Theoretical Vision

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editors note

Milton Friedman described B R Shenoy as a prophet unhonored in his own country. P T Bauer has described him as a hero and a saint – a hero for resisting widely accepted fads and fancies, and a saint for remaining serene in the face of disparagement, neglect, and even abuse.

A few days before Professor Shenoy's death on 8 February 1978 I met him at the Gangaram Hospital, New Delhi, where he was undergoing treatment for a heart ailment. He looked worried. He said to me, "Amin, I feel sorry I could not change the mind of the government. I have to see our country's economy going to the dogs."

I replied, "Shenoy saheb, don't worry. Truth always wins, you have always spoken whatever is the truth. Surely, you are going to win."

Professor Shenoy was always tuned to ground realities. He never built up empty economic models, he never ignored empirical evidence. He was in fact, like a skylark which soars up in the sky but always keeps an eye on the nest. While theorising, Professor Shenoy always kept day-to-day problems of life in mind.

While delivering a lecture on national savings and industrial finance at Kerala University, he described his role in the following words:

"Dialogue with industrialists, bankers, businessmen and other men of affairs, and with subjects other than one's own, especially students of physical sciences, is always a rewarding experience. Men of affairs help to weigh our ideas in the scales of realities of life, and may save us from being catapulted away into speculative unrealities by false and impracticable concepts; and scientists remind us that every statement that we make must survive the rigorous test of logic and proved data. This double influence of men of affairs and of the scientific method is in evidence in the trend of effort in all social sciences, in economics no less than in other subjects."

Economics is not astrophysics. It deals with problems which have a bearing on daily events and the circumstances which confront and surround man and society. If economic theorising does not throw light on these mundane problems of man and society, that is, if the theorising does not explain and also help to prescribe, it is a waste of an economist's own time and that of those paying attention.

Sometimes it is remarked that a certain proposition may be correct in economic theory; but not in practice. But if economic theorising is not scientific and realistic, it may not be worth the while. We have perhaps the best results when economic theory is well-informed with the realities of life and of the market and policy measures are well informed with the guidelines provided by economic theories.

This suggests the need for – and the importance of – two things. First, economists should gaze at the model of the world around them on which to build their theories, instead of relying wholly or mainly on models of their own creation. They should use much more freely than some of us seem to be doing the mass of statistical data now available on almost every phenomenon of significance. Secondly, it is desirable to have, not merely dialogues, as at seminars and lectures, between economists, men of affairs and administrators, but closer association of professional economists, business, industry and administration, preferably on a consultation basis.

Consultancy works better because there is a need to isolate the role of an economic analyst from his role as an independent counsellor-adviser. The merger of the two functions not only damages the stature and dignity of the profession, it also detracts from the development of the science and from the constructive contribution of economists to economic and social progress. In the case of resident staff economists, there is a danger of the two functions getting merged, and the role of the adviser getting lost. Professor Shenoy was able to strike a balance between the two.

Professor Shenoy was a brilliant orator. His lectures were lucid and eloquent, keeping listeners spellbound. Normally, it is difficult to keep an audience riveted on financial subjects, but his voice was sonorous, his style of presentation forthright and his arguments so convincing that the lay public would be attentive, sometimes captivated by his lectures. His writings were also frank, logical and supported by facts and data. That is why even the lay reader can enjoy this book.

As I told him in his last days, truth ultimately wins. China introduced economic reform in 1978. Margaret Thatcher introduced privatisation and deregulation in England. Soon after, America accepted supply-side economics and hard-headed socialist New Zealand introduced liberalism in 1984. With the fall of the Berlin Wall in 1989 in a short span of two to three years, all communist countries in Central and East Europe, including USSR, gave up communism and became liberal democracies. And last but not too late, India took a U-turn in 1991 and got rid of the license-permit raj.

This is our attempt to pay homage to the great soul by keeping his message alive through his writings.

prologue

Most of the theoretical writings in this volume date from 1932 to 1953, the time when B R Shenoy was studying at the London School of Economics, till the Indian Republic took its first steps on the road to economic development. After 1953, his time was taken up by practical policy issues and he became one of the most trenchant critics of the Indian government's policy measures, which ran counter to his dearly held beliefs about proper functioning of an economy. These writings offer the theoretical framework underlying his empirical analyses and policy critique.

Thus Section A provides the Context in which he wrote, which includes his basic philosophy of the Economic Constituents of a Free Society, and the Measures of Economic Progress he considered important. Readers might be surprised to learn that this included such humanistic concerns as reduction of inequalities – surprised because such concerns are usually associated with the socialist approach. Professor Shenoy was unique in that he did not lose sight of India's poverty and the need to eradicate it. But he repeatedly hammered the point that free market policies and not centralised planning were the means to that end.

Section B, the section on Savings, focuses of the fundamentals of Classical Theories of Saving from the time of Adam Smith and Malthus, and goes on to dissect Static Equilibrium theories of saving. Since the Theory of Savings is the main basis for evolving an economic policy, his comprehensive surveys of saving theories is invaluable, and also unique. The chapter on Possible Sources of Finance which precedes these, and that on Indian National Savings which follows, bring to light one of Shenoy's greatest worries – the path that India was taking of economic development through deficit finance instead of real savings.

These worries are elaborated to a greater degree in his book Post-W ar Depression and the Way Out published in 1944. He demonstrated dangers of financing the Bombay Plan by newly created money and bank credit. In Section C, on Money Management, he explains the International Investment Gap and the Dangers of Inflationary Finance, going on to dissect inflation and corruption. Included are the articles An Equation for a Price Level of New Investment Goods and A Note on the Interdependence of Price Levels, first published in the Quarterly Journal of Economics. These articles point out the deficiency in the fundamental equations presented by John Maynard Keynes in his book

Treatise on Money published in 1930. As soon as Keynes realised that his fundamental equations were defective, he stopped the publication of the second edition of his book. But the equations presented by Professor Shenoy in lieu of the 'fundamental equations' still hold true.

More evidence of Professor Shenoy's sound grip of monetary economics can be found in Section D, which focuses on Gold/Currency/Banking. It takes the reader back to the Essentials of a Gold Standard, which was prevalent in important countries in the beginning of the 20th century. India during the 1930s had both the gold standard as well as the gold exchange standard. During this period, there was a controversy whether India should keep to a sterling-linked standard or have an independent standard based on gold. And secondly if India should have a link with sterling, what should the rate be? This article answers all these questions.

The banking community will be enlightened by the facts he alone unearthed about Abortive Central Banking Schemes which preceded the establishment of the Reserve Bank of India, and also throw light on the indigenous bankers or shroffs of whom India can still be justifiably proud. He had a sound knowledge of operational banking and wrote several articles on India's money market, China's silver standard, the Ceylon rupee. His welcoming of the long overdue Devaluation of the Rupee in 1966 will interest young readers. The chapter on Evolution of Currency in India and Ceylon is just a sample of the extensive work he has done in this field, and will delight students of history and economics alike. It is taken from his book Ceylon Currency and Banking, which throws light on the early currency history of India also.