during the post-war period. With a very low standard of living in the country even at the end of the war, there was sufficient scope for production in every sphere to increase. And this increase would have given more employment to the people. Production during the post-war period could not be sufficiently increased to meet the ever growing

demand for all sorts of essential goods due to the dearth of raw materials and capital goods in the country. The Indian case was quite different from that of the developed countries, where production ceases to increase or at time totally stops on account of over production. That is due to a maladjustment in the demand and supply of consumers' goods.

THE POST-WAR CURRENCY CIRCULATION

The rate of increase in note circulation started falling from April, 1945, and the fall was very steep in the year 1946 - 47. An increase of only â‚¹ 23.26 crores in note circulation was registered in 1946 - 47 as against â‚¹133.89 crores in 1945 - 46. The rate of increase in note circulation declined from 12 per cent in 1945 - 46 to 2 per cent in 1946 - 47. The post-war increase in note circulation in India was moderate in comparison to that of many other countries of the world.

TABLE - 17
THE AMOUNT OF NOTES IN CIRCULATION IN SOME SELECTED COUNTRIES DURING THE POST-WAR PERIOD

<table>
<thead>
<tr>
<th></th>
<th>End of 1945</th>
<th>End of 1946</th>
<th>Percentage increase over 1945</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>1,380.0</td>
<td>1,422</td>
<td>3.0</td>
</tr>
<tr>
<td>Australia</td>
<td>£ 200.0</td>
<td>207.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Canada</td>
<td>$ 992</td>
<td>1,040</td>
<td>5.0</td>
</tr>
<tr>
<td>New Zealand</td>
<td>£ 46.2</td>
<td>50.2</td>
<td>8.7</td>
</tr>
<tr>
<td>United States</td>
<td>$ 28.5(b)</td>
<td>29.0(b)</td>
<td>1.8</td>
</tr>
<tr>
<td>France</td>
<td>Fr 570(b)</td>
<td>722(b)</td>
<td>26.7</td>
</tr>
</tbody>
</table>

(b) = 1,000 million

THE POST-WAR PRICE INCREASES

As we have already marked, there was a temporary fall in price in the first half of 1945. Prices started rising again from June, 1945 and in 1946 - 47 they reached a level higher than that attained during the war years excepting the two peak years of 1942 - 43 and 1943 - 44. The rise in prices was mainly due to non-monetary factors. The rise in prices after a short recession was on account of the following reasons - (i) A section of the people in the country had accumulated considerable amount of liquid money during the war period. Though their income had gone up during the war period, they could spend very little out of it. In the post-war period when controls were relaxed such people wanted to satisfy their pent up demand and as such the prices were pushed up, production could not be increased so fast. The producers who found a seller's market could manipulate the prices still higher. (ii) Production of all essential goods in the country could not be immediately increased to meet their steeply rising demand, because there was a dearth of capital goods and necessary raw materials during the post-war days. During the war period, the labourers had agreed to work for longer hours, on the assurance that their working hours would be reduced in the post-war period. The Labour Unions therefore pressed for it in the post-war period and the working hours were therefore reduced. This affected production. There was an extreme transport bottleneck in the country as the
railways were under a strain during the war with very little of new capital investment. There was also a wave of strikes and civil disturbances during the post-war period. In the first five months of 1947, industrial disputes numbered 152 against 138 and 34 in the corresponding periods of 1946 and 1939. (iii) There was also an acute shortage of food due to adverse weather conditions. In 1946, rains failed in large parts of Punjab, Bombay and Madras. The Government estimated an overall food shortage of 6 million tons and tried to procure more food from the Allied Food Board.

The fall in Government expenditure at the end of the war had some disinflationary effect on the country's economy. But such disinflationary measure was counterbalanced by the increased spending capacity of the demobilised soldiers who got gratuity and other lump sum benefits after their discharge from the army.

