B. R. Shenoy: Stature and Impact

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B. R. Shenoy was a hero and a saint. He was a hero in the sense in which Thomas Sowell used the term when in a review article he referred to heroic figures who publicly resisted fashionable fads and fancies, however influentially canvassed and widely accepted. He was a saint in that, outwardly at any rate, he remained unmoved, even serene, in the face of neglect, disparagement, even abuse. It is an honor to lecture in memory of such a man. For me it is also an emotional experience. 1 knew Shenoy personally, and felt great affection and respect for him. I had several extended conversations with him in the late 1950s when he was particularly embattled.

In this lecture I shall quote at length not from Shenoy but from publications reflecting the received opinion, amounting to an orthodoxy, