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Participation in Post-War Currency Plans

A feature of World War II was that even as advance arrangements had been made for financial and economic control on the outbreak of war, preparations were made during the war period itself for the drawing up of comprehensive plans for international monetary co-operation in the post-war years. These efforts resulted in the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development, of both of which India has been an important member from the beginning. In the shaping of India's attitude in regard to these plans and arrangements and in safeguarding India's interests, the Bank's executives, especially the Governor, played an important role. India of course shared the world's interest in the drawing up of the post-war currency plans. But she had a special concern in the plans in view of the 'embarrassing plenitude' of the sterling balances built up by sacrifice of current consumption during war time. India was keen to secure the establishment of an order which would not only safeguard the value of these balances after the war but also enable her to draw on them in a manner best suited to her post-war requirements for the development of the economy. While in the matter of the repatriation of the sterling debt Governor Taylor had played the key role, in regard to India's participation in the post-war currency plans Governor Deshmukh took a leading part. He was a member of the Indian Delegation to the Bretton Woods Conference, and was accompanied by Dr. B. K. Madan (Director of Research), as Secretary of the Delegation. The Central Board took an active interest in the post-war currency plans; its views were also formally sought by Government.

Conferences on Post- War Currency Arrangements -----
the Central Board's Interest

Early in March 1943, a conference of Finance Ministers of the Allied Governments was held in London to discuss post-war currency arrangements in Europe. A British Treasury communique issued on the occasion stated that the Conference was held under the chairmanship of the Financial Secretary to the Treasury, Mr. Ralph Asheton, and that Finance Ministers of all Allied countries having their headquarters in London as well as representatives of the French National Committee took part; representatives from the United States, Chinese, Soviet and British Dominion Governments were also present.

On seeing a short news item about the Conference in the Times of India of March 5, 1943, which stated that besides currency matters other post-war financial questions of common interest were discussed and that further meetings would soon be held, the ever-vigilant Sir Purshotamdas Thakurdas wrote to Mr. Deshmukh, who was then exercising the powers and functions of Governor, saying that he presumed that either the Government of India or the Bank of England would let him (Mr. Deshmukh) know what transpired at the Comerence, especially in view of the fact that representatives of the British Dominion Governments attended it. Apart from the newspaper reports, Mr. Deshmukh did not have any authentic information relating to the Conference. 'Since the British Treasury has issued a communique on the matter', Mr. Deshmukh observed in his letter to Mr. Cyril Jones, the Finance Secretary, Government of India, 'there would appear to be no objection to keeping the Reserve Bank informed of the developments in which they have an interest, as sufficient details become available'. Mr. Deshmukh also enquired as to who represented India at the Conference.

The Finance Secretary merely forwarded to Mr. Deshmukh an extract from the Finance Member's speech in the Legislative Assembly on March 17, 1943 on the subject. The Finance Member had referred, in the course of his speech, to the British and the American proposals for monetary arrangements and had stated that so far as the Government of India were aware, official conversations had not till then taken place between the two Governments and no agreement had been reached, or even approached, but there were indications that the two Governments aimed at creating a monetary system permitting multilateral clearings and thus affording holders of one currency the opportunity of free exchange into other currencies. However, the Finance Member had not made any reference in his speech to the Allied Finance Ministers' Conference of March 1943 to which the news item of March 5 related, but had referred to another meeting of expert representatives of the Dominions and India held in London earlier, viz,, in late 1942, which was, he observed, ' of a purely preliminary and exploratory nature ', and for that reason, strict secrecy had been enjoined on all the participants; India was represented at the Conference by Sir Rama-swami Mudaliar (Member of the Viceroy's Executive Council) and Sir Theodore Gregory (Economic Adviser to the Government of India). The Finance Member added that no Government commitments of any kind had been entered into, by either the representatives of India or those of the Dominions, and that the Government of India did not stand committed in any way to any of the schemes under discussion.

At the Board meeting of April 5, 1943, the correspondence exchanged by Sir Purshotamdas Thakurdas, Mr. Deshmukh and the Finance Secretary (Mr. Cyril Jones) was placed before the Directors. Informally, during the course of discussion, Sir P. T. suggested that Government should be requested to furnish to the Governor a copy of the preliminary discussions at the London meeting of the experts of the Dominions and India (attended by Mudaliar and Gregory), to enable the Governor to pass on to the Board such information as he considered appropriate. Sir P. T. added that he had, in fact, already mentioned this to the Finance Member. Sir P.T.'s suggestion was supported by the other Directors and was taken note of by the Government Director, Mr. Turner.

A few days later, the U.K. and the U.S. Governments were forced to publish the plans prepared by their experts, owing to premature leakage of their contents. The U.K. Plan, associated with the name of Lord Keynes, was known as Proposals for an International Clearing Union; the U.S. Plan, associated with the name of Dr. Harry Dexter White, was known as Preliminary Draft Outline of a Proposal for an International Stabilization Fund of the United and Associated .Nations. The Government of India issued, on April 8, 'for the unofficial guidance of the Press ', a telegraphic summary received by them of the Keynes Plan for an International Clearing Union; the plan in its 'final' form, i.e., as it ' emerged from the technical examination of experts of the Government of the United Kingdom, India and the Dominions', was to be released as soon as it was received in India. The Government's Press Note issued in this connection stated that His Majesty's Government, 'while being themselves in no way committed to the principles or the details of the scheme, hope that it will afford a basis for discussion, criticism and constructive amendments'.

In his letter of April 8 forwarding a copy of Government's Press Note and the telegraphic summary of the plan to Mr. Deshmukh, the Finance Secretary expressed surprise as to how the Bank's Directors expected the trend or scope of the discussions held in London in October 1942 to be communicated to them ' without a violation of the pledge of secrecy which Gregory took upon himself as a condition precedent to his participation in the discussions'.

In the circumstances, while forwarding to Sir P.T. on April 14, 1943 some papers regarding the Keynes Plan, Mr. Deshmukh mentioned that since the participation of India's representatives in the preliminary discussions was under a seal of secrecy and the discussions were in the nature of a technical examination by experts, it seemed hardly worthwhile pressing the Board's request for being furnished with records of the contribution of India's representatives to the discussions. But Sir P.T. was adamant. In his letter of April 19, 1943 to Mr. Deshmukh, Sir P. T. remarked:

> I feel that while the participation of India's representatives in the preliminary discussions is under a seal of secrecy, there can be no secret from the Reserve Bank, and therefore I would suggest that you press for being furnished with records of contributions made by India's representatives at these discussions.
> There are many points in the telegram which now make me more determined than ever that it is necessary for the Reserve Bank to have an Indian at its head with this sort of thing being in the purview of the Reserve Bank only, and particularly of the Governor of the Reserve Bank, as there may be secret things passed on to him which the Governor may not disclose to anybody. In view of this, I feel more strongly than ever that I should request you to ask the Government of India to let you have the papers which the Central Board said they should have. Really we must not reconcile ourselves to anything being kept secret from the Reserve Bank, and in fact I feel that the Reserve Bank owe it to themselves to keep complete record of these facts.

Mr. Deshmukh, it seems, did not pursue the matter further, as in the meantime, he received another very strongly worded letter from the Finance Secretary flatly refusing to comply with the Board's request. The Finance Secretary observed:

> I cannot wait further to point out to you the impossibility of the Board expecting Gregory to tell them what he said at the preliminary discussions . . . . .no decent person could possibly be expected to break an obligation of secrecy which he had solemnly undertaken and I have no doubt that Sir Ramaswami Mudaliar would take the same line were he in India. . . . .Moreover, since the preliminary discussions were concerned solely with a technical formulation of the plan and were held without commitments of any sort, it seems entirely unnecessary for the Board to know what part India's representatives contributed to that formulation. Neither India's representatives themselves, nor India, nor the Reserve Bank, nor even His Majesty's Government stand committed in any way to either the principles or the details of the scheme as it has emerged from the various preliminary expert discussions, and both the Reserve Bank of India and the Government of India are perfectly free to consider the scheme on its merits as and when we receive it. This should be all that the Board could possibly ask for or wish.

An Outline of the Keynes and White Plans

At this stage, it should be useful to give a brief outline of the Keynes and White schemes, both of which purported to be tentative.* They provided the outlines of an international monetary system, with a fundamental similarity in general principles and objectives, but important differences in the practical framework and technique of operation. In general, the White Plan was less explicit about the fundamental than the Keynes Plan, but went more meticulously into details in regard to the constitution, management and working of the Fund.

The main object of both the plans was the promotion of international trade through the establishment of a multilateral system of clearing, provision of credit up to prescribed limits to member countries in balance of payments difficulties, arrangements for orderly changes in exchange rates, prescription of guidelines for action to restore balance of payments equilibrium within a reasonable time and the creation of a permanent machinery for consultation and cooperation in running the international monetary system.

The main feature of the Keynes Plan (of April 1943) was the establishment of an International Clearing Union based on an international currency (for book-keeping purposes only) called bancor with value fixed (but not unalterably) in terms of gold. The initial par values of currencies of member countries were to be fixed in terms of bancor, which was to be accepted by them as equivalent of gold for settling their international balances.

Member countries were to be assigned a quota fixed on the basis of the value of their foreign trade in the three pre-war years. No payment was to be made by member countries by way of subscription in gold/foreign exchange towards the quota; the size of the individual quotas was intended to measure the member's responsibility in the management of the Union and set a limit to the maximum credit facility available to each member, That is to say, the Union was to have no capital of its own.

Members were to keep accounts with the Union. The essence of the system was that member countries were to accept, in respect of currency balances due to them from other members, a transfer of bancor to their credit in the books of the Clearing Union. Member countries were also entitled to transfer bancor to other members overdrawing their own accounts with the Union, till the debit balances thereby created reached the size of their respective quotas. The plan was thus based on the 'overdraft' principle. The plan did not encourage excessive debit or credit balances, both being made subject to payment

* Later, proposals were also submitted by French and Canadian experts.

of charges. Non-members were also to be allowed to keep credit clearing accounts with the Union, but they had no right to overdrafts and no voice in the management.

While the quota set the outermost limit of borrowing allowed, corrective measures were to come into operation long before the maximum limit was reached. Countries with excessive credit balances, that is to say, with persistent balance of payments surplus, were also required to take appropriate measures.

The plan did not interfere with countries desiring to maintain a 'special intimacy' within a particular group associated by geographical or political ties.

The plan suggested inclusion of some provision for the transitional period, by which the war-time balances could remain liquid and convertible into bancor by the creditor country, while there would be no corresponding strain on the bancor resources of the debtor country, or the resulting strain would be spread over a period.

The White Plan (of April 1943) proposed the setting up of a Stabilization Fund and member countries were to have three distinct relationships with it, viz., as stockholders, as customers and as depositors. The monetary unit of the Fund was to be unitas, equivalent to 137 1/7, grains of fine gold or U.S. $10; the value of the currency of each member country was to be established in terms of gold or unitas and might not be modified without the approval of the Fund.

Each member was to be allotted a quota determined on the basis of its holdings of gold and foreign exchange, the magnitude of fluctuations in its balance of international payments, and its national income; quotas were payable in gold, securities and local currency in stipulated proportions, to constitute sources of funds for the exchange operations of the Fund. The right of a member to purchase foreign exchange from the Fund with its local currency was recognised only to the extent of its quota, subject to certain limitations. However, the Fund might sell foreign exchange till its holdings of the member's currency reached 200 per cent of the quota, or even beyond this limit, if the country agreed to take appropriate corrective measures or the balance of payments of the country whose currency was acquired was such as to warrant the expectation that the excess currency holdings could be disposed of within a reasonable time. When the Fund's net holdings of a member's currency exceeded the quota for that country, the member was to maintain a special reserve with the Fund and also pay charges on excess holdings of its currency by the Fund. Countries having continued surplus would also be required to take corrective measures.

To promote the most effective use of the available and accumulating supply of gold and foreign exchange, member countries were required to offer to sell to the Fund all gold and foreign exchange they acquired in excess of the amount held by them immediately after joining the Fund.

Member countries could tender gold to the Fund and create deposits in unitas, which were transferable and were redeemable in gold or foreign exchange.

The Fund was to assist in liquidation of war debts by buying from member countries a proportion of their abnormal war balances held in other countries in exchange for local currency, or for foreign exchange when such exchange was needed to meet adverse balance of payments not arising from acquisition of gold or accumulation of foreign balances or other capital transactions, subject to certain conditions. The Fund was free to dispose of its holdings of such balances after a 23-year period, or earlier either with the consent of the country in which the balances were held, or if the Fund’s holdings of that particular currency had fallen below 15 per cent of that country’s quota.

A general point of difference between the two schemes was that the British Plan provided for decisions by a simple majority, whereas in the American Plan, for most of the important decisions, a four-fifths majority was required.

During June-July 1943, discussions on the White Plan took place in the U.S.A. between the U.S. Treasury experts and the representatives of nearly 30 Allied nations. The Government of India were unable to send any representative for the deliberations as they had not received any authentic copy of the U.S. Plan, and had not considered the proposals. Following the discussions, the U.S. Plan was revised and issued on July 10, 1943; a copy of this was sent to the Finance Member by the U.S. Secretary of the Treasury.

The main changes made in the revised White Plan were: (i) the proportion of gold in quota subscription was raised substantially; (ii) when the gold and exchange holdings of a member exceeded 50per cent of the quota, the member was required to make one half of the payment in respect of foreign exchange bought from the Fund, in gold or foreign exchange acceptable to the Fund; (iii) only one half of the gold and foreign exchange acquired in excess of a member’s official holdings at the time of joining the Fund was to be offered by the member for sale to the Fund and that too only if the member’s official holdings were in excess of 25 per cent of its quota, and (iv) blocked balances purchased by the Fund were not to exceed in the aggregate 10 per cent of the quotas of all members, in the first two years.

The revised plan deleted an important provision, viz., the Fund’s power to accept deposits in gold from members.

Board's Views on the Schemes

Copies of the two plans received by the Bank from the Government of India towards the close of June 1943 were forwarded to the Central Board Directors and Local Board members. The formal request from Government that they would 'welcome the views of the Bank on these two proposals or any modifications thereof as soon as the Bank have had full opportunity of considering the matter', came later, viz., in early August 1943.

In the meantime, on July 5, just a few days after forwarding the copies of the two plans to the Bank, the Finance Secretary suggested to Mr. Deshmukh that 'it would perhaps be advantageous if he (Sir Theodore Gregory) were to attend the meeting of the Directors of the Central Board for a general talk on the subject of the post-war currency plans... '.. The Finance Secretary wanted some sort of suggestion or invitation to come from the Board to justify Sir Theodore's making the journey. The suggestion regarding his attending the Board meeting had been discussed by the Finance Secretary with Sir Purshotamdas Thakurdas too, when the latter was in New Delhi and Sir P. T. approved of it, but considered it desirable to obtain first the reactions of the Local Board. On being shown by Mr. Deshmukh the Finance Secretary's letter of July 5, Sir P. T. expressed doubt whether the other Directors would be willing to send an invitation or 'even initiate the proposal that Gregory should address them'. In the circumstances, Sir P. T. suggested that the matter should be brought up informally at the next Board meeting, which was on July 20, probably to find out the Board's reaction. 'I presume', Mr. Deshmukh observed in his letter to Mr. Cyril Jones, ' this will give time enough for Gregory to arrange to come to Calcutta should the outcome of the discussion at that Meeting indicate that Gregory should address the Directors either on Government's initiative or on our own on the 9th August'.

The Finance Secretary took strong exception to the words 'Government's initiative'. To quote him:

> The one thing I wish to make clear is that there can be no question of Government taking any initiative in this matter at all. The question does not in any way arise of our wishing to send Gregory for this purpose. It is true that the suggestion came from me in the first instance but that was merely born of a desire to be helpful to you and to the Directors. Government naturally wish to have the considered views of the Reserve Bank on the two schemes which have now been published and will doubtless receive them. For our purpose that is all that matters... If the Directors would like him to come to talk to them I can see no reason why either they or you should not ask Gregory to do so. If they do not want such a discussion, the matter naturally ends there and the whole thing is off.

A letter stating that the Directors 'would be glad of an opportunity' of informally discussing with Sir Theodore Gregory the post-war monetary plans on August 9, 1943, was sent by Mr. Deshmukh to the Finance Secretary; in his forwarding letter, Mr. Deshmukh remarked :

> Now that the suggestion has been made, the Directors would be glad to discuss although I cannot honestly say that the idea of seeking any such opportunity had occurred to them on the ground of their finding themselves unable to follow the implications of the two schemes. I do not think that there is any advantage in following up this comparatively unimportant issue of whether the Board are gladly falling in with a suggestion in fact made by you or whether they wish to make it appear that they are on their own initiative requesting Government to ask Gregory to discuss the matter with them. I hope the matter will be allowed to rest there . . . . .

Sir Theodore was unable to attend the August g meeting owing to 'more urgent official preoccupation'. It was decided that the Directors would discuss the plans informally amongst themselves at the next Board meeting to be held on October 16 but would formulate their views only at another meeting on October 18 after hearing Sir Theodore Gregory on that day.

A memorandum entitled Post- War Monetary Plans by Mr. Deshmukh, who had been appointed the Governor by that time, together with elaborate notes on the subject prepared by Dr. B. K. Madan, Director of Research, and Mr. H. D. Cayley, Deputy Controller, Exchange Control Department, was circulated to Board members. Another note by Professor D. R. Gadgil, giving his comments on the Keynes and the White Plans, was also circulated to Board members.

The Governor, in his memorandum, observed that it was difficult at that stage to express any precise opinion on the merits of the different plans drawn up, owing to the diversity of the methods proposed to accomplish the same objects, the fluidity of the plans themselves and the fact that a conference of the financial experts of the United Nations was reported to be engaged in examining the various schemes in detail. Of these deliberations, the Bank knew little; a good deal of mystery surrounded the conference of experts, at which India appeared to be unrepresented. The Canadian plan being essentially similar to the U.S. plan, the Governor confined himself to broad comments on the principles underlying the British and American plans.

The Governor's general reaction to the two schemes is summed up in the following paragraph:

> The Keynes' scheme is the more idealistic of the two plans, is definitely expansionist in character and seems likely to lead to a continued and genuine expansion of world trade, provided all countries play the game.

> The American plan, on the other hand, while it would appear to work admirably provided no country's surplus exceeded a fixed figure, once this surplus is reached, proposes as a remedy the re-adoption of trade and currency restrictions, or in other words, the old deflationary methods which can only result in severe contraction of trade throughout the world. In spite of this disadvantage, the U.S. plan does seem the more practical. Under the Keynes' plan the penalties for a defaulter appear to be confined to the general disadvantages of being outside an exchange system within which the other major countries of the world are trading. On the other hand, under the U.S. plan each country must deposit a proportion of its quota in gold (in the latest version 50 per cent) and a default by a country would mean the loss of this deposit. Advances of foreign exchange under the U.S. plan would therefore in effect be given against security. This system under present conditions would seem to be wiser and less liable to disruption than the unsecured nature of the Keynes plan, though the obvious advantages of the latter may lead to its ultimate adoption when the nations of the world have had more experience of international financial co-operation.

Considering the plans in relation to India's position and interests, the Governor felt that since the British plan was expressed in more general terms than the U.S. plan, it was impossible to say whether some of the provisions explicitly made in the latter would not be included in the detailed draft of the former at a later stage. The American plan did however lay down detailed provisions for the liquidation of blocked war balances and was, therefore, of considerable interest to India. The maximum amount up to which the Fund would purchase such balances within the first two years was put at 10 per cent of its general resources. The balances would be liquidated only to the extent to which the creditor country bought foreign goods and ran a deficit on current account. India could not, under this scheme, convert her blocked sterling into dollar holdings, but could use her sterling up to the limits laid down in the plan to purchase goods in any part of the world. One estimate of India's limit for the sale of blocked sterling to the Fund was put at £100 million within the first two years. This was, of course, based on quotas which were not then fixed, but the Governor felt this was not far off India's requirements.

The Governor considered that on a short-term view the U.S. plan suited India's requirements admirably. The country's immediate object was industrialisation and, in addition, she would be required to sell large amounts of her agricultural and primary products abroad. By assisting world trade, the U.S. plan would enable overseas buyers to purchase India's exports, while its scheme for the liquidation of war debts would enable India to utilise her blocked sterling balances for the purchase of the plant and machinery required for her industrial programme. The Governor was also very optimistic regarding the Indian balance of payments in the post-war period. He predicted a cessation of imports of capital equipment and the building up of a large export surplus, probably augmented by increased exports of manufactured goods, in 10 or 15 years; a situation might then arise, he observed, where the country's surplus, represented in the books of the Fund by a fall in its holding of rupees, reached a figure where the Fund felt called upon to submit recommendations to her (India) for rectification of the position. If the surplus was not reduced, the Fund might have to ration rupees as a scarce currency, which would result in a forcible reduction in the country's exports. Obviously, such a situation could arise whether or not India became a member of the Fund; however, membership might assist India to overcome these problems with a minimum of trouble, as the Fund, in order to survive, would have to operate for the general benefit of all its members.

As arranged earlier, the Central Board had a preliminary discussion on the subject on October 16, 1943. At this meeting, the Board expressed, according to a cable sent by the Governor General to the Secretary of State, 'dissatisfaction at our lack of knowledge of what is going on in America and of present position of discussions there.' Another meeting of the Board held on October 18 was addressed by Sir Theodore Gregory, who answered questions on the various technical aspects of the two schemes put to him by the Directors. The Board thereafter resolved that the Governor should prepare a draft letter to Government in the light of the discussions at the meeting, submit it for consideration to the Committee of the Central Board and circulate to the Directors the draft together with the modifications the Committee might wish to make. The formal letter to Government was to be issued after the draft was amended in the light of comments and suggestions made by the Directors.

The Committee considered the Governor's very comprehensive draft letter on November 3, 1943, which was then circulated to the other Directors. The communication as amended in the light of the comments received was forwarded to Government on November 18.

Recognising the importance of international financial co-operation and hoping for a synthesis of the Keynes and White plans, the Board's observations were confined in the main to the broad principles involved, with particular reference to the safeguards that India's vital economic interests required. Any international scheme to be acceptable to India, the Board observed, had to be ' capable of promoting India's special interests in a way in which they would not be promoted if India stood aloof '. In the opinion of the Board:

> India's attitude towards any international scheme, involving a certain of limitation on monetary freedom or restriction on the direction of commercial policy, is bound to be conditioned by special factors such as its economic backwardness, its appalling poverty, its dismally

> low standard of living and its just aspirations to make up the long leeway in industrial and agricultural development. It can legitimately claim special treatment not only because of the inherent justice of its claims, but also because it has, by virtue of its constitutional position, not in any degree been responsible for contributing to the economic and political chaos which has culminated in the present war.

The Board suggested that any plan to be acceptable to the economically backward countries like India should include among its major aims 'the making of conscious efforts to raise the standard of living in these countries, although such efforts might temporarily mean a standing-still in the more advanced countries'. The specific inclusion of such an aim would call for 'a mental discipline of a high order' on the part of the more important Allied nations after the war was over; in the absence of it, the Board felt, the plan would hold no special attraction for India, and if she participated at all, it would 'only be to avoid the penalty of being left out in the cold in the economic sense'.

While the Board appreciated the need for international co-operation, it was not optimistic that a full-fledged plan could be operative in the immediate post-war period, owing to, among other things, uncertainty regarding the treatment to be meted out to aggressor nations and the special problems of reconstruction. (Later, however, the proposal for a World Bank was mooted and approved, to meet the needs of reconstruction and development. Things actually turned out to be better than anticipated).

