S. K. A

B. T. RANADIVE

The accumulation of India's sterling balances and the problems created by it are the outcome of the imperialist policy of ruthless exploitation of colonies. India was defrauded of Rs. 1,400 crores worth of goods and nothing was offered in return except a promise to pay. She had to pass through famine and suffer millions of deaths as a result of this policy. Now when the time has arrived to redeem their promise the imperialists wish to wash their hands of the debt and covertly or openly repudiate their obligation.

INDIA'S STERLING BALANCES

Eight Annas.

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by

B. T. RANADIVE

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B. T. Ranadive

THE STORY OF INDIA'S STERLING BALANCES PROMISES TO ADD YET another chapter to the history of predatory British Finance in India. The campaign for revision of the balances launched by financial journals in Britain, the demand for scaling down these debts in the name of justice and fairplay and finally the opposition of the British delegation to include at least a part of these balances within the purview of the Bretton Woods International Monetary Fund Conference, are unmistakable portents which cannot be missed.

What are these balances and how have they arisen ? Why are they held in sterling, i.e., British currency or British securities ?

They constitute the huge debt which Britain owes to India for goods and services rendered in recent times. They amount to nearly Rs. 1,400 crores now ; or nearly £1,030 million. This is nearly 47 per cent of India's annual income—calculating on the basis of *per capita* income of Rs. 74.

It is nearly twice the total capital invested in all industries in pre-war years—barring railways and other forms of transport —which is calculated to be in the neighbourhood of Rs. 700 crores.

Britain owes us a sum which is equal to half our national income, equal to six month's labour of our entire people—workers, peasants and others. She owes us a sum which is twice as much

as the total capital invested in iron, steel, textile, cement, sugar and other industries and which if industrially employed will increase our factories by 200 per cent and will give employment to twice as many people as before the war.

How did a proverbially poor country like India—where 35 lakhs died for want of food only two years back and where even today hundreds are perishing in epidemics—suddenly become the creditor of a rich country like England ? Is it a sign of economic prosperity ? Has India come to the end of her economic thraldom ?

Nothing of the kind. The fact that these huge balances have been allowed to pile up and that they are held in sterling, i.e., British currency, only emphasises our status as a slave country, as a dependency of Britain. It has not been a willing transaction but a transaction enforced on us by the combined manipulation of financial and political power. It is the direct result of the imperialist policy to retain and exploit India as a colony.

WAR DEVELOPMENTS

The outbreak of war in 1939 found the Congress strongly entrenched among the people. It was running the administration in seven provinces ; its hold over the people was unquestionable. The imperialists knew that they could declare India to be a belligerent country without consulting the people and their parties. But they could not thrust huge war burdens upon the country without a political settlement and understanding. They would be resisted by the Congress and the people.

At the same time they did not want any political settlement, any handing over of power to the people.

The imperialists found a typical way out. In November 1939, two months after the outbreak of the war, they announced a financial settlement between India and Britain which seemed to concede the popular demand that India should not be saddled with any financial burdens for the sake of Imperial defence.

In reality it was an agreement to purchase unlimited cannon fodder from India for Imperial purposes. Its terms decided that India would pay for the raising, training and equipping from Indian resources of all land forces raised in India and for their maintenance as long as they stayed in the country and were available for the local defence of India. When they left for overseas, the cost to India of raising and training them, and

also of equipping them, would be recovered from His Majesty's Government who would assume all further liability for them.

In short, it meant : give us the men and we will pay for them when we draw on them for Imperial defence.

It was also agreed that all imported equipment and stores of such expansion measures of land forces from whatever source (except vehicles, armoured or otherwise, from elsewhere. than the United Kingdom) *would be provided free by His Majesty's Government.*

This offer to provide free equipment and stores for India's forces was the price which Government offered to keep the political parties quiet and evade a political settlement.

The imperialists thought this to be the cheapest way of defending the Empire and retaining India as a colony. Avoid crushing taxation and consequent discontent, concentrate on getting live men in exchange for free equipment, offer not to utilise Indian resources for the Empire but hold on to political power—such was the strategy of the rulers of India. This was the secret of the Indo-British financial settlement which was paraded as an example of British generosity towards India. This agreement was based on the military and political calculations of the British statesmen. Chamberlain still headed the British Government and hopes of " switching " the war against the Soviet and then watching the fun were not yet given up. None could foresee that the war would spread to the Far East in the course of eighteen months. It was thought all that was required of India was unlimited cannon fodder for the war in Europe and a few garrison troops for the Middle and Far East.

ORIGIN OF STERLING BALANCES

But these neat calculations ended in a fiasco. The war became a global war. It arrived at the doorsteps of India. All former calculations regarding men, money and material proved useless. Ten times more money, equipment and men had to be thrown in.

The old plans of a cheap defence of the Empire with Indian lives and a few million pounds from the British Treasury collapsed. The price of keeping the colonials in subjection now began to appear very heavy.

India became the main base of war against Japan. British and American troops and equipment had to be rushed to India to guard her frontiers. The rapid accumulation of sterling

balances is mainly connected with this circumstance.

For these troops had to be fed and clothed by India. Barracks had to be built for them ; railway transport had to be kept at their disposal. (it was recently announced that the railways had run 10,000 special trains for the military up to date). They had to be given other equipment from the factories, whether in the form of weapons, tent cloth, mosquito nets, iron, steel, wood, cement, bricks. Huge numbers of labourers had to be kept at their disposal, both for railway and other transport, for production and construction work.

All this meant goods and services running into hundreds of crores of rupees.

It was India which had to supply these commodities and services ; it was Britain which had to pay for them, under the financial settlement.

The following table giving expenditure incurred by India on behalf of His Majesty's Government shows in what huge quantities these commodities and goods had to be supplied.

Year	War Expenditure Recoverable from His Majesty's Government *(In crores of rupees)*
1941-42	194.0
1942-43	325.5
1943-44	392.7
1944-45 (estimated)	443.0
1945-46 (estimated)	440.0

The total runs into the huge figure of nearly Rs. 1,800 crores —which is 120 per cent of our own immense defence expenditure since 1939.

INDIA FOOTS THE BILL

Who paid for this huge expenditure on the British army and the materials it required ? It was Britain's responsibility to foot the bill rendered enormous by the debacle of her imperialist policy in the Far East.

But in actual fact, it was India which paid for the commodities and services—or rather India did not get anything in return for the enormous amount of commodities and services she placed at Britain's disposal. Britain not only did not observe

the terms of the financial settlement, but saddled India with expenditure on account of the British army also.

Thrusting Britain's share of war burdens on the Indian people is a usage as old as British rule itself. In the past India was saddled with the expenditure of all the wars of conquest carried on by Britain. She was even charged with the debt incurred in suppressing the Mutiny. But this was generally done openly—either by seizing a part of the revenue, or begging for a free gift as in the last war or by raising a public loan.

This time, however, the trick was done in an underhand manner, so that it was not obvious to the common man. The mechanism of the Reserve Bank was utilised to finance the war without any expense to Britain.

At the behest of His Majesty's Government, the Government of India undertook to find the rupee finance for all the expenses incurred by Britain in this country. In plain language, it meant that the Government of India undertook to defray the rupee expenditure of His Majesty's Government and pay in rupees for the commodities, services, labour, and supplies. India's goods were to be bought with India's rupees and given to Britain.

Was Britain to pay nothing for these supplies ? Formally Britain was supposed to pay full value for every service and commodity received. But there was a catch in it. Britain agreed to pay the full value in her own money—sterling. This sterling was deposited in London and credited to the Government of India or the Reserve Bank. The Government of India was to issue rupees against this sterling balance in payment of the goods received in India by His Majesty's Government.

The catch was that though this sterling ran into millions and belonged to India or the Government of India, it could not be used by the Government or by anybody else. It was not available for any transaction or trade between Britain and India. India could neither purchase gold nor goods with it. For under the plea that there was no shipping space and that England's resources were fully required for her war effort, His Majesty's Government would not allow India to buy the essential goods she required. India badly requires capital goods, machinery for old and new industries, but she cannot buy them with this money, though it is her money. In short it is dead money—a mere promise to pay which gives no command over goods.

Not satisfied with this, the imperialists pocketed India's dollar reserves as well—which amounted to nearly Rs. 45 crores—

and stopped her from importing machinery and other goods from America.

The net result was that the payment made by Britain in sterling remained only nominal ; the British currency could not be cashed in goods of the same value. Britain did not pay anything for the goods worth Rs. 1,400 crores, which she received from India. All that India got was paper notes of her own Government.

It meant that the British and Indian Governments combined to execute a compulsory transfer of more than Rs. 1,400 crores worth goods from India to Britain without any payment—expropriation of the Indian people on the most gigantic scale.

The sterling balances accumulated at one end while at the other India parted with goods without getting anything in return. The balances instead of measuring India's wealth, measure the amount of forced tribute taken by Britain from India. They are an expression of the predatory imperialist war-finance in this country.

CONSEQUENCES OF LOOT

The consequences of this systematic loot were bound to be disastrous. You cannot deprive a nation of half its annual income and fail to create all-round distress. The burden of the loot must fall on the people, who must suffer. In what precise manner did the average Indian feel this enormous burden ? Where did he feel the pinch ?

The burden was distributed through the mechanism of high prices, the average man being forced to pay increasingly higher prices for the goods he consumed. The method of finding rupee finance for the war expenditure of Britain was nothing but one of forcing Indian prices high. It consisted in resorting to the printing press. The undertaking given by the Government of India that it would find the rupee finance for His Majesty's Government was implemented by printing more and more paper notes and flooding the Indian market with them.

The huge quantity of paper notes let loose on the Indian market can be seen from the following :

Year		No. of Rupee Notes in Circulation (*In lakhs*)
August 1939		 178,89
1939-40	*Average of*	 208,86
1940-41	*Friday figures*	 241,62
1941-42	..	 308,46
1942	..	 467,91
1943	..	 749,76
1944	..	 927,86
December 1944	..	 989,82
March 16, 1945	..	 1,079,21

Since August 1939, the note circulation has increased by more than 900 crores. It is more than six times the pre-war circulation.

By flooding the country with paper of nominal value of Rs. 900 crores the Government of India found the rupee finance for defraying the expenditure required by His Majesty's Government.

It will be seen that this increase began to mount rapidly after the declaration of war by Japan. Japan declared war in December 1941. Between 1940-41, the average monthly increase in note circulation is 2½ crores. In 1941-42, the year following the Japanese attack, the monthly increase is more than 5 crores. Between 1942-45 when huge preparations had to be made to meet the Jap offensive involving enormous expenditure, the average monthly increase is nearly 20 crores or 8 times that of 1940-41.

The transfer to Britain of Rs. 1,400 crores worth of goods was effected with the aid of these paper notes. The Indians who produced the goods, required by Britain, those who laboured, who ran the trains, those who produced iron and steel—all were paid with this paper money. This exchange of enormous quantity of paper for goods was a fraudulent transaction. For the paper represented no genuine addition to commodities or goods. On the contrary, it represented the refusal of Britain to release commodities and purchase of Indian goods on a mere promise to pay. It meant firstly, that the quantity available for civilian consumption was drastically reduced, the army having taken lots of cloth, food and other commodities for its own use. Secondly, it meant that the people were paid with an enormous quantity of bogus money which represented nothing but paper.

The net result was a growing depreciation of money—i.e.

a continuous rise of prices all round and a steep rise in the cost of living.

INDEX NUMBER OF WHOLESALE PRICES (ISSUED BY ECONOMIC ADVISER TO THE GOVERNMENT OF INDIA)

August	1939	100
	1940-41	115
	1941-42	137
	1942-43	184
	1943-44	242
May	1944	241

By 1942, the value of the rupee had declined to 75 per cent of its former value. By May 1944, it was 40 per cent.

