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Decolonisation, Unstable Sovereignties and Development: The Indian Sterling Balance Negotiations of 1947

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ABSTRACT

Indo-British financial negotiations in 1947, a crucial year in the compressed timing of imperial retreat, impacted the shape of decolonisation and also the U.S.-led post-War global financial system. Of the vast debts Britain had accumulated during the Second World War, one-third of the total £3.5 billion was owed to British India. Inextricably linked to Indian hopes of industrialisation and development, a resolution to the outstanding 'sterling balances' was a priority for both leading Indian anti-colonial political parties, and was also a priority for the U.S. Treasury. The six-month Indo-British financial agreement was signed on August 14, 1947, while Whitehall was facing a global run on sterling. Negotiations were conducted separately from the transfer of power negotiations underway on the sub-continent, allowing Whitehall to leverage informational asymmetries while Indian sovereignties were in flux. Crucial sections of the interim agreement that clashed with Britain's commitments under the U.S.-led Bretton Woods financial system were not communicated to Washington, even as Britain continued to draw on the Anglo-American loan that had been negotiated in December 1945.

KEYWORDS

Decolonisation; imperial finances; development; partition; state-formation; South Asia

This paper centres contentious financial issues at the end of the British Raj, an early instance of the wave of post-War decolonisation that was driven by aspirations for a more egalitarian international order.¹ Britain ended World War II 'victorious but bankrupt', having accumulated worldwide debts, of which more than a third of the £3.5 billion 'sterling balances' owed to British India.² According to eminent historian of the Raj B.R. Tomlinson, Britain's dire finances constituted a necessary precondition for Britain's handover of power in South Asia.³ Those precarious finances also forced Britain to conclude an Anglo-American financial agreement in 1945 that committed Britain to settle the overhang of

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sterling balances as part of a process of undoing War-time controls and restoring to the pound its historic role as a medium of international trade.

'Recondite' archives of 1947 Indo-British financial negotiations show that Britain leveraged colonial knowledge to carve out an exception to the U.S.-led Bretton Woods global trading system.⁴ An interim Indo-British financial agreement reached during the last days of the British Raj helped reshape the imperial node of intermediation into territorial post-colonial economies even though political negotiations related to 'decolonisation' were under way on the Indian sub-continent.⁵ The six-month agreement signed in London applied to all of British India, even though the sub-continent was engulfed in extraordinary violence unleashed by Britain's rushed plan to divide British India into the Dominions of India and Pakistan through the elaboration of new territorial borders that had not yet been publicly revealed.

Indian political and economic elites had been pushing for a resolution that would allow 'sterling balances' to be used toward industrialisation and development since early 1942, a concern that had united the two main anti-colonial parties. Yet just days after the interim Indo-British agreement was signed, the British Treasury abandoned a main component of the Bretton Woods financial system, and a major driver for Indian pressure to resolve the issue of Britain's huge sterling balances owed to India. Britain suspended the convertibility of sterling on August 19, 1947, five days after the Indo-British interim agreement was signed and its details only partially relayed to U.S. officials in Washington. The convertibility crisis, Catherine Schenk has argued, occurred because of a rapid drawdown of the U.S. loan.⁶

This paper argues that the interim Indo-British agreement affected the timing and shape of South Asian decolonisation, and by establishing a precedent for Britain's subsequent financial relations with its dependencies helped shore up the pound despite Britain's post-War bankruptcy. Partition appears to be one more tool deployed by British monetary authorities in order to preserve sterling's role as an international reserve currency, with imperial knowledge giving Britain an edge in the Anglo-American relationship after the dollar eclipsed the pound after World War II.⁷

Situating the decolonisation of British India within a transnational frame underpinned by the British Empire's geopolitical practice of partition, the paper considers economic calculations of the retreating colonial power alongside an analysis grounded in the malleable nature of the 'national' economy as illustrated by Partition/Independence.

Extensively researched for its extraordinary violence that shaped state- and region-making, the Partition of British India remains divisive politically and within historiography.⁸ The financial and economic implications of a Partition that coincided with imperial retreat remain understudied, in contrast with socio-political analyses of South Asian decolonisation, and also with economic histories of decolonisation of other regions.⁹

The establishment of India and Pakistan in 1947 coincided with the division of an economy that had helped the Allied victory in 1945, and the archives examined below show the partition of the rupee corresponds not to narratives of territorial currency, but is better analysed from an imperial frame.¹⁰ Unsettling state-centred narratives of decolonisation in South Asia that neglect profound and violent re-inscriptions of the imperial sovereignties that had existed under the Raj, Indo-British financial negotiations underscore the limits of scholarly analysis of 'decolonisation' framed by post-colonial nation-states.¹¹ Discussions with the fragile coalition government in Delhi stalled in early 1947, but an interim sterling balance agreement was concluded in August 1947 in London, when post-colonial sovereignties were in flux, and even as negotiations between the anti-colonial parties of the Indian National Congress and the Muslim League were still under way in Delhi and Bombay.¹²

The transnational analysis of the 1947 Indo-British financial negotiations points to understudied linkages between decolonisation and Anglo-American divisions within U.S.-led efforts to establish the multilateral Bretton Woods economic system.¹³ The mechanism underpinning the interim agreement of August 1947 was so complex that it required additional explanations to the negotiators representing what was left of the fractured British Indian interim government and soon to be divided economy. More significantly for historians of capitalism and economic development, metropolitan archives show that U.S. policymakers were not informed that the Indo-British agreement established a parallel 'No. 2 Account' account at the Bank of England that would entail 'freezing without publicity' a large proportion of the sterling balances owed to British India.¹⁴

The paper analyses Treasury and Bank of England archives in order to study the separation between political and economic aspects of decolonisation that newly elected Labour Prime Minister Clement Attlee made explicit in March 1946 when he instructed the Cabinet Mission to defer financial discussions until after a political settlement with Indian leaders.¹⁵ Files of the Treasury Overseas Finance Division (T236) and the Bank of England's overseas department files for India and Pakistan are referred to in order to analyse the institutions that shaped Britain's economic relations with the empire. The Bank of England's OV56 series for India, a long file, is examined alongside the OV57 file for Pakistan, which begins somewhat abruptly on September 19, 1947.

Primary sources from metropolitan archives reconstruct the sterling balances owed to British India within an empire-wide hierarchy of financial considerations accompanying the end of the Raj. A state-centred approach, as seen in much of the existing literature, is unable to attend to the financial considerations of the retreating power that were layered onto the high politics of partition.¹⁶ These accounts focus on the August 1947 interim agreement, failing to note the February negotiations where British negotiators were under the

Chancellor of the Exchequer's instructions to offer no concessions.¹⁷ The Reserve Bank of India's account, produced by an editorial committee chaired by the bank's first Indian governor C. D. Deshmukh, illustrates the limits of methodological narratives of nation-building and Ayesha Jalal's caution against the historiographical error of treating the end result of the 1947 as the ultimate goal of the anti-colonial struggle.¹⁸

This paper adopts a transnational approach to this period of decolonisation and post-colonial state formation in order to navigate the narrative control effected by archival silencing and the subsequent construction of new 'national' narratives that underplay connected histories.¹⁹ Rather than ponderous state-centered narratives, this paper has relied on the chronological but narratively disordered view of the tumultuous transfer of British power as recovered from one of the sources used in the RBI's institutional account: *Commerce, A weekly review of Indian financial, commercial and industrial progress*.²⁰ The sub-continental account of Indian sterling balances presented here expands on secondary literature of Indian sterling balances through a close study of *Commerce's* reporting and editorial concerns from January 1942 to December 1948. Based in the commercial and industrial hub of Bombay, the financial weekly was influential in British India and known to Whitehall.²¹ The coalition of elite interests behind *Commerce* supported the 1935 Government of India Act, which offered qualified dominion status for India but whose proposed federal union with the Princely States and with provincial autonomy was opposed by the Congress party.²² *Commerce's* immediate reaction to the Partition Plan of June 1947, provides a time-line of events that differs from secondary literature, one of the most influential of these being B. R. Tomlinson's study of Indo-British sterling balances as a post-colonial event in this journal's special edition on 'Money, Finance, and Empire' of 1985.²³ Combining *Commerce's* narrative with metropolitan archives, this paper constructs a transnational economic history in order to contribute to a better understanding of the transition from empire to the 'post-colonial' period following World War II.²⁴

Partition, Decolonisation and the Sterling Balances

Tied inextricably to hopes of post-colonial industrialisation and development, sterling balances were an Indian priority in July 1944, when Delhi's colonial government raised the issue, alongside Egypt, at a foundational meeting in Bretton Woods of the United Nations Monetary Conference.²⁵ Unlike dependencies such as Iraq and Palestine, where the currency board system was backed by sterling balances, the rise of balances in both Egypt and India, reflected military spending that amounted to forced savings under wartime conditions of restricted shipping. Rather than being repaid by goods and services, their balances were backed by British promises to pay.²⁶

Under the Defence Expenditure Agreement of 1939, Britain was liable for the bulk of the cost of Indian troops deployed outside the sub-continent during World War II, costs that rose dramatically with the hostilities in Asia.²⁷ After the Japanese invasion of Burma, the Government of India became administratively implicated, although there was resistance to the notion that Delhi should bear responsibility for the reconquest of Burma.²⁸

Britain's sterling balances were also of great concern to Washington, where they were considered part of Britain's discriminatory imperial economic system that ran counter to U.S. plans for the Bretton Woods system of multilateral trade and finance. The balances owed to India, unlike the sterling balances Britain owed to its other colonies, were part of the Anglo-American financial agreement of 1945 that committed Britain to the post-War Bretton Woods infrastructure.²⁹

Reflecting decades of Indian anti-colonialism that underscored economic nationalism, these 'sterling balances' were seen as a development fund.³⁰ With the business elite of late colonial India committed to securing repayment of Britain's debt, sterling balances remained a priority for both the leading anti-colonial political parties until proclamation in June 1947 of the Partition Plan, which further accelerated Britain's handover of power.³¹ Indo-British negotiations stalled in early 1947 but proceeded at a breathless pace in July and August of 1947, culminating in an interim agreement on the eve of Indian and Pakistani independence that, however, led to the sterling balances being frozen and then devalued. Economic historian Marcelo de Paiva Abreu argues that India was treated the least favourably amongst holders of British sterling balances.³² Countries outside the sterling area, and the so-called 'white dominions' were able to access and use their sterling balances more rapidly than newly independent countries such as India.³³

Unlike previous accounts of sterling balance negotiations, this paper critically examines the initial six-month agreement's reference to British India, and underscores that the joint treatment of India and Pakistan coincided with the transfer of power to the post-colonial nation-states.³⁴ Whereas Tomlinson places Indo-British financial relations in the post-colonial period, underscoring the five national meetings held between 1947 and 1949, this paper argues that the negotiations helped organise overlapping imperial sovereignties during the liminal period of decolonisation.³⁵ Britain's layered acknowledgement of colonial sovereignties, which had allowed colonial India and Egypt a place at the Bretton Woods conference in July 1944, is also evident.³⁶ The first Indo-British financial agreement acknowledged India and Pakistan as virtually sovereign, while not taking into account the dependency of a financial settlement preceding the formal disclosure of the post-colonial borders of India and Pakistan. Anomalously, the first Indo-British agreement covered a mere six months; however, it established 'the basic principles and the mechanism relating to the execution of all subsequent agreements'.³⁷

