VII

THE PHYSICAL PROBLEM - II

Measures to Increase Net Import of Investment Goods

1. The domestic output of investment goods may be supplemented by imports of such goods from abroad. The scope for such imports depends upon the country’s capacity to pay for such goods and the ability and willingness of foreign countries to export these to India. India’s capacity to pay for imports of investment goods and technical skill may be increased by (a) larger exports and smaller imports of consumption goods, (b) larger drawings on accumulated savings, (c) reduction in the negative balance of investment income, and (d) larger inflow of foreign loans. These measures are discussed in some detail below.

I. EXPORT PROMOTION

2. Given proper export policies and a determined export drive, foreign exchange earnings may be considerably stepped up through larger exports. For this purpose, emphasis should be laid on products which the country can easily spare, because either it produces a surplus of them, or it is easy to step up their production and restrict domestic consumption. Given below are some of the measures required to promote exports.

(a) India should try to develop her trade with all countries. At present her exports to Soviet Union, China and the People’s Democracies are almost insignificant.
TABLE 76: INDIA'S EXPORTS TO THE USSR, CHINA AND THE PEOPLE'S DEMOCRACIES (IN CRORES)

<table>
<thead>
<tr>
<th>Year</th>
<th>USSR</th>
<th>China</th>
<th>People's Democracies</th>
<th>Total all countries</th>
<th>4 as % of 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-50</td>
<td>3.36</td>
<td>2.34</td>
<td>2.09</td>
<td>7.79</td>
<td>472.07</td>
</tr>
<tr>
<td>1950-51</td>
<td>1.34</td>
<td>3.46</td>
<td>0.72</td>
<td>5.52</td>
<td>579.01</td>
</tr>
<tr>
<td>1951-52</td>
<td>6.67</td>
<td>6.77</td>
<td>1.28</td>
<td>14.72</td>
<td>701.57</td>
</tr>
</tbody>
</table>


No more than 1-2 per cent. of India's exports go to the above countries, which account for some 36.5% of the world's population. Thus potential markets for India's products in a territory inhabited by 800 million people remain unexplored. The Russians are emphatic that there is a large market in their country for several of India's export products*. So are also the Chinese**. The possibilities are at least well worth exploring. Kuomintang China had little trade with the Soviet Union and the People's Democracies. This was attributed to lack of market in these countries for China's products. But in the three years since the establishment of the People's Republic, China's exports to these countries have risen to 70% of her total exports to all countries. Since economic activities in these countries with centrally planned economies is constantly expanding, to the extent that India's exports

* Cf. Mr. Westrov's speech at the International Economic Conference held in Moscow (April 1952). Mr. Westrov is the President of the USSR Chamber of Commerce.

** Wan Hm-Chen, 'China Offers Trade to All', China Reconstructs, No. 4 (July-August, 1952), pp. 2-5.
are directed to these countries, the fear of an economic depression abroad causing a catastrophic decline in them will be dispelled.

(b) As far as possible, goods should be exported not in the raw but in a manufactured form. Instead of oil-seeds, hides and skins, raw tobacco and manganese ore, India should export oil and oil products, leather manufactures, manufactured tobacco and ferro-manganese. India will then earn more foreign exchange and have larger employment. The value of exports' goods may also be increased through improvement in quality, standardization, blending and packing.

(c) India should try to secure the maximum possible price for her exports. It has, for instance, been alleged that the British Tea Companies in India practise systematic under-invoicing of exports, thus depriving India of foreign exchange and the Government of revenue. Nationalization of British capital and the extension of state trading to tea exports will put an end to this. India's reduced dependence on the West for her foreign trade is also likely to improve her terms of trade.

(d) If, at the current exchange rate, the general price level in India is found too relatively to the world price level, the adjustment may be brought about through an appropriate devaluation of the rupee. But if only particular prices are found to be out of alignment with the world prices, steps should be taken to reduce them. The price factor may thus be prevented from hampering production.

(e) The quantum of goods available for export may be increased by raising output or curtailing consumption. More mill-cloth may, for instance, be exported, both by stepping up domestic production of such cloth and by replacing in domestic use mill-cloth by the handspun and the handwoven varieties.
Domestic consumption may be reduced through an appropriate turn over tax*

(f) India's exports are hampered by the fact that goods shipped are sometimes below the standards and specifications agreed to by the seller. Quality control is, therefore, urgently called for. The main suggestions for this are: standardisation, prior inspection of shipment, and deterrent action against those found guilty of malpractices. Where government control of quality or inspection of goods may not be feasible, the foreign buyer may be protected by providing for a satisfactory arbitration clause in the contract. State trading will greatly facilitate quality control.