The Economic Adviser's index numbers of whole-sale prices of food articles also showed the same decline in the value of the rupee.

Last week of	August 1939	100
	January 1940	112.7
	„ 1941	108.2
	„ 1942	127.1
	„ 1943	198.8
	„ 1944	233.0
	„ 1945	233.6
	February 1945	237.35

By January, this year, the rupee declined to 43% of its former value.

This is seen further in the continuous and steep rise of the cost of living in India's industrial centres.

(*August* 1939—100)

Bombay :	Jan.	1944—227 ;	Jan.	1945—218
Ahmedabad :	Dec.	1943—318 ;		1944—289
Cawnpore :	Jan.	1944—304 ;	Jan.	1945—301
Nagpur :	Dec.	1943—284 ;	Dec.	1944—254
Lahore :	Dec.	1943—307 ;	Dec.	1944—271
Madras :	Jan.	1944—197 ;	Jan.	1945—217

The Bombay cost of living index based 1934—100 shows how every year the cost of living went on rising.

August	1939	105
Average for	1940	112
	1941	122
	1942	157
	1943	231
August	1944	250
December	1944	236

The flood of paper money has drastically reduced the incomes of all wage-earners. The hard-earned rupee of the Indian worker, the clerk and the peasant was hardly worth 7 As. in Bombay in December 1944. In the same month its value was nearly six annas in Nagpur and slightly more than 5 As. in Cawnpore in January 1945.

In Bombay in December 1944, the workers' and citizens' rupee purchased only 7 As. worth of food and 5 As. worth of cloth as compared with 1939.

It is by this drastic reduction in the incomes of the people, by reducing the value of the rupee earned by them, that the Government distributed the burden of financing the British war purchases. The meagre dearness allowance given to industrial workers, Government servants and clerical staff could not compensate for this fall.

It is the mass of the lower middle class, clerks, industrial workers, small peasants, agricultural labourers, teachers and artisans who were cheated in the big process of expropriation. Their real income was cut down to less than half to foot the bill of Rs. 1,400 crores. The people that were least capable of bearing any burden were forced to undergo a drastic cut of more than 50 per cent in their incomes.

What else but privations, starvation and death could result from such a policy. The continuous rise of prices made hoarding and speculation a safe and lucrative business. There was no fear of prices going down and profiteers could speculate without risk of loss. Prices of foodstuffs were daily forced high by the continued operation of increasing paper money, hoarding and speculation. Taking advantage of the scarcity of rice in Bengal, prices were raised so high that rice cost ten times its pre-war price.

Blackmarkets rose everywhere. Food, cloth and other necessaries of life went beyond the reach of the ordinary man.

The climax was reached with the outburst of the Bengal famine when 3½ millions died for want of food. They had not the wherewithal to purchase the food which was with the black-marketeers ; millions of others though saved from immediate death, were too devitalised to resist epidemics. They died by thousands. They died in Bengal, Bihar and Kerala. They will die all over India unless this process of devitalisation is immediately stopped.

Three and a half million deaths in Bengal, general distress all round the country, and starvation and semi-starvation on a scale unprecedented even in the annals of Indian history—such is the sordid story behind the accumulation of sterling balances.

They measure the extent of India's merciless exploitation and universal distress in recent years. Behind them stand lakhs of lost lives, millions of wrecked homes and tens of millions of hungry mouths. They constitute the price which India had to pay for her slavery.

Even this huge sum of 1,400 crores of rupees does not measure in full the burdens imposed on India. Britain has taken much more than this in this short span of four or five years. In this same period, India was compelled to pay off her old debt of 300 million sterling, i.e. in lieu of this debt, Britain seized goods worth that much amount in India and agreed to cancel the old debt. The total value of goods for which no payment was made thus becomes Rs. 1,700 crores. Like an extortionate money-lender, British imperialism went on collecting the old debts when tens of thousands were dying or starving. In a court of law no judge would even have allowed a creditor to seize the property of a debtor under these circumstances. But Britain used her political power to collect every pie of her unconscionable debt, for it was one of the ways in which Indian goods can be taken without any immediate return.

Besides, no impartial tribunal would have admitted Britain's right to collect the entire debt. Quite a substantial part of this debt arose from Britain's wars of conquest and India could not be asked to pay it back. Even the entire debt incurred for building the railways could not be claimed for it was an open secret that India was saddled with lots of unnecessary debts through sheer extravagance. This is what Lord Lawrence said in his evidence before the Select Committee in 1873 :

"In the first place, I would remark, that I do not think that in point of fact the arrangements connected with these railways which have cost us one hundred millions have been made in an economical way. On the contrary, I believe that they have been made in a more or less extravagant way: so that if the work had to be done over again it would be done for two-thirds of the money. I think it is notorious in India among almost every class that I have heard talk on the subject, that the railways have been extravagently made, that they have cost a great deal more than they are worth and ought to have cost. I have heard natives of the highest rank and the lowest rank say so, and I have heard Englishmen in the service, and out of the service say so. Moreover, I have heard some of their own engineers say so."

And yet, every pie of this debt was collected, goods seized in payment for it when India was least capable of paying it back.

This is how India completed the transformation from a debtor to a 'creditor' country—and became a 'creditor' slave of Britain instead of a 'debtor' slave—a creditor who is forced to give a loan by denying himself necessaries of life—and a creditor who is not likely to get it back either.

FINANCIER'S MENTALITY

Having collected every pie of their old debt and forced hundreds of crores worth of goods out of India, the British financiers are now turning on her and openly demanding repudiation of their debt, or at least a drastic scaling down !

This is what the *Financial News* wrote on 3rd June 1944 :

"If Indians imagine that as a result of this war, India will possess a vast reserve of exchange convertible into gold and spendable anywhere in the world, they should remember that the amount represented by India's blocked sterling balances was actually spent to save India from becoming a Japanese colony. A large part of it was used for constructing industries which have become part of India's national wealth.