At last when there was Decontrol in 1947, the long repressed inflation in India took the shape of open inflation. The following table on the next page would explain the price trends during the post-war period.
<table>
<thead>
<tr>
<th>Year and month</th>
<th>Calcutta (C)</th>
<th>Bombay (G)</th>
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<tr>
<td>1945 January</td>
<td>303</td>
<td>221</td>
</tr>
<tr>
<td>February</td>
<td>303</td>
<td>221</td>
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<td>September</td>
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<td>November</td>
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<td>233</td>
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<tr>
<td>December</td>
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<td>1946 January</td>
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<td>November</td>
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<td>262</td>
</tr>
<tr>
<td>December</td>
<td>372</td>
<td>269</td>
</tr>
</tbody>
</table>

(?) = Wholesale Prices  :  (O) = Cost of Living

In early 1947, the Government of India appointed the Commodity Prices Board to review the trend of production and prices of the important raw materials and essential consumers' goods. The Board held the view that almost all the essential consumers' goods were in short supply and there was a very remote chance of immediate increase. There were some people in India who held the view that price control and the various restrictions imposed upon the production of industrial goods had caused their artificial scarcity. They therefore suggested that restrictions on capital issues and on prices and distribution control of industrial goods be removed to encourage production.

**THE CHANGED DEBT STRUCTURE OF THE GOVERNMENT OF INDIA**

The composition of total debt liability of the Government of India radically changed at the end of the war. From a total amount of Rs.439.10 crores of Sterling debts, we had to pay in 1939 - 40, only debt worth Rs.32.84 crores remained unpaid in 1946 - 47. Between 1939 - 40 to 1946 - 47, we had paid off Sterling debts worth Rs.406.26 crores. Whereas, Rupee debts of the Government of India had immensely increased during this period. From Rs.450.23 crores in 1939 - 40, they increased to Rs.1,529.73 crores in 1946 - 47, i.e., there was an increase of Rs.1,079.50 crores in Rupee loans.

With a reduction in the war-time direct and indirect Defence expenditure and on account of the efforts the
Government of India made to bridge over its revenue deficits, there was only a small addition to the Rupee debts of the Central Government in 1946 - 47. In 1945 - 46, the addition to Central Government's Rupee debts was Rs. 366 crores, whereas in 1946 - 47, it was only Rs. 203 crores. The market borrowings of the Government during 1946 - 47 amounted to Rs. 112 crores. This was short of the budgeted figure of Rs. 250 crores.

THE POST-WAR CHEAP MONEY POLICY

During the war years, we had followed a cheap money policy. The official argument for it was that cheap money policy enabled the Government of India to raise loan at a lower cost i.e., the burden of interest charges for loans raised during the war was not heavy.

It was on the contrary argued by Dr. Muranjan that we should have followed a policy of Dear Money during the war years, which would have helped us to raise sufficient loans to finance the war and avoid currency expansion. Moreover, this policy would have eliminated the liquid money in possession of the people, for it would have been attractive for them to invest it into Government securities rather than hold it in cash or in any other near liquid form.

For the post-war period Dr. Muranjan had pleaded for a cheap money policy as he thought it would have stimulated investments in the post-war period and counteracted the
the anticipated depression.¹

All that Dr. Muranjan said may be theoretically correct but the effects of his suggestions no body could definitely predict. It is doubtful whether Dear Money policy during the war could attract sufficient funds into Government loans and thus the Government's deficits could be met without any large scale expansion of note issue, as the people had lost faith in the Government during the early period of war and also because there was no developed securities market in the country. It is equally doubtful whether cheap money policy in the post-war period could cause large scale increase in production, as there was acute shortage of raw materials and capital goods.

The Government of India was in favour of further cheapening of money rates in 1946 - 47. Special efforts were made to bring long term rate of interest to between 2½ to 3 per cent per annum. A suggestion was given to reduce the Bank Rate from 3 to 2½ per cent. But the Committee of the Central Board of Directors of the Reserve Bank of India, which was appointed to consider this proposal gave its opinion against such a measure.

The Government accepted the view of the Committee and refrained from further cheapening of the Bank Rate.

¹ Dr. B.K. Muranjan: Economics of Post-war India, p. 92.
Shri C.D. Deshmukh, Governor of the Reserve Bank of India in his address to the Annual Meeting of the share holders of the Bank in August, 1946 said, "I should like to refer to a further aspect of the policy of cheap money, viz., repercussions of the continuation of that policy on stock exchanges and security markets of the country. These markets have been experiencing boom conditions in recent months and it will be apparent that in the absence of outlets for investment, particularly in view of the difficulty in obtaining supplies of capital goods from sources overseas, the continuation of cheap money unrelieved by increased investment and enhanced production can only aggravate the inflationary potential in the country".  