Concerns within Whitehall about the economic and monetary implications of unwinding imperial finances had been papered over in 1945, in order to achieve the Anglo-American financial agreement that eased Britain's significant post-War financial difficulties. While Gerold Krozewski has suggested that Anglo-American tensions were likely eased by India's political independence, metropolitan archives show that Whitehall aimed to reassure Washington that Britain had reached an agreement with its largest holder of sterling balances, but excised details of the mechanism governing the six-month agreement.³⁸ A deal signed in London, even as discussions under way on the sub-continent deliberated on how to divide British India's structures of administration, finance, communications and defence, suggests that Partition was a precipitating factor rather than a political obstacle, as has been argued by Catherine Schenk.³⁹

The 1945 Anglo-American financial agreement comprised of a U.S. loan of \$3.75 billion. Needed desperately by Britain, the loan was secured against commitments to multilateral trade instead of Britain's historic imperial preferences as well as a commitment to restore the pound's convertibility.⁴⁰ The financial contours of Whitehall's internal debate are provided by Marcelo de Paiva Abreu, who estimates the dollar equivalent of Indian sterling balances at a much higher \$5.28 billion.⁴¹ Under the terms of the Anglo-American financial agreement, Britain's commitment to multilateralism included a reversal of the pound's sequestration from international finance that had begun in 1939 when restrictions on its use in international payments made sterling inconvertible. Sterling's fling with convertibility lasted 37 days.⁴² Sterling convertibility was preceded, if only briefly, by a short-term Indo-British agreement concluded by a Treasury official who had expressed doubts about convertibility, and was followed by an elaborate infrastructure of controls in which British colonies played a 'starring if also involuntary role' in propping up sterling.⁴³

Indo-British financial relations shifted in financial year (April-March) 1942-43; thereafter sterling balances ran up rapidly to £1.3 billion by December 1945, remained steady around £1.2 billion till June 1948 when they were divided.⁴⁴ The bulk remained with India, which, despite stiff resistance from British authorities, was able to access its forced savings and ran its balances down to £771 million by September 1951, by which time Pakistan's balances had increased to £159 million, from £91 million in June 1948.

Britain's official minds were divided: while the Foreign Office and, after its electoral victory, the Labour Party were unwilling to jeopardize Indian independence and membership within the Commonwealth over the sterling balances, the Bank of England was concerned about the impact of balances on sterling's international status; and the Board of Trade saw in the balances a means to increase British exports.⁴⁵ Expulsion from the sterling area, the option taken in the case of Egypt, was considered too risky in the case of India: a diversion of Indian trade to the dollar area would entail the double risk of funding

competitiveness-inducing capital good imports to India, while contributing to a decrease in the sterling area's overall dollar-earning ability.⁴⁶

British resistance to large releases from India's sterling balances reflected concerns about how little control the metropole had over the pace of draw-down. The Treasury noted in April 1947:

India has received some pretty big and apparently non-recurrent payments (e.g. Indian defence, Burma currency) and have only had one major special outgoing, viz. about £7 million for the International Monetary Fund.⁴⁷

By early 1948, when India pushed for further releases, the Treasury maintained that India had overspent \$92 million in 1947.⁴⁸ Further releases of £18 million, with the dollar amount capped at £10 million, were made to India, and £16 million were released to Pakistan as part of the complex arrangements under the July 1948 agreement.⁴⁹ Negotiations remained contentious, with the Indian negotiators making no progress toward guarantees against sterling devaluation, while finding access to the dollar pool to be difficult.⁵⁰ A three-year agreement was reached in 1948, with similar terms for India and Pakistan but releases for the latter only fixed for the first year, and India entitled to spend its own dollar receipts.⁵¹ Complicated by an Indian balance of payments crisis, another short-term agreement was negotiated in 1949, only to be followed by the 30 percent devaluation of sterling later that year that disrupted monetary and economic arrangements on the Indian sub-continent.⁵² A 1952 agreement relating to Indian sterling balances negotiated for six years was superseded by the final 1953 agreement, tied to the Commonwealth Colombo Plan.⁵³

The delayed and piece-meal releases hampered developmental planning, and was particularly costly in terms of the capital goods required for industrialisation. The sterling balance arrangements favoured Britain as the source for these intermediate goods, whose prices doubled in Britain between 1945 and 1952.⁵⁴

Behind the complex arrangements lies the enduring importance after 1947 of sterling balances to British finances. After a brief drop between 1947–1949, Britain's sterling liabilities to the sterling area ticked back up around £2.5 billion in 1950 and remained thereabouts or higher for the next decade (Table 1). While independent Indian sterling balances trended downward (Table 2), Britain's debts to dependencies in east Asia and Africa rose sharply into the new decade and trade with empire intensified in the post-War years to exceed levels in the age of high imperialism.⁵⁵ Between 1947 and 1951, Britain's sterling balances more than doubled with West Africa, increased nearly two-fold with Malaya, and increased more than five-fold with Australia.⁵⁶

Within two years, the United Kingdom used the precedent established by the interim Indo-British financial agreement as justification to the United Nations for having blocked the sterling balances in Palestine.⁵⁷ Closely tied to Britain's

Table 1. U.K. sterling liabilities (£s millions).

Year	Total	Sterling Area	Non-Sterling Area
1939*	517	362 ^a	155 ^a
1945	3,567	2,327	1,240
1946	3,610	2,300	1,310
1947	3,498	2,192	1,306
1948	3,152	2,108	1,044
1949	3,143	2,111	1,032
1950	3,483	2,497	986
1951	3,577	2,585	992
1952	3,219	2,482	737
1953	3,493	2,715	778
1954	3,703	2,822	881
1955	3,576	2,764	812
1956	3,422	2,730	692
1957	3,273	2,608	665
1958	3,353	2,519	834
1959	3,507	2,704	803
1960	3,885	2,478	1,407
1961	3,557	2,631	926

Source: Bank of England, Economic Intelligence Department, Overseas Sterling Holdings, December 1964, EID10/25 a 'Sterling Balances Since the War', Treasury Historical Memorandum No. 16, January 1972, TNA T267/29, page 7. Estimate for sterling area comprising of Independent Commonwealth, U.K. Colonies and non-Commonwealth countries of the sterling area (including Canada). Estimate for non-sterling area comprising of United States (−£20 million), Latin America (£2 million), Europe (£134 million) and Rest of the World (£39 million).

* The convertibility of sterling was suspended with the outbreak of World War II. Britain's short-term debts to the world ('sterling balances') rose sharply from around £500 million at the start of the War, to £3.567 billion at the end of 1945, a nearly seven-fold increase. The sterling balances would become an important fault-line in post-War economic planning, raised by the Indian and Egyptian delegations at Bretton Woods in July 1944.

relations with oil-rich Kuwait, sterling balances also figured in the Ghanaian career of development economist and Nobel laureate W. Arthur Lewis.⁵⁸ Writing in 1952, British economist Roy Harrod described the decision of 'leaving these large balances outstanding, with piece-meal and patchy

Table 2. U.K. sterling liabilities India, Pakistan, Burma (£s millions).

Month/Year	British India	India	Pakistan	Burma
June 1947	1,225			45
Sept. 1947	1,199			46
Dec. 1947	1,189			37
March 1948	1,208			36
June 1948	–	1,198	91	42
Sept. 1948		1,040	110	39
Dec. 1948		974	n/a	38
March 1949		879	135	46
June 1949		799	121	50
Sept. 1949		778	109	50
Dec. 1949		795	102	50
March 1950		830	98	44
June 1950		803	100	51
Sept. 1950		794	87	55
Dec. 1950		804	97	51
March 1951		823	146	56
June 1951		796	159	63
Sept. 1951		771	159	66

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negotiations with creditors from time to time' as break from nineteenth century traditions, adding: 'It was a change detrimental to the creditors.'⁵⁹

Economic vs. Political Considerations of Decolonisation

The end of the British Raj in 1947 transformed the sub-imperial hub of economic and military intermediation, a region that in 1945 had been the tenth largest producer of manufactured goods.⁶⁰ The abrupt Partition of British India coincided with imperial retreat. India and Pakistan were established in a 'spectacular' instance of state-creation that, however, entailed post-colonial boundaries that would sever commercial and trading links, and dramatically shift population movements on and beyond the sub-continent.⁶¹

With Britain weighed down by post-War financial problems, the end of the Raj was announced in February 1947 by Prime Minister Attlee who set a date 'no later than June 1948'.⁶² Just months later, in June 1947, a Partition Plan sketched out an accelerated handover of power, bringing Britain's imperial retreat forward by nearly a year.⁶³ Providing ten weeks till Pakistani and Indian independence, the Partition Plan involved the elaboration of territorial borders that were not announced till after the transfer of power.⁶⁴ The delicate matter of separating out British India's intertwined capital assets and liabilities, singularly complex in the estimation of the India Office, was deferred to a Partition Council that did not reach an agreement till December 1947.⁶⁵

Indian elites had been tracking sterling balances since India repatriated its sterling debt in financial year 1943-44.⁶⁶ The matter was raised jointly at Bretton Woods by the Indian and Egyptian delegations, who together were owed nearly half of the sterling balances that Britain had accrued during the desperate War years, but it was shelved with a promise by renowned economist John Maynard Keynes that Britain would 'settle honourably what was honourably and generously given'.⁶⁷ By the end of 1945, sterling balances owed to India had ballooned to some £1.3 billion, accumulated under the 1939 Defence Expenditure Agreement and reflecting the two million soldiers and large amounts of supplies and stores that the United Kingdom received from British India.⁶⁸

The Anglo-American Financial Agreement (AAF) of December 1945 unsettled what confidence Indian elites may have had in the 'Keynes promise' made at Bretton Woods.⁶⁹ Following weeks of intense negotiations, during which Keynes attempted to salvage Britain's imperial finances, the AAF resulted in a \$3.75 billion loan repayable over 50 years, thus securing Britain to the multilateral agenda of the United States. In India, the Anglo-American agreement revived concerns about a 'debt scaling down campaign' by Britain, given that 'still accumulating sterling balances' had been excluded from the Bretton Woods arrangements.⁷⁰ Confirming Indian fears, U.S. academic and diplomat Richard N. Gardner's account of Anglo-American

negotiations indicates that the American side had been led to believe that one-third of Britain's sterling balances would be written off.⁷¹

The AAF came into force on July 15, 1946, implying ratification of the Bretton Woods institutions and, far more consequentially, that Britain would ensure full convertibility of sterling for current transactions into any currency within the year.⁷² As U.S. President Harry Truman testified to Congress on January 21, 1946, the American loan to Britain would 'contribute to easing the transition problem of one of our major partners in the war,' and 'would enable the whole sterling area and other countries affiliated with it to resume trade on a multilateral basis.'⁷³

