

13 are connected with capital items 7 and 14 refer to outflow of gold. The item 15 concerning commissions, in this account, is the same as the item 15 concerning commissions in the current account. These items 1, 2, 3, 4, 8, 9, 10 are related to the capital account and the dimensions of stocks. From this it follows that the total value of all credits is exactly the same, i.e.,

en has suggested the break-up of the balance of payments account for the purpose of analysis. The details can be reconstituted as shown

**BOP Account Reconstituted**

	(in Crore Rs.) Surplus/Deficit
Trade (1 and 8) :	900-1000 = - 100
Services (2 and 9) :	250-400 = - 150
Investment Income	400-300 = +100
Bilateral Transfers	200-200 = 0
Current Account	1750-1900 = -150
III + IV) :	1750-1900 = -150
International Transaction	
3) :	750-680 = +70
Monetary Gold	200-100 = +100
Capital Account :	
(I)	950-780 = +170
Commissions :	- 20
	+ 150
Payments :	2700-2700 = 0

accounting sense, there is a balance between total credits and total debits (0 = 0). There is deficit on the 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.*"<sup>6</sup> 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.

A balance of payments disequilibrium must be attributed to a number of sources according as they have their impact upon the domestic economy. These *sources of balance of payments disequilibrium* can be placed broadly in three main categories :

(i) Such sources of disequilibrium which simultaneously cause the worsening of the balance of payments and the lowering of incomes or improving the balance of payments and raising the income levels ;

(ii) Such sources which while lowering the income level, tend to improve the balance of payments or while raising the income worsen payments situation ; and

(iii) Such sources which have no impact upon the income levels.

In the first category, the disequilibrium is basically caused by the shift in demand from one country's output to that of another. Such a shift, in addition to its effect upon balance of payments equilibrium, will cause a disturbance in the level of income. The second category covers such sources of payments disequilibria as the differences between the costs and prices in the different countries. The third category is concerned with such disturbances in the balance of payments which while leaving a country's current account unaffected bring about changes only in its liquidity position. Such disturbances are caused generally by the desire of domestic or foreign wealth-holders to change the composition of their asset portfolios.

The consideration of the above categories of sources of disturbances is essential for proper understanding of the dimension of the problem and to evolve its appropriate remedy. In this direction, it is worthwhile also to consider whether the balance of payments disequilibrium is temporary or chronic.

A *temporary disequilibrium* manifests a payments situation in which in-payments, for a short time, exceed the out-payments, followed by a period in which an opposite situation prevails. Such deficits or surpluses are caused by random variations in trade, seasonal fluctuations, the effects of weather on agricultural output and so on. The deficits or surpluses resulting from such reasons are temporary and are expected to reverse themselves within a fairly short time.

The *chronic or fundamental disequilibrium* is due to the fundamental changes in the economic position of a country. The main factors that lead to such a situation are the shifts in consumer tastes at home or abroad which affect the country's imports or exports, technological improvements in products or methods of production in the industries of home country or abroad, differences in the rates of growth of labour force or of capital accumulation between the country and its competitors. The structural changes in an economic system may also be caused by a major war. The wartime destruction of a country's productive capacity may hamper the capacity of a country to meet her domestic needs as well as to increase her exports for a considerably long time. The war may also lead to heavy liquidation of foreign investments as a means of obtaining foreign exchange to pay for the imports of war material and also to discharge heavily mounting international debts. The foreign policy consideration like heavy outlays for foreign grants and loan and military expenditure also have a very significant bearing upon payments situation. If these expenditures, are undertaken and maintained for a considerable length of time, the chronic or fundamental disequilibrium in a country's balance of payments is likely to result. The chronic deficits that have characterised the U.S. economy during the recent years have been principally on account of these reasons.