find out the real poverty of the country in the fundamental economic and social structure of the economic system. Such conclusion must also be based upon another important consideration as to how long the balance of payments deficit persists. A short run imbalance of international payments need not cause an unnecessary alarm. However, the persistance of the balance of payments deficit will have serious repercussions on the international trade in particular and the economic circumstances of the country in general unless an appropriate action is taken in this regard.

4. IS BALANCE OF PAYMENTS ALWAYS IN BALANCE ?

The balance of payments is a statement of international transactions expressed in terms of debits and credits based on double entry system of book-keeping. If all the entries are made

correctly, the total debits must be equal to total credits. It happens because each transaction is expressed through entries of equal amounts on the opposite sides of the BOP account. So if the BOP of a country is considered strictly from the *accounting* sense, there must be identity between the total credits and total debits and therefore the statement that 'balance of payments is always in balance', seems to be true.

In the accounting sense, the BOP remains always in a state of balance. This can be shown on the assumption that an economic system is in a state of equilibrium and the aggregate income (Y) is exactly equal to the aggregate expenditure. Alternatively, it may be assumed that the total injections are exactly equal to total withdrawals in the system. Total injections includes investment (I), government expenditure (G) and exports of goods, services and capital (X). Total withdrawals, on the other hand, include savings (S), taxes (T) and imports of goods, services and capital (M).

$$I + G + X = S + T + M$$

$$(X - M) = (S - I) + (T - G)$$

If the budget is balanced so that $(T - G) = 0$ and the domestic saving and investment are exactly balanced so that $(S - I) = 0$, it will follow :

$$(X - M) = 0$$

In case of purely bilateral trade, all the partial balances with different countries should be in balance. However, if there is multilateral trade, it is not necessary that the regional subtotals in the credit account remain balanced with the regional subtotals in the debit account. But if it is supposed that the total receipts include not only the value of goods exported but also the value of gold or other monetary reserves exported in order to obtain the purchasing power in excess of that part of imports which is not covered by normal commercial exports, the overall total receipts must remain equal to the total payments. Even when such a situation is recognised, the balance of payments will remain in a state of equilibrium.

It may be illustrated through a hypothetical account related to the balance of payments of a country as shown in Table 3.

In Table 3, rows 1 and 8 are related to visible exports and imports. Rows 2 and 9 represent the export and import of services (invisible trade). Rows 3 and 10 refer to investment income. Rows 4 and 11 signify unilateral transfers (such as private and official gifts and donations). Rows

TABLE 3. Balance of Payments Account (in Crore Rs.)

Receipts (Credits)		Payments (Debits)	
I. Current Transactions		8. Imports of goods	1000
1. Exports of goods	900	9. Imports of services	400
2. Exports of services	250	10. Foreign income from investment at home	300
3. Income from foreign investments	400	11. Unilateral payments	200
4. Unilateral receipts	200	Total	1900
Total	1750		
II. Capital Transactions		12. Long term lendings	450
5. Long term borrowings	450	13. short term lendings	230
6. Short term borrowings	300	14. Purchase of gold/assets	100
7. Sale of gold/assets	200	Total	780
Total	950	15. Errors and omissions	20
	2700		2700

5, 6, 12 and 13 are connected with capital movements. Items 7 and 14 refer to outflow and inflow of gold. The item 15 concerning errors and omissions, in this account, is the balancing item. The items 1, 2, 3, 4, 8, 9, 10 and 11 are related to the current account. These have the dimensions of flows. The items 5, 6, 7, 12, 13 and 14 are related to the capital account and these have the dimensions of stocks. From the Table 3, it follows that the total value of all credits and debits is exactly the same, i.e., Rs. 2700 crores.

Bo Sodersten has suggested the break-up of the above balance of payments account vertically for the purpose of analysis. The details given in Table 3 can be reconstituted as shown in Table 4.

TABLE 4. BOP Account Reconstituted

	(in Crore Rs.) Surplus/Deficit
I. Balance of Trade (1 and 8) :	900–1000 = – 100
II. Balance of Services (2 and 9) :	250–400 = – 150
III. Balance of Investment Income (3 and 10) :	400–300 = +100
IV. Balance of Unilateral Transfers (4 and 11) :	200–200 = 0
V. Balance of Current Account (Rows I + II + III + IV) :	1750–1900 = –150
VI. Balance of Loan Transaction (5, 6, 12 and 13) :	750–680 = +70
VII. Balance of Monetary Gold (7 and 14) :	200–100 = +100
VIII. Balance of Capital Account : (Rows VI + VII)	950–780 = +170
Errors and Omissions :	– 20
Net	+ 150
IX. Balance of Payments :	2700–2700 = 0

Thus in the accounting sense, there is inevitable equality between total credits and total debits (2700–2700 = 0). There is deficit on the balance of current account (– 150). But at the same time there is surplus on the capital account amounting to (+ 170). In the actual balance of payments accounts, the credits and debits may not balance. The balance is, therefore, achieved by including some adjusting or balancing item. In the above example, the item errors and omission is the balancing item (– 20). From this it may be concluded that the balance of payment always balances in a strict accounting sense. It does not necessarily imply balance of payments equilibrium in the real economic sense.

5. EQUILIBRIUM OR DISEQUILIBRIUM OF THE BALANCE OF PAYMENTS

The account of international payments must necessarily be in balance ; for every credit entry there has to be an off-setting debit entry. **Charles P. Kindelberger** has defined equilibrium as *"that state of balance of payments over the relevant time period which makes it possible to sustain an open economy without severe unemployment on a continuing basis."*[6] A state of **disequilibrium of the balance of payments** of a country assumes either the form of a surplus or a deficit. The disequilibrium is said to be favourable when the difference between the autonomous demand for and supply of foreign exchange is positive. On the contrary, a negative difference between the two denotes an unfavourable disequilibrium of payments.

A balance of payments disequilibrium, whether deficit or surplus, has some impact upon the international economic relations and sustained long term balanced growth of international trade. But of the two, the balance of payments deficit is generally considered as a more disturbing phenomenon, since the burden of adjustment tends often to fall more heavily upon the deficit rather than on the surplus countries.

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6.   C.P. Kindelberger : *International Economics* (1968), P. 469.