

# The Economic Weekly

A Journal of Current Economic and Political Affairs

(Established January 1949)

September 17, 1955

Volume VII—No. 38

Eight annas

## EDITORIALS

- Convertibility and Development 1103  
Russia and Germany 1105

## WEEKLY NOTES

- Cotton Prospects—Turkey and Greece Bowing to Logic  
Two Courses Open—Shape of Things to Come—Linguistic Fury—Progress on the Food Front—Land Reclamation—First Urban Health Unit 1106

## OFF THE RECORD

- 'On a Matter of Facts' 1109

## FROM THE LONDON END

- The Week of the Old Horse 1111

## FROM THE CALCUTTA END

- Jute Target Under Second Plan 1112

## OFFICIAL DOCUMENTS

- National Income Studies 1114

## SPECIAL ARTICLES

- Can Mahalanobis Do It?  
—R J Chelliah and C T Kurian 1115  
Farm Surplus as Source of Development Finance 1118  
Supreme Court and Sales Tax  
—Hannan Ezekiel 1122

## FROM THE CHAIR

- The Jupiter General Insurance Company Ltd. 1121

## AROUND BOMBAY MARKETS

- Bearish Influence 1123

## AROUND CALCUTTA MARKETS

- Hesitant Trend 1125

- CURRENT STATISTICS 1128

## Convertibility and Development

THE Annual Reports of the International Monetary Fund and the International Bank for Reconstruction and Development for the fiscal years ended April 30, 1955 and June 30, 1955 respectively, which have been just released contain as usual a factual review of the activities of these two institutions and an appraisal of the international trade and payments situation as well as of development problems. From the point of view of the Fund, the past two years can be best described as representing a further extension of de facto convertibility "even apart from formal moves in the direction of de jure convertibility". Thus, while there has been no extension in the formal sense during the past year or two of the convertibility into dollars of privately-held balances of non-dollar currencies, the area of de facto convertibility has been steadily extended. For instance, the United Kingdom has extended 'commodity convertibility' to raw sugar, copra, coffee, cocoa, and the non-ferrous metals. Under this type of convertibility "a country with an inconvertible currency permits its traders to buy certain 'commodities' from countries with convertible currencies against payment in convertible currency, for resale to other countries against payment in its own or other inconvertible currencies, with no obligation to receive the convertible currency through a reverse transaction".

A second type of unofficial convertibility which largely operates in some free markets, particularly Zurich and New York, takes the form of sale of officially inconvertible currencies—mostly sterling—at a discount against dollars. Of course, this type of convertibility depends upon the willingness of countries to permit dollar imports on a larger scale if they are financed by the 'inconvertible currency' rather than in dollars. General developments have aided the growth of effective convertibility such as the extension of sterling transferability in March 1954 to practically all non-dollar countries, the preference of some countries to buy sterling in the free market "rather than purchase it with gold or dollars at the official rate" when sterling is required for purposes of meeting deficits in sterling or for reducing "bilateral positions in advance of monthly EPU settlements".

Commodity switch operations have had the effect of maintaining the free exchange market though they have at the same time exerted pressure on the official rate of exchange. Since February 1955, the United Kingdom has officially intervened in transferable sterling deals in foreign markets. The cumulative effect of all these factors has been to ensure a high degree of de facto convertibility of principally two types of currency, viz. sterling and the deutsche mark, into dollars at discounts at about one per cent below the official rates of exchange.

In a lesser degree, this form of convertibility has also operated in the case of other currencies. But in spite of all this, the Fund is still far from its goal of full convertibility. Its Report makes the observation that "despite the extension of nondiscrimination and multilateralism in trade and payments, there is still a great network of bilateral trade and payments agreements which links the inconvertible currencies of the world". Even more significant is the awareness of the Fund that balance of payments difficulties are not the only or even the principal obstacle to the