"It would be bitter memory if as a result of this war one British Empire country enriched itself at another's expense. India's blocked sterling balances would have been less if her financial contribution to the war had been in

closer relationship to her economic contribution. India has delivered vast quantities of materials, but has not succeeded in raising internally the necessary resources to pay for her contribution to the common cause owing to the relatively primitive stage of her financial development. . . . Imagining that this balance will be paid in cash and India will thus reap a rich reward for her inability to finance her own deliveries seems contrary to all justice and even common sense."

Earlier, the *Financial News* made an open plea for drastic reduction. It wrote :

"If the prices of goods in India and Britain are compared, then the real foreign exchange value of the rupee would have been six pence instead of 1 sh. 6 d. Its maintenance at an artificially high rate has resulted in India being credited with something like three times as much sterling as she would have been. . . . The holders should be persuaded to agree to a scaling down of these claims sufficiently to cancel unearned surplus arising from artificial exchange rates."

In June 1944, the *Economist* also demanded reduction of the balances under the plea that the Indo-British settlement was defective. It wrote :

"By the accident (?) of the Indo-British financial agreement, India during the war has invested in Britain and repaid sterling debt about twice the amount of capital which went to India over the preceding three quarters of a century. *Prima facie* the financial agreement which achieved such arbitrary (?) fantastic (?) results contains some serious defects. The agreement made in November 1939 was appropriate when India seemed well outside the orbit of hostilities. The agreement's whole basis, however, became shattered when Japan entered the war. . . . There has never been any question of repudiating these obligations, but the settlement is not sacrosanct regarding future transactions and there seemed ample grounds for some adjustment when Italy and later Japan entered the war."

After thus stating its case for revision, the *Economist* threatens repudiation unless the claim is reduced. It writes :

"But India herself would gain something from a re-negotiation of this financial settlement which would give her a chance of a more favourable settlement of her rapidly increasing claims on Britain. *The bigger that claim the smaller the chance of converting it from the present virtually blocked character into a multilaterally convertible asset.*" (Italics mine).

In short, if you do not agree to scale it down, the entire debt will be frozen.

Lest you might plead in the name of the Indian peasant, the *Economist* cynically adds :

"The argument about the impossibility of increasing the burden on the poor Indian peasant loses most of its force if one realises that the whole weight of the defence expenditure in India is currently borne by India's population. In real terms the sacrifice is fully being made. It is only a question whether the financial counterpart shall be borne by the British or the Indian tax-payer."

In short, it means : now that you are forced to part with goods and sacrifice yourself why should you demand payment in future ? The 35 lakhs are already dead. The peasant has already sacrificed and suffered. Why then should we return the balances ?

The *Economist* then adds :

"No drastic redistribution of the burden of defence expenditure in India is suggested but readjustment of the financial settlement in the light of the 1944 instead of the 1939 situation would benefit Britain and India herself."

The imperialist financiers are now talking of justice and common sense after having collected every pie of their unconscionable debt from a starving India and expropriated her of half her annual income. They are preparing for scaling down, reduction and repudiation when it is now their turn to pay and undo the damage they have done to India. They have not improved their morals since Marx wrote the following about their great-grandfathers :

"The profound hypocrisy and inherent barbarism of bourgeois civilisation lies unveiled before our eyes, turning

from its home, where it assumes respectable forms, to the colonies where it goes naked. . . . Did they not in India, to borrow an expression of that great robber Lord Clive himself, resort to atrocious extortion, when simple corruption could not keep pace with their rapacity? While they prated in Europe about the inviolable sanctity of the national debt, did they not confiscate in India the dividends of the Rajas who had invested their private savings in the Company's own funds? . . . . These are the men of Property, Order, Family and Religion!" (*Articles on India*—Marx, p. 73—People's Publishing House, Bombay).

The financial sharks who were not ashamed to draw Rs. 1,400 crores worth goods gratis from India now feel outraged to find that they have to pay for these goods. They think this an intolerable situation just because they are asked to pay for what they took from India. They who addressed sermons on national honour and integrity when the Congress demanded a revision of the iniquitous debt foisted on India by imperialist adventures now froth and fume when they are no longer the creditors but debtors.

HYPOCRITICAL ARGUMENTS

The arguments advanced by them stand easily exposed. They allege that the sterling balances have increased to their immense proportions because the financial settlement of November 1943 was generous to India and was not revised though the defence of India had become far more costly since the Japanese attack.

Could there be anything more hypocritical than this plea? We have seen the genesis of the financial settlement of 1939. It arose out of imperialist greed to retain India as a colony and the imperialist decision not to part with political power. It was an enforced settlement to take as much cannon-fodder as possible from India. Britain agreed to foot the bill as a price to avoid transfer of political power and escape the responsibility of thrusting additional taxation. What right have the imperialists to complain now and plead as if the settlement was generous to India? There was not an atom of generosity in that settlement. On the other hand, it was thought to be the cheapest bargain for Britain. If things turned out otherwise than certain financial circles wished, the fault does not lie with India.

Further it is nauseating to hear imperialists talking about

the costliness of Indian defence after Japanese invasion and claiming revision on that score. It is undoubtedly true that the defence of India has become costlier since the Japanese attack ; but who is responsible for it ? None but the imperialist statesmen themselves. Why has it become necessary to send lakhs of troops and streams of equipment to India ? Why is it necessary to spend millions to defeat Japan and clear her from the Asiatic mainland ? Just because the imperialists of Britain, selfishly holding on to colonial exploitation would not release the people of Malaya, Singapore. Burma to fight the Japanese in the name of freedom. They would not arm the people nor allow their trusted leaders to form a Government to lead them. Consequently the Japanese overran Singapore, Malaya and Burma easily. For the same reasons, they could rout the Dutch imperialists from Indonesia and entrench themselves strongly in the Asiatic mainland threatening the safety of India. The task of defeating the Japanese has become an arduous and difficult one costing the Indian, British and American peoples ten times the price in men and money. Had the rout from Burma and other places been prevented with the aid of the Burmese people, had their co-operation been invited on terms of equality, war against Japan would not have been such a costly plan. But the imperialists did not want to forgo their loot from the colonies ; what did it matter to them if a few lakhs of Indians or British had to be sacrificed to ensure the reinstatement of their colonial regime ?