(g) The taxation policy should be suitably modified. Firstly, export duties should be removed, except when other considerations require that larger exports should not be allowed, or when the removal of the export duty is likely to be fully offset by the increase in the internal price, and when such price increase is undesirable, or when the commodity is in such a strong position in the world markets that its export needs no further stimulus, or when the commodity's supply is so inelastic that removal of the export duty will not stimulate its exports. Secondly, since a sales tax on goods which are to be exported has the same effects as an export duty, if export duty is undesirable in a particular case, so is also the sales tax in that case. No sales tax should be levied in this case**. Thirdly, as in the UK and some other countries, draw back of the import duty should be allowed when goods imported into the country are re-exported in the original form or after processing.

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* See Chapter VIII, Para.

** The Constitution forbids sales tax on articles of export. But the judgements of Courts in cases arising out of the attempts of some States to levy such a tax are conflicting. The exact position needs to be clarified.
(h) Growth of national shipping will promote trade. The establishment of Indian banking and insurance houses, remark the Fiscal Commission, will also facilitate the development of India's exports in the comparatively unorganized markets of the Middle and the Far East, where the tie-up of existing financial and commercial interests may often place new comers in the field at a disadvantage.

(i) A special Government department or sub-department should be created to collect and disseminate information helpful to export promotion, supervise the progress of exports, remove difficulties, administrative or economic, internal or external, give guidance to exporters, private as well as state trading concerns, and organize publicity for Indian goods.

(j) Since manufactured goods are expected to become increasingly important in our exports, emphasis should be laid on making the industry export-conscious.

(k) Prevention of speculative activity in, and hoarding of stocks of, export goods, rationalization of export control, provision of adequate transport facilities for the movement of goods to the ports, expeditious issue of export licences, especially in the case of samples sent by air, cutting down of formalities connected with the filling of G.R. forms to the minimum consistent with the need to prevent leakage of foreign exchange earnings, grant of preference to export industries over those producing consumer goods for domestic use in the allocation of power and materials in short supply, and creation of direct commercial contacts with countries which buy Indian products, are some of the other measures that may be adopted to push up India's exports.

* Report, p. 147.
** those sent to the Reserve Bank as a guarantee for the surrender of foreign exchange earned abroad.
II. IMPROVEMENT IN THE RECOVERY OF FOREIGN EXCHANGE FROM EXPORTS

3. Arrangements for the recovery of foreign exchange from exporters call for improvement. It is reported that at present many of those engaged in export-import business are evading exchange control and accumulating dollar balances by under-invoicing exports and over-invoicing imports*. The socio-economic reforms considered indispensable by us are likely to be unpalatable to sections of the present upper classes. Some members of these classes might like to migrate to other countries where they feel more at home. They will naturally like to transfer their wealth abroad. Under-invoicing of exports and over-invoicing of imports provides a way of doing this. This practice which involves the country in a loss of valuable foreign exchange, must be put an end to. State trading is an effective remedy against this**. But to the extent private business participates in foreign trade, loss of foreign exchange on this account may be prevented by further tightening up exchange control.

III. IMPORT RESTRICTION

4. The greatest scope for increasing the country's capacity to finance imports of investment goods and technical skill, however, lies in restricting, and in due course doing away with, the imports of foodgrains, raw materials and inessential goods. India at present is a large importer of foodgrains and raw materials. Her imports during the last three years are given below:-

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* Govt. of India, Report of the Committee on State Trading, Delhi, 1950, p. 52.
** Ibid., p. 53.
India's imports of machinery and mill-work during the same years were Rs. 109.19, 82.82 and 100.83 crores, respectively. Clearly, if India becomes self-sufficient in these items, this will annually release an amount of foreign exchange equal to 2 to 3 times the present import of machinery and mill-work. The attainment of self-sufficiency should, therefore, be a major objective of development during the First Stage. And, as explained in the foregoing Chapter, the realization of this objective is well within the country's resources.

5. There is also substantial scope for restricting the import of less essential consumer goods. During the first stage, the country should import only such consumer goods.

Govt. of India, Foreign Sea and Airborne Trade and Navigation of India for March, 1952, p. 75.
as are essential for the life and health of the community*. The import of the following may, therefore, be severely restricted or in some cases even altogether banned: liquors, motor cars and motor cycles; radio-sets; cosmetics; luxury fittings of various types; luxury foods, inessential general goods; hardware and electrical goods; expensive watches and clocks; textiles; works of art; crockery and glass-ware, etc. The requirements of the development programme must take precedence over less essential consumption. The proposed liquidation of feudalism, the nationalization of foreign and cartel capital, and reduction in salaries paid to high officials will by themselves help in restricting less essential imports by reducing the demand for luxury and semi-luxury items. But such imports will also need to be kept out through a judicious combination of tariffs, exchange control and quantitative trade control. There is ample justification for selectivity in imports on the part of an under-developed country**. And we endorse the view of the Fiscal Commission that for selectivity in imports there is no substitute for quantitative trade restrictions***. India must not, therefore, enter into any international obligations that may prevent her from exercising due selectivity in imports.

