ments, changes in tastes and in the technique of production, movements of output and employment within the country leading to changes in demand for imports. None of these factors can be brought within the framework of the price parity. Nor do they not lend themselves readily to a formulation that may help in determining proper exchange parities.

While the initial parity rates adopted in December 1946 were thus professedly tentative, the Executive Directors of the IMF in their report for the fiscal year ended April, 1948, laid down what they considered to be the appropriate timing for an adjustment of these rates and also the variety of factors on which it should depend. The IMF, however, are not entitled to initiate a change, though they have an obligation to keep the operation of the exchange rates under constant review. In fact, their initiative in this matter appears to be strictly limited. They can suggest a change only when they feel that the par value cannot be maintained "without causing recourse to the Fund on the part of that member or others on a scale prejudicial to the Fund and to members". The difficulty about this criterion is that a number of countries, whatever exchange rates they adopt, will have a deficit in their balance of payment over the next few years, thus necessitating their making full use of their annual drawing rights on the Fund. In the case of such countries, the scale of recourse to the Fund will not be dependent upon the level of the exchange rates. Of course, the Fund might fear that if the existing rates were maintained over a period of years, these drafts upon the Fund might become chronic, but in

(Continued on page 21)

Off The Record

The Deep End

A BROTHER scribe took deep umbrage and rightly so, that the so-called experts should confuse the lay public by a parade of jargon on an issue like devaluation instead of clarifying things for them. Clarification, he felt, is possible if those who profess to know about such things are clear in their own minds, and take the trouble to express themselves in simple language. As it is, either they are concealing their ignorance under a cloud of technicalities, or else they really know what they are talking about but think it befits their dignity to clothe their knowledge in a cloak of mystery. But a cat may look at a king, and the public has a right to know what the expert finds out after delving into statistics and playing with his curves and diagrams.

What had roused his gall was the real or imagined snubbing he had received, from officials of an institution maintained at the cost of the taxpayer to throw some light on the country's currency problems, besides managing the nation's currency and credit.

This brother scribe happens to have to his credit years of reporting and news-hunting in that clearing house of world news which is London. And his profession had led him on occasions to talk to the world's foremost experts. But unlike their pigmy compeers in this country, they never tried to shut him out as he says he had been shut out by the latter. This is a serious accusation but it so happened while he was in this nasty mood he picked up an issue of the *Economic Weekly* for gaining some light of the problem of devaluation which had been perplexing him and he came upon an article in the aforesaid publication which had a title, promising some light on the subject of his enquiry. Unfortunately for him the article opened with a sentence which got his dander up. It read as follows:

> "The pound has decided to look the dollar in the face, by standing on its toe. Is it necessary for the rupee to take up the same unnatural position?"

Now English is not the mother-tongue of the author who had penned these lines. Probably what he sought to convey,—for it was the end of July,—was that Sir Stafford Cripps had put up a strong fight to avoid devaluation of sterling, for which pressure was being put on him from the other side of the Atlantic. The author of the article in question wanted to know if the case for resisting devaluation was stronger for the rupee than it was for the pound. He thought that the more gentle remedy of reduction of prices in India would adequately meet the situation and there was no need of devaluing the rupee. This particular conclusion does not concern us here. Perhaps some commiseration for the poor writer would not be out of place, if his effort at English composition, which drew such uncharitable remarks from the brother scribe afore-mentioned, had been as unsuccessful as the latter thought it to be. But there was no deliberate attempt in this case at least to obscure the issue or to make confusion worse confounded.

Anyway, Sir Stafford's valiant

effort failed. Britain had to bow down to the inevitable and accept devaluation. India followed suit for the rupee remains tied to sterling at the same old rate of 1s, 6d. and its value in terms of dollars and other currencies freely convertible into dollars at a fixed rate suffers the same degree of depreciation.

There is nothing particularly esoteric about devaluation. As the name suggests, it means that the exchange value of the currency which is devalued will be reduced. That is to say, now the pound will fetch less dollars, only $$.80 to be precise, as against $4,03 as hitherto. Since the rupee has been devalued to the same extent as the pound sterling, the rupee-sterling rate of exchange remains unchanged at Is. 6d. But it now requires more rupees to buy dollars, Rs. 476 as against Rs. 323 for $100.00.

Thus far there is no mystery. With the new rates of exchange, American goods will be dearer; they would cost more in terms of rupees. Similarly, if our exports sold in the American market at the same prices as before, the Indian exporter will get more of rupees for them. In both cases, if the prices in the two countries remain unchanged, the difference would be of the order of 44 per cent. That is to say, American goods would cost us that much more; and our exporters would be able to get so much more for the commodities they sell to America.

But, will the prices in America of the things we want to buy or sell necessarily remain unchanged? Here is the element of uncertainty, only hints or guesses are possible. The future alone can give a definite answer. For, since selling to America would be so much more profitable, provided, again, that the prices of the commodities in question remain unchanged in this country, there would be a rush to sell. This may lead to two different consequences which are not mutually exclusive. One is that exporters, by competing with one another, may bid up prices so high that the entire supposed advantage of devaluation may disappear. Or, in the alternative, even if the prices of the export commodities do not rise here, increased competition for selling them in America might bring down their prices in dollars. There is nothing to prevent our exporters from selling things cheaper to the American buyers, cheaper, that is to say, in dollars, as long as the rupee equivalent of what they get from the exports is enough to meet their costs. If prices of the commodities concerned remain unchanged here, they may sell them abroad one-third cheaper and yet suffer no loss. Actually what generally happens is in between. The prices of the exportable commodities may rise a little in the Indian market and their dollar prices in America may fall a little, and the so-called export advantage will have to be shared between the sellers here and the buyers in the States. In what proportion, will depend on the demand for these goods in the States and on alternative sources of supply.

There is reason to suppose that if a number of important countries simultaneously devalue their currencies the advantage is more likely to prove illusory, unless of course there is an unsatisfied world demand for their exports, so that more of them can be sold abroad without a proportionate reduction in their prices.

This is also true of the imports from dollar areas. If the demand for them is pretty keen in this country, we may have to pay more for them in rupees. They may cost us as much more as the rise in the price of the dollar in terms of the rupee.

" Experts believe that there is still an unsatisfied demand in world market, particularly in the dollar areas, or in other markets where they have to compete with imports from the dollar countries, for some of our products, e.g. manganese, mica and other minerals, but not possibly for jute goods which have been facing Competition from substitutes. Thus far it is" simple enough.

The more imponderable questions are: Why do values of currencies change and what is the right value for a currency in a particular situation? One may as well ask why do prices of other things change, say, that of cloth or food or sugar? Nowadays, of course, everything is controlled and prices change because the controlling authorities fix a new price. But why do authorities fix a particular price instead of any other? Partly, the answer is cost; the selling price must cover cost. But more fundamentally, the answer is that the supply has to be equated to the demand.

Now Britain is suffering from acute dollar shortage. So are we. That is to say, her supply of foreign exchange falls far short of her demands. And, one of the devices for increasing supply and cutting down demand is to raise prices; in this particular instance, prices of dollars. Devaluation may conceivably increase Britain's sales to dollar areas, and therefore increase the supply of foreign exchange available to her. The balance of world trade has been seriously upset. One may go off the deep end, trying to think out what would restore that balance. But that is far beyond devaluation, in any case.