Britain was thus committed to ensure full sterling convertibility by July 15, 1947.⁷⁴ For Indians, who needed dollars in order to procure U.S. capital goods for industrial development, the ability to make and receive sterling payments in dollars was the very reason for negotiations with the United Kingdom.⁷⁵ Rather than sterling, countries wanting to develop through industrialisation were vying for dollars in order to buy capital goods from the United States, which had become after the War the world's largest producer of intermediate goods.⁷⁶

After the U.K.'s pivotal general election of July 1945, Britain was governed by a Labour party committed to 'bringing about a National Government in India', and with some haste.⁷⁷ In March 1946, Clement Attlee's Labour government empowered a Cabinet Mission to find a political solution to the Hindu-Muslim question that had collapsed the Simla Conference of 1945, and with a view to establishing a constitution-making body in order to advance towards Indian independence. A political settlement was imperative.⁷⁸ Nonetheless, the new Chancellor of the Exchequer shared some views with committed imperialists.⁷⁹ For one, Hugh Dalton shared doubts the previous prime minister, Winston Churchill, had held about sterling's convertibility.⁸⁰

Less caustically, perhaps, than Churchill – 'are we to incur hundreds of millions of debt for defending India in order to be kicked out by the Indians afterwards?' – Dalton pursued partial cancellation of Indian sterling balances.⁸¹ In May 1946, the Chancellor proposed that 'a proportion of the existing unreal balances should be written off' in negotiations with the Australian Prime Minister over liabilities that were 'negligible' in comparison with those owed to India and Egypt.⁸²

With Labour keenly aware of the steep financial bill attached to Indian independence, preparations for the Cabinet Mission's negotiations about the transfer of power involved a clear distinction between the political and economic aspects of decolonisation:

The Prime Minister explained that it would not be the duty of the Mission to enter into detailed discussions of these financial points, which would be a matter for

subsequent negotiations the United Kingdom Government and the Succession Government in India. There could be no question of offering at this stage concessions on the financial side in order to secure a political settlement.⁸³

The First Round of Sterling Balances Negotiations with British India: Failure

Although the February-June 1946 Cabinet Mission Plan eventually failed, it helped establish an uneasy coalition of Congress and the Muslim League in an Interim Government in Delhi.⁸⁴ In the face of widening differences between the main anti-colonial parties of British India, in spite of the tricky political manoeuvring that held together the Interim Government, and, indeed, against the expectations of Sir Archibald Rowlands, Finance Member of Viceroy Wavell's Executive Council, the political parties were united on the need for a tough stance on the sterling balances owed to British India.⁸⁵

Nothing underscores the importance of sterling balances in late colonial India as does the unity of Congress and League on this issue. A month after the caretaker Interim Government took office, Secretary to the Government of India's Finance Department Narahari Rao despatched a missive to the India Office on October 2, 1946.⁸⁶ At this stage in the shifting politics of late colonial India, the Interim Government reflected Congress' decisive electoral successes. It was only after considerable efforts by the penultimate Viceroy, Field Marshal Lord Archibald Wavell, that the Muslim League, widely seen as the political sponsor of Pakistan, joined the Interim Government in Delhi. A new delicate balance was reached on October 25, 1945, delivering the weighty Finance portfolio to the Muslim League in a government otherwise dominated by Congress.⁸⁷

By the end of October 1946, Liaquat Ali Khan, the League's Finance Member, made it clear in the Central Legislative Assembly that he was ready to start negotiations on the settlement of India's sterling balances.⁸⁸ Forced to conclude that the anti-colonial parties were in fact 'gang[ing] up' on the subject of assurances about sterling balances, Rowlands added: 'The trouble is that, viewed from India's standpoint, the case is almost unanswerable.'⁸⁹

Narahari Rao's initial letter of October 2, 1946 calls for sterling balance negotiations and recalls, in an obstreperous tone, the terms of the Anglo-American Financial Agreement, and the July 15, 1947 deadline by which a settlement in regard to India's accumulated sterling balances must be made.⁹⁰ Unbeknownst to the Indians, the missive resulted in a flurry of meetings at His Majesty's Treasury, and a note concluding the virtual impossibility of reaching a final settlement with India before the July 15 deadline imposed by the AAF.⁹¹

The Treasury's preparations in the wake of Delhi's October 1946 missive point to far more extensive calculations of Britain's financial obligations, rather than concerns about the possible partition of British India. The minutes of an October 17, 1946 meeting chaired by Treasury Permanent

Secretary W. Edward Bridges, reveal that sterling balances were addressed as an imperial whole, and included Australia and New Zealand, Brazil, Persia, Egypt and Iraq, Palestine and Eire.⁹² The Treasury, along with officials from the Cabinet Office, the Foreign Office, the Bank of England and the India Office, rejected the Interim Government's proposed date for talks in April 1947:

We should not be doing very much to comply with the terms of the American Loan Agreement if we did not talk to India before April.⁹³

Prospective negotiations with India, the largest single holder of sterling balances, were explicitly tied to Egyptian balances, the second largest, and also to Iraq. Talks with India were to be exploratory, and better held in December or January. It was proposed that discussions with Egypt should be initiated on the return journey from the talks with India in December or January. The archived minutes are instructive in that, neither in the case of India, nor in the case of Egypt, is there any reference to partitions that would ensue later. This contrasts with the Treasury's list of the distribution of sterling liabilities for December 1945 that prefigures partition not just for India/Pakistan, but also Sudan's subsequent separation from Egypt, in which discussions of sterling balances played a role.⁹⁴

At this stage, the timing under consideration by both Whitehall and by the Interim Government in Delhi was for a British handover of power to be completed by July 1948, not the accelerated time-line announced by Viceroy Lord Mountbatten on June 3, 1947. When power was transferred in August 1947, it entailed the establishment of two new Dominions, India and Pakistan, the latter lacking a monetary authority. Contrasting Pakistan's anomalous monetary situation with Britain's firmer grasp on monetary affairs in Burma, this paper argues that the division of the rupee, long central to Britain's imperial finances, was an adventitious process distinct from the establishment of 'territorial' currencies.⁹⁵ Archives of the Indo-British sterling balance negotiations reveal that the partition of the British Indian rupee was co-produced by Treasury bureaucrats with an eye on the commitments to the United States and complicated by fast-moving political realities accompanying the inevitable end of the British Raj.⁹⁶

Significantly, the meeting held on October 17, 1946 at the Treasury decided that the settlement of colonial sterling balances could be left until later – highlighting the position of the colonies in a hierarchy of repayment that provided Britain the 'convenience' of colonial balances to buffer its shortage of reserves.⁹⁷ The October 1946 decision thus precedes an intensification of Britain's trade with empire after World War II.⁹⁸ By 1953, India had been replaced by east Asia and Africa, which held 40 percent of the United Kingdom's outstanding sterling liabilities, up sharply from 1945, when colonies accounted for 15 percent with £515 million.⁹⁹

Far more pressing than the colonies were Washington's purse-strings. Early in 1947, Chancellor of the Exchequer Dalton received a snippy letter from U.S. Treasury Secretary John Snyder:

I assure you that I appreciate fully the difficulties involved in the negotiation of the sterling balance settlements. These difficulties cannot, however, be regarded as justifying commitments which contravene the terms of the Financial Agreement. Otherwise, as I am sure you will agree, the entire agreement, could be rendered meaningless.¹⁰⁰

Snyder's letter to Dalton, dated January 27, 1947 inquired also about technicalities in the agreement Britain had signed with Argentina in September 1946, and was forwarded to Delhi, where Indo-British negotiations were underway. The U.S. Treasury's tone, and Snyder's expressed fear that deviations from 'the spirit' of the Anglo-American Financial Agreement would harm 'the maintenance and further development of those close and friendly relationships between our two countries', makes evident just how high were the stakes for Indian sterling balance negotiations.¹⁰¹

The British delegation in Delhi was headed by Bank of England Deputy Governor Cameron Fromanteel Cobbold, who had actively opposed Keynes' negotiating line on sterling balances during Anglo-American negotiations in 1945.¹⁰² Also representing Britain in Delhi was Wilfred Eady, head of the Treasury's Finance Office, closely affiliated with Cobbold's vision of post-War sterling. Under the direction of the Bank's influential Governor Montagu Norman, Cobbold had shared his paper on 'Sterling after the War' treating Indian and Egyptian sterling balances as exceptional wartime accumulation with Eady at the Treasury in April 1943.¹⁰³

Discussions opened on February 3, 1947 in a friendly manner. By the third meeting on February 7, the Indians were clear: Britain's proposal to release an £150 million over 1947–51 fell very short of India's requirements.¹⁰⁴ India publicly claimed no less than £100 million per year to be released, and countered Britain's wish for interest to be waived with the normal rate for central bank assets. On matters such as the defence stores and installations and the pensions for retired and retiring civil and military personnel, India was largely amenable to British claims against the balances, but here too insisted on market interest rates.¹⁰⁵

Narahari Rao, representing the Government of India's Finance Department, added that the Indian delegation assumed that it was agreed that all of India's sterling earnings would become freely and multilaterally convertible at the latest from July 15, 1947. Eady, who had been forewarned that Washington was closely scrutinising the sterling balance negotiations, responded by abruptly breaking off discussions 'in view of the gravity of the statement which had just been made.'¹⁰⁶

While Narahari Rao's understanding of the implications of Washington's policy drive were correct, Eady's dramatic reaction reflected the real limits to convertibility: the structural problem of 'the sterling overhang' that, in combination with imminent imperial retreat and Indian plans for economic development, foreshadowed a run-down of Indian sterling balances that Britain could not afford.¹⁰⁷

London's response to Eady's performance was unequivocal: 'The Chancellor [of the Exchequer Hugh Dalton,] asks us to let you know that he thinks you have made a very good start. He agrees that you should not yield an inch on any point.'¹⁰⁸

On February 13, the Indians downgraded the talks to 'preliminary and exploratory'.¹⁰⁹ The 'sudden conclusion' of the first round of sterling negotiations, *Commerce* reported, 'took financial circles [in Delhi] by some surprise'.¹¹⁰ Unlike the officials in the Treasury in October 1946, the Indian financial circles had expected a great deal from the Delhi discussions. Revealing an optimistic misreading of the state of international financial affairs, *Commerce* added that, unless some conclusion emerged from the next round of talks scheduled for April, 'there is every likelihood of Britain approaching America, for the postponement of clause 10 of the Anglo-American Loan Agreement.'¹¹¹

It was evident to the British side, well aware of Finance Minister Liaquat Ali Khan's political difficulties as a Muslim Leaguer in the Congress-dominated Interim Government, that negotiations had stalled in the face of Indian domestic political realities. Eady reported back to the Cabinet Office on February 14: 'It is perhaps too much ... to expect that Liaquat should take responsibility of sponsoring unpopular agreement at present time.'¹¹² He went on:

In spite of our disappointment and fears that their lack of willingness to face up now may cause trouble, there is something on right side of account as result of our visit. We can show Washington that we have made a real attempt to clear things up, that the Indian Delegation admitted our anxiety to meet them but that Indians would not come to meet us.¹¹³

Eady and Cobbold then left India for negotiations with Egypt, as had been planned in Whitehall in October 1946, and by June 1947, Egypt and Sudan were formally excluded from the sterling area.¹¹⁴ Also in 1947, Iraqi sterling assets belonging to banks, the government and the currency board were also blocked, although private accounts were not.¹¹⁵