They planned the same selfish and dirty game in India. When Japan declared war, they could have mobilised the full support of the people, entrusted the administration to a National Government which could have roused Indians to make still greater sacrifices for the common cause. Such a Government would have developed India's economic resources and enabled her to bear additional war burdens.

But the British rulers displayed their wanton selfishness in dealing with India. The moment the National Congress offered to undertake the defence of the country and requested its transfer to Indian hands, they raised a storm, blew up the Cripps Mission, jailed the national leaders and threw the country into one of the most dangerous and worst turmoils.

And now the spokesmen of these same imperialists are grumbling that the war has become costly and demand that Indians should share additional burdens. Hypocrisy cannot go further.

The war became ten times more costly not only because of

Japanese attack, but because of the policy pursued by British imperialism. That policy, of keeping the people out of power, was the basis of the financial settlement of 1939. That policy was deliberately pursued after Japanese attack also. Having pursued it so far, Britain wants to escape the financial burdens created by it and have it both ways.

INDIA'S DEFENCE EXPENDITURE

The financiers forget that if there is any aggrieved party entitled to relief, it is India and not Britain. Thanks to imperialist policy, India has to pay much more for her defence, and raise a far bigger army than would otherwise have been necessary.

They argue as if India is not shouldering any burden and they deliberately ignore the fact that India is an impoverished country, kept industrially backward by the British imperialists as a consequence of which her capacity to bear additional burdens is limited.

How much is India spending directly on her own defence apart from the enforced contribution for British expenditure? The defence expenditure of India rose as follows during the war years :

DEFENCE EXPENDITURE ON REVENUE
(In crores of rupees)

1939-40	.. .. ..	50.5
1940-41	.. .. ..	73.6
1941-42	.. .. ..	104.0
1942-43	.. .. ..	214.6
1943-44	.. .. ..	262.6
1944-45	(estimated) ..	397.2
1945-46	(estimated) ..	394.4

India is directly spending Rs. 400 crores on her own defence which is eight times her pre-war expenditure. There is thus a 700 per cent increase in military expenditure since the war.

This means that every man, woman and child in India is made to pay Rs. 10 per head to finance our defence. Actually it is much more. For Rs. 400 crores represent the expenditure incurred by British India. It does not include the expenditure of

Indian States. This means that the incidence must be not less than Rs. 15 per head in British India.

Rs. 400 crores on defence is an unbearable burden for an impoverished country like India whose annual *per capita* income is below Rs. 75. It cannot bear such a heavy load without serious economic dislocation and physical deterioration of her people. Its effects are seen in the epidemics, famine and heavy mortality.

Yet, the imperialists dishonestly complain that India is not bearing her part of the burden, even though the present burden has already broken her back. They deliberately mislead the people by parading comparative figures of expenditure and ignoring India's poverty and economic backwardness.

It is true that India's total military expenditure appears small compared with either the United Kingdom or the U.S.A. India's daily expenditure is approximately one crore of rupees, i.e., nearly £788,000 whereas Britain is spending £15 millions per day.

Compared in terms of percentages, it is estimated that the war-costs in the U.S.A. constitute 42 per cent of the national income; in the United Kingdom they were 70 per cent of the income, while, in India they constitute 20 per cent of the income.

But these comparisons reveal nothing. Both the U.S.A. and Britain are rich countries with national incomes many times more than that of India. They can afford to spend millions without starving their people to death. In India every increase in expenditure has necessarily come from the subsistence of the people and meant starvation and death. The sacrifice which poverty-stricken India is called on to make is greater than that demanded from the citizens of Britain or America. Twenty per cent of the national income to be spent on defence is a killing burden for a country like India whose *per capita* income is Rs. 75.

The responsibility for India's incapacity to accept additional burdens must be directly laid at the door of these very imperialists who continued their policy of retaining India as a backward colonial market even though it meant sabotage of war effort and prolongation of war ; even though it meant that the Indian people would be incapable of bearing big burdens and the British people would have to bear them.

It is estimated that the national income of Britain increased between 1939-43 from £4,604 million at factor prices to £8,172 million, i.e., 76 per cent ; that of U.S.A. from $74.100 million to $157,000 million, i.e., 112 per cent ; that of Canada from $4,300

million to $6,600 million, i.e., nearly 54 per cent ; while that of India rose from Rs. 2,500 crores to only about Rs. 3,000 crores, i.e., by 20 per cent.

Even this miserable increase does not tell the full tale. For it is an increase mostly brought about not so much by expansion of plants or installation of new machinery but by working night shifts. Besides it conceals falling production in such vital commodities as coal and is made up of products of ammunition factories and some light industries. It conceals the fact that several industrial concerns like jute mills have to be closed down for want of coal.

This was the result of the policy of hostility to industrial expansion ; of the policy which wanted goods gratis from India and declined to pay for them in the shape of capital goods lest India might expand industrially and outgrow her status as the supplier of raw materials and compete in the internal market.

How systematically political power was used not only to the detriment of India but also of the British people, can be seen from the fact that she was prevented from starting automobile, aeroplane or any other heavy industries, though these industries were vitally necessary for a successful conduct of the war and would have saved a lot of shipping space once they had got going. Australia was allowed to establish plants manufacturing twin-engined bombers, build ten-thousand ton merchant-ships, produce power alcohol etc. But India was not allowed to have these industries. Even the recommendations of the American Grady Mission were not implemented.

Who is then responsible if war has become far more costly than it appeared in 1939 and if the capacity of India to bear additional burdens is nil ? It is the same financiers who are today demanding a revision of the debt in the name of justice and common sense.

ARGUMENT ABOUT HIGH PRICES

The *Financial News* of London demands revision and scaling down of the debt on the ground that the prices at which Britain had to purchase goods in India were inflated. It wants to write off at least 30 per cent on the sterling balances on this score.