IV. IMPROVED BALANCE OF INVISIBLE ITEMS

6. Increase in earnings from and reduction in expenditure on 'invisible items' could also go some way towards adding to India's capacity to finance imports of investment goods and technical skill. Development of Indian shipping, banking and insurance companies, restrictions on foreign travel

* The Plan accepts the view that throughout the Plan period, imports will have to be restricted and controlled (Ch.30, Para. 27).

** UN, Methods of Financing Economic Development in Under-developed Countries, 1949, p. 47.

*** Report, p. 168.
by Indian nationals, and attraction of foreign tourists traffic are important measures to that end.

7. India currently pays large amounts to foreign shipping, banking and insurance companies, for their services in connection with foreign trade. The exact amounts thus paid are not known because export contracts are mostly placed on f.o.b. basis and import contracts on c.i.f. basis. The volume of India’s foreign trade (Rs. 1575.46 crores in 1951-52) together with the fact that it is mostly serviced by foreign shipping, banking and insurance companies suggests that this amount must be very large. If Indians could take a greater share of this business, this will mean this much addition to the country’s foreign exchange resources. Some of the measures for this, besides those discussed earlier to develop Indian shipping, may be mentioned here. (a) The Government should strive to have a larger proportion of import contracts placed on f.o.b. basis and of export contracts on c.i.f. basis. (b) The licensing procedure should provide that those importers who make use of the services of Indian shipping, banking and insurance companies, will be allotted an additional monetary quota equal to a specified part of the value of the indigenous services used. Similarly, the procedure for the issue of export licences should favour those exporters who undertake to use the services of Indian shipping, banking and insurance companies. (c) The proposed State Trading Corporations should utilise the services of Indian shipping, banking and insurance companies. (d) One advantage of developing trade with the Soviet Union, the People's Democracies and China, would be that Indian shipping, banking and insurance companies will be provided with a larger volume of business. 'Our trading organisations', said Mr. Nestrov, the President of the USSR Chamber of

* Govt. of India, Report of the Import Control Inquiry Committee.
** See Chapter VIII, Para.
Commerce, in his speech before the International Economic Conference (Moscow, April 1952), 'can also effect payment through national banks, dispensing with the services of foreign banks, in this way bringing more business to the national banks and stimulating their interest in foreign trade operations'.

(c) The proposed nationalisation of foreign and cartel capital will transfer some of the banking and insurance companies now operating in India to public ownership. They should be amalgamated to form one or two large banks and insurance companies, whose resources will permit them to undertake exchange banking, and marine insurance business. Similarly a government-owned shipping corporation can play a significant part in the development of Indian overseas shipping. The Eastern Shipping Corporation in which the Government is a part-owner at present should be developed into such a government-owned shipping corporation.

8. India should make strong efforts to attract foreign tourists. The unique valley of Kashmir, the magnificent Himalayas, the great temples and other places of historical interest, the very pleasant winter in Northern India, the wide variety of topography, climate, fauna and flora, and most lovable of them all, the friendly Indian people, should provide enough attraction to foreign tourists. Active efforts to develop tourist facilities are, therefore, likely to pay a handsome dividend in the form of additions to the country's foreign exchange resources. At the same time, Indian pleasure trips abroad must be restricted. At present the Government seems to follow a very liberal policy in the matter, with the result that foreign travel by Indian nationals constitutes a major item in India's foreign exchange budget. In 1951-52, the country paid Rs. 27.7 crores* on this account, this is more than a quarter of the total amount spent on the import of machinery in the same year. The egalitarian effects of the proposed socio-economic reforms will, of course, reduce

the demand for pleasure trips abroad. There is, however, nothing wrong if, as long as the pressure on foreign exchange resources remains acute, a more stringent policy is followed regarding grant of foreign exchange for pleasure trips abroad.