On February 20, 1947, Attlee announced that India would be independent by June 1948 at the latest. Thereafter, the Indian political landscape altered rapidly and dramatically. Liaquat Ali's populist budget in late February resulted in a backlash of opposition, first from industrialists and then from Congress, which passed a fateful resolution in early March agreeing to the partition of Punjab province.¹¹⁶ Still, Liaquat Ali continued to push for a settlement on sterling balances. Even political fall-out from the Muslim League's budget, did not deter his stance against any scaling down of the balances. *Commerce* remained hopeful in early May 1947, pointing to Liaquat Ali Khan's plans to travel to London with Finance Secretary John Matthai, and the Governor of the Reserve Bank for negotiations on the 'repatriation of sterling balances':

It can be safely assumed that discussions on a ministerial level on the subject of sterling balances will have commenced before the end of this month ... unless important political developments hold up the team in the wake of a new award by the British Cabinet.¹¹⁷

Until May, then, it was anticipated that Britain's transfer of power would be by June 1948. On June 3, 1947, however, that time-line was drastically altered. The Interim Government – as well as its plans to pursue negotiations in London – were thrown into disarray by the Partition Plan of the last Viceroy of India, Lord Louis Mountbatten. The Interim Government's sterling balance delegation had been set to sail for London the very week that Mountbatten announced his plan for partitioning British India, and *Commerce* worried that one of the implications of the Partition Plan was that the delegation would be 'dropped'.¹¹⁸ The postponement of the delegation was 'regrettable', *Commerce* noted, 'for an early decision in regard to the sterling balances will be in the interest of all Indians.'¹¹⁹

While the Government of India continued to function as a single entity, even as the division of departments and assets was bitterly disputed by Congress and the League, this state of affairs left the Muslim League, the party of Mohammed Ali Jinnah, out in the cold. Ever the lawyer, Jinnah warned in late June 1947 that a reconstitution of the Interim Government would relegate the Muslim League to the 'invidious role of spies on behalf of Pakistan', leaving Congress in possession of government machinery.¹²⁰

Just weeks later, when sterling balance negotiations picked up again in London, Narahari Rao glossed over these unresolved issues of sovereignty, by describing the government he was representing thus: 'In India at present there was economic unity and a firm Central Government which had become strengthened during the years.'¹²¹

The Second Round of Indo-British negotiations, and Questions of Sovereignty

The history of the Raj, according to Tomlinson, was characterised by short-term policies, whether in regard to the gold standard, or military victory during World War II. This short-termism is also apparent in Britain's sterling balance negotiations with India that involved at least six agreements through 1953.¹²²

Although the Treasury may not have formulated a conscious policy, the priorities outlined at the October 17, 1946 meeting make Whitehall's decisions legible in an empire-wide frame within which officials ordered a hierarchy of debts Britain intended to honour.¹²³

Most important was compliance with the terms of the American Loan Agreement, which necessitated discussions with India whether or not a settlement could be reached.¹²⁴ Egypt with the next most significant share of sterling balances, was to be tackled alongside India. Then, in descending order of priority

came Australia and New Zealand and Brazil, followed by Palestine and Ireland. The officials gathered at the Treasury in October 1946 agreed that the settlement of the colonial sterling balances could be left until the end, and it not surprising that African colonies were enlisted by November 1947 in the effort to address Britain's flagging finances.¹²⁵

Whereas Tomlinson situates his study of Indian sterling balance negotiations firmly in the post-colonial era, Treasury archives show financial discussions in London during July and August 1947 were held during a liminal period on the sub-continent, where overlapping sovereignties had long been maintained within the London's imperial framework.¹²⁶ The first interim sterling balance agreement between India and Britain, which established a pattern of 'blocked' No. 2 accounts, was negotiated in London in July 1947 – so soon after Lord Mountbatten's Partition announcement that a division of resources of the nascent post-colonial states had yet to be agreed upon.

The innovation, which had earlier been opposed by the Bank of England, involved some additional discussions with the Indian delegation, but reveals Whitehall's desperate calculations and the changed international balance of power.¹²⁷ Having nearly reached an agreement on the morning of July 25, a second meeting was held at the Bank of England in order to sort out Indian misconceptions about the No. 2 account.¹²⁸ Yet another discussion would be needed to explain restrictions on the No. 2 account that the Indian delegation had not realised, and it was agreed on the July 28 that the agreement would list items that could be adjusted against the No. 2 account.¹²⁹

The Foreign Office's August 13 telegram to Washington served the double purpose of informing British representatives that U.S. officials could be informed that a deal on Indian sterling balances was imminent, but that aspects of the agreement, which would be pursued privately with the Indian, could not be shared with U.S. officials.¹³⁰ Paragraph 5, which was to remain confidential from the United States Government reads:

India remains in the sterling area. The balance of the No. 2 Account will not be openly frozen but for your very private information we shall by private agreement with the Indians send a letter of direction to the Bank of England under regulation 2 (A) of the Defence Finance Regulations 1939 which will of course, have the effect of freezing without publicity, although the Bank will formally notify the Reserve Bank.¹³¹

If the agreement signed with India on the eve of the handover of British power violated the spirit and letter of the Anglo-American Agreement, the negotiations in London took place against a background of extraordinary Partition-related violence, and with the question of the sovereignties of hundreds of Princely States still unresolved.¹³² The six-month agreement was signed only four days before Britain suspended the convertibility of the pound and at a time when the Treasury's Dalton knew that Britain's overall sterling balances had scaled a new high.¹³³ Far more curiously, the agreement was signed only a

day before the handover of British power, and yet 'was binding also on the new State of Pakistan'.¹³⁴

The Indian side that entered into the agreement on August 14, 1947, the very day Pakistan celebrates its independence, had been repeatedly quizzed about its authority by the delegation consisting of officials from the U.K. Treasury, the Bank of England and India Office about its standing in the negotiations. On July 23, the Treasury's Eady asked pointedly whether the Indian delegation could speak 'on behalf of all the elements in India which, until recently, had been under the control of the Central Government'.¹³⁵ Invoking the Government of India, Narahari Rao stoutly maintained that his delegation's authority on the technicality that it 'could not in any case be impaired before 15th August'.¹³⁶

Eady's queries were not only about the imminent establishment of Pakistan, a valid enough question as committees in India were negotiating the division between India and Pakistan of the financial and other assets of British India. It appears that Eady was concerned with the undetermined sovereignty of the Princely States, which numbering in the hundreds made up two-fifths of the sub-continent but did not fall directly under the colonial administration of British India. On July 10, Eady had expressed concerns about capital movements of States, specifically naming Hyderabad's 'failed efforts' to move its money to London on July 16.¹³⁷ On July 23, Eady insisted on clarifying the terms of any agreement the parties in London might achieve, stressing:

It would be a corollary of this understanding, for example, that any question arising with separate States was, for the purposes of this Agreement, an internal matter between the Government of India and the States concerned.¹³⁸

Indeed, the initial London agreement, which established the basic principles and mechanisms for all subsequent negotiations, came into effect before South Asia's new boundaries were made public, both external in the case of those delimiting India and Pakistan and internal with such as Hyderabad and Travancore were making moves towards declaring their independence.¹³⁹ The Treasury's preoccupation with Hyderabad may be explained that this was the largest and most populous of Indian States, whose fabulously wealthy Nizam had started making moves towards a declaration of 'alter-national' independence from both India and Pakistan.¹⁴⁰ In light of the studied indifference of the United Kingdom and the United States to weigh on the Nizam's appeal that went as far the United Nations, however, Eady's very specific concerns about whether his Indian counterparts would be able to control Hyderabad's capital movements are remarkable. The question of Hyderabad's sovereignty was not resolved until India took to military action in September 1948, following a trade blockade imposed by Delhi.¹⁴¹

The financial negotiations show that colonial agency and asymmetric knowledge played an even greater role in the transformation of British India. The

archived minutes reveal an understanding between the Indian and British sides about a central financial machinery for 'India as a whole', which would imply a joint currency for India and Pakistan. In response to Eady's expressed hope that this central machinery would be maintained, the negotiator for the Indian side stated his belief that a joint currency would be desirable for four or five years. Pakistan, Narahari Rao elaborated, would likely have a currency board 'just as Burma had a Rangoon Board'.¹⁴²

British officials were keen to ensure that the Partition of British India did not disrupt economic linkages between the post-colonial nations. Official minds had been considering Britain's long-term economic interests well before the end of war in 1945, and certainly well before the hastily executed Partition of British India in August 1947.¹⁴³ The case of Pakistan's missing monetary authority takes on far greater significance, then, amid indications from the minutes of the second round of sterling balance negotiations in London, that metropolitan plans for Pakistan may have not involved an independent monetary authority, but a currency board akin to Burma's.

On the rapidly changing South Asian ground, however, their plans proved unstable. Cyril William St. John Turner, in Pakistan on secondment from the Bank of England, discovered in September 1947 that Lord Mountbatten had promised Pakistan its own monetary authority, and that this undertaking was being seriously entertained in the new makeshift capital of Karachi.¹⁴⁴ In a letter to Raymond Newton Kershaw, the Bank of England's specialist on currency boards and a close associate of Bank of England Governor Norman, St. John Turner bewails the fact that he is unable to trace the Ordinance, signed by Mountbatten on August 14 – Pakistani Independence Day. The separate currency authority for Pakistan, according to the untraceable Ordinance, is to take effect from October 1, 1948. There appears to be little for Kershaw to do. By mid-November, Kershaw noted in pencil: 'I should certainly make every effort to avoid Exchange Control between Pakistan and India'.¹⁴⁵ By the start of 1948, St. John Turner was chairing a committee to determine the best methods to meet Pakistan's need for trained bankers, an initiative of Pakistani Finance Minister Ghulam Mohammed.¹⁴⁶

The Bank of England's deference to Mountbatten's legacy appears to underscore the India Office's thesis 'that having created Pakistan it is our business to put them on their feet'.¹⁴⁷ Although the Treasury 'hotly' denied the India Office's view, Eady outlined an adjacent policy:

Again, in very simple terms, the broad position is that both Pakistan and India should be complementary economies. Pakistan has a cereal surplus and the raw jute, and I think some of the cotton. India has cotton and jute mills, coal, shipping facilities at the ports and the Reserve Bank and a financial market.¹⁴⁸

This ongoing desire for complementarity was formulated even as financial and economic tensions between the two newly established Dominions were

rapidly escalating. Indeed, as would be scrupulously tracked by the Bank of England, parity between the Indian and Pakistani rupee was maintained throughout the chaotic changes that accompanied the new 1947 borders and the Indo-Pakistani contestations over their sterling balance shares. Even the July 1949 Inter-Dominion Payments Agreement ensured that there would be no exchange control between the two countries till 30 June of 1950.¹⁴⁹

Conclusion: Shaping Decolonisation, Redrawing Empire

While Britain's precarious finances, emblematised by its sterling balances, certainly were a precondition for Britain's imperial retreat, this paper has argued that difficult financial negotiations about Britain's 'sterling balances', amounting to more than £1 billion owed to British India, profoundly shaped the post-colonial order of the Indian sub-continent. The archival evidence presented here makes it difficult to accept Tomlinson's periodisation of Indo-British financial negotiations as a post-colonial arrangement. In this more connected history of post-colonial state formation, the paper offers economic history as an alternate archive to the divisive historiography of Partition.¹⁵⁰ An economic history of decolonisation that circumnavigates state-narratives, moreover, can examine hitherto neglected relations between decolonisation and post-War capitalism. Britain's ability to leverage its imperial knowledge during the sensitive Indo-British negotiations played an important role in the transformation of Bretton Woods' idealism into a system that did live up to the forgotten enthusiasm for international economic development of July 1944.¹⁵¹

Financial negotiations in the months before the transfer of British power, kept separate by metropolitan officials from political discussions about the end of empire, reveal a hierarchy of Whitehall's empire-wide calculations of Britain's post-War economic plans. The first round of Indo-British negotiations in early 1947 was held before any concrete plans for Partition. Both the Muslim League and Congress were against any scaling down of the sterling balances and hoped for a settlement to fund industrialisation. The British delegation's unwillingness to make concessions, and the politically delicate position of the Muslim League within a Congress-dominated coalition government in Delhi resulted, as Eady may have hoped, in the negotiations being downgraded to exploratory. The British delegation moved on, as had been planned earlier in Whitehall, for talks with Egypt, whom they were more prepared to remove from the sterling area.