A few days after Shri Deshmukh's address, it became obvious that there was no prospect of further cheapening of the money, as the boom conditions initiated by the 1946-47 budget and fostered by the redemption and conversion of loans started from May, 1946, had exhausted themselves. The index number of wholesale prices, which had gone up to the highest point of 382 in February, 1947, dropped down to 374 in March, 1947. Further cheapening of the money rate under such circumstances could not have stimulated investments any further. It would have rather aggravated the inflationary potential in the country.

THE DECIMAL COINAGE BILL OF 1946

In 1946, a Bill was introduced in the Central Legislative Assembly proposing a decimal system of coinage in India. It was stated in the Bill that "Modern trade and commerce demand speed and simplicity in the methods of computation, to achieve which there is nothing to compete with decimal system which has gradually displaced all other systems in most of the advanced countries". The Bill could not be passed and was ultimately dropped. Gandhiji opposed the Bill. In an article in Harijan, Gandhiji expressed his disapproval of the decimal coinage system because he thought that the poorer sections of the population would suffer by this measure. However, the opinion of the experts continued in favour of the system and ultimately the Decimal Coinage Act was passed in 1955.

THE DEMONETISATION OF HIGH DENOMINATIONS

As a punitive measure against black-marketeers and tax-evaders, High Denomination Bank Notes (Demonetisation) Ordinance was passed on the 12th January, 1946. This Ordinance demonetised currency notes of the value of Rs. 500, 1000 and 10,000. The holders of such notes were asked to surrender them within 15 days after having given a declaration in a prescribed form.

1. Quoted in Indian Finance, March 2, 1946 : Decimal Coinage, Short Comment.
The date for the exchange of such notes for bonafide holders was extended upto 28th February, 1946. Thereafter the Governor and the Deputy Governor of the Reserve Bank were authorised to exchange such notes in cases regarded just by them upto April 26, 1946.

The demonetisation Ordinance in India was a measure similar to the measures taken in U.K. and some other European countries during the war. By demonetising the notes of the denominations of more than £ 5, Britain had taken the lead. Commending the demonetisation of high denomination notes in India, Dr. Paul Linzg wrote in the Indian Finance, "The recent drastic measures taken in India, to discourage black-market operations by means of withdrawing large notes from circulation have been in accordance with precedents in various European countries during the war".

"It stands to reason that notes of large denominations should be favoured by black-marketeers and tax-evaders as they do not want to transact through banks but deal in cash. And therefore high denomination notes became convenient for such transactions". 1

As a consequence of the Demonetisation Ordinance, out of

a total amount of ₹.143.97 crores worth of high denomination notes in circulation, notes worth ₹.134.9 crores were converted into smaller denomination notes. Thus notes worth ₹.9.07 crores were not presented for conversion which meant that the total supply of money was reduced by this amount.

Much of the purpose of the demonetisation Ordinance could serve was lost because of its faulty execution. The following defects were noticed in the working of the Ordinance:

(i) The Ordinance caused panic, particularly in the business world;
(ii) Innocent hoarders of such notes became victims of such panic;
(iii) The notes changed hands at a discount.

As Shri C.D. Deshmukh rightly remarked, "It was more of a 'conversion' at varying rates of profits and losses than demonetisation". (iv) The Ordinance made no provision for withholding payment except in the case of some defect in the declaration form.

The declaration form required the persons who wanted to exchange such notes to account for the origin of any excess over their normal income. If anyone filled up false declaration form, he could be prosecuted for tax-evasion or black-marketing as the case may be. If they did not fill up the declaration form and retained money in high denomination notes, it meant they lost such money.

The ineffectiveness of the ordinance in checking black-marketing was due to the following reasons: (i) there was no fool proof administrative method by which a particular note brought by an individual could be proved as the life-savings of the hard working man who presented it or as the sordid gains of a black-marketing; (ii) the princely states were exempted from any scrutiny or questioning when they presented such notes. It was, therefore, possible for many black-marketeers and tax-evaders to exchange such notes in the princely states for small denomination notes at a discount; (iii) the ordinance could not reduce the total volume of notes in circulation, it only caused a change in the denomination. So that, as the total volume of notes was not reduced by the Ordinance, it was ineffective in checking inflation, tax-evasion and black-marketing.