V. UTILIZATION OF ACCUMULATED SAVINGS

9. India's relevant accumulated savings mainly include the outstanding sterling balances and her hoards of precious metals and stones. To the extent that sterling balances are drawn upon or hoards of precious metals and stones disposed of abroad, there is an addition to her foreign exchange resources, and hence to her capacity to import investment goods and skill from abroad. Accordingly, during the last few years almost every discussion of the problem of India's economic development, and every plan for the same, has taken note of the sterling balances and hoards of precious metals and stones as a possible source of investible resources for such development. The People's Plan proposed to provide Rs. 450 crores through drawings on sterling balances*. The Bombay Plan proposed to provide Rs. 300 crores and Rs. 1,000 crores through the realization of the hoarded wealth and the sterling balances, respectively**. The Plan proposes to draw upon the Sterling balances to the extent of Rs. 290 crores. We are also of the view that proper utilization of accumulated savings can make a handsome contribution to the available investible resources. The problems arising out of this are considered below.

Sterling Balances

10. India's sterling balances which stood at Rs. 1724.3 crores at the end of 1945-46 had declined to Rs. 725.07 crores at the end of 1951-52***. On the first Friday of 1953, these

* p. 50.
** p. 48.
had declined further to Rs. 706.75 crores. The disposal of sterling balances is currently governed by the Indo-British Financial Agreement of 1951. It provides for the following:

1. A sum of £ 310 million (Rs. 413 crores) will be transferred from No. 2 (blocked) to No. 1 (free) Account to be held by the Reserve Bank of India as a currency reserve.

2. Transfer from No. 2 to No. 1 Account of a sum not exceeding £ 35 million (Rs. 48.3 crores) will be made in each of the six years beginning July 1, 1951, subject to the following provisions:

   (a) Transfers shall only take place as may be necessary to maintain a minimum balance on No. 1 Account of £ 340 million (Rs. 453.3 crores), or such lesser sum as may be agreed upon between the two Governments.

   (b) Any part of the £ 35 million transferable in any year not transferred during that period shall be carried forward and added to the sums available for transfer, subject to (a) above, during the later periods.

   (c) Over-drawals of the annual releases against the following year's normal release are permitted, subject to (a) above, to the extent of £ 5 million without fresh consultation and in excess of this amount after consultation.

   (d) Any balance standing to the credit of No. 2 Account on June 30, 1957 will be transferred automatically to No. 2 Account.

If the sterling balances are actually drawn at the rate contemplated by the Plan, i.e. Rs. 290 crores in five years, by 1957 they would not exceed by any considerable margin the amount (£ 310 million) proposed to be kept as a currency reserve. Thus these assets, accumulated at the cost *Ibid.*, p. 120.
of so much hardship and suffering to the people, would have been largely exhausted without fulfilling the great hopes once entertained of them, viz. that they would make a significant contribution to India's industrialisation.

11. We still maintain that a better way to utilise India's sterling balances is to use them to buy out British and American business investments in India. As explained in Chapter IV, this will require about Rs. 400 crores or £ 300 million. Besides greatly reinforcing the country's economic and political independence, this will, at a conservative estimate, improve India's national income, government revenues and foreign exchange resources by some Rs. 25 crores a year. The country will still be left with Rs. 300 crores. Rs. 200 crores may be kept as the currency reserve*. The balance may be drawn upon at the rate of, say, Rs. 20 crores a year. The utilisation of sterling balances in this way will improve investible resources in the hands of the Government and the country by about Rs. 45 crores during the first five years and by Rs. 25 crores a year thereafter.

Precious Stones and Metals

12. No even approximately reliable data are available regarding the size of the hoards of precious metals and stones in this country. The Reserve Bank of India, however, lately made available data on the export and import of gold and silver since 1900.

<table>
<thead>
<tr>
<th>Period</th>
<th>Gold Net Imports (♦)</th>
<th>Gold Net Exports (-) (000 oz.)</th>
<th>Silver Net Imports (+)</th>
<th>Silver Net Exports (-) (million oz.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900-01 to</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1930-31</td>
<td>+ 89,244</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1931-32 to</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1941-42</td>
<td>- 44,911</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1942-43</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1951-52</td>
<td>+ 739</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>+ 45,072</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1901 to 1939-40</td>
<td></td>
<td></td>
<td>+ 2,458</td>
<td></td>
</tr>
<tr>
<td>1940-41 to 1947-48</td>
<td></td>
<td></td>
<td>+ 242</td>
<td></td>
</tr>
<tr>
<td>1948-49 to 1951-52</td>
<td></td>
<td></td>
<td>+ 2</td>
<td></td>
</tr>
</tbody>
</table>