Partition, announced in June of 1947, divided not just the united stand of politicians in late colonial India, it also up-ended the Interim government's coalition. The Indian negotiating party that travelled to London reflected the Congress position. The Muslim League was left negotiating financial assets on the sub-continent, while the 'Indian' delegation led by Narahari Rao rushed to conclude a meeting before his delegation's authority expired on

August 15, 1947. Thus, the interim Indo-British agreement signed on August 14, applied to British India, and as a result included Pakistan and India. Moreover, the British negotiators also urged the nearly post-colonial Indian negotiators to ensure that the new nation-state would control the as-yet undetermined sovereignties of the Princely States, whose layered and variegated sovereign status had been governed separately from British India under the doctrine of paramountcy since 1928.¹⁵²

Great Britain's massive sterling balances, accumulated during World War II, serve as the analytical link between the decolonisation of British India, which accounted for one-third of all sterling balances, and the post-war multilateral agenda of the United States, suspicious of the discriminatory implications of its sterling bloc. Whitehall viewed the issue of settling the sterling balances it owed to British India within the greater significance of sterling's role as an international currency, which involved resolving the structural imbalance caused by its massive outstanding sterling balances, all the while keeping the Americans satisfied that the terms of the Anglo-American Financial Agreement were met. The conclusion of the interim Indo-British sterling balance agreement, just days before sterling's experiment with convertibility was halted, in addition to the formalisation of 'frozen' No. 2 accounts are part of the important ways in which the Bretton Woods system had been planned.

While the British Treasury's view of sterling balances was an imperial one, the establishment in Delhi of the Interim Government in September 1946 raised concerns in the Treasury and the Foreign Office about the implications of the transfer of power.¹⁵³ During World War II, the British Raj had become more important to Britain's foreign policy and extended to the resource-rich Persia and the Persian Gulf.¹⁵⁴ The Bank of England and the Treasury, who had increasingly overtaken the India Office in influence over Indian monetary affairs, corresponded about their concerns in April 1947 that an independent India might withdraw from the Commonwealth: 'Clearly, Bretton Woods and all that is unaffected,' reported Ernest Rowe-Dutton, Third Secretary of the British Treasury, adding that sterling area arrangements would also not be affected.¹⁵⁵ In reply, the Bank of England's Cobbold highlighted 'some currency or financial problems' with for example Nepal, the French Establishments, Goa, Afghanistan and the Persian Gulf Sheikdoms. Even if India remained in the Commonwealth, Cobbold added, the Bank was already monitoring the rupee in 'Burma and Aden, and similar questions will arise in Ceylon, British Somaliland and elsewhere'.¹⁵⁶

A Burma Currency Board backed by sterling was established in April 1947, a fairly rapid follow-through of policy that had already been in the works in January 1947.¹⁵⁷ By contrast, the Reserve Bank of India inherited responsibility for both India and Pakistan in August 1947, with the rupee and existing coinage to remain common to the post-colonial states till March 31, 1948.¹⁵⁸ The RBI's dual responsibility, moreover, ran counter to the India Office's assessment in

early March 1947 that the viability of potential successor states to British India would depend ‘to a considerable extent, on the manner in which we in fact transfer the functions of the Central Government whether the separate areas have any change of maintaining themselves’.¹⁵⁹

Mountbatten’s Partition Plan of June 1947 appears to have disrupted a fragile consensus between the main anti-colonial parties, both of which had understood the sterling balances as a development fund. The short-termism of the Raj’s policies is apparent, not just in the accelerated time-line implied by the Partition Plan, which allowed paramountcy to lapse, it also allowed Mountbatten to promise Jinnah his own currency, rather than the currency board planned for by the Bank of England. Relations between the newly established Pakistan and the Reserve Bank quickly deteriorated. Just months after independence from Britain, Indian and Pakistani differences over the prized ‘sterling balances’ came to a head in December 1947. Within weeks of a decision by the Partition Council on the difficult division of the sterling assets of British India, India made clear that it would not transfer the agreed upon Rs. 55 crores, ‘and the Pakistanis went through the roof’.¹⁶⁰ Smoothed over, however briefly, by the involvement of Mahatma Gandhi, the acrimony prompted Pakistan to bring the RBI’s involvement in its monetary affairs to an early end. The State Bank of Pakistan was established – without enthusiastic metropolitan support – in July of 1948, as the Muslim League and Jinnah asserted the rights that had been accorded to them by Mountbatten’s rushed and under-defined Partition Plan.¹⁶¹

Notes

1. Táíwò, *Reconsidering Reparations*; Getachew, *Worldmaking after Empire*.
2. Schenk, *The Decline of Sterling*, 37; Sterling liabilities had spiralled from £500 million pre-War to exceed £3 billion, amounting to six times the size of official reserves: Gilbert and Dealtry, *Quest for World Monetary Order*, 46.
3. Tomlinson draws attention to the scale of indebtedness. Constitutional change, deemed impossible in 1931 when India was indebted, became possible after 1945, when India had replaced the sterling debt it had owed to Britain with balances owed by Britain almost four times higher. Tomlinson, *The Political Economy of the Raj, 1914–1947*, 131.
4. This paper argues that the distinction between the more arcane financial considerations as opposed to political facets of decolonisation constitute a further layer to asymmetries of colonial knowledge. Cohn, *Colonialism and Its Forms of Knowledge*; Economic historian Larry Neal uses the word ‘recondite’ to describe Wadan Narsey’s revisionist history of colonial monetary systems: Narsey, *British Imperialism and the Making of Colonial Currency Systems*, xi.
5. Metcalf, *Imperial Connections: India in the Indian Ocean Arena, 1860–1920*, 1–15; In this paper, ‘post-colonial’ refers to the temporal break of 1947 as the end of formal colonial status: Mignolo and Walsh, *On Decoloniality: Concepts, Analytics, Praxis*.
6. Schenk, *The Decline of Sterling*, 61–9.

7. Post-War tensions between a weakened Britain and a rising United States have been described as an 'antagonistic alliance': Krozewski, *Money and the End of Empire*, 27; Eclipsed by the U.S. dollar after World War II, sterling was able to secure a presence as an international reserve currency only by artificial barriers built by British monetary authorities around the sterling area: Avaro, "Zombie International Currency".
8. Bharadwaj et al., "The Big March"; Pandey, *Remembering Partition*; Zamindar, *The Long Partition and the Making of Modern South Asia*; Chatterji, *The Spoils of Partition*; Chatterji, *Partition's Legacies*; Svensson, "Curating the Partition".
9. The approach draws inspiration from Joya Chatterji's call for a world history approach to Partition Studies: Chatterji, "Partition Studies"; Jakes, *Egypt's Occupation*; White, *British Business in Post-Colonial Malaysia, 1957-70*; Tignor, *Capitalism and Nationalism at the End of Empire*.
10. For more about the economic division of British India, see: Hussain, "Visions of Indian Economic Unity On the Eve of Partition".
11. Purushotham, *From Raj to Republic*; Mitchell, "The Limits of the State"; Also useful has been the frame of 'nation-building empires': Miller and Berger, eds., *Nationalizing Empires*, 2-5.
12. The transcription of imperial sovereignties of the Raj continued at least until the violent absorption of the wealthy princely state of Hyderabad in September 1948: Purushotham, *From Raj to Republic*, 2-5; Purushotham, "Internal Violence"; The segregation of the financial realm from political revolution has been shown to be significant in case of South Africa's transition after apartheid: Hickel, "The (Anti) Politics of Central Banking".
13. Scholarly analysis of the Bretton Woods system has largely focused on the ascending United States and a Britain slipping from its dominance of international finance. Gardner, *Sterling-Dollar Diplomacy*; Cairncross and Eichengreen, *Sterling in Decline*; Eichengreen, *Exorbitant Privilege*; Steil, *The Battle of Bretton Woods*; A notable exception has been Eric Helleiner's research that highlighted the focus on economic development during the negotiations. Helleiner, *Forgotten Foundations of Bretton Woods*.
14. Secret telegram from Foreign Office to Washington, August 13, 1947, TNA T236/1118.
15. 'The Prime Minister explained that it would not be the duty of the Mission to enter into detailed discussions of these financial points, which would be a matter for subsequent negotiations the United Kingdom Government and the Succession Government in India.' Memorandum of Draft Directive to Cabinet Mission circulated at the high-powered March 8, 1946 meeting attended by Attlee, his deputy Herbert Morrison, Minister of Labour and National Service Ernest Bevin, Chancellor of the Exchequer Hugh Dalton, Stafford Cripps and Secretary of State for India Pethick-Lawrence among others. Transfer of Power, Vol. VI, No. 509, pp. 1128-9; India Office Note, March 1947, Transfer of Power, Vol. IX, Enclosure to No. 480, Vol. IX, p. 841-844; C. C. S Newton has argued that the post-War Labour government's domestic policies required the maintenance of sterling's international stature in order to realise its domestic social policy agenda. Newton, "The Sterling Crisis of 1947 and the British Response to the Marshall Plan".
16. Svensson, *Production of Postcolonial India and Pakistan*; Roy, "The High Politics of India's Partition".
17. The Chancellor of the Exchequer 'feels that it is important at this stage you should not make any concessions on points of substance'. Secret Cypher Telegram from Cabinet