The Sterling Balance Agreement and the Convertibility of Sterling

At the end of the war in 1945 - 46, the Sterling holdings of the Reserve Bank of India amounted to Rs.1,724 crores. It was argued by many well-wishers of Britain that our sterling assets accumulated during the war - at the cost of great deal of privation and hardship - be scaled down. It was argued by them that India had sold goods to Britain at an abnormal period of war, when prices were high in India. But her sterling balances were to be released at a time when
prices in Britain would be much lower so that if the whole of accumulated Sterling Balances were paid to India - without any deduction in the total amount - it would mean Britain paying more in goods and services to India than what she got from her.

In February, 1947, for instance the London Times wrote, "Britain has every sympathy with Indian's desire to use her Sterling balance to finance Capital developments, but as a practical question, payment in full to India and other creditors is impossible". In an article in Indian Finance Mr. Paul Linzig pleaded for scaling down the Sterling Balance of India. His argument was that doing so would have been in our own interest. According to Mr. Linzig, "Holders of Sterling Balances will presumably be willing to agree to a reduction of the outstanding total and to a consolidation of the greater part of the reduced amount in return for an immediate release of dollar".

Ultimately our Sterling Balance was not reduced but the immediate convertibility of the Sterling was not permitted. The Sterling Balance controversy created much bitterness between the two countries and its amicable settlement without


2. Mr. Paul Linzig: The Empire and the Sterling an article in Indian Finance, May 25, 1946.
it being reduced permitted us to maintain our relationship
with the Sterling and to remain within the Sterling Area.

At the end of the war, there was an acute scarcity
of essential goods in the world. They were in plentiful
supply only in the U.S.A., where production had remained
unhampered during the war. On the 6th December, 1945, Brit-
tain entered into a loan agreement with U.S.A. which permi-
tted Britain to obtain American goods out of U.S. dollar
loans at the end of the Lend-Lease agreement which ended after
the war. It was expected in India after the loan was negoti-
ated that Sterling would be freely convertible into dollars
and this would enable us to acquire dollars for Sterling.

The Loan - agreement had two important aspects which
affected all the Sterling Area countries including India. It
was stated in the Agreement — (i) that, "Dollar payment to
holders of blocked Sterling must be made out of resources
other than proceeds of American loans". ¹(ii) that though it
was not possible for Britain to permit the Sterling Area
countries to freely convert their blocked Sterling in dollar,
"but some Sterling Area countries who were regular dollar
earners should not be bound by the problems of other less
fortunate members of the Area i.e., that pooling (of dollar)
should end and members be allowed to spend their own dollar

¹. Dr. Paul Emsig: India, the Empire and the Sterling,
Indian Finance, May 25, 1946.
earnings freely. 1

This objective was at least achieved on paper Article 7 of the loan agreement read:

The Government of the United Kingdom will complete arrangements as early as practicable and in any case not later than one year after the effective date of this agreement. . . . . the Sterling receipts from current transactions of all Sterling Area countries will be freely available for current transactions in any currency area without discrimination. 2

The British Government for a short time in July and August, 1947 - permitted the convertibility of the Sterling and suspended the pooling of dollars. The consequence was that there was a heavy drain of dollar from Britain on account of the conversion operations of a large number of countries in the Sterling Area. Australia, India and Ireland made the largest conversion. The conversion operation which caused a general increase in dollar spending throughout the Sterling Area, brought an end of convertibility at the end of August, 1947.


2. Quoted by Prof. Philip H. Bell: The Sterling Area in the Post-war World, p. 53.
THE POST-WAR BALANCE OF TRADE

For the first time after 25 years, India had an adverse balance of trade in 1945 - 46. From April, 1945 to August, 1945, India had an adverse balance of trade to the extent of 3.13.01 crores, though the overall balance of trade deficit in 1945 - 46 was only 3.72 lakhs. In the year 1946 - 47, there was a favourable balance of 3.41 crores on private account, though the overall balance of trade was adverse. According to reviews of the trade of India, in the year 1946, we had an overall balance of trade deficit of 3.10.67 crores. The deficits were paid out of our sterling balances. The adverse balance of trade in 1945 - 46 was primarily due to an increased import of food and raw materials. In the year 1946 - 47, Import Licences were liberally issued. It was presumed that increased imports would check inflation and encourage cultivators - who would get more of essential goods - to produce more of food and other crops. The adverse effect of this relaxation of import control policy was felt in the last quarter of 1946, when large quantities of articles of luxury of non-essential variety had arrived in the country. In certain cases, the goods imported were far in excess of the demand for such goods. During the two years under study, on account of rising prices of imported food grains, we had to spend more foreign exchange than what was anticipated.