Footnote on p. 389.
At the current US Treasury price of $35 per oz., the net import of gold into India since 1900-01 would be valued at $1,577 million; at the 1951 New York foreign silver price of 89.37 cents per oz.*, the net imports of silver into India since 1901 would be valued at $2,415 million. Net imports of gold and silver since 1900-01 are thus valued at current prices at $3,992 million. Should the US Treasury Price of gold be raised, as demanded by the Commonwealth Prime Ministers' Conference held in December 1952, the net imports of bullion during the above period would be valued still higher. A portion, possibly 10-15 per cent, of the total, of this bullion must now be held in Pakistan; on the other hand, extensive smuggling of gold in recent years when the rupee price of gold stood at very much higher than the world price has added to the hoards in India. So has also done the domestic output of gold. Allowing for all these factors, we can say that if India exports gold and silver worth even $2,000 million, she will still be left with more gold and silver than she had at the turn of the century. And this quantity, comprising all the hoards accumulated through the ages, the large amounts imported in the second half of the nineteenth century, and any excess of net imports since 1900-01 over the $2,000 million worth of bullion proposed to be exported, would by no means be small. If the export of precious stones could be assumed to add another $500 million to India's foreign exchange resources, the proposed export of precious metals and stones would add $2,500 million to the country's investible and foreign exchange resources.

* (p. 488) In 1938-39, when India had to service a large sterling debt (Rs. 469.12 crores), her sterling balances aggregated Rs. 73.93 crores. Now when her sterling debt is just Rs. 30 crores, there is no reason why, even allowing for the depreciation of sterling since then, a currency reserve equivalent to Rs. 200 crores may be considered inadequate for the country's needs.

If all this quantity were exported during the first 10 years, when the pressure on foreign exchange resource is likely to be the heaviest, this measure will improve India’s capacity to import investment goods and technical skill by 250 million (Rs. 119 crores) a year, - surely, no inconsiderable amount.*

13. The mobilisation of hoarded wealth, however, raises seri-190-
problems. The country’s stock of precious metals and stones is held in the main privately. The Reserve Bank’s stock of gold is only Rs. 40.02 crores, valued at the statutory rate of Rs. 21-5-10 per tola**, i.e. it is about 7.5 million oz. of gold valued at $262.5 million (Rs. 125 crores). The basic problem, therefore, is to mobilise private hoards. This at once raises two problems: how to persuade the holders to part with their hoards, and how to avoid the inflationary pressures which the monetisation of the hoarded wealth will generate?

14. One method of making the holders part with their hoards might be to make it illegal for a private person to hold, except under licence from the Government, precious metals and stones in excess of a specified amount. The balance would be required to be surrendered to the Reserve Bank, or any other authorized agency, at fixed prices. This is precisely what Chiang-ki-Shek did in China in 1948, a few months before his escape to Formosa. But the measure does not appear to be practicable or even worth while in the conditions of this country. The Indian people have a long tradition of concealment of such hoards, inherited from the centuries of Muslim invasions and rule, when property, particularly of the Hindus, was quite insecure. There is, therefore, the real possibility that a wholesale concealment of hoards may follow a government order requiring compulsory at stated prices of all bullion and precious stones held in

* The export of current Indian annual output of about 2 lakh oz. of gold will add another 7 million (Rs. 3.3 crores).

excess of a specified amount. To unearth these hoards, Draconian measures of the type undertaken by Chiang in 1948 in Shanghai and other towns would be needed. But the dislocation of normal life that they would cause, the suffering that they would impose on sections of the community, and the general hostility that they would arouse might far outweigh any positive results that they might achieve. Compulsory surrender of hoards must, therefore, be ruled out as impracticable and undesirable.

15. The alternative is to persuade the holders to dispose of their hoards to the authorized buying agency. Any scheme for this encounters a major hurdle. The rupee price of gold in India is higher than the official $ price of gold in the United States. It is also higher than the free market price of gold elsewhere. Should the authorized agency buy gold at the current market price in India — and no gold would be tendered at a lower price — it would be doing so at prices higher than at which it would be able to dispose of abroad. The operations would thus involve the agency in losses which must somehow be met. The solution of the various problems raised in connection with the mobilization of hoards of precious metals and stones is suggested below.

16. The first step in the mobilization of hoards should be to bring down the rupee price of gold and silver as near their world prices as possible; it would be still better if the bullion prices in India could be pushed down to levels below those prevailing in the world markets. The US Treasury price of $35 an oz. means, at the current parity value of the rupee, Rs. 66-9 a tola; the New York 1951 price of foreign silver of 89.37 cents an oz. means Rs. 179 per 100 tolas. Since the first half of 1951, bullion prices in India have shown a marked downward tendency. The spot price of gold fell from Rs. 118-4 per tola on April 13, 1951, to Rs. 80-11 per tola on Nov. 29, 1952, and of silver from Rs. 206-7 per 100 tolas on June 21, 1951, to Rs. 147-2 per 100 tolas on Nov. 29, 1952.
The rupee price of silver thus has already gone considerably below its New York price, and the gap between the rupee price and the US price of gold has been reduced from about Rs. 52-8 per tola to only Rs. 14-2 per tola. The rupee price of gold may be reduced further through a reduction in the internal demand for it. To this end the following steps may be suggested:

(a) Bullion should be made inadmissible as security against loans and advances by banking companies and other institutional and private lenders. As on Dec. 31, 1951 the aggregate advances of the reporting Banking Companies (Scheduled Banks as well as Non-Scheduled Banks) secured by gold and silver bullion and ornaments stood at Rs. 24.59 crores.