- Office to High Commissioner for the U.K. in India on February 13, 1947 said the Bank of England archives (henceforth BOE), Overseas File (OV) 56/19; Citing a ‘worsening of our balance of position’ to the negotiators when they were in Egypt. Telegram from Foreign Office to Eady Treasury Delegation on March 1, 1946, BOE OV43/73.
18. For the Bank of England’s influence on the RBI, see Chandavarkar, “Central Bank and Government”; Wimmer and Schiller, “Methodological Nationalism and Beyond”; Jalal, *The Sole Spokesman*, xvi; See also Fernando Coronil’s challenge to territorial, temporal, and cultural boundaries that sustain the mythification of national progress: Coronil, *The Magical State*, xi–xii.
 19. Linebaugh, “Colonial Fragility”; Karabinos, “Archives and Post-Colonial State-Sponsored History”; Elkins, “Looking beyond Mau Mau”.
 20. *Commerce* was among a handful of influential English-language financial weeklies in late colonial India, according to the colonial government’s careful assessment: *Guide to Prominent Newspapers and Periodicals in English and Indian Languages published in British India and Indian States, New Delhi, January 1941*; The Reserve Bank of India’s official history cites *Commerce* as a source alongside *Indian Finance, Capital*, and the *Eastern Economist*, Simha, *History of The Reserve Bank of India (1935–51)*, 863.
 21. In 1948, the Commonwealth Relations Office (CRO) shared an extract from *Commerce* with Treasury officials, and added that one of the editors of the weekly was known to Chancellor of the Exchequer Stafford Cripps. Letter from CRO’s Turnbull to Treasury’s Alec Grant, dated June 3, 1948, which included an extract of *Commerce* article on ‘E.R.P. and India’s Sterling Balances: A New Threat To Them,’ dating from April 14, 1948, The National Archives (TNA) T236/1143.
 22. Darwin, *The Empire Project*, 486; Purushotham, *From Raj to Republic*, 95.
 23. Tomlinson, “Indo-British Relations in the Post-Colonial Era”; The post-colonial nations also frame subsequent accounts: Paiva Abreu, “Britain as a Debtor”.
 24. Attard and Dilley, “Finance, Empire and the British World”.
 25. The Indian delegation raised the issue alongside the second-largest holder, Egypt, at the Bretton Woods conference. Balasubramanian and Raghavan, “Present at the Creation”; The United Nations Monetary and Financial Conference held in Bretton Woods, New Hampshire in July 1944 paved the way for the International Monetary Fund, the International Bank for Reconstruction and Development (World Bank) and included plans for an International Trade Organisation. It was one of the conferences, along with Dumbarton Oaks and San Francisco, that paved the way to the formation of the United Nations in April 1945: Scott-Smith and Rofo, *Global Perspectives on the Bretton Woods Conference and the Post-War World Order*, 1–2.
 26. Shannon, “The Sterling Balances of the Sterling Area, 1939–49”.
 27. Tomlinson, “Indo-British Relations in the Post-colonial Era,” 143.
 28. Shannon, “The Sterling Balances of the Sterling Area, 1939–49”; Donnison, *British Military Administration in the Far East, 1943–46*, 220; Guyot-Réchar, “Tangled Lands”; In a front page article in January 1943, *Commerce* decried the inflationary effects of Government of India spending on defence services for British India as well as “for the expenditure in India on account of the British Government, the American Government as also the Burma Government now operating from this country”: ‘A Wrong Policy of Rupee Finance – Reserve Bank Asked to give up Passive Attitude Regarding Inflation in India’, *Commerce*, 16 January 1943, Vol. LXVI, No. 1678, page 61.
 29. Gerold Krozewski has underlined this discriminatory management of sterling with respect to colonial sterling balances: Krozewski, *Money and the End of Empire*, 64;

- Within a broader history of capitalism, Adam Hanieh has described U.S. efforts to pry open up the system of 'old European' colonialism after World War II. 55-58: Hanieh, *Crude Capitalism*.
30. Starting with the *swadeshi* movement at the turn of the century, economic nationalism was mobilised in the 1930s and 1940s by Indian nationalists, leading to a wide range of conceptions of economic plans in late colonial India. Sarkar, *The Swadeshi Movement in Bengal, 1903–1908*; Bagchi, *Private Investment in India 1900–1939*; Misra, *Business, Race, and Politics in British India, c.1850–1960*; Bose, "Instruments and Idioms of Colonial and National Development"; Goswami, *Producing India*; Zachariah, *Developing India*.
 31. The ambitious 'Bombay Plan' proposed in 1944 by big Indian business aimed to fund post-war industrialisation in part through 10 billion rupees from sterling balances that they expected would be made available by the end of war: Rothermund, *An Economic History of India*, 124.
 32. In an analysis that focuses heavily on the post-colonial Indian side of the ledger, Marcelo de Paiva Abreu argues that India was most hurt by the 30 percent devaluation of sterling in 1949, but also cites the low interest rate paid relative to market rates and notes that delays in releasing the balances coincided with a steep rise in prices of the capital goods that India intended to use the balances for: de Paiva Abreu, "Britain as a Debtor".
 33. Havinden and Meredith, *Colonialism and Development*, 267.
 34. Tomlinson, "Indo-British Relations in the Post-colonial Era," 148.
 35. Tomlinson draws attention to the spate of five national meetings held between 1947 and 1949: Tomlinson, "Indo-British Relations in the Post-colonial Era"; The constitutional adviser to the last viceroy of India, Lord Louis Mountbatten, argues that the Partition Plan involved the transformation of multiple and overlapping sovereignties long maintained by imperial Britain into the new regime of post-colonial sovereignty: Morris-Jones, "The Transfer of Power, 1947".
 36. Gidney, *An International Anomaly*; Legg, "An International Anomaly? Sovereignty, the League of Nations and India's Princely Geographies".
 37. "These meetings were in a way the most important of the series, because the basic principles and the mechanism relating to the execution of all subsequent agreements were evolved at this time": Simha, *History of The Reserve Bank of India*, 620; Britain, highly dependent in the late 1940s and early 1950s Britain upon external credit arrangements to improve her balance of payments and cushion her reserves in the short term: Krozewski, *Money and the End of Empire*, 31.
 38. Krozewski, *Money and the End of Empire*, 27.
 39. The difficult negotiations between Congress and the Muslim League entailed determining how to divide a government structure that had been built up over more than a hundred years: Jalal, *The State of Martial Rule*, 25; Schenk, *The Decline of Sterling*, 52–3.
 40. Grant, "President Harry S. Truman and the British Loan Act of 1946"; Toye, "Churchill and Britain's "Financial Dunkirk"".
 41. de Paiva Abreu, "Britain as a Debtor," 586.
 42. Alain Naef has argued that the 1947 sterling crisis was funded by the Anglo-American loan; sterling convertibility was abandoned when the Bank of England started losing its own gold reserves: Naef, *An Exchange Rate History of the United Kingdom: 1945–1992*.
 43. "Between 1940, when the Sterling Area acquired formal status, and 1958, when full convertibility was restored, the pound was nursed within a framework of controls

- in which the empire, especially its dependent, colonial segment, had a starring if also involuntary role.”: Cain and Hopkins, *British Imperialism: 1688–2000*, 619; Rather than competing with the dollar, international usage of the pound was restricted to the sterling area, sustained through suasion, control and economic sanctions: Avaro, “Zombie International Currency”; Sir Wilfred Eady had expressed doubts in the spring of 1947 as to whether convertibility could be maintained: Schenk, *The Decline of Sterling*, 61.
44. This and the next sentence are based on *Table A.4.1*, sourced from Bank of England data, in Krozewski, *Money and the End of Empire*, 77.
 45. Gardner, *Sterling-Dollar Diplomacy*, 326; After 1945, British authorities prevented the liquidation of sterling debts held by countries in the sterling area in order to sustain sterling’s role as an international reserve currency: Avaro, “Zombie International Currency”.
 46. Paiva Abreu, “Britain as a Debtor”; Schenk, *The Decline of Sterling*, 68; Tomlinson, “Indo-British Relations in the Post-colonial Era”; E. C., ““Sterling in 1947””.
 47. “As things stand, with the amount of control over their releases seem to be very minimum, and of course if ever an agreement with India is reached limiting the amount by which their balances are drawn down, this control is going to be of first-class importance.” Letter from Treasury to the Bank of England’s P.S. Beale, April 16, 1947, BOE OV56/19; Avaro, “Zombie International Currency: The Pound Sterling 1945–1971,” 938.
 48. Paiva Abreu, “Britain as a Debtor,” 593.
 49. Ibid; Schenk, *The Decline of Sterling*, 68.
 50. Paiva Abreu, “Britain as a Debtor,” 593–5.
 51. Tomlinson, “Indo-British Relations in the Post-Colonial Era,” 151–2.
 52. Ibid., Rakesh Ankit, “Delinking “the Two Rupees,””.
 53. *Sterling Balances since the War*, Treasury Historical Memorandum, TNA 267/29, page 41; Paiva Abreu, “Britain as a Debtor,” 595.
 54. Paiva Abreu, “Britain as a Debtor,” 596.
 55. Schenk, *The Decline of Sterling*, 59; Edgerton, “War, Reconstruction, and the Nationalization of Britain, 1939–1951”.
 56. Krozewski, *Money and the End of Empire*, 77–8.
 57. Working paper of the United Nations Conciliation Commission for Palestine (UNCCP), August 11, 1949. <https://www.un.org/unispal/document/auto-insert-211532/> (Accessed September 4, 2024); My analysis of Britain’s retreat from its crucial colony of military, bureaucratic, economic and legal intermediation thus rests on Frederick Cooper’s categorisation of Britain, France and other colonial powers as ‘empire-states’, and on the framework of ‘nation-building empires’: Cooper, *Colonialism in Question*, 153–203; Miller and Berger, *Nationalizing Empires*, 2–5.
 58. Smith, “The Making of a Neo-Colony? Anglo-Kuwaiti Relations in the Era of Decolonization”; Tignor, *W. Arthur Lewis and the Birth of Development Economics*, 154–9.
 59. Harrod, *The Pound Sterling*, 9–15; As late as 1961, sterling area arrangements that linked Kuwaiti crude oil and investment policies were deemed crucial to Britain’s position in the Persian Gulf. Minute by R.S. Crawford, March 6, 1961, FO 371/156834, cited in Smith, “The Making of a Neo-Colony?,” 161fn25.
 60. Metcalf, *Imperial Connections*; Darwin, *The Empire Project*, 505; Tomlinson, *The Political Economy of the Raj, 1914–1947*, 31.
 61. Chester, *Borders and Conflict in South Asia*; Gilmartin, “The Historiography of India’s Partition,”; Gellner and van Schendel, eds, *Borderland Lives in Northern South Asia*;

