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Commonwealth Conference

THE dollar crisis reappears in changing from time to time and with various degrees of intensity but it never abates nor does it grow stale. Its re-emergence, in acute form, was heralded by the heavy deficit incurred by the sterling area in the last quarter of the year, the figures for which were released by the British Treasury this week and by a corresponding reduction in Britain's gold and dollar reserves. The disclosure of the actual figures was well-timed, it was made just when the officials of the Commonwealth finance Ministries had assembled in London for preliminary talks, preparatory to the plenary conference of the Commonwealth ministers to discuss how best the dollar crisis could be met.

Though the gap is a common problem for the sterling area as a whole, it would he idle to pretend that the countries represented in London have contributed equally to it *or* that they are affected by it to the same extent. Direct action on the balance of payments and drastic internal action against inflation, which holds down exports and keeps up imports at a high level, will obviously he the main targets is of attack.

There is little, however, that this country can usefully contribute to the achievement of these aims directly, though in the realisation of the longer term objectives. e.g., deveioprnent of Commonwealth resources to obviate dollar imports, or to increase dollar earnings, India can doubtless play an important part. Her ability to do so, however, depends on a number of conditions which Britain may not find palatable to consider, in her present predicament, far less fulfil.

While the magnitude of the dollar gap has been stressed it could harcllv have been exaggerated---and its urgency has been emphasised, the relative importance of the factors which have brought it about has not been so clearly defined. Nor has there been time vet to attempt a quantitative assessment of these factors. Without such an analysis, naturally, the remedies can be discussed only in very general terms.

Though the dollar gap has been a chronic problem ever since the war Britain's own balance of payments problem far antedates it and the same factors have usually been at work, emphasis has shifted from one to the other at the different peak points of the crisis. And overhanging the scene has been the suspicion of structural unbalance. vague and undefined, but for that very reason, difficult to dispel. A crisis, by definition, cannot continue indefinitely. But the dollar crisis has continued unabated for a full decade now for America has stepped in each time the crisis has threatened to reach the breaking point. The present Government in Britain may not like that the British people should remain smug about it, secure in the hope that American will come to their aid. The British press may like it even less that so many should still cherish the illusion that its bark is worse than the bite and that the dollar crisis will be some how tided over.

But where is the escape; True enough, with each recurrent peak point in the crisis. Britain's strength to meet it ebbs away. But the first remains that Britain, along with the rest of the sterling area, 'is caught in a web from which it is not possible for her to extricate herself until the imbalance in world trade and production is slowly overcome by the steady development of the under-developed countries of the world. The contribution of American capital to the achievement of such a balanced development has not been on a scale which can promise an appreciable improvement in the forseeable future. Nor is Britain in a position to help substantially to bring it nearer. The withdrawal of sterling balances by her creditors is a continuing strain, second only to the drain on dollars in intensity. Among the issues certain to come up for discussion in London is a check on such withdrawals.

Though the immediate aggravating factor for Britain has undoubtedly been the assumption of a burden of rearmament too heavy for her to bear, the sharp drop in her gold and dollar reserves cannot be directly attributed to rearmament. Paradoxically enough. it is stockpiling by America, the forerunner of rearmament, which closed the dollar gap for a while and looked like exorcising the spectre of dollar shortage, but only for a while.

Far from rearmament precipitating the crisis, the rapid deterioration during the last two quarters in the dollar position is largely the result of the slowing down or stoppage of American purchase of strategic raw materials. And yet. such is the irony of the situation that it was Britain who interceded and remonstrated with Washington for pushing up prices sky high by its mad rush lor stock piling and holding up rearmament thereby!

Since cuts on dollar expendicture are not so novel a measure, either for Britain or any any of the Commonwealth countries, the net gain that can he reasonably expected from further tightening the screw can only be limited. Having reduced dollar expenditure to the essential minimum, there is little that any country can do more in this direction. The case of India is an instance in point. True enough, we have been drawing on the dollar pool' continuously except in the year of the post-Korean boom. Against withdrawals of $96' and $69 millions in 1948 and 1949. India was a net contributor to the dollar pool only in 1950. During last year, India again ran up a deficit of the order of $40 million, notwithstanding the wheat loan, because food imports were so heavy. What can be more essential than food? And how can there be a scope for a further cut, unless many more dollars are continuously drawn over a series of years and invested in irrigation and land reclamation or other agricultural developments? This is not to say that all Commonwealth countries are exactly in the same tight position. There may be some room for a closer scrutiny of dollar expenditure. But not enough, to reduce the gap appreciably.

It is equally idle and unrealistic to expect much from efforts by Britain to step up her exports to the hard currency areas. The subject has often been discussed threadbare but what is the good of flogging a dead horse? The animal will not move. There is much greater potentiality in the dollar earning capacity of Britain's dependencies and in the other countries of the Commonwealth, Here the short run possibilities centre on a higher price of their produce, on increasing the availability and reducing the prices at the same time of the needed capital goods, both of which have deteriorated alarmingly; long run ones on scope for their development which again means heavy dollar expenditure.

Remains American aid to tide over the crisis. The rearmament facet of the problem, comes up uppermost and since America cannot afford to allow Britain to go down, Marshall Aid has been replaced by Mutual Security which is no change, alas, for the better. There was a possibility at one time that having put Europe on her feet with the Marshall Aid, America would direct her enormous resources to redressing the imbalance by developing the other countries of the world. These possibilities have faded into the Shadows of rearmament overhanging the Western world. It is difficult for India to fit into the new set up as a neutral country or to find her proper place in it. Sympathy will be felt for her representatives who have gone to London to play a purely negative role or worse. For in case Britain contemplates another shot in the arm by a further cut in sterling which is easier to administer than to cut dollar imports or increase dollar earnings, India cannot afford to follow suit. The steadily rising trend of import prices is enough of a warning. But then such matters are not discussed by good Christians, even in family meetings.