1. Quoted by Mr. S.K. Srivastava: Trade of India, p. 35.
It was for this reason that the import policy of the country was revised and in early March, 1947, the Open General Licence No. VIII was cancelled and issue of licences for non-essential commodities was severely restricted. Even then we had a large balance of trade deficit of Rs. 37.58 crores in 1947.

TABLE - 19

INDIA’S BALANCE OF TRADE DURING THE WAR AND POST-WAR YEARS

<table>
<thead>
<tr>
<th>Years</th>
<th>Value</th>
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<td>1938-39</td>
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<td>1939-40</td>
<td>+ 48</td>
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<tr>
<td>1940-41</td>
<td>+ 42 Favourable</td>
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<td>+ 80 Balance of trade</td>
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<td>1944-45</td>
<td>+ 42</td>
</tr>
<tr>
<td>1945-46</td>
<td>- 72 (lakhs) Adverse</td>
</tr>
<tr>
<td>1946</td>
<td>- 10.67 Balance of trade</td>
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<tr>
<td>1947</td>
<td>- 37.58</td>
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Source: Review of the Trade of India. Quoted by S.K. Srivastava - Trade of India, p. 36.

It was suggested at the end of the war, that India should not lose the opportunity of boosting her export trade at a time when the capacity of many important countries of
the world to supply goods for foreign markets was extremely limited, so that it was imperative for us to make out a long export plan and work accordingly. It was thought by Prof. C.N. Vakil and J.J. Anjaria that there should have been a moderate degree of deflation in the country in this period because this would have enabled us to compete in the world commodity market.  

For the sake of export promotion, it was also pleaded that the exchange value of the Rupee should be fixed lower than at 1 S. 6 d. Dr. M.B. Adiseshiah pleaded for fixing of the Rupee - Sterling exchange rate at 1 S. to the Rupee. It was argued that the Rupee Sterling rate of 1 S. 6 d. meant an over valuation of the Rupee.  

However, the Government did not make out any long term export policy for the country, keeping in view the future economic set up of the country. The Government did not like to be bothered about this because it had huge war time accumulated Sterling Balances which made it feel secure against any adverse balance of trade in the coming years.

THE SUGGESTION FOR REVALUATION OF RUPEE

As already stated, immediately after war, there were

some people in the country who thought that the Rupee was over valued. It was argued that the price increases in India during the war were much higher than those in U.K. and U.S.A. As such it was necessary that Rupee be devalued.

<table>
<thead>
<tr>
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<td>153</td>
</tr>
<tr>
<td>1945</td>
<td>. . .</td>
<td>155</td>
</tr>
<tr>
<td>1946</td>
<td>. . .</td>
<td>161</td>
</tr>
<tr>
<td>1947</td>
<td>. . .</td>
<td>176</td>
</tr>
</tbody>
</table>

P = Wholesale Price  ;  C = Cost of Living.

### TABLE - 24

**INDEX NUMBERS OF WHOLESALE PRICES IN INDIA AND COST OF LIVING IN BOMBAY**

(Compiled by the Office of the Economic Adviser to the Government of India)

**BASE : Week ended 19th August, 1939 = 100**

<table>
<thead>
<tr>
<th>Year</th>
<th>General Index</th>
<th>Cost of Living in Bombay</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939 - 40</td>
<td>....</td>
<td>125.6</td>
</tr>
<tr>
<td>1940 - 41</td>
<td>....</td>
<td>114.8</td>
</tr>
<tr>
<td>1941 - 42</td>
<td>....</td>
<td>137.0</td>
</tr>
<tr>
<td>1942 - 43</td>
<td>....</td>
<td>236.5</td>
</tr>
<tr>
<td>1943 - 44</td>
<td>....</td>
<td>244.2</td>
</tr>
<tr>
<td>1945 - 46</td>
<td>....</td>
<td>244.9</td>
</tr>
<tr>
<td>1946 - 47</td>
<td>....</td>
<td>275.4</td>
</tr>
</tbody>
</table>

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It was thought that devaluation would have worked as a powerful check against any fall in exports in the post-war period. As the Rupee was overvalued in terms of sterling, the Rupee — dollar cross rate had also to be lowered. On the basis of two different calculations, Prof. Muranjjan arrived at the conclusion that the Rupee — sterling rate should have been fixed at 11.8 d. or 11.6 d. per Rupee. By another calculation
based on the comparison of prices in India and U.S.A. during the post-war years, Prof. Muranjan estimated that Rupee - Dollar cross - rate should be fixed at £ 100 = Rs.1,108 as against the then existing rate of £ 100 = Rs.332}.  