For the lakhs of non-institutional money-lenders, gold and silver bullion and ornaments are the most acceptable security. Though no information on the amount lent by such lenders against bullion and ornaments is available, it must run into tens of crores. The amount lent by all categories of lenders against bullion and ornaments is thus very large. Accordingly, if bullion is made inadmissible as security against loans, there is bound to be a sharp decline in what may be termed the public's bullion preference.

(b) Forward trading in bullion should be prohibited. This will bring to an end the speculative demand for gold and silver. Another pillar of bullion preference will thus be demolished.

(c) Legal and social steps maybe taken to provide women with a share in property. This will make women less insistent on gold and silver ornaments as a security against the exigencies of life.

(d) The contemplated cultural progress is bound to influence dress habits. There was a time when even men wore ornaments in India; some people, e.g. the princes and other aristocrats still do so. But all respectable people now generally avoid them. It is very possible that with the spread of education among women, the practice of ornament-wearing may suffer a progressive decline. Already it is rare to find an educated woman as heavily laden with ornaments as

Higher interest rates are likely to induce dehoarding of gold and silver by reducing the relative attraction of such hoards. As emphasis shifts from ornaments to personal accomplishments, ornament-wearing is bound to go out of fashion. If the nation launches upon an inspiring programme of national construction, and if it is widely known that bullion is needed to pay for essential imports, it is very probable that women heavily laden with ornaments will provoke ridicule and anger rather than inspire respect. When that happens, there will be a rapid decline in the demand for gold. (e) If inflation is successfully held, as appears to be the case since the last quarter of 1951, so that the public are as confident about the future value of money as of bullion, bullion will lose much of its attraction as a store of value. One more motive for bullion preference will be gone. (f) The programme of rapid economic development outlined in this study assigns an important role to private enterprise, especially in agriculture and small- and medium-scale industry. Private persons, especially the vast peasant population who receive land in consequence of the proposed agrarian reform, will find ample opportunities for profitable investment. Many may thus be impelled to dispose of their holdings of bullion and to invest the proceeds in agriculture and industry. (g) Abolition of landlordism without compensation and of privy purses will also reduce the demand for precious stones and metals. When the landlords and princes lose their present unearned incomes, many of them will part with their hoards and invest the proceeds in income-yielding assets. (h) A popular government which captures the people’s imagination by its performance and plans can also hope to induce the people to part with their hoards by appealing to their patriotism.

17. To handle the purchase and export of precious stones and metals a Government-owned specialized agency, which may be known as the Precious Stones and Metals Authority (hereinafter called the Authority) should be created. Its management should be entrusted to the Reserve Bank. Gold at present held by the

* The Nissam disposed of a portion of his hoards to create a 20-nore trust for the benefit of the members of his family.
Reserve Bank should be transferred to the Authority; the Government should pay for this gold by tendering to the Reserve Bank ad hoc securities of the same nominal value as the nominal value (Rs. 40.02 crores at the end of 1952) of the gold surrendered by the Reserve Bank. The procedure would thus be about the same as that adopted in the UK in 1939, when the gold held by the Bank of England was transferred to the Exchange Equalisation Account. At the US Treasury price, this gold is worth about Rs. 125 crores. The nominal value of the gold thus transferred may be considered as constituting the capital of the Authority, and the excess of its par value over the nominal value as constituting its reserve. In addition, the Government may provide the Authority with a suitable amount of cash to serve as working capital; this amount will also be a part of the Authority's capital. On the commencement of its operations, the balance sheet of the Authority would be as follows:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs. crores</th>
<th>Assets</th>
<th>Rs. crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Nominal Value of Gold transferred</td>
<td>40.0</td>
<td>Gold</td>
<td>125</td>
</tr>
<tr>
<td>(b) Cash put at the Authority's disposal</td>
<td>X</td>
<td>Cash</td>
<td>X</td>
</tr>
<tr>
<td>TOTAL</td>
<td>40+X</td>
<td>TOTAL</td>
<td>125+X</td>
</tr>
<tr>
<td>Reserve (Excess of the par value of the gold transferred over its nominal value)</td>
<td>85.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>125+X</td>
<td>Total Assets</td>
<td>125+X</td>
</tr>
</tbody>
</table>

The Authority will buy precious metals and stones at their market price. The assets will now also include precious stones; at the same time there will be more of bullion and less of cash. As precious metals and stones are exported abroad, their place in the assets will be taken by foreign
The foreign exchange is sold to the Reserve Bank, the Authority's cash holding will be replenished. The Authority will purchase precious stones and metals at about the same rate at which it is considered necessary to export them to earn foreign exchange.