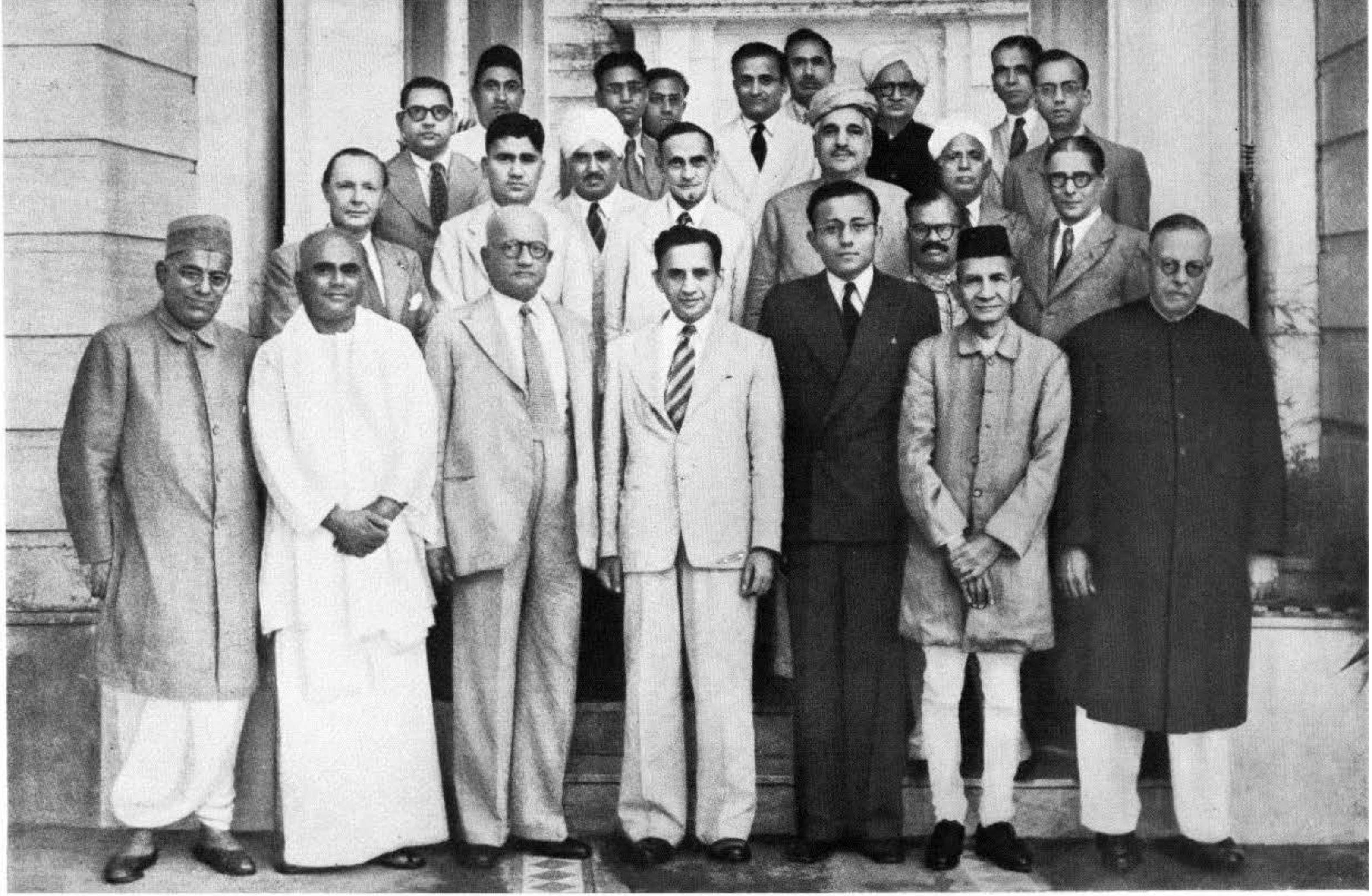
The Board also assumed that India's participation in the proposed arrangements would be as an entirely free agent, and that the fiscal autonomy she was 'said to enjoy will be genuine and unqualified'. In this context, the Board referred to the view prevailing in certain quarters that the freedom allowed by the Keynes Plan to maintain a special intimacy within a particular group of countries associated by geographical or political ties, such as the existing sterling area, indicated a desire to keep India tied for ever to the apron-strings of Britain. The Board believed that this view was based on a misconception and that any such special intimacy would be contracted by any country purely on a voluntary basis and could be terminated at its own free will. Special groupings, it added, were also inconsistent in principle with a completely international order.

In the Board's view, India's actual participation in any scheme would not be worthwhile, unless the raising of the low standard of living was included as one of the objectives, and unless satisfactory provision was made for (i) the orderly liquidation of her sterling balances, (ii) voting rights in accordance with India's importance, by virtue of her population, in the general over-riding aim of improving human standards of life, (iii) a reasonable flexibility of exchange rates, and (iv) liberty to

Indian Delegation to the Bretton Woods Conference

The dekegatts from India in the photograph above are (clockwise) Dr. 13. ET. Madan, Mr. A. D. Shro$ iin ihe third chair), Sir Jeremy Raisman iJ;fih) and Sir C. Il. Deshmukh (seventh).

In the ~hoto~~a~h below Sir R, Ku ShQn~ukhu~ Chetty is seen third from left.



Group photo taken at a luncheon given by Director Mr. R. Ramanathan Chettiar to the Directors of the Central Board of the Bank on December 29, 1948 at Madras.

participants to secede from the international body without undue loss of time and without penalty.

As regards (i), the Board recognised that it was premature to prescribe any concrete scheme immediately but it saw the need for any future arrangement to provide for two things -the liquidation of the balances within a reasonable period and their conversion into universal purchasing power so as to assist in India's industrial and agricultural development to the maximum extent possible. Taking note of the ' tendentious writings in the British financial press ' that India's sterling balances represented a mistaken generosity on the part of Britain and other statements that Britain would not have the capacity to supply the capital goods that India would require after the war, the Board trusted that:

> the essential justice of India's claims to the maximum utilisation in her own interests of her sterling balances will not be denied and that the special efforts of all concerned will be directed towards maximizing Britain's capacity to export, e.g., by means of technological advances, rationalisation, increase of productive efficiency and, if necessary, by submitting, for the time being, to continuous economic discipline so that India may be assisted to make up at least a part of her economic leeway for the ultimate furtherance of international welfare.

At the same time, there was the need on the part of India to expedite the preparation of careful surveys of immediate industrial possibilities and of co-ordinating these with the demands of road development programmes, the needs of irrigational schemes, hydro-electric projects, etc., without which the effective utilisation of the balances could not be achieved.

In regard to exchange rates, the Board held the view that for backward countries like China and India a larger flexibility of exchange rates was necessary than for the more advanced countries, the economic impulses generated in which often determined the trend of economic development elsewhere. From this point of view, the Board regarded the provisions in both the plans as unsatisfactory.

The Board was also dissatisfied with the provisions of the two plans relating to the governance of the Fund or Union. Since the voting rights were in some way related to the quotas established in the two schemes and since the quotas were to be fixed on the basis of criteria like the volume of international trade, national income, etc., which were 'manifestly unfair to India', the Board felt 'the voice of India will only be faintly heard in the Councils of the Fund or Union'. However, in the Board's view, much importance should not be given to the regulatory powers of the governing body, since 'the strength of any international body would lie not in the formal powers which international agreements vest in them, but in the reasonableness and the equitableness of the action taken and the advice given by the governing body'. Where a participating country considered that the requisition or advice of the governing body was unfair and prejudicial to its interest, it should be in a position to withdraw 'without undue loss of time or without incurring any penalties'.

In the matter of gold, India had only a minor interest, being neither a large producer nor a large (official) holder of gold. The Board took the opportunity, however, of recommending to Government that ' the connected problem of India retaining her credits in dollars, so far contributed to the Empire Dollar Pool, should receive their constant and vigilant attention '; this should be an offset to any possible liability that may devolve on India as a result of lend-lease arrangements. But for the possibility of the emergence of some kind of international scheme for converting the sterling balances into universally acceptable foreign exchange, the Board said, it would have urged upon Government the importance of taking steps on the lines of its recommendations made in February 1943 for safeguarding their value (see page 299).

Although the Board stated in conclusion that in view of the possibility of a synthesis of the two schemes it did not consider it necessary to express a preference for either scheme, it gave greater support to the American scheme, in the following terms:

> the full introduction of an 'idealistic' scheme like the Keynes scheme should be deferred to a later stage of international co-operation, and that it would be desirable in the meanwhile to proceed on the basis of well-understood monetary principles, such as that of deposit banking, of the mutual type, underlying the Stabilization Fund Scheme. In their view, the security principle, implicit in this scheme, is likely to be more convenient from the point of view of monetary practice than the overdraft principle on which the Keynes scheme is based, although the essential difference between the two in its application to the international sphere is only one of degree rather than of kind. They also believe that the principles for international monetary expansion which the Keynes scheme provides might be too risky for adoption in the immediate post-war world, where the most pressing problem threatens to be that of inflation, until it has been possible for a war-weary world to re-establish in their fullness the means of production of consumable goods.

In the course of the Board's deliberations, one of the Directors expressed the hope that 'the delegation to be sent from India to participate in the discussion on these plans will include men (non-officials) who would be likely to command the confidence of the business world and the public in general'. The Committee wanted the Governor to convey this suggestion informally to Government, and this was done.

Earlier, the Finance Member had desired to elicit the general opinion of the country on these plans and considered that a high level

Reconstruction Committee would serve the purpose. The committee was to be thoroughly representative, both geographically and of all interests having a stake in international trade. The Finance Secretary suggested the inclusion on the committee of a representative of the Reserve Bank and of chambers of commerce and outstanding persons like Sir Purshotamdas Thakurdas and Mr. G. D. Birla. Mr. Deshmukh was requested to give his suggestions after discussing the matter with Sir P.T.

