Letter to the Editor

No Himalayan Blunder!

THE article is our unfavourable balance of trade disastrous or transient?" in the issue of The Economic weekly of March 25 attempts to throw a challenge to all who believe that the devaluation of the rupee *vis-a-vis* the dollar last September was at all necessary or desirable. I had mysell decided to keep away from all polemics concerning this issue—not that I thought devaluation was an altogether good thing—but felt it was better to accept what was for the country at large a fait accompli, and to concentrate on how best to maximize its benefits and miniinise its evils. But the confusion that the article in question might create compels me to protest. The main burden- of your contributor's thesis, as far as i have been able to get it, is as follows;

During the war we were able to repay much of our sterling debt with the accumulated sterling balances. In the years that he ahead we expect to embark upon a programme of extensive industrial development; this, together with the relief to our international accounts under the heading *'Debt* Services' and the very large amounts of foreign capital that your contributor is so optimistic of receiving, will mean that we have to develop a large import surplus on commodity account. To put it in his own words, "the era of favourable balance of trade in foreign trade is definitely a thing of the past". Therefore, he admonishes us for "the unwarrantable phantoms building on fears of growing unfavourable balance of trade". The devaluation decision which was mainly to put a brake upon the mounting unfavourable balance of recent years (financed largely by running down our sterling balances) has therefore been a "Himalayan blunder". Q. E. D. .

Our unfavourable trade balance is older than the last one or two years. If Government imports be included, as they must, for appraising the over-all payments position, from a favourable balance of Rs. 78.4 crores in 1943-44, we swung round to unfavourable balances of Rs. 3 crores in 1944-45 and Rs. 25.7 crores in 1945-46. If bullion imports on private and Government account are also considered, the total visible trade balance turned from plus Rs. 80.4 crores in 1943-44 to minus 22.2 crores and 26.7 crores in 1944-45 and 1945-46 respectively.

Secondly, I do not quite gather the sense in which an unfavourable trade balance arising out of the inflationary situation within the country can be described as a "fortuitous" phenomenon.

Thirdly, on page 302, the author claims that our imports as a result of the OGL and sterling releases have been influenced chiefly by erratic consumer preference and nervous creditors' psychology. This may be true but only upto a point. An analysis of our imports in the last two or three years will show the very much enhanced position that capital equipment of various sorts have now come to occupy in our imports. There have, of course, been considerable deviations—due to the weakness of the Government to resist sectional pressures and to the attempts to reestablish pre-war trade channels. These have often brought in imports which may be classified as inessential and luxury. Much has been made of this issue in the country, but I believe that considered in relation to our total imports, this waste of foreign exchange has been needlessly exaggerated and public attention has tended to dwell on relatively minor issues.

Fourthly, however much I may try, I fail *to* bring myself to share your contributor's optimism regarding the flow of foreign capital into India. He envisages imports of "stupendous quantities of equipment and raw materials from abroad". Perhaps, it is in this light that he is able to say that the magnitude of our imports in future will depend upon our propensity to import. Further, if really our large imports surplus is going to be financed by foreign borrowings, sterling balances, and gold exports, I see no need for "mitigating the unfavourable balance by exporting sufficiently to catch up with our imports."

Fifthly, your contributor seems to buttress his arguments by showing that not only the supply but even the demand for most of our exports is generally inelastic, implying thereby that devaluation is not likely to achieve that increase in exports which would help us in bridging the gap in our external payments. But is it not exactly under these circumstances, namely, where the demand and supply functions are both inelastic, that devaluation is likely to be beneficial?

Sixthly, equilibrium in foreign trade is not a thing of the past. We cannot afford to let our price structure get out of gear with the price structure abroad if we are not continually to live on borrowed money; even for that, a time will come when we must repay what we have borrowed from foreigners. It is not true that we have not to pay now any service charges on foreign capital, Our sterling repatriation has been predominantly a repatriation of the public debt of the country. Foreign commercial investments are still with us. In the Reserve Bank's estimates of our *balance* of payments for 1948 a tentative figure of no less than Rs, 30 crores has been set down as "interest charges payable abroad". We shall also shortly have to start paying interests and equated payments on the loans from the Bank and the Fund.

Lastly, your contributor fears that we may be unable to create conditions which will permit the stupendous imports that he is envisaging. But deliberate action to create an export or an import surplus as an accommodation to export or import foreign capital must proceed along lines which he has not indicated. I fear this is already a lengthy letter. There are no doubt some solid arguments why India should not have devalued. But your contributor has missed them all out

— "Barun"