The activities of the Authority will not by themselves lend impetus to inflation. The purchase of precious stones and metals by the Authority, involving as it does the monetization of assets, will generate inflationary impulses. But these will be neutralized by the deflationary effect of the import surplus financed by the use of external balances acquired through the export of precious stones and metals purchased by the Authority. Inflationary pressures will be strengthened only if bullion and precious stones are allowed to pile up with the Authority, or if the external balances built up through exporting these are not drawn upon. This we do not suggest. The Authority's purchase programme, we reiterate, must not be allowed to outstrip the export programme.

Any losses suffered or gains made by the Authority would be adjusted by writing down or writing up the Reserve. When the Reserve grows to a specified amount, the balance of gains made may be credited to general revenues.

18. As precious metals and stones are exported, their supply for the satisfaction of the demand for hoards will be progressively reduced. For India produces little silver and precious stones and a very limited quantity of gold. Accordingly, the steps listed earlier will have to be continuously pursued to ensure that the public demand for hoards declines at least pari passu with the shrinkage in the supply of precious metals and stones for this purpose. Otherwise their rupee-price will tend to rise, and this will involve the Authority in growing losses on its operations.

19. It would, of course, not be wise for the Authority to export its entire holding of gold. The plan of development suggested in this study, of course, rules out any form of gold
standard; no gold need, therefore, be kept to make possible the institution of gold standard in the future. A sizeable amount must, however, be held as reserve against unforeseen contingencies.

20. It is, however, of the utmost importance that our endowment of precious metals and stones must not be just squandered away. Before it is decided to maintain an import surplus, and to finance it with exports of precious stones and metals, it must be examined whether or not it is practicable and desirable to wipe out or reduce the payments' deficit, and whether or not it will be better to finance the deficit in some other way. We owe it to our sisters who will be required to part with their much-prized ornaments and to our forefathers who through the ages toiled so hard and denied themselves so much to accumulate this wealth and who shielded it so devotedly from every foreign marauder to ensure that every bit of this wealth will be used only when it cannot be helped. We must part with our patrimony only when failure to do so would seriously hamper the nation's progress.

21. It is sometimes proposed that private gold and silver holdings may be mobilized through the issue of gold and silver certificates against them. A UN study has, however, come to the conclusion that the method, though useful, has serious limitations*. 'If people trusted governments sufficiently to accept gold certificates in place of gold', observes the study, 'they could probably be persuaded to accept general government bonds or put their money into savings deposits. If gold was hoarded because of a past history of repudiation of government bonds, the same doubt would affect gold certificates. Furthermore, if gold were actually held against the certificates, there would be no advantage in issuing them. Preferential treatment in issuing special gold certificates, designed to

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reassure some savers, might cast doubts on the security of other government bonds. For these and similar reasons we, too, are sceptical regarding the scope for mobilising the nation's holdings of gold (and silver) through the issue of gold (and silver) certificates.

VI. REDUCTION IN THE NEGATIVE BALANCE OF INVESTMENT INCOME

22. Currently India has a negative balance on investment income account; it aggregated Rs. 22.8 and Rs. 23.5 crores in 1950 and 1951 respectively. As explained in Chapter IV and again earlier in the present Chapter, the negative balance will disappear if India nationalises British and American investments in India and pays for them with sterling balances held by her. The wiping out of the negative balance on income account will make a sizeable addition to India's capacity to finance imports of investment goods and technical skill.

VII. FOREIGN LOANS

23. India should welcome all foreign loans available on reasonable terms, that do not limit her independence, or deflect her from the course of economic development best suited for her, and are available for expenditure in such a form as will make so much net addition to the investible resources. The thesis of Chapter IV is not that India does not need such loans, but that the prospects of securing such loans are not bright. To the extent India does succeed in obtaining such loans, her capacity for financing the import of investment goods and services will be augmented.