Dr. Adiseshiah - as we have already stated - favoured the rate of a Shilling to a Rupee.

There was another section of people who opposed the proposal for the devaluation of the Rupee. Such people argued that devaluation would have made our exports cheaper and imports costlier. As we were badly in need of importing many essential goods - which were in short supply in the post-war period - such a measure would have gone against our interests.

In conclusion it may be stated that the post-war economic situation of the country was such that we ought to have devalued the Rupee. The prices in India had gone much higher at the end of the war, than the prices in U.K. and U.S.A. We had also started facing adverse balance of trade from 1945 - 46.

Anyway, the Rupee was not devalued in the immediate post-war period. This action was rather postponed by about two years.

1. Dr. S.K. Muranjan : Economics of Post-war India, April, 1946, pp. 154, 155 and 160.
THE INTERNATIONAL MONETARY FUND

About two years before the end of the World War, a number of proposals were given by eminent economists, treasury officials and politicians regarding a monetary set up which would help in the better working of international trade investment and employment in the post-war period. Some discussions were held for a post-war monetary plan between the U.K. Treasury and the States Department of the U.S.A. There were also French and Canadian International Monetary Plans for a better international monetary co-operation in the post-war world.

Closely connected with the International Monetary Co-operation plans, there was a suggestion for adopting a policy regarding employment on international level. The British plan was formulated by Lord Keynes as Head of the Treasury and as such it was called Keynes Plan. The U.S. plan was initiated by Mr. Harry White.

The main problems that the post-war world had to face in the realm of currency and exchange as discussed in these plans were as follows:

1) Should gold standard be restored in its pre-1930 form or in any changed form?

2) Should some other standard be invented which would serve the purpose of stabilising the exchange rates of the currencies of the leading trading countries of the world?
3) At the end of the war for some years to come there was likelihood of a disequilibrium in the balance of trade in the various countries of the world. Consequently it was expected that in the post-war years there would be exchange restrictions, bilateral trade agreements etc. What should be done to face such a situation?

4) Should there be a new type of international currency for the settlement of international transactions?

5) Whether action should be taken in future to induce or compel the countries having continuous export surplus either to increase their imports or make long term investments in the countries facing adverse balance of payments.

6) To what extent monetary agreements were to be linked to parallel agreements on trade and employment?

At Bretton Woods, these important questions were to be debated and settled.

Both Keynes and White suggested introduction of international currency which should represent a fixed amount of gold. White's American plan suggested that such currency be known as 'unitas' and it should represent 137½ grains of fine gold. The Keynes plan proposed the term 'sancer' for the international currency but did not suggest any par value of it in gold.

In both the plans, international currency was meant to be used for the settlement of International payment.
Accounts. In order to facilitate International Payments, one International Clearing Union was to be established. It was to act as a clearing house and as a Central Bank of the Central Banks of the various countries. Each country had to specify the value of its currency in gold and thus it was to be linked to 'Sancoor' or 'Unitas'. The exchange rate of each currency of the world to the 'Sancoor' or 'Unitas' was to be determined on the basis of its value declared in gold. The American plan required that the value of each currency be rigidly fixed in terms of gold and thus its value be rigidly fixed to unitas. But the Keynes plan permitted flexibility in this respect.

The white's plan would have virtually established a gold standard in its rigid form. If this plan was accepted, it would have meant making deflation at times, to keep the internal and external value of any currency stable. But the Keynes plan though much superior to the American plan, "went much too far towards putting gold back on its pedestal". 1

In both the plans, provision was made for the signatory countries to get initial supply of international currency in order to tide over post-war balance of payments difficulties. Each country could enjoy over draft facilities of a fixed amount in the books of the International Banking Institution.

Out of the Keynes' and White's plans on International Monetary Co-operation emerged a joint plan agreed upon by British and U.S. experts and a definite United Nations Monetary Agreement was drawn at the Bretton Woods Conference in July, 1944.