One cannot find a more hypocritical and callous plea than the above. Who was responsible for the continuous rise of prices in India ? It was the British Government itself, whose agents,

the Government of India, undertook to flood the country with paper notes in place of payment through real goods. It was India which suffered most from these rocketing prices which led to starvation, distress and three and a half million deaths. As we have seen this manipulation of the price system was an instrument of distributing Britain's war burdens on the Indian people and defrauding them of the goods they had produced. And now the British financiers are complaining that the prices were too high, that they swelled the sterling debt and that it should be scaled down. Hypocrisy cannot go further.

PREPARATION FOR OPEN REPUDIATION

Tired of repeating these obviously false arguments, the representatives of British Finance sometimes come out in the open and advocate unashamed repudiation. Thus the *Financial News* wrote :

> "India's sterling balances and those of other British and Allied countries should be treated non-commercially (a new word meaning that the debt should not be honoured). Suggestions that they should be simply written off go altogether too far, but it seems intolerable to argue that because the British Government was unable to obtain application of the lend lease principles to inter-imperial deliveries, Britain should emerge from the war with a crippling debt, while other countries have improved their financial relations."

All this means that every attempt will be made in the near future to deprive India of a substantial part of her sterling balances ; that Britain will use her political stranglehold over India to repudiate or squander these balances and deprive India of her accumulated reserves secured through lakhs of deaths, privation and suffering. The thing can be easily done because these balances are not in the hands of Indians, but in the possession of the Government of India.

Precedents are not wanting in Indian history. During the last war India, though economically less developed, accumulated sterling worth Rs. 40 crores. India was neither paid in gold nor in goods for this sum. It was just looted or squandered away by the trick of changing the exchange rate. Immediately after the last war the rupee-sterling rate was low—somewhere near Re. 1 per 1sh. 8d. or Rs. 15 per pound. The Government appointed a Com-

mittee which suggested that the rate should be raised to 2sh. per rupee or Rs. 10 per pound. This was an invitation to all, especially the British exchange banks, to purchase India's sterling at the cheap rate of Rs. 10 per pound when the market price was Rs. 15. There was a rush to offer rupees and purchase sterling cheap. The sterling with which India could have secured machinery or consumers' goods was squandered, handed over to exchange speculators for two-thirds of the price per rupee.

Similar tricks might be resorted to even now. The danger is real because the imperialists control both our economic and political life ; because they have made laws which only help them in this task of defrauding a whole country. For instance, the Reserve Bank Act lays down that it is the statutory duty of the Bank to sell and buy sterling at the rate of 1sh. 6d. per rupee. Now that the rupee has fallen in value with the flood of currency, it may go down still further after the close of the war. The market exchange rate, therefore might go down according to the level of the depreciation of the rupee. It may be 1sh. 4d., 1sh. 3d. At such a time for the Reserve Bank to fulfil its statutory duty of selling sterling at 1sh. 6d. will be more an invitation to all the exchange banks, speculators, British insurance companies to loot India's sterling at three-fourths or two-thirds of the real price. This will deplete the sterling balances, obviating the necessity of Britain paying in real goods. What will India get ? Only her own paper notes for all the goods she gave in good faith ; for all the suffering she had to undergo because she was not paid anything in return.

PLANNING EPIDEMIC

Apart from partial freezing, denuding through exchange operations, the imperialists seem to have yet another way of squandering these resources and that is spending them on the so-called prosperity plans of the Provincial and Central Governments which are coming out of the imperialist conjurer's bag one after another.

One is bound to treat these plans with suspicion and challenge the good faith of the sponsors when for a century and a half they have done nothing but planning poverty and throttling economic development. One is reminded of old scandals like the Bombay Back Bay Reclamation Scheme with its tale of cor-

ruption, profiteering and saddling the province with a big debt.

Twenty years back when Bombay had plenty of space, when large parts of Bombay like Dadar, Matunga and Mahim had yet to be developed and land could be had for the asking, the Bombay Government undertook the fantastic project of reclaiming land from the sea under the plea of relieving congestion. For this purpose they spent crores and paid fantastic sums for second-hand machinery from England.

The post-war plans of the Provincial Governments resemble more the Back Bay scandal rather than any plan ; their one aim seems to be to spend India's good money on everything but the essential requirements.

Thus instead of heavy industries you may have fantastic projects to develop cottage or small industries ; instead of iron and steel you may have roads ; instead of automobile industry they may build houses in which no one will live or a few more irrigation canals.

And lastly the resources might be utilised to dump cheap goods in India, to the ruin of Indian industries and increase unemployment in cities and towns.

We must be sure, that if the imperialists still remain in power, they are bound to adopt all these methods to cheat India of her sterling savings, to cheat her of capital goods which she so badly requires. At the Bretton Woods Conference Lord Keynes gave an assurance that Britain would honour her obligations but he refused to commit himself as to when and how. If the imperialists had their way, they would freeze a substantial part, i.e., repudiate, and spend a part on supplying consumers' goods and financing stupid plans and release a very small part for capital goods. Left to themselves, they will never permit the growth of heavy industries in India.

CAN BRITAIN AFFORD ?

In demanding full repayment of the debt, we are not oblivious of the British people or of the fact that the war against Japan and Germany is in the common interest of both. India herself has borne immense suffering for the sake of the common cause. She would have borne much more had her rulers allowed her to develop her resources. When friends are fighting a common battle, the common burden should be distributed according to capacity. It is India's case that she has borne more than her

part of the burden, and almost ruined herself, and that the British people should not allow their rulers to throw additional burdens on her by repudiating the debts due to her.

She herself has no desire to thrust unjust burdens on the British people. Nor does she desire to adopt the pound of flesh policy. She would not have pressed her claim, if it had meant starvation and destitution for the British people.

But the fact is that the cry for repudiation and scaling down of the balances is a propagandist cry of the British vested interests who realize that they will have to forgo part of their profits to honour Britain's national obligations. They wish to enlist the support of the British people themselves by falsely propagating that honouring the debt due to India would spell ruin and disaster for the British people.