- Ramnath, “Intertwined Itineraries,”; Amrith, “Reconstructing the “Plural Society””; Ghosh, *Partition and the South Asian Diaspora*.
62. Singh, “Decolonization in India”; Draft Statement from Lord Pethick-Lawrence on British Policy in India (20 February 1947), http://www.cvce.eu/obj/draft_statement_from_lord_pethick_lawrence_on_british_policy_in_india_20_february_1947-en-b6fbab81-b09e-4920-b6ef-31f24683e216.html (Accessed 10 March 2020).
 63. Singh, “Decolonization in India”; Glynn, ““An Untouchable in the Presence of Brahmins” Lord Wavell’s Disastrous Relationship with Whitehall During His Time as Viceroy to India, 1943–7”.
 64. Chester, “Boundary Commissions as Tools to Safeguard British Interests at the End of Empire”.
 65. An India Office note circulated by the Secretary of State for India in March 1947 assessed that the most complicated issue in the event of more than one successor state to British India would be separating out capital assets and liabilities. Transfer of Power, Vol. IX, Enclosure to No. 480, page 844. By the Reserve Bank of India’s own account, the issue lingered on well after the decision reached in late 1947 by Partition Council until the 1970s: Simha, *History of The Reserve Bank of India*, 538, 553.
 66. Britain’s sterling balances, whether those owed to India or to others, appeared regularly in Commerce’s headlines, for example: ‘South Africa repatriates all its remaining sterling loans – Notable departure from its previous policy,’ *Commerce*, 2 January 1943, Vol. LXVI, No. 1676, page 9; ‘Palestine Leaves Sterling Area,’ *Commerce*, 6 March 1948, Vol. LXXVI, No. 1939, page 371. In August 1944, the weekly reported on the ‘landmark’ final repatriation of India’s sterling debt: ‘Reserve Bank’s Survey of Economic Conditions in 1943-44,’ *Commerce*, 5 August 1944, Vol. LXIX, No. 1757, page 161.
 67. Fforde, *The Bank of England and Public Policy*, 111; In December 1945, British India was owed £1.3 billion, nearly three times what was owed the remaining colonies, and Egypt was owed £400 million: Schenk, *The Decline of Sterling*, 39-41; Balasubramanian and Raghavan, “Present at the Creation,” 65–6.
 68. Schenk, *The Decline of Sterling*, 39; Krozewski, *Money and the End of Empire*, 77; Tomlinson, *The Political Economy of the Raj, 1914–1947*, 140.
 69. Carolyn Biltoft has examined the naturalised imperial and economic hierarchies in Keynes thinking. Biltoft, “Keynesian Metageography,” 23–55; In the words of Keynes’ biographer: ‘If Keynes was a nationalist – it was to imperialism.’ Skidelsky, *John Maynard Keynes*. 3, xx–xxi.
 70. ‘Sterling Debt Scaling Down Campaign in U.K. – Reactions of Indian Business Men and Commercial Bodies,’ *Commerce*, 1 July 1944, Vol. LXIX, No. 1752, page 9; ‘Reserve Bank’s Survey of Economic Conditions in 1943-44,’ *Commerce*, 5 August 1944, Vol. LXIX, No. 1757, page 161.
 71. Gardner, *Sterling-Dollar Diplomacy*, 326.
 72. Grant, “President Harry S. Truman and the British Loan Act of 1946”; Newton, “The Sterling Crisis of 1947,” 392; Toye, “Churchill and Britain’s ‘Financial Dunkirk,’” 338–45.
 73. Grant, “President Harry S. Truman and the British Loan Act of 1946,” 493.
 74. Gardner, *Sterling-Dollar Diplomacy: Anglo-American Collaboration in the Reconstruction of Multilateral Trade*, 326.
 75. ‘The negotiations for the first agreement which took place in London were by definition about convertible releases’: TNA T267/29, page 43.
 76. Dietmar Rothermund distinguishes between a British willingness to use existing capacities of Indian industry during the War, and an unwillingness to sponsor new

- industries such as automobiles or aircraft that would subsequently compete directly with British interests after the War: Rothermund, *An Economic History of India*, 119; Upon the outbreak of World War II, convertibility referred to the ability of a private individual freely to make and receive payments in international transaction in terms of the currency of another country: Naef, *An Exchange Rate History of the United Kingdom*, 6fn6; The United States had become the United States the world's biggest supplier of capital goods necessary for industrialisation: Newton, "The Sterling Crisis of 1947," 392.
77. At a September 1945 meeting, even as leading Labour Members of Parliament congratulated Lord Frederick Pethick-Lawrence on his appointment to Secretary of State for India and Burma, their haste on the political side was evident. While Point 2 in their list of seven points guiding any declaration of the Labour Government's intentions in India called for "The recognition of full Indian national rights", Point 5 maintained "That differences of opinion in India will not be allowed to delay progress." *Transfer of Power*, Vol. VI, No. 111, pp. 265-265.
 78. Jalal, *The Sole Spokesman*, 176-7.
 79. A.P. Thornton describes a broad anti-Indian imperialist sentiment even as its control over India was slipping in wake Britain's military losses in Singapore and Burma: Thornton, 'With Wavell on to Simla and Beyond'.
 80. Toye, "Churchill and Britain's "Financial Dunkirk"," 16.
 81. The 'Winstonian volcano' as quoted in Paiva Abreu, "Britain as a Debtor," 590-2.
 82. Schenk, *The Decline of Sterling*, 53.
 83. "The Prime Minister explained that it would not be the duty of the Mission to enter into detailed discussions of these financial points, which would be a matter for subsequent negotiations the United Kingdom Government and the Succession Government in India." Memorandum of Draft Directive to Cabinet Mission circulated at a March 8, 1946 meeting attended by Attlee, his deputy Herbert Morrison, Minister of Labour and National Service Ernest Bevin, Chancellor of the Exchequer Hugh Dalton, Stafford Cripps and Secretary of State for India Pethick-Lawrence. *Transfer of Power*, Vol. VI, No. 509, pp. 1128-9.
 84. Rakesh Ankit, "State before Partition: India's Interim Government under Wavell".
 85. Letter from Archibald Rowlands to, Under Secretary for State for India and Burma, David Monteath, February 8, 1946, TNA, T236/1113. In late 1945, Rowlands had communicated to Monteath fears that it would be 'very difficult to persuade India to abate any of its claims' on sterling balances: Extract from Secret and Personal Letter from Sir A. Rowlands to Sir D. Monteath dated November 29, 1945, T26/1113.
 86. The Treasury file on sterling balance negotiations with India begins with a letter dated October 12, 1946 from the India Office's Kenneth Anderson's to David Sigismund Waley, head of the Treasury's Overseas Department forwarding Narahari Rao's letter, as well as a copy of a telegram complaining about Chancellor of the Exchequer's untoward and "embarrassing" statements, TNA T236/1117, 'India Sterling Balance Negotiations' (30.9.1946 to 4.2.1947).
 87. Ankit, 'State before Partition'; On October 25, 1946 Jinnah lamented the inequitable distribution of portfolios, but accepted five portfolios: Finance, to which Liaquat Ali Khan was nominated; Commerce, given to I.I. Chundrigar; Posts & Air to A.R. Nishtar; Health to Ghazanfar Ali Khan and Legislative, given to Jogendar Nath Mandal. Wavell issued a press communiqué that very evening. *Transfer of Power*, Vol. VIII, Nos. 513 and 514.
 88. Copy of Reuter Message from New Delhi, Tuesday October 29, 1946, TNA T236/1117.

89. Telegram from Archibald Rowlands to Secretary of State for India, February 22, 1946, TNA, T236/1113.
90. Letter dated October 2, 1946, from Narahari Rao, Secretary to the Government of India's Finance Department, to Kenneth Anderson of the India Office, TNA T236/1117, 'India Sterling Balance Negotiations' (30.9.1946 to 4.2.1947). The file on sterling balance negotiations with India begins with a letter dated October 12, 1946 from the India Office's Kenneth Anderson to David Sigismund Waley, head of the Treasury's Overseas Department forwarding Narahari Rao's letter, as well as a copy of a telegram complaining about Chancellor of the Exchequer's untoward and 'embarrassing' statements.
91. Treasury Memorandum, Sterling balances, October 18, 1946, TNA T236/1117. The note, circulated to Overseas Department head, David Waley, Second Secretary Wilfred Eady, and W. Edward Bridges among other Treasury officials, summarises a Treasury meeting held on October 17, 1946.
92. Sterling Balance Negotiations, Minutes of a meeting at the Treasury on October 17, 1946, TNA T236/1117.
93. Ibid.
94. Table 3, Overseas sterling holdings of individual countries on 31 December 1945, TNA T267/29, pages 11-12, also reproduced in Schenk, *The Decline of Sterling*, 39; Young, "A Currency for Sudan".
95. The Reserve Bank of India inherited joint responsibility for India and Pakistan. Moreover, the rupee and existing coinage remained common to the post-colonial states till March 31, 1948. Ankit, "Delinking "the Two Rupees""; Gilbert and Helleiner, eds, *Nation-States and Money*.
96. Whitehall's piece-meal policies, initially posited on economic complementarity between the two new Dominions, set the stage for bitter disputes involving the Reserve Bank in late 1947, making inevitable the 'delinking' that would follow from Britain's significant devaluation in 1949: Ankit, "Delinking "the Two Rupees""; Balachandran, "Colonial India and the World Economy, c. 1850-1940," 92; Cecco, "Indian Monetary Vicissitudes - an Interlude," 62-75; For the crucial role of the intermediation of military, bureaucratic, and economic agencies of British India in the British Empire and the attendant world capitalist system, see: Washbrook, "South Asia, the World System, and World Capitalism"; Writing in 1944, G.L.M. Clauson notes that the Indian rupee had historically been the customary standard in East Africa, and that, at the time of his writing Aden, Ceylon, Mauritius, the Seychelles and Somaliland continued to constitute a 'rupee group'. Clauson, "The British Colonial Currency System,".
97. Avaro, "Zombie International Currency: The Pound Sterling 1945-1971"; Krozewski, "Finance and Empire: The Dilemma Facing Great Britain in 1950s"; Newton, "The Sterling Crisis of 1947," 392.
98. Historian David Edgerton has shown that British trade with empire was higher in post-War years than in the age of high imperialism: Edgerton, "War, Reconstruction, and the Nationalization of Britain, 1939-1951," 34.
99. Schenk, *The Decline of Sterling*, 59.
100. Cypher Telegram from Cabinet Office to High Commissioner for the United Kingdom in India, February 6, 1947, BOE OV56/19.
101. Ibid., page 2.
102. Fforde, *The Bank of England*, 31-87.
103. Ibid, 52-53.

104. Agreed Record of the Third meeting between the United Kingdom and Indian Delegations on the Sterling Balances, February 7, 1947, TNA T236/1125.
105. Tomlinson, 'Indo-British Relations in the Post-colonial Era', 146–47.
106. Agreed Record of the Third meeting between the United Kingdom and Indian Delegations on the Sterling Balances, February 7, 1947, TNA T236/1125.
107. Naef, *An Exchange Rate History of the United Kingdom*, 6–7; For British concerns that Indian plans for economic development foreshadowed substantial external deficits that would consequently run down India's sterling balances, see: Fforde, *The Bank of England*, 108–10; 'America Demands Ending of Empire Trade Preferences – India's Sterling Balances in Peril?' *Commerce*, 13 October 1945, Vol. LXXI No. 1818, page 476.
108. Telegram from Cabinet Mission to HC UK In India 10th February, 1947, BOE OV56/19.
109. 'Record of discussions at the Ninth meeting between the United Kingdom and Indian Delegations on the Sterling Balances held on February 13, 1947 in New Delhi', TNA T236/1125.
110. 'Railway Budget not well received – General Budget Prospects – Sterling Balances Talks End', *Commerce*, 22 February, 1947, Vol. LXIV, No. 1887, page 328.
111. *Ibid.*
112. Top Secret Cypher from High Commissioner for the U.K. in India to Cabinet Office, From Eady No. 14, February 14, 1947, TNA T236/1118, India Sterling Balances Negotiations (5.2.1947 to 10.10.47).
113. *Ibid.* The information was passed onto Washington, and also shared with the Viceroy.
114. Paiva Abreu, "Whose 'Pound of Flesh'? Egyptian Sterling Balances, 1939-1958"; Avaro, "Zombie International Currency".
115. Shannon, "The Sterling Balances of the Sterling Area, 1939–49," 545.
116. This resolution, Jalal argues, was the decisive step that finally forced London to begin considering a sovereign Pakistan: Jalal, *The Sole Spokesman*, 247.
117. "Indian Delegation to oppose scaling down of Sterling Balances," *Commerce*, 10 May, 1947, Vol. LXXIV, No. 1898, page 728. Illustrating the fast-moving nature of events, *Commerce* updated its reporting: 'At the time of going to press, reports from New Delhi read as follows:

The Government of India, it is understood, has not resiled from their position, as stated by the Finance Member, Mr. Liaqat Ali Khan, that no suggestion for scaling down of India's sterling balances will be considered. London reports that negotiations regarding India's sterling balances are to take place in London in June are not confirmed. It is learnt that, in the present political situation, no date has as yet been fixed, and it not likely to be fixed until a clear idea of the constitutional developments is available.