The Agreement creating the International Monetary Fund came into force from December 27, 1945 when it was signed by 29 governments, representing 80 per cent of the original quotas of the Fund. In the words of the I.M.F. "one of the major objectives of the Fund was to ensure the maximum of international monetary co-operation from war to peace". The I.M.F. also aims at promoting freer system of world trade and payments for the rapid economic development of member nations, high level of employment and improved standard of living.

As an answer to the question as to why International Monetary Co-operation was necessary at the end of the war, the Fund stated "Efforts to maintain and to restore production and international investment cannot have anything like their full effect without a reasonable degree of monetary and exchange stability". The Articles of Agreement of the Fund therefore required that each member country should declare an agreed par value of its currency in U.S. dollar and gold and should

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2. Ibid., p. 22.
try to maintain it. Member countries are also required to consult the Fund whenever they contemplate making a change in the par value beyond 10 per cent. Countries retaining exchange controls are required to hold annual consultations with the Fund regarding the restrictions in force, justifications for them and the possibilities of their removal.

When the Fund started working, it was found that there were many weak currencies in the world whose par values could not be fixed unless the economic and monetary situation of such countries was stabilised. Such countries were therefore given time to stabilise their economy and monetary system and thereafter notify their par values to the Fund.

The basis of the financial relationship between the Fund and a member country is that country's quota "- i.e. the subscription to the Fund". Usually member countries subscribe one fourth of their quota in gold and the other three fourths in its own national currency. The 'pool' of currencies which the Fund thus holds provides it with the necessary resources to help a member in its difficulties. The Fund helps its members in the following way. When a member needs help from the Fund, it pays the Fund an amount in its own currency equivalent to the amount of foreign currency it requires at the par value already notified to the Fund. The borrowing

member is expected to repurchase such amount of its own currency from the Fund within three years or at the most five years by making payment in gold or U.S. dollar or some other currency acceptable to the Fund. The assistance of the Fund is intended to be used to tide over short term balance of payments difficulties. The Fund's assistance is not meant to be utilised for financing long term development programmes or for military purposes. In the words of the Fund "Countries that are pursuing national development programmes may use the Fund if they experience temporary payments difficulties such as would ordinarily entitle a member to Fund assistance". 1

The aggregate amounts of various currencies that a member may draw are linked to the size of its quota and to the amount of the Fund's holdings of its currency. For drawings of larger amounts, the Fund expects the member to make intensive efforts to overcome difficulties usually through a comprehensive programme of fiscal and monetary measures.

On December 31, 1945, the Fund had 30 members; by April 30, 1964, the number went up to 102. Almost all the major countries of the world are its members, excepting some countries of the Socialist group. Looking back over the years during which the Fund has been assisting its members financially, we

find that it has made available about £11 billion through drawings or through unused stand-by arrangements; 54 members had taken help of the Fund's resources; and at one time or the other the currencies of 14 different members have been used to assist others.¹

The I.M.F. has been responsible for the establishment of a new form of gold standard in the world, which has been called Gold Parity Standard. It has established a system of international gold standard, which aims at maintaining exchange stability, with due provision for any change in the rate of exchange that the member countries may deem necessary with the consent of the Fund.

The I.M.F. has made no provision for penalising those countries whose currencies are scarce in the world money market excepting for declaring it a scarce currency. The I.M.F. was primarily established to maintain exchange stability and to assist member countries to tide over temporary balance of payments difficulties. It did not make any provision for long term capital investments in the war devastated and underdeveloped countries. The I.M.R.D. filled up this gap. Only the members of the I.M.F. can become members of the I.M.R.D.

INDIA JOINS THE FUND

India is amongst the first 30 signatories of the Fund's articles of agreement. There was a group of people in this country who opposed this. The most notable amongst them were Prof. B.K. Muranjan and Shri Manu Subedar. They were opposed to the idea of our joining the Fund on the following grounds: (i) India was not likely — they thought — to suffer from any acute problem of adverse balance of payments in the post-war period. (ii) according to these people, the Fund is a club of those who belong to a particular military and political block. In case help is withdrawn under a political pressure, the country would be in trouble. (iii) The Fund made no provision for the payment of our accumulated Sterling Balances. Shri Manu Subedar said in the Indian Parliament, "so long as India's Sterling Balances are not satisfactorily settled, satisfactory to this country, India should have nothing to do with the International organisation". (iv) The total commitment of India it was said, would eventually amount to Rs.266 crores and if the International Bank (i.e. the International Monetary Fund) ran into bad debts, owing to the Fund's lending to war devastated countries, India's hard earned foreign exchange would be lost. (v) It was the view of Dr. Gyan Chand that the I.M.F. would only help the rich nations.

