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PANDIT NEHRU ON DEVALUATION

HOPE springs eternal in the human breast and faith dies hard that by strategic action—at the near strathosperic level of international currency negotiations—our economic problems can be solved and all of us can have a good time. A corollary of this naive belief is that we are not having a good time because our Finance Minister or those whom we send for the highest level talks on such things are not clever enough. Such widespread feelings and suspicions cover the issue of devaluation, making it both obscure and suspect in the public eye at the same time. It was clearly, therefore, the duty of the Government that when they took a decision on this important issue, they should take the public into confidence, place the facts clearly before them and explain the reasons that led them to adopt this particular course instead of any other. If they were free to act one way or the other—the Prime Minister has assured us that our freedom in this respect was complete and unfettered—this was the least that could be expected from his Government.

Not that Pandit Jawaharlal Nehru has quailed at the job. Those who failed to be impressed by his physical courage in facing the angry audience in Calcutta will now revise their opinion, after the manner in which he has gone at devaluation with hammer and tong.

Britain also devalued. She felt it was necessary. But the step was not pleasant. Though Sir Stafford Cripps naturally tried to sugar-coat the bitter pill with the assurance that cost of living would not rise much except the price of bread, there has been no attempt to whittle down the ugly fact that devaluation means harder work and further sacrifices. It means, in short, that the British people will have to accept a lower standard of living. They have got to take it as gracefully as they can.

But why did we have to follow suit? Maybe, there was no alternative, since the sterling area is such as important market for cur exports. Pandit Nehru admits that. But instead of asking the people bravely to face whatever sacrifices are inevitable in such a course of action, he has unnecessarily weakened the Government case by a number of irrelevancies. His final appeal is to his own feelings. "I cannot furnish any proof", he said on the occasion of the anniversary of the celebration of the National Employment Service in New Delhi, "but, I have a feeling that devaluation would result in some benefit to India." One may not quarrel with his feelings, but this a matter of hard facts; and his assurance "that the cash which any individual may possess or his bank deposits will not be touched in any manner." by devaluation is proof enough that personal feelings do not lead one very far in the undehstanding of complex problems.

Britain has been in a very tight corner. Necessity has forced her to accept a lower standard of living. Since political expediency made it impossible even for the leaders of Socialist Britain to impose a straightforward cut in wages, she had to compass the same end by the more devious process of cutting down real wages, leaving money wages unchanged.

Why should we have to accept a similar cut in real incomes except that sterling markets are important for our exports has never been explained. Pandit Nehru does not contend that our balance of payment position demanded such a drastic course of action. From Britain, however, has come clarification. True, she had no way out save by hard work and tight belts. But, she had the consolation of knowing as Mr. Eden put it with brutal frankness that "in the Dominions we have staunch collaborators, in the colonial territories vast resources of hitherto undeveloped wealth and in the U.S.A. an ally whose wealth and power are increasingly being pledged to the maintenance of the whole sterling system." Pandit Nehru's insistence that there was no suggestion from Britain that India should also devalue her rupee seeks to draw a thin veil over this aspect of collaboration, to which our Finance Minister had committed thia country in advance during the Commonwealth Finance Ministers' Conference.

There is nothing wrong, however, in collaboration if thereby we can further the country 's interests. Many things were discussed in Washington, but if one scans carefully the ten points in the communique issued at the end of the talks, one does not find that our case was pressed at all. There was no pressure on our part that any commodities from this country should be included in the stock-piling arrangements which are to relieve shortage of dollars. But having started to defend something for which he could not offer any proofs, guided solely by his feelings, Pandit Nehru reached almost the point of absurdity in his conclusion that devaluation should not affect our private lives and our domestic economy, since by hard work we can attain self-sufficiency and do not have to worry about exchange problems at all.

Quite undaunted that so many issues were inconvenient to explain, Pandit Nehru rose to heights of eloquence when he said that devaluation could turn out a blessing to the people of India, provided they became alert. In the happenings of the last few days there is a lesson for us to shake off our lethargy and "to devote ourselves to the task of producing all our necessities of life in this country. If we do that it would then matter little whether values of currencies in other countries changed or not." So why bother about the dollar value of the rupee?

That the occasion was the fourth anniversary celebration of the National Employment Service on which his Government had effected a cut in expenditure in the interests of economy, did not stop Pandit Nehru either, from extolling the action of Sir Stafford Cripps, which he said had been taken in the interest of keeping up employment in Britain. If his Government were equally serious about employment, why curtail the Employment Service? And what is more, will devaluation cure employment in this country also?