Considering the resources of Britain and the huge profits netted by her capitalists, is the burden too heavy to be borne ? It is not. The total debt up to date will be somewhere near £1,100 millions. Britain spends £15 millions daily on her war expenditure. The total debt which she owes to India is thus not more than 100 weeks' expenditure on defence. It is nearly one-sixth of her national income before the war. Britain's total national debt is more than £14,000 millions (1943). Her interest charges alone would be more than £500 millions, i.e., half the total debt due to India. Her Indian obligations are not more than 8 per cent of her total national debt. To raise, therefore, a howl and propagate that payment of the sterling balances is beyond Britain's capacity is to cheat both the British and the Indian peoples.

Secondly, the British capitalists are concealing from their people that this entire sum of £1,100 millions need not be paid from current income and production. Quite a substantial part can be paid off from past accumulations. It was estimated in 1939 that British investments on private account amounted to 680 to 700 million pounds. Another estimation puts them at £300 millions. These investments include British capital invested in tea plantations, iron and coal mines, jute and textile factories, engineering and chemical factories. It is but fair and honest that the handful of British capitalists and firms who control these industries and own this capital should be compelled to sell out and the concerns transferred to Indian hands. Who will be inconvenienced ? None but a few profiteers who will no longer

be able to exploit India's backwardness and gather extortionate profits.

Britain took this very step in the last war and liquidated her investments in exchange for the goods she bought from the U.S.A. In this war also Britain followed the same course and liquidated her investments to obtain dollar reserves for the purchase of American goods.

In presenting its case on the sterling balances, the financiers' clique maintains a convenient silence on the issue of British assets in India. It realises it will not get the support of any honest Britisher who knows that more than half the debt can be repaid by simply liquidating the British investments.

It is in the interests of the British people themselves that the British holdings are liquidated and the entire debt is paid back. By forcing the capitalists to liquidate their Indian investments, which amount to more than half the debt, Britain takes a heavy load off her future national production. It means that a major part of the debt can be liquidated without taking a penny out of the current production or touching a penny of the British worker. The current national production is freed to that extent from meeting obligations incurred during the course of the war. The British worker will decidedly benefit though the British capitalist might howl. It is also in the direct interest of the British worker, his employment and wages—that the entire remaining debt of India should be paid from current production, so that India is set on the high road of industrialisation.

If Britain is not to return to pre-war conditions with her more than a million of unemployed—a Britain whose prosperity depended on war and weapons of destruction, then the backwardness of India must be regarded as the biggest enemy of the British worker.

The present level of employment, wages and production in Britain cannot be kept up, new social security measures cannot be adopted, without a thoroughgoing co-operation between the British and Indian peoples for the rapid industrialisation of India. This will offer limitless markets to British industries—markets in capital goods, machinery, etc., and keep production expanding. If this is not done, if the British capitalists are once more allowed to keep India underdeveloped and backward, then both Britain and India must experience economic collapse. Payment of India's debt, supplying her with capital goods in payment of sterling balances is thus vital both for India and Britain. It must be

done not only as a matter of national honour, but also as a measure of economic security of Britain.

INDIA'S DEMANDS

The problem of rehabilitating India's economic life has become an urgent one. Her economic structure is collapsing unable to stand the strain of the war. She had to undergo insufferable hardships just because the imperialists had paralysed her economic development. Her plight will be still worse in the post-war period unless she takes immediate steps to protect herself. Already with the import of goods from abroad, many of her concerns and factories connected with war production are closing down. Unless she develops new industries and alternative avenues of employment, hundreds of thousands of middle-class and industrial workers will be faced with total unemployment and destitution.

India has no desire to return to conditions worse than the pre-war conditions of poverty and throttled industrial development. She must develop a programme of industrial expansion and forge ahead if she wants to leave poverty and misery behind.

The sterling reserves, accumulated through the sufferings of her people, lakhs of deaths and wrecked homes, offer her the wherewithal to purchase machinery, capital goods for a minimum programme of industrial expansion and partially atone for all the sufferings that the Indian masses had to undergo during the last five years. The sterling reserves belong to the Indian people and they must be returned to them to make an onslaught against poverty and economic backwardness. 1,400 crore rupees is a colossal sum. It is twice the amount of the entire capital invested in India, barring railways and other transport. If invested to build new industries, it will raise industrial employment by 200 per cent and raise industrial production in the same proportion.

India, therefore must demand the full settlement of her claims. Immediately she must demand that the entire British holdings invested in India should be transferred to Indian hands. Since these investments are in iron and coal mines, engineering and chemical industries and tea plantations—their liquidation will release strategic Indian industries from the stranglehold of British capital. It will also save the country an enormous sum by way of profits which the British capitalists drain out of India.

It will mean that the profits from the industries can be utilised for further industrial expansion.

The liquidation of British capital will be of immense political advantage also. It will hit at the most reactionary section of vested interests in India—the British capitalist—and drastically reduce his power to influence the politics of the country.

Following this, it must be laid down that India's minimum demand for capital goods, considering the necessity of rehabilitation and immediate expansion should be supplied out of these balances. This minimum has to be supplied if India is to be rescued from economic ruin which will react badly on Britain also. India's economic development has been deliberately throttled by British finance-capital. Her people have a right to demand rapid industrialisation and continuous improvement in their standard of living. In the collaboration of the two peoples her minimum needs will have to be given priority. They will include re-equipment of industry as well as establishment of new industries—especially heavy industry.

Her minimum requirements in this direction will have to be laid down according to a previously prepared plan and immediate objectives laid down by a National Government commanding the confidence of the people. These requirements will spread over a number of years but their fulfilment must begin forthwith. The balances cannot be allowed to be frozen indefinitely nor can their utilisation be left to the profiteering convenience of the British capitalists. India needs the capital goods immediately and the payment cannot be delayed till she has been ruined beyond redemption.

The spreading over of this payment over a number of years will enable British industry to bear the burden easily. It will be especially easy if a large part of these balances is already liquidated through handing over of all British investments in India. No difficulty will thus be experienced in starting forthwith with the payment.