Those who opposed the idea of our joining the Fund, overlooked the advantages that were expected from joining it. The perpetual gain we have made by joining the Fund is the foreign exchange assistance we receive from time to time from the Fund to tide over our short-term balance of payments difficulties. Only those countries who are members of the Fund can become members of the World Bank. We were right in joining the Fund or else we could not have joined the Bank and would have been deprived of the long-term development loans from it and the soft loans of still longer term from the International Finance Corporation and the International Development Association.

The argument that India should not join the Fund unless her sterling balances were released was very unsound. The Fund was not a British institution; but an international organisation and as such it would have been most unreasonable for us to have declined to join the Fund on this ground. Because of our membership of the Fund, we have been able to link our currency with the currencies of almost all the important countries of the world. It was unreasonable to conclude that the Fund was a creation of any military or political block. The events of the past twenty years of the working of Fund have amply proved that it is completely aloof from the international economic or military alliances. The money we have deposited with the Fund for our membership is as safe as any other safe and gainful international investment we have made. If we could
invest our foreign exchange earnings in sterling assets, why could we not make deposits with the Fund. Over and above the advantages discussed above, it has been possible for India to gain other advantages also from the Fund. The Fund's Mission studied the implications of our First Five Year Plan and gave some valuable suggestions. The Fund has made available to us many of its technical experts to work in the various development projects. We have been able to get help from the Aid India Club because we joined the Fund and therefore could get admission in the I.S.R.B.

In October, 1946, the Central Legislative Assembly decided that India should join the Fund and also the Bank, "It was a decision which has been fully justified by our subsequent experience". The U.S.S.R. declined to join the Fund and as such India being one of the largest quota holders of the I.M.F. subscription could easily get into its executive Directorate from the very inception. After we joined the Fund, we had to declare the par value of the Rupee in gold. The Government of India on December 18, 1946, announced the par value of the Rupee at 0.268601 grain of fine gold. This meant that the Rupee sterling rate remained unchanged at Re. 1 = 1 s. 6 d., because the same day Britain declared the par value of the Sterling at £ 1 = 3.58134 grains of fine gold.

putforth by them were as follows:

1) The existence of Sterling Block was incompatible with the working of the I.M.F.

2) India's membership of the I.M.F. is irreconcilable with its membership of Sterling Block, which takes a sectional view of the world monetary problems.

3) "The Sterling is an outdated historical category and not a regional unity and India cannot be a willing member of it without prejudicing her own future of a real international currency system which should operate for common good of all people and countries". 1 Dr. Gyan Chand, however, agreed that India should remain a member of the Sterling Block in the transitional period. By transitional period, he possibly meant the period the India economy would take to transform itself from war to peace economy. There was another section of people in this country, who pleaded for the conversion of Reserve Bank's Sterling Assets worth about Rs.1,600 crores — in some other foreign currencies for the following reasons: (i) they were not likely to have an adverse balance of trade with Britain; (ii) The Indian Rupee would be linked to all the foreign currencies directly and not through the Sterling; (iii) Britain's financial position has been less predominant in the post-war world than what it was in the pre-war years.

For all these reasons the link of the Rupee with the Sterling should be severed.

The people who advocated such ideas were not correct in the approach to the problem. Similar views that we should sever our relationship with the Sterling Block were expressed after the I World War on the ground that Britain no more held important financial position in the world. But soon Britain had regained her lost position and as such it could be expected that she would do the same after the II World War also. In fact Britain has again occupied an important position in world Finance. Our financial relationship with Britain has been very close. Nearly seventy per cent of our total external trade, visible and invisible - is financed in Sterling. The shares of our currencies are 80. Dollar 10 per cent and the remaining 20 per cent have been in Rupees. "The heavy reliance on sterling for financing the country's international transactions, the traditional financial ties with the U.K. and the facilities for finance available in the London market have made it expedient to continue the link of the Rupee with the pound sterling for all practical purposes". ²