* Taking 'remitted' income as distinct from 'accrued' income.
VIII. AVAILABILITY OF INVESTMENT GOODS ABROAD

24. Next we examine the possibility that India may have the necessary foreign exchange, but may be unable to import the required amount of investment goods because of the incapacity or unwillingness of industrialized countries to supply them. As regards the latter's capacity to meet India's requirements of investment goods, there should be no difficulty unless there is an actual war—but then everything goes into the (atom-heated) melting-pot—or rearment attains the pace, and its demands on the engineering industry greatly reduce their ability to produce capital goods for export. At present we are mainly (for the supply of machinery) on the USA and Britain. A quite small proportion of the present output of capital goods in these countries would go a long way towards meeting our expected demand. In 1951, the United States produced $24,927 worth of producer's durable equipment (machinery and machine tools). Just one per cent. of this output will provide India with $249 million (Rs. 118.5 crores) worth of capital goods, which is 118% of the entire Indian import (Rs. 100.83 crores) of machinery in 1951-52** and 662% of the import of machinery (Rs. 17.9 crores) from the United States in the same year. The United Kingdom output of producer's durable equipment is not known, but a steel output of a little less than 16 million tons is a good indicator of it. Clearly even 2% of the capital goods output of these countries would go far to meet India's possible demand.

25. Fear is sometimes expressed that radical socio-economic measures such as those proposed in this study may so antagonize the USA and Britain that they may withhold supplies from this country. It will certainly be very unreasonable for them to do so. No country which has the slightest respect for India's independence should think of stopping trade with India because certain of the latter's internal policies are not to the former's liking. The proposed nationalization of British and American business investments in India surely affects British and American interests; but we propose not expropriation but nationalisation, with compensation at the market value.
of the assets. India did not stop trading with Britain when Labour nationalized the steel industry and is not going to do so if and when the Conservatives return it to private ownership. Why should Britain mete out a different treatment to us? The outlook for world peace will be very bleak indeed, if countries, by threats of trade boycott or other such measures, try to coerce one another into following certain internal policies and abandoning others.

26. Britain and the United States are, however, not the only possible source of capital goods for India. Western Europe, especially West Germany, has a large engineering industry. The output of producers' durable equipment in 1951 in these countries is not known, but a steel output of 51 million tons is a good pointer. Japan's heavy industry has also largely recovered, as indicated by a steel output of 6.5 million tons in 1951. All these countries should be in a position to supply India with much of equipment that she might require.

27. The Soviet Union may be another important source of capital goods. The following indicate that the Soviet engineering industry has attained a high level of development. The Soviet steel output in 1952 is put at 35 million tons, the highest output ever attained by any country except the United States. The output of machines and equipment is given as three times the 1940 figure. In the three-year period 1949-51, the Soviet engineering industry, besides providing the People's Democracies and China with large supplies of capital goods, was able to provide the Soviet industry sufficient equipment to increase output of steel by 13 million tons, of coal by 74 million tons, of oil by 13 million tons, and of electricity by 34,000 million kWh. An account of the types of machine-tools and agricultural machinery produced in the Soviet Union, given in the New Times**, makes an impressive reading. At the International Economic Conference

** 1952 (14), April 2, 1952.
held at Moscow, the Soviet Union offered to exchange the goods
normally exported by the countries of South-East Asia,
including India, in exchange for 'industrial goods and
equipment, particularly for the metallurgical, fuel and
chemical industries, and also for the light and food
industries'. To meet the foreign exchange difficulties of
these countries, the Soviet Union offered to 'conclude barter
transactions, or receive payment for goods in local curren­
cies, and spend them in the countries'.

Czechoslovakia also can make a sizeable contribution
towards meeting India's capital goods requirements, while,
Poland, Hungary and the German Democratic Republic, in view
of the impressive growth of heavy industry there in recent
years, may also soon be able to supply India with capital
goods in some quantities.

28. Clearly, if India taps all the possible sources of capital
goods, she may not find it impossible to import all the
investment goods that she can pay for.

IX. IMPORT OF TECHNICAL SKILL

29. The foregoing applies also to the import of technical
skill. India's ability to import foreign experts, and to
train Indians abroad, will depend on the one hand upon her
foreign exchange resources, and on the other upon the capacity
and willingness of foreign countries to meet India's require­
ments. Such countries as will supply India with capital goods
can also supply her with experts and training facilities. If
India succeeds in securing her requirements in respect of
capital goods, she should also be able to meet her requirements
in respect of foreign experts and training facilities abroad
for Indians. The problem in both the cases is very similar
and admits of the same approach.

** ** **
30. Given a proper approach, the problem of physical resources raised by the industrialisation of the country admits of a satisfactory solution. By rapidly expanding the investment goods department, not at the cost, but alongside of, the consumer goods department, and through various measures designed to increase the import of capital goods and technical skill, India can provide the real resources required for the high rate of investment involved in industrialisation, while at the same time ensuring a steady rise in living standards. Full employment in the beginning, and rising labour productivity thereafter, provide the key to the problem of physical resources posed by the need to attain a simultaneous rise in investment and consumption.