

THE STERLING ASSETS
OF
THE RESERVE BANK OF INDIA

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PREFACE

This book is the result of an attempt to examine in some detail the arguments originally advanced, in brief, in a paper written for the Pacific Relations Conference, San Francisco. The more elaborate investigation has rendered the thesis clearer; it has, besides, enabled deliberation on issues which, in the limited space of a paper, either could not be considered at all or could be only alluded to in passing.

Chapter I comprises the story, narrated with the aid of Reserve Bank statistics and statistics published by the Government of India, of how sterling came to be accumulated with the Reserve Bank; it explains, too, that the rupees created against the sterling assets were entirely inflationary in character.

Chapters II and III examine the effects on the Indian economy of the sterling accumulations, Chapter II dealing with the distortions produced in the pre-war pattern of the distribution of income and wealth, and Chapter III dealing with the effect of the sterling assets upon the debtor-creditor status of the country. Contrary to, what would now seem to be, the general belief, I have maintained that, notwithstanding the sterling assets, India continues to be a debtor country, on income as well as on capital account.

If she is a creditor, it can be only in the sphere of short-term capital; which, possibly, except for brief intervals, she has always been. In fact, debtor countries must necessarily be short-term creditors in the sense that they must build up short-term credits abroad through surplus exports in order to be able to meet debt services as they fall due. And, if the magnitude of the short-term credits is larger to-day than before, since these were acquired only through inflation, but not through the voluntarily generated (or authoritarian, non-monetary) savings, the money value of the foreign capital in India may also be said to have risen in a similar ratio; so that, even as before, the short-term creditor position would be insufficient to cancel the long-term indebtedness of the country, although, to quote Lord Keynes' rather discreet phrase, the debtor-creditor position, undoubtedly, has been "shifted" somewhat. The volume of the net indebtedness

may be less than before, but debtor the country remains nevertheless.

Chapter IV is a study of the several possible alternative methods of financing the United Nations' rupee expenditure; it gives an estimate of the extent to which the several sources were actually tapped. Chapter V outlines the manner of how the United Nations' rupee expenditure might have been financed without recourse to inflation.

And Chapter VI, after examining the various theoretical possibilities, indicates the more probable methods of how the sterling assets are likely to be redeemed. It also formulates, in outline, a policy which we may pursue with profit; the implementation of this policy, however, requires full political sovereignty. If what we have said in this chapter regarding the ratio of the sterling assets to the British national output is broadly correct, given willingness on the part of the debtor to make the necessary sacrifice, there should be little difficulty in paying off the sterling assets in the manner, and at the pace, determined by the requirements of India (and of the other creditors). If, however, in comments on the subject in the British press and also by spokesmen of British interests in our own country, the difficulties of redemption have loomed so large it is principally because our political helplessness (and also that of most of the other creditors) renders access to less irksome ways of escape comparatively easy.

In view of my present connexion with the Reserve Bank of India it is, I think, necessary to state that this book was completed, and was in the press, before I joined the Bank. The responsibility for the views expressed, and for the statements made, therein is entirely my own.

B. R. S.

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