At the same time, provision will have to be made for converting part of the balances annually into dollar or gold so that India can buy machinery and capital goods from America and other countries—machinery etc., which either England cannot supply or can supply only in insufficient quantity. India's industrialisation and rapid recovery should not be held up because Britain is not able to supply certain capital goods. The present

dog-in-the-manger policy of prohibiting any utilisation of sterling either in Britain or abroad must be given up.

The resistance to this proposal comes from those who wish to keep India as their closed preserve and are opposed to her trade with other nations. The British people on the other hand should welcome such an arrangement for it helps India's rapid recovery and at the same time relieves Britain of immediately giving large quantities of capital goods to India. Immediately it means only transforming the Indian debt into American debt and avoiding too much strain on British industrial production. At the same time it gives a free choice to India in her purchases and removes the last trace of suspicion and injustice.

If the representatives of the two peoples co-operate on this basis, bent on doing justice to each other, it will not be difficult for Indians to forgo part of the balances if they are found to weigh too heavily on the British people. But for this, the first condition is that the Indian people must feel that any such settlement will not strengthen those who exploit them, but will help a friendly people interested in Indian advance. It will be difficult to persuade the Indian people to make economic concessions to those who keep them in bondage and jail their leaders.

Such a settlement can only be negotiated by a National Government commanding the confidence of the Indian people. It cannot be done by the present irresponsible Government which is bound to barter away Indian rights. It can be negotiated only with a Government truly representing the interests of the British people and not with those who represent vested interests and exploit the name of the British people to beat down Indian rights and claims.

The proper utilisation and settlement of the sterling balances will enable India not only to expand industrially but also to nationalize her key and heavy industry and implement one of the most important recommendations of the National Planning Committee. The balances are not held by private capitalists but by the State. The liquidation of British holdings in India, the partial settlement of the balances, will under a National Government enable her immediately to nationalize strategic industries like coal-mining and others. The import of capital goods for heavy industry, as part of the programme of re-payment, will also mean its nationalization. India will thus take one of the most important steps towards planned development—a step which will put her in a position to control private production and the

greed of her capitalists. Her industrial expansion can be orderly and ensure for her workers and her people decent conditions of living and save them from the rapacity of vested interests which comes into play when production is uncontrolled.

STOP FURTHER ACCUMULATION

The war has not yet come to an end. For a long time to come, the British Army will have to be supplied with goods and services and sterling will continue to accumulate in England. This will continue the process of transfer of goods gratis, of extortionate prices and growing misery.

Measures must be taken to stop it. India, of course, cannot decline to supply the requirements of the war, she herself being vitally interested in the defeat of Japan. But that is no reason why Indian goods should continue to be grabbed without any payment, and the country should be made to suffer from price-inflation.

The present method of obtaining rupee finance, of releasing rupee notes against sterling deposited in England should be stopped. In exchange for the goods and services given by India she should be paid in material goods required by her. She requires large imports of food. In spite of the fact that she has to her credit more than £1,000 millions, she could not import 1½ million tons of food grains which the Gregory Committee had declared to be necessary to meet the shortage of food in the country.

Now that the shipping situation is easier, the Government should make evey effort to see that wherever possible the requirements of the defence forces are imported from abroad, and that Indian resources are not unnecessarily strained, creating a famine of industrial articles. For instance, the army can easily import all their cloth requirements from abroad and ease the cloth situation in the country. This will reduce sterling accumulation and release large quantities of goods for civilian consumption and help in lowering prices.

India needs machinery and other goods also. Now that the war in Europe is coming to an end, and the Mediterranean is free, there is no excuse not to pay India in goods. If Britain is unwilling to pay, America is willing provided Britain allows her sterling to be converted.

Immediately, therefore, the old methods of accepting sterling in place of goods should be abandoned. The transaction should

be placed on the footing of goods *vs.* goods, and not promises *vs.* material goods. If it is found that it is beyond the capacity of Britain to meet her rupee requirements entirely through export of goods, she may raise a rupee loan in India.

Britain's intentions, however, are so discredited that it will be difficult to secure sufficient finance through such a loan. But if Britain were to make political peace with India, then such a loan may prove successful. This process has the advantage of financing the purchase of goods without resorting to additional issue of paper notes. Indians buy the loan with the existing currency and are paid for the goods with the same. No additional currency is required and consequently prices need not rise.

It means that Indians loan the goods to the British all right —but do not in the bargain get excessive prices and inflation. Imperialist selfishness has closed this door also which might have been used with some effectiveness to relieve the pressure of excessive notes.

CONCLUSION

The accumulation of India's sterling balances and the problems created by it, are the outcome of the imperialist policy of ruthless exploitation of colonies. India was defrauded of Rs. 1,400 crores' worth of goods and nothing was offered in return except a promise to pay. She had to pass through famine and suffer millions of death as a result of their policy. Now when the time has arrived to redeem their promise, the imperialists wish to wash their hands of the debt and covertly or openly repudiate their obligation.

For India the question is vital. Her post-war recovery, the fight against misery etc. depend to a large extent on how these balances are utilised. They constitute her saving and must be made available for her development. India, therefore, urgently demands liquidation of British investments in India, import of capital goods and gold or dollar resources in exchange for the sterling.

The problem can be solved and justice done to India on the basis of co-operation between the two peoples. Given this, Indians will be prepared to make every concession to the British people in mutual interest. But if the imperialists succeed in defrauding India they will not only bring misery on India, but also on the British people.

Today Indian businessmen and industrialists are voicing the demand on behalf of the Indian people. They are fighting against the proposed repudiation or scaling down of the balances and demanding that the imperialists honour their debt to India. They are rendering great service to the country in this fight. Their efforts at present are not backed by the common man whose interests are vitally affected by the fate of these balances. At present, therefore, the tussle is confined to Indian industrialists on the one hand and British imperialists on the other.

The Indian people must unhesitatingly support the industrialists and strengthen their hands in demanding orderly liquidation of the balances and defeat British financiers' conspiracy against India.