A London report says:
British officials said that, though they still hoped that the Anglo-Indian sterling balance talks could start early in June, no definite date had been fixed and postponement would be easy if the Indian delegation wished it. Authoritative quarters said that the talks might not start until the middle of June.'
118. 'Implications of Mountbatten Plan – Sterling Balances delegation to be dropped?', *Commerce*, 7 June, 1947, Vol. LXXIV No. 1902, page 919.
119. *Ibid.*
120. Jalal, *The State of Martial Rule*, 29.
121. Background information on behalf of Indian delegation presented by Narahari Rao July 10, 1947. Minutes of Second meeting held at H.M. Treasury, Whitehall, TNA, T236/1126.

122. TNA T267/29, 39-41.
123. Chaired by the Treasury's Bridges, the Top Secret meeting was attended by officers from the Cabinet Office, Foreign Office, India Office and Bank of England officials C. F. Cobbold, H. A. Siepmann, L. P. Thomson-McClausland and P. S. Beale. Minutes of a Meeting on Sterling Balance Negotiations on October 17, 1946, TNA T236/1117; Katharina Pistor, 'From Territorial to Monetary Sovereignty.'
124. The Anglo-American financial agreement left it to the United Kingdom to make 'every endeavour' to reach a solution to inter-allied indebtedness: Gardner, *Sterling-Dollar Diplomacy: Anglo-American Collaboration in the Reconstruction of Multilateral Trade*, 326.
125. Hinds, "Sterling and Imperial Policy, 1945-1951," 156.
126. Balachandran, "Debasement of Indian Statehood"; TNA T236/1126. See below for a more detailed discussion of these files of the Treasury's Overseas Finance Division, whose subject is described as 'Indian Subcontinent'.
127. C.C. Newton notes, however, that Keynes had led a move within the Treasury in early 1946 that ran counter to the famous pledge he had made on behalf of the U.K. delegation on 10 July 1944. The Bank of England had opposed the move to leave blocked sterling on one side and freely convertible sterling on the other. Newton, 'The Sterling Crisis of 1947', 399.
128. Minutes of the Seventh meeting, held at 11 am at H.M. Treasury, Whitehall on Friday, 25th July, reveal Narahari had to pause when it became clear his understanding of the No. 2 Account did not coincide with what the British officials had meant. The file records 'A discussion held in Mr. Beale's room at the Bank of England on Friday 25th July at 4 pm', TNA T236/1126.
129. 'Short note on discussions held at the Dorchester Hotel', 28th July between Mr. Beale of the Bank of England and Messrs Nehru, Cayley, and Roy of the Indian Financial Delegation, TNA T236/1126.
130. 'Please inform the United States Government on Thursday morning of as much of the foregoing (except confidential parts, especially those in para 3,4, and 5) as seems expedient to you.' Secret telegram from Foreign Office to Washington, August 13, 1947 with information about the expected signing of a Sterling Balance Agreement with India the following day, TNA T236/1118; It was 'traditional friendship' that had persuaded the Kuwaiti ruler to replace the rupee with sterling as the medium of payment of Kuwait Oil Company's royalties: TNA T267/29, page 78.
131. Paragraph 5, to remain confidential from U.S. officials reads: 'India remains in the sterling area. The balance of the No. 2 Account will not be openly frozen but for your very private information we shall by private agreement with the Indians send a letter of direction to the Bank of England under regulation 2 (A) of the Defence Finance Regulations 1939 which will of course, have the effect of freezing without publicity, although the Bank will formally notify the Reserve Bank.' Secret telegram from Foreign Office to Washington, August 13, 1947, TNA T236/1118.
132. 'Within a month that inexperienced administration was to be faced with communal strife and migration of peoples on a scale against which anything which has happened in Europe in peacetime in the last 50 years fades into insignificance.' Treasury's Historical Memorandum no.16, 'Sterling Balances since the war', TNA T267/29, 39-43; Thomas Blom Hansen and Finn Stepputat, 'Sovereignty Revisited': 295-315; Timothy Mitchell, 'Rethinking Economy': 1116-21; Manu Goswami, "Crisis Economics," 18-34; The formulation of 'anomalous' legal zones is particularly useful, Benton, "Constitutions and Empires" 177-98.

133. TNA T267/29, page 41; Dalton revealed in August 1947 that sterling balances, rather than being scaled down, had reached a new high of £3.56 billion: Gardner, *Sterling-Dollar Diplomacy: Anglo-American Collaboration in the Reconstruction of Multilateral Trade*, 327.
134. TNA T267/29, page 41.
135. Minutes of Sixth meeting, July 23, 1947, 'Sterling balances negotiations: London', TNA T236/1126, Sterling Balance Negotiations, London Discussions, July-August 1947.
136. Narahari Rao had been involved with sterling balance negotiations since Delhi first pressed for formal negotiations with London in the October 2, 1946 letter issued one month after the Congress-led Interim Government took office.
137. Minutes of second meeting, July 10, 1947; Minutes of Fourth Meeting, July 16, 1947, TNA T236/1126.
138. Minutes of Sixth meeting, July 23, 1947, TNA T26/1126.
139. The interval between India's independence on August 15, 1947 and it becoming a democratic republic on January 26, 1950 was a period marked by great change, as borders were fixed, populations exchanged, industries set up, electoral lists created, and the constitution written: Rohit De, "Between Midnight and Republic".
140. Legally, the princely states remained foreign territory 'protected' by Britain, implying they were not subject to Britain's municipal law or courts and reflecting a status that was 'more than an alliance' but less than full sovereignty. Crowcroft, "The Problem of Protectorates in an Age of Decolonisation," 248; I refer here to Nile Green's 'alter-national' category, on a lower order than the more familiar 'global', 'imperial' and 'national': Nile Green, "Forgotten Futures," 612-3.
141. From the start of the year 1948, or some four months after the establishment of India and Pakistan, the Government of India instituted a blockade of Hyderabad that prevented nearly all goods from entering the state. Sunil Purushotham, 'Internal Violence': 435-66; Purushotham has described the establishment of the new regime of post-colonial sovereignty in India as part of a profound, and somewhat violent re-inscription of the nation. Sunil Purushotham, *From Raj to Republic*.
142. Minutes of Second meeting, July 10, 1947, TNA T236/1126.
143. Tomlinson, "Indo-British Relations in the Post-colonial Era," 145; Citing a memorandum entitled 'Postwar economic questions' dated 10 September, 1941 by R.A. Butler, then Under-Secretary of State for India, Maria Misra argues that the risk of American commercial encroachment was of particular concern. Misra, *Business, Race, and Politics*, 174.
144. St. John Turner to R.N. Kershaw, September 24, 1947, BOE OV57/1. The temporary nature of the new capital, promoted from a sleepy port city, is revealed in the changing addresses for St. John Turner. His first letter dated September 19, 1947, is marked care of Chartered Bank of India, Australia and China in Karachi but in a month is upgraded to Government of Pakistan, Ministry of Finance, Karachi.
145. Kershaw's pencilled note dated November 18, 1947, BOE OV57/1. Kershaw was a member of the Palestine Currency Board, the West African Currency Board, the East African Currency Board and the Burma Currency Board from its inception in December 1946 until its final meeting in June 1952.
146. 'Institute of Bankers in Pakistan to be set up,' *Commerce*, 10 January 1948, Vol. LXXVI, No. 1931, page 11. *Commerce* describes St. John Turner as Officer on Special Duty, Ministry of Finance, Government of Pakistan.
147. Note from Eady to Sir E. Bridges, November 5, 1947, page 2, TNA T236/1128.
148. *Ibid.*

149. Inward telegram to Commonwealth Relations Office (CRO), July 1, 1949, BOE OV56/27, India/Pakistan Payments Agreement for 1949/50, dated September 1949, Karachi, BOE OV56/28.
150. Pallavi Chakravarty, “The Story of Partition from the Official and the Alternate Archives”.
151. Bordo et al., eds, *A Retrospective on the Bretton Woods System*, 37.
152. Morris-Jones, “The Transfer of Power, 1947: A View from the Sidelines”.
153. Joint Memorandum by Secretary of State for Foreign Affairs and Secretary of State for India entitled ‘Conduct of Foreign Affairs Affecting India with an Interim Government in Office’, 30 August 1946, Transfer of Power, Vol. VIII, No. 228, pages 360–1; Treasury Historical Memorandum no.16, TNA T267/29, page 39.
154. ‘Conduct of Foreign Affairs Affecting India with an Interim Government in Office’, Joint Memorandum by Secretary of State for Foreign Affairs and Secretary of State for India, 30 August, 1946, Transfer of Power, Vol. VIII, No. 228, pages 360–1.
155. Letter from Treasury’s Rowe-Dutton to Bank of England’s Cobbold, April 15, 1947. TNA T220/125.
156. Letter from Cobbold to Rowe-Dutton, April 29, 1947, TNA T220/125.
157. Page 2, Annexure included with India Office letter of January 28, 1947 to Treasury, TNA T220/125.
158. Simha, *History of The Reserve Bank of India*, 537–8.
159. Transfer of Power, Vol. IX, No. 480, ‘India: Transfer of Power to More Than One Authority’, Memorandum by the Secretary of State for India, 4 March 1947 and Enclosure, p. 841–2.
160. According to the RBI’s institutional history, the Partition Council’s decision of December 1, 1947 ‘had caused the biggest headache to the two parties’: Simha, *History of The Reserve Bank of India*, 553; Letter dated March 18, 1948 from Cyril William St John Turner, a Bank official seconded to Pakistan Government to R.N. Kershaw: “A few days after your reply of the 18th December reached me, India backed down on her undertaking to transfer Rs 55 crores out of the cash balances and the Pakistanis went through the roof,” BOE OV57/1. In keeping with my sources, I use the Indian numbering system of lakh (100,000) and crore (100 lakh, or 10,000,000) to express large sums of money. Rs. 55 crores thus amounts to 550 million rupees.
161. Simha, *History of The Reserve Bank of India (1935–51)*, 562–3.

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