If it is the prescriptive right of civil servants to be omniscient about everything from land revenue and criminal law to trade agreements and currency matters, it is the privilege of public men to air their views on occasions on issues of public importance. Sometimes it is also their misfortune, the price they have to pay for their greatness. No one can deny Pandit Nehru his meed of praise for discharging his duties on the present occasion so courageously.

DEFENSIVE MEASURES

NOT a single argument has been put forward either by the Prime Minister in his broadcast talk or in the 'communique' issued by the Finance Minister in favour of devaluation of the rupee. From press comments and discussions on the subject, it appears that there is a widespread feeling and belief that India has avoided depreciation of a major portion of the sterling assets by proportionate devaluation of the rupee in terms *of* gold. Running through the Finance Ministry's 'communique,' there is the unsaid assurance that India has succeeded in protecting her foreign assets by devaluing the rupee.

Though neither the Prime Minister nor the Finance Ministry's 'communique' directly refers to this aspect of the problem, free comments and discussions seem to suggest that, while depreciation of that portion of sterling assets convertible into dollars could not be avoided, devaluation of the rupee to the same extent as that of the pound has ensured the value of the sterling assets which are expendable within the sterling area. That is why the demand has been made in some quarters that Britain should be asked to compensate India for the loss involved on that portion of sterling which is, or which will be, convertible into dollars.

Facts are otherwise. Depreciation of India's sterling assets is an automatic sequel to devaluation of the pound in terms of gold, and it extends to the whole of our sterling balances whether convertible or not. On the portion of sterling released for dollar conversion, depreciation of assets is directly proportionate to depreciation of sterling in relation to the dollar. On the non-convertible portion, the extent of depreciation will be measured by the amount of rise of prices in Britain.

It is a safe assumption that internal prices in Britain will increase as a result of devaluation. Despite Sir Stafford Cripps' assurance that, apart from the already announced rise in bread and flour prices the Government would try to check any tendency towards higher prices, it may not be possible to curb price increases consequent upon devaluation. The history of price controls makes it abundantly evident that the apparatus is likely to break down or will, at best, function ineffectively, in the absence of adequate subsidies. And, in retrpspect, it may well seem that more significant than devaluation of the pound is Sir Stafford Cripps' implied hint that the amount of subsidies cannot, and will not, be raised.

Admittedly, the picture is still confused. But it is difficult to resist the conclusion that the British Government will have to permit a rise in prices. In the absence of increased subsidies, it is no use asserting that prices and costs can be maintained at current levels when prices of some of the essential materials are bound to move up as a result of devaluation. Indeed, the unduly low exchange value of the pound is widely expected to enable Sir Stafford Cripps to yield partially to the anticipated demand for higher wages without losing the export advantage from devaluation. Therefore, it is not arguable that devaluation of the rupee to the same extent as the pound sterling affords India an indirect protection for the major portion of the sterling balances.

What about the export stimulus? Will devaluation of the rupee help India's exports? To be fair to New Delhi, it has to be admitted that the Finance Ministry is aware that Indian exports are inelastic; that, as price is not the main factor in India's exports, devaluation is not likely to stimulate sales of India's exportable commodities to America.. And, of course, it is ridiculous to suggest that Rupee devaluation will enhance India's exports to the sterling area, where most countries have devaluated their own currencies to a more or less identical degree.

Consider, now, the impact on imports. True, the bulk of India's imports come from the sterling area. That being so, it will not affect import costs except to the extent of the anticipated rise in prices in Britain and in the non-dollar area. But, what about imports from America? The most serious repercussion of devaluation will be that it will cost India much more to import dollar goods. Excluding food imports, India's dollar deficit is not appreciable. Strange, though it may seem, the double assurance of the Prime Minister and the Finance Ministry that India has completed her food import programme from America will be accepted as 'a profound relief.

But, this is not the whole story. Recently, India has secured a loan from the World Bank. There are other World Bank loans in the offing. There is abundant evidence that America is now eager to assist under-developed Asian countries with dollar loans from the U.S. Export-Import Banks. By the first quarter of 1950, the flow of Point Four dollars is expected to commence. It is, therefore, a reasonable presumption that India, along with other depressed areas in Asia, will be provided with more dollars to buy goods and materials needed for economic reconstruction and recovery.

By devaluing the rupee at this junctui^e, India automatically raises the cost of her capital equipment. Industry will have to pay more now for imports of machinery and of agricultural implements, which it will have to buy from America. Instead of devaluing the rupee, with its debatable export benefits and undeniable harmful consequences on imports and prices, India's dollar problem could have been better solved by an American undertaking to stock-pile, along with rubber and tin, strategic raw materials like mica, manganese, shellac and jute.

Remains the problem of assessing the measures undertaken or under contemplation by the Government to insulate the currency