Sir P. T. and Mr. Deshmukh were not enthusiastic about the suggestions. In his letter of August 6, 1943, to the Finance Secretary, Mr. Deshmukh stated:

> Sir Purshotamdas, whom I sounded the other day on your tentative idea, said that, while that was sound enough as far as it went, he doubted if you would elicit any opinion free from mental reservations as long as the extent to which India would in reality be free to act in the spheres of finance and commerce. His point seemed to be that it was only on the basis of real and unqualified fiscal autonomy that India could participate in discussions relating to the post-war international monetary arrangements. I imagine what is at the back of his mind is that the various nonofficial Indian interests would not wish it to be understood that they stood with the Government of India in preferring either plan or a new plan, i.e., mechanism, if when actual decisions were taken, e.g., in fixing the initial exchange ratio or varying it, or imposing or modifying tariffs, Government were to be in a position to override the Legislature and get measures certified in the supposed interests of the country. This is political ground-not necessarily irrelevant -on which I cannot very well tread.
>
> Political consideration apart, in my opinion the inherent difficulty in the matter is the existence of two schemes differing in important particulars, and before setting up any advisory committee I suggest that Government frame the issues on which advice is to be sought at this stage. Do they, for instance, wish to know which of the schemes should be supported by India as it stands or with modifications consistent with the basic principles of either? Do they wish to know what importance should be attached to the early liquidation of post-war balances, aiding thereby the speedy industrialization of the country? Is opinion to be invited on each separate aspect of the schemes, e.g., (i) clearing or initial gold and other assets; (ii) character and composition of governing body; (iii) powers of the body and mode of exercising them; (iv) duties and liabilities of member countries, etc. Unless the issues are clearly framed there is a risk of the schemes being considered as if they immediately involved the fixing of the exchange ratio!

There are no records to show whether the Governor’s advice was followed or not. However, it appears that the subject of post-war international monetary co-operation was discussed in January and May 1944 by both the General Policy Committee and the Consultative Committee of Economists of the Reconstruction Committee of Council.

Board's Views on the Joint Statement by Experts

As a result of close study, spread over many months, by technical experts of more than 30 nations, a tentative agreement grew out of the American and British proposals, regarding a broad outline of the basic principles that should govern an International Monetary Fund. This agreement, called the Joint Statement by Experts, was announced by the Secretary of the U.S. Treasury, Mr. Henry Morgenthau, on April 21, 1944. An international conference to discuss the proposals was in the offing; the Finance Department of the Government of India therefore sought the Bank's views on the proposals urgently. The matter was to be considered by the General Policy Committee of the Reconstruction Committee too, at its meetings on May 4 and 5, 1944, and the Finance Department extended invitation to the Governor and through him to the Bank's Directors to be present at those meetings.

A few remarks may be made on the Joint Statement. The Experts used the cautious White Plan as their framework, though the scheme which emerged from them did reveal the influence of the Keynes Plan to an appreciable extent.

The Joint Statement proposed the establishment of a Fund -the International Monetary Fund -and member countries were to subscribe in gold and local currency amounts (quotas) to be agreed upon, amounting in all to about $8 billion, as compared to the sum of 'at least $5 billion ' proposed in the White Plan, for the aggregate subscription of members. Unlike the White Plan, the Joint Statement did not lay down any basis for determination of quotas. The compulsory gold contribution by individual members was fixed by the Experts at 25 per cent of the quota or 10 per cent of the member's holdings of gold and gold-convertible exchange, whichever was smaller; this was substantially lower than that fixed under the revised White Plan.

While the purposes of the proposed Fund were broadly similar to those mentioned in the two plans, an important objective specifically mentioned by the Experts was ' to facilitate the expansion and balanced growth of international trade and to contribute in this way to the maintenance of a high level of employment and of real income, which must be a primary objective of economic policy '. On the other hand, as compared to the White Plan, a significant omission in the Joint Statement was any reference to facilitating effective utilisation of blocked foreign balances as one of the objectives of the establishment of the Fund.

The Experts provided for the fixation of the par value of currencies of member countries in terms of gold and not unitas, as proposed under the revised White Plan (July 1943). Another important change made by them was giving power to the Fund to require members to use up to one half of the increase over the year in their gold and foreign exchange reserves to repurchase Fund's holdings of their currency, till such holdings fell to 75 per cent of the country's quota or the member's gold and exchange reserves fell below its quota; under the revised White Plan, on the other hand, all countries with gold and exchange holdings in excess of 25 per cent of the quota were required to offer to the Fund for sale one half of the gold and foreign exchange acquired in excess of their holding at the time of joining the Fund. Anew important provision included by the Joint Statement was to permit member countries to maintain, if necessary, certain exchange restrictions during the 'transition' period of three years.

The Central Board considered the Joint Statement at a special meeting in Bombay on May 11, 1944. Earlier, a very detailed note explaining the provisions of the scheme, prepared by the Bank's Senior Economist, Mr. J. V. Joshi, had been circulated to the Directors. The Board decided, after discussion, that the draft letter to Government embodying its views should be submitted to the Committee of the Central Board for approval, at its meeting on May 17. The Board's views 'as settled after discussion' at the Committee meeting were communicated to Government on May 18.

The Governor's letter to the Finance Secretary stated that the Board, was disappointed as the Joint Statement neither included among its avowed objectives the facilitating of the development of the less advanced countries as an integral part of the common aim of full employment and rising standards of living, nor made any provision for the multilateral clearance of blocked balances through the machinery of the proposed Stabilization Fund. 'Thus judged in the light of India's sine qua non, the scheme is inadequate and unsatisfactory'. Dealing with the first of these objectives, the Board was convinced that:

> no international economic co-operation worth the name will succeed and lay the foundation for enduring international peace and prosperity unless the retarded development of important units like India and China receive special recognition and treatment. In the absence of any such recognition and treatment, international machinery, with the inevitable preponderance of the representation of the more advanced countries, is apt only to serve as a stalking horse for selfish national policies on behalf of such countries at the behest of powerful vested interests and under the guise of plausible economic theories about the division of international labour. In concrete terms, and as an illustration, countries like India are apt to be relegated to the production of primary commodities in the interests of maintaining full employment in advanced manufacturing countries.
>
> The inclusion of such an objective would, in the opinion of the Board, automatically imply the conferral on the countries in question, e.g., India and China, of special weight age both in the matter of the quotas and in the management of the Fund. It would also exhibit the

> importance of utilising accumulated war balances in proper perspective and reinforce the need of making some sort of provision in the machinery of the Fund for the clearance of such balances.

In regard to the second omission, judging from the comments in the British financial press, it appeared that the liquidation of the sterling balances had been left to bilateral agreement in order to avoid overstraining the machinery of the Fund. The Board felt there was no reason to fear that the multilateral clearing of the large and continuously increasing sterling balances of India might exhaust very rapidly the Fund's holding of the currency of a country like the U.S.A. whose goods might be exported to Britain's creditors; provision could very well have been made for the Fund to take over these balances at its discretion. The Board went on to remark:

> From Britain's point of view, especially vis-a-vis India, a bilateral settlement would have the advantage of limiting India's choice in receiving the goods which Britain might offer in repayment, but it is difficult to conceive what advantage the U.S.A. could have by excluding from the scheme the multilateral clearing of what were called abnormal war balances. Such a method of clearing might have furnished her with markets where she had no markets before. It is possible that an isolationist view, alarmed at the prospect of the U.S.A. being left with the war-balance baby, has prevailed. . . . It is also a point that needs stressing that the very size of the war balances is an argument for not relegating them entirely to bilateral clearing, since the resultant transactions would occupy such a large proportion of the total volume of trade of the countries concerned in the mutual arrangements that the facilities offered by an International Monetary Fund would be reduced to insignificance, with the consequent danger of the Fund becoming moribund. The Board urge that on behalf of India the inclusion of a provision for at least a partial multilateral clearance of war balances should be strongly pressed in the interests of the Fund itself and for the furtherance of its fundamental objective of expanding international trade.

Drawing Government's attention again to its resolution of February 8, 1943, the Board pointed out that with the deliberate exclusion of this provision from the scope of the Fund's activities, it had become extremely urgent for the Government to apprise themselves of the steps which the British Government themselves proposed to take at their end for the liquidation of the sterling balances. Before expressing her wishes in regard to joining the Fund, it was necessary that India should know definitely what the intentions of the U.K. Government were. The urgency was all the greater for 'British financial journals seem to have started a deliberate campaign of misrepresentation to the effect that these balances represented over generosity, a donation, a gift and what not, on the part of Great Britain towards India, foreshadowing some sort of whittling down of India's claim'.

In this context, the Board also pointed out that the related question of India's keeping her surplus of dollars assumed importance, since if there were to be no multilateral clearing of India's sterling balances apart from the question of past accumulations, steps should at least be taken to ensure that she received and retained all the dollars arising out of her transactions with the U.S.A. and not utilised for any vital war purpose. The Board also reiterated its original view about the incompatibility of the sterling area arrangements, including the maintenance of the Empire Dollar Pool, with the existence of an International Monetary Fund. The matter was, in fact, one that admitted of little doubt; it was, therefore, puzzling that the British Chancellor of the Exchequer should have been reported to have made a statement that the British Government would not favour any plans likely to interfere with relations between States who had been associated with one another in the sterling area arrangements. With the continuance of these arrangements and with bilateral agreements in regard to sterling balances, India's participation in any international monetary scheme, the Board felt, would become little more than a formality.

Another point to which the Board attached great importance was the manner of fixation of the quotas of the member countries, since on this depended the distribution of voting rights and seats on the management of the Fund. The Joint Statement made no mention of how quotas were to be determined. Apart from the criteria indicated in the earlier plans such as the volume of the external trade of a country, its internal trade and its national income, the Board urged that population was one of the most important in the case of countries which had yet to make up a long leeway; in their case, it seemed all the more necessary to ensure that development was not hampered by an unduly restricted quota. Also, in the case of countries like India, figures of past trade furnished no reliable guidance for determining the needs of the future; what was more relevant was the anticipated size of their post-war trade. In the opinion of the Board, on the basis of these criteria, India was entitled to the fourth place among the United Nations and, therefore, to a seat on the executive committee of the Fund in her own right. In its words:

> This is a point to which the Board attach the greatest importance, viz., that whatever the selected provisions might be for the strength of the Board of management or the executive committee, India must have representation in her individual right without being put to the hazards of an election. Having regard to the criteria indicated above, the Board feel that if the managing committee is to be restricted to five, China and India are entitled specifically to be included both on grounds of regional distribution, and, what is more important, as representing the two large nations whose store of resources and capacity are yet far from being developed to their maximum extent.

Among the other suggestions of the Board, mention may be made of the need for India to be consulted before the par value of sterling was fixed in view of the long and close link between the rupee and sterling, the need for retaining complete tariff freedom for member countries, and the desirability of ensuring that in the apportionment of the scarce currencies, the determination of India's share was not influenced by any imports from the U.K. which she might receive under any separate agreement for the liquidation of her sterling balances. The Board also pointed out that if India's representative on the Fund was to be constitutionally bound to accept guidance from authorities not politically responsible to Indian public opinion, her participation would fail to inspire confidence among the people.

Finally, noting that the House of Commons had agreed to the motion that 'the statement of principles recently announced provide a suitable foundation for further international consultation with a view to improved monetary co-operation after the war', the Board suggested that 'India's participation in the impending discussions be restricted on the same basis and without any commitments whatsoever on the part of the Indian peoples, especially in view of India's peculiar and unfortunate constitutional position'.

Plan for Reconstruction and Development Bank

As mentioned earlier, the Reserve Bank attached much importance to the arrangements for adequate flow of capital to the less developed countries in the post-war years, as an integral part of international monetary co-operation. This aspect was not neglected by the Allied Powers; the U.S. authorities gave careful attention to the problem of international reconstruction and development finance. It was feared that, in the immediate post-war period, the devastated as well as the underdeveloped nations of the world would be faced with the stupendous task of acquiring foreign capital needed for reconversion and reconstruction and also for purchase of machinery and other capital goods. Private capital was unlikely to come forward in the required volume, and it was felt that only an international agency could tackle the problem by encouraging the flow of private capital abroad and itself providing a part of the capital not otherwise available.

The technical staff of the U.S. Treasury and other Government Departments prepared a draft scheme for setting up an international agency for encouraging and facilitating international investment in the post-war period. Although this scheme did not receive much attention prior to the Bretton Woods Conference and it did not formally come up before the Central Board, a brief outline of the U.S. scheme may be given, since the scheme, with some modifications, came to be approved at Bretton Woods. The proposal, the details of which were announced on November 24, 1943, was for the establishment of a Bank for Reconstruction and Development of the United and Associated Nations, as a companion agency to the proposed International Stabilization Fund. In the words of Mr. Henry Morgenthau, Secretary of the U.S. Treasury:

> Each agency could stand and function effectively without the other; but the establishment of such a Bank would make easier the task of an International Stabilization Fund, and the successful operation of such a Fund would enhance the effectiveness of the Bank.

The proposed Bank was to have a share capital of $10 billion, to be subscribed by members in agreed proportions, determined on the basis of the members' national income and foreign trade. Payments were to be made in gold and local currency. The monetary unit of the Bank was to be the same as that of the Stabilization Fund, viz., unitas.

The Bank was to have powers to guarantee, participate in or make loans to any member country, or through the Government of such country to any business or industrial enterprise in that country, subject to certain conditions. The Bank might also guarantee, in whole or in part, loans made by private investors, provided certain conditions were fulfilled, or might participate in loans placed through the usual investment channels.

The Bank might engage in other operations with the approval of its members like (i) buying, selling, pledging or discounting any of its securities, (ii) borrowing from member governments, fiscal agencies, central banks, etc., and (iii) buying or selling of foreign exchange after consultation with the International Stabilization Fund.

BRETTON WOODS CONFERENCE

Towards the end of May 1944 President Roosevelt issued invitations to 'United and Associated Nations' to send their delegates to a conference to be held at Bretton Woods, New Hampshire, U.S.A., for 'formulating proposals of a definite character for an international monetary fund and possibly a bank for reconstruction and development'. The invitations explicitly stated that the delegates were not required to hold 'plenipotentiary powers'; and that the proposals formulated at the conference would be referred to the Governments of the participating countries for their acceptance or rejection. Forty-four nations, including India, participated in the conference, which came to be known as the United Nations Monetary and Financial Conference, lasting from July 1 to July 22, 1944.

The Governor of the Bank, along with the other members of the Indian Delegation, played a leading role, in pressing forward the case of the less developed countries generally and of India in particular. Incidentally, the participation of the Governor in the Delegation, as he stated later, led to a greater understanding and friendship between him and the Finance Member, Sir Jeremy Raisman, leader of the Delegation*. The size of the Indian Delegation (six in all) was small in comparison with those of countries like China, the U.S.A., Russia and the U.K., but it was ‘ a hand-picked and a high-powered one ‘. The Governor felt subsequently that there was a case for a larger delegation from India, considering its size and importance, and particularly since as many as four committees often sat at the same time.

Purposes of the Fund

Before the full-scale Conference at Bretton Woods, a preparatory meeting of technical experts from a limited group of countries was held at Atlantic City, New Jersey, for preparing a draft agenda to be submitted at the Conference. Sir Theodore Gregory was designated to attend this meeting on behalf of India; later, however, it was decided that the Finance Member and the Governor should also go to Atlantic City with a view to ensuring that the questions in which India was particularly interested were included in the draft agenda. The Indian Delegates secured the inclusion of two amendments to the purposes of the Fund, so as to provide for the following:

(i) ‘ to assist in the fuller utilisation of the resources of economically underdeveloped countries and (ii) to promote and facilitate the settlement of abnormal indebtedness arising out of the war ‘.

At the opening session of the Conference at Bretton Woods on July I, 1944, Mr. Morgenthau, the Secretary of the U.S. Treasury was elected President of the Conference. The Conference set up three Commissions, numbered respectively: I. International Monetary Fund, II. Bank for Reconstruction and Development and III. Other Means of International Financial Co-operation. Sir C. D. Deshmukh was nominated Chairman of Committee 4 of Commission II which went into the Form and Status of the Bank for Reconstruction and Development. As the meetings progressed, a large degree of specialised representation developed and Sir Chintaman and Sir Theodore attended meetings of Committees 3 and 4 of Commission I, which were concerned with organisation and management, and form and status, respectively, of the Fund. Later, the Committees of Commission II functioned at the

* The other members of the Delegation were: Sir Theodore Gregory, Sir R. K. Shanmukham Chetty and Mr. A. D. Shroff; the last two were non-officials. Dr. B. K. Madan, as already mentioned, was Secretary of the Delegation. Sir David Meek, Indian Trade Commissioner in London, was associated with the Delegation as Adviser.

same time as those of Commission I, and the Governor generally represented the Indian Delegation on the Committees of Commission II constituted to study the setting up of the Reconstruction and Development Bank, while the rest of the Delegation attended meetings of Commission I.

The Indian Delegation succeeded in securing an extension of the purposes of the Fund to cover economic development though not in terms of its first amendment tabled at the Atlantic City meeting. According to the Joint Statement by Experts, one of the purposes of the Fund was ' to facilitate the expansion and balanced growth of international trade and to contribute in this way to the maintenance of a high level of employment and real income, which must be a primary objective of economic policy'. The main change proposed by the Indian Delegation was insertion of the words 'to assist in the fuller utilisation of the resources of economically underdeveloped countries' after 'to facilitate the expansion and balanced growth of international trade'. The amendment received fairly widespread support; there was also some opposition to it on the ground that it went beyond the scope of the Fund. The para in the article as adopted read as under:

> To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

As the Governor put it later,*

> Our case rested on the proposition that poverty and plenty are infectious and that if the operation of an international body like that projected was not to grow lopsided, it was necessary to pay special attention to the development of countries like India with resources awaiting development. Our appeal was to enlightened self-interest.

The Indian Delegation was, however, unsuccessful in its efforts to get the Conference agree to the inclusion of the settlement of the abnormal indebtedness arising out of the war among the purposes of the Fund. In the meetings of Committee I, dealing with the purposes, policies and quotas of the Fund, the leader of the Indian Delegation drew the attention of the other delegations to the fact that the necessity of assisting the liquidation of abnormal war balances had been recognised in the earlier versions of international monetary proposals. Although the Indian Delegation recognised the difficulties in dealing with this matter, it was essential that the Fund should provide some assistance towards the solution of the problem.

* Talk to the Bombay Rotary Club, October 3, 1944.

The Indian proposal was supported wholeheartedly by the Egyptian Delegation but was opposed by the Delegations of the U.S.A., the U.K. and France. An alternative amendment, namely: 'The Purposes of the International Monetary Fund shall be: To assist a multilateral clearing of accumulated war balances', moved by the Egyptian Delegation was supported by India, but was likewise opposed by the U.S.A., the U.K. and France. Committee I decided to refer the matter to Commission I. The Indian Delegation circulated, before the meeting of the Commisson, a revised amendment, toning down its earlier version and reading as under:

> To facilitate the multilateral settlement of a reasonable portion of the foreign credit accumulated amongst the member countries during the war so as to promote the purposes referred to in subdivision 2, without placing undue strain on the resources of the Fund.

The Indian proposal was not seconded and therefore lost.

The main opposition to the Indian proposal was on the ground that the resources of the Fund would not be adequate to tackle the problem of the war balances of members; the British Delegation did recognise, however, that there was no essential conflict of interests between themselves and the Indians. Discussing the outcome of the Conference in his Rotary Club talk, Governor Deshmukh said:

> Had we been allowed to develop our case, it would have been for a gold and dollar overdraft against only a small portion of the sterling balances which would enable us to get on with our development plans in the transitional period in the event of Great Britain finding her self unable to supply the kind of goods that we require. We should have asked for a temporary doubling of the quota. The U.K. objection to this was that it meant their asking a joint guarantee in respect of the repayment of such overdrafts over a period of years, a commitment which at present they could not undertake on account of the uncertainty in regard to their future balance of payments. The American objection, on the other hand, was that any such arrangement would mean an increase in the resources of the Fund, an increase which they dare not agree to in view of the already existing opposition to the scheme. It may be mentioned here that on political grounds, viz., to meet China and Russia, they did later on agree to an increase in the size of the Fund.

Although the Indian request was rejected, the Delegation was able to obtain a valuable assurance from Lord Keynes, the Leader of the British Delegation, to the effect that his country would 'settle honourably what was honourably and generously given'.

The work of the Indian Delegation was rendered difficult by the general misconception that existed in regard to sterling balances; every opportunity was taken by members of the Delegation to remove this and to clarify what an enormous amount of sacrifice the accretion of these balances meant to the country's population. For the same purpose, a press conference was also held. The American press was generally apathetic to Indian utterances, but some sections of it recognised that the matter was not solely a bilateral affair, and it was just as much a concern of the U.S.A. and other countries to see that as much of the blocked purchasing power as possible was released for purchase of goods in the most advantageous markets.

The rejection of the Indian Delegation's proposal that settlement of war-time balances should be brought within the scope of the Fund caused much disappointment in India. According to the New Delhi correspondent of Indian Finance *, there was 'an almost general demand here for the recall of the Indian Delegation' from the Conference. The Governor was not, however, unduly worried over the decision at Bretton Woods in regard to sterling balances. In his address to the Bombay Rotary Club, cited earlier, the Governor observed:

> The rejection of our request, especially in connection with sterling balances, need not, however, depress us unduly. It should be borne in mind that both the U.S.A. and the U.K. have their own special difficulties in regard to the carrying through of the scheme . . . . . . So far as we are concerned, there seems to be no hurry for making up our mind. We can afford to let the dust of controversy settle in order to be able to see things more clearly while the U.S.A. and the U.K. are making up their minds.
>
> On our own part, instead of devoting too much attention to our possible attitude to the prospective Fund and the Bank, it would be more helpful if we devoted serious thought to considering what measures would be necessary to enable us to receive the payment that Britain might be in a position to make from time to time in the form of goods. In other words, we ought to get busy with our development planning and to consider what sort of controls and exchange rate would be appropriate in the circumstances of the case, the objective being the establishment of a suitable surplus of imports from the U.K. over exports representing the repayment of our sterling balances.

Quotas

Securing a satisfactory quota for India and also a permanent seat on the board of management of the Fund (and the Bank) was perhaps the most arduous of the Indian Delegation's tasks. The efforts of the Delegation met with limited success; not all that was desired was obtained. In view of the importance of quotas for membership it should be of interest to deal with this matter in some detail.

The Keynes Plan had suggested fixation of initial quotas based on volume of international trade of each member country, while the White

* July 15, 1944.

Plan provided for computation of quotas by an agreed upon formula giving due weight to the important relevant factors like a country's holdings of gold and free foreign exchange, the magnitude and fluctuations of its balance of international payments, its national income, etc. But the Joint Statement by Experts did not stipulate the basis for determining the quotas of individual members, the intention being to consult prospective participants before laying down any basis, since the matter was a complex one. It was, however, recognised that a satisfactory quota formula should give consideration to the multiple functions of the quota viz., (i) to determine a country's contribution to the Fund's resources, (ii) to define a country's normal degree of access to the Fund's resources and (iii) to indicate the economic significance of a country and its relative voice in the management of the Fund. Factors which ought to be taken into account for fixation of quotas were therefore: (i) national income -a good index of a country's ability to subscribe to the Fund's resources, (ii) a country's gold and exchange holdings, i.e., its international purchasing power (and therefore desirable assets for the Fund) and (iii) magnitude of fluctuations in a country's balance of payments, as indicated by imports and exports. Once the factors were decided upon, the points deserving due consideration were the weight age to be given to each of these factors and the period to be taken. In this context, it must be mentioned that the formula regarding quotas had to fit into a pattern of which the U.S. quota would be around $2,750 million. Eventually, a crude formula suggested by the Division of Monetary Research of the U.S. Treasury Department was used during the discussions at Bretton Woods. This was:*

(a) 2 per cent of national income, 1940;
(b) 5 per cent of gold and dollar balances, July 1, 1943;
(c) 10 per cent of average imports, 1934-38;
(d) 10 per cent of maximum variation in exports, 1984-38; and
(e) the sum of (a), (b), (c) and (d) increased by the percentage ratio of average exports to national income, 1934-38.

This is not to say that the quotas finally fixed strictly conformed to the above formula. In the words of the Indian Delegation:

> In the actual statistical treatment of the elements in the formula, however, this last stage (refers to (e) above) has been combined with adjustments in consequence of the intangible factor of ' economic significance ' referred to above, and the precise determination of the Final result is not directly traceable to the terms of a definite formula.

* The Financial Structure of the Fund, by Rudolf Kroc, published by the International Monetary Fund, 1965.

It appears from records that some months before the Bretton Woods meeting, that is, in March 1944, the Government of India were advised by the India Office that provisional quotas had been suggested by 'the American', as under:

	($ million)
U.S.A.	2,900
U.K.	1,300
Russia	900
China	600
France	500
Canad	300
India	300
Netherlands	250
Belgium.	235
Australia	150
South Africa	150

The India Office and the Government of India were both unhappy that India's quota should be so low, viz., only $300 million, as against $600 million for China. To quote the India Office cable:

> We pointed out objection to putting India so far below China and suggested parity. It was pointed out in reply that the case of China as one of four major United Nations is affected by special political considerations. Keynes then produced tentative revised quotas which would reduce China to 500 and raised India to 400 leaving U.S., U.K., Russia, France as before.

The Government of India's reply was:

> It should be obvious that India's international liabilities both actual and potential are likely to be considerably more important than those of China and that moreover India is at present a very considerable creditor of the United Kingdom, a point to which Indian public opinion attaches the greatest importance. In these circumstances it is clear from the technical point of view that India requires and should receive a quota at least as large as that assigned to China. If there are special political considerations which weigh with His Majesty's Treasury as regards China, we would reply that special political considerations are equally relevant in the case of India.
>
> We must emphasise that Indian public opinion is likely to be extremely sensitive on size of the quota and that any attempt to put India below China would . . . . gravely imperil acceptability of scheme.

According to the Indian Delegation, the increase proposed by Russia at the Bretton Woods Conference in her quota from $900 to $ 1,200 million, necessitated adjustments in the quotas of other countries. All discussions towards influencing the decision on quotas took place behind the scenes of the Conference sessions, as it was felt inadvisable to allow adjustments and changes to be proposed and made in open Conference in this matter, after any fundamental accord arrived at outside the Conference.

The Indian Delegation, in a special meeting which it had with the U.S. Secretary of the Treasury on July14, was informed that India's quota had been fixed at $400 million, out of aggregate quotas of $8,800 million for all the 44 countries represented at the Conference. It was explained by Dr. White that 'they had, to start with, applied an economic formula but had made necessary adjustments in the determination of final quotas to allow for the general (economic and political) significance of a country, which could not be quantitatively represented by the exact terms of a formula, apart from the fact that essential data were not available for certain countries '. In the American Delegation's view, India's quota was based 'on due recognition of India's economic significance '. With a quota of $400 million India came sixth on the list, after the U.S.A., the U.K., the U.S.S.R., China and France (see table below).

(In millions of U.S. dollars)

Country	Quota	Country	Quota
Auatrallia	200	Iraq	8
Belgium	225	Liberia	.5
Bolivia	10	Luxembourg	10
Brazil	150	Maxico	90
Canada	300	Netherlands	275
Chile	50	New Zealand	50
China	550	Nicaragua	2
Colambia	50	Norway	50
Costa Rica	5	Panama	.5
Cuba	50	Paraguay	2
Czechoslovakia	125	Peru	25
Dominican Republic	5	Philippine Commonwealth	15
Ecuador	5	Poland	125
Egypt	45	Union of South Africa	100
El Salvador	2.5	Union of South Socialist Re-publics	1,200
Ethiopia	6	United Kingdom	1,300
France	450	United States	2,750
Greece	40	Uruguay	15
Guatemala	5	Venezuela	15
Haiti	5	Yugoslavia	60
Honduras	2.5		
Iceland	1		
India	400	Total	8,800
Iran	25		

The Indian Delegation was not quite satisfied with the quota and along with the delegates of some other countries, Sir Jeremy Raisman, who was on the Committee on Quotas, entered a reservation. On behalf of India, Sir Jeremy observed:

they (the Indian Delegation) are aware of the strong feeling that prevails in their country that her economic importance should be duly recognized in any international economic institution of this character. It is not only a question of India's size, nor alone of her population, but that on purely economic criteria India is an important part of the world and will be an even more important part in the years to come. India is not disposed to argue about the absolute size of the quota in the manner in which some other countries might wish to do. She is more concerned about her relative position among the countries that form the general set-up of the Fund. India feels that if due regard is given to her economic importance, there should be no danger of her failing to acquire a due share in the councils of the institution. She recognises that other considerations may have been applied in the determination of the final quotas in the case of certain countries but feels that this procedure should not result in such a distortion of the economic merits of the case. In conclusion, I have to express my agreement with the representative of the Netherlands that it is not only a question of the quota but it is the arrangements relating to the management of the Fund that are our concern.

On his return to India, talking of the U.S. reluctance to support India's request, the Governor said:*

Here it was clear from the beginning that we were up against a foregone conclusion, a conclusion foregone not on any valid economic ground, but for political reasons. I should not like to attribute any specific statement .to any member of the U.S.A. Delegation, but we gathered the impression that they were unwilling to support our request because of the fear that the inclusion of two permanent members from the British Empire might be misunderstood by the American public. It was no use our making it clear to them that we did not mind who else was included and that all we pressed for was that having regard to the size, significance, and any other economic criteria that might be chosen, India was entitled to take a continuous and active part in the deliberations of the Managing Committee. In an indirect way, the validity of our claim was recognised in that we were given a quota sufficiently large to ensure a seat for us in every election without any outside support. Thus, the conclusion might be regarded as meeting all our legitimate aspirations but not satisfying our national dignity.

It is interesting to know that at one stage, when it seemed that there was a danger of India's quota being fixed too low so as to endanger her chances of securing a seat on the management of the Fund even by election, the Governor advocated the withdrawal of the Indian Delegation. In this, he had the whole-hearted support of the two nonofficial members, Sir R. K. Shanmukham Chetty and Mr. A. D. Shroff. The Finance Member disagreed initially, thinking ' that this was another manifestation of the unfortunate Indian tendency to non-co-operate'. Half an hour later, he told Sir Chintaman that he had

***** Talk to the Bombay Rotary Club.

thought over the matter and he was convinced that 'withdrawal was the only honourable course to take should there be no improvement in the proposed quota for India'. His determination was doubtless largely responsible for securing a favourable result. It would appear that the British Delegation had also had a hand in persuading the U.S. delegates to agree to the increased quota of $400 million for India.

Executive Directors

Turning to the allied matter of the Executive Directorate of the Fund, the Joint Statement by Experts had stated that 'the executive committee shall consist of at least nine members including the representatives of the five countries with the largest quotas '. The Indian Delegation made an unsuccessful effort for increasing the number of appointed directors from five to six. (Eventually, when the U.S.S.R. decided not to join, India automatically became one of the five countries entitled to appoint an Executive Director on the Fund and the Bank, that is to say, without having to go through the process of election.) The provisions finally agreed upon were:

> (1) increase in the number of executive directors to not less than twelve, of whom five shall be appointed by the five members having the largest quotas;
> (2) reservation of two executive directorships for election by the American Republics; and
> (3) provision for the representation on the Fund's Directorate after two years of the Fund's functioning, of the two largest creditor countries on current account, if not already represented thereon.

One of the provisions included in the Final Act which was actively supported by the Indian Delegation was that the Executive Directors should reside at and function in continuous session at the principal office of the Fund. Another provision relating to the staff which was adopted at the instance of the Indian Delegation, supported by the United Kingdom Delegation, was that in appointing the staff the Managing Director should pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

It would be appropriate to conclude the brief account of the deliberations of the Bretton Woods Conference by quoting from Lord Keynes's closing address to the, delegates, on the night of July 22, moving the acceptance of the final Statutes of the Fund and the Bank.

> We . . . have been trying to accomplish something very difficult to accomplish. . . . . . . .It has been our task to find a common measure, a common standard, common rule applicable to each and not irksome to any. We have been operating, moreover, in a field of great intellectual

> and technical difficulty. We have had to perform at one and the same time the tasks appropriate to the economist, to the financier, to the politician, to the journalist, to the propagandist, to the lawyer, to the statesman -even, I think, to the prophet and to the soothsayer. Nor has the magic of the microphone been able, silently and swiftly perambulent at the hands of our attendant sprites, the faithful Scouts, Puck coming to the aid of Bottom, to undo all the mischief first wrought in the Tower of Babel.. . . . . .we have perhaps accomplished here in Bretton Woods something more significant than what is embodied in this Final Act. We have shown that a concourse of 44 nations are actually able to work together at a constructive task in amity and unbroken concord. Few believed it possible. If we can continue in a larger task as we have begun in this limited task, there is hope for the world.

According to the Articles of Agreement of the International Monetary Fund adopted at the Conference, original membership of the Fund was confined to countries represented at the Conference whose governments accepted membership before December 31, 1945. A similar condition was operative for original membership of the Bank; in addition, membership of the Fund was a prior condition for membership of the Bank, for original as well as subsequent members. On behalf of the Government of India, the Articles of Agreement relating to the Fund and the Bank were signed by the Agent-General for India in Washington on December 27, 1945 along with representatives from several other countries participating in the Bretton Woods Conference. The approval of the Legislative Assembly for the Fund and Bank agreements was obtained in October 1946. The Reserve Bank played an important part in explaining to the Legislature the Bretton Woods arrangements and securing its approval. These and the subsequent developments in regard to India's membership of the I.M.F. and the I.B.R.D. and her use of their resources are dealt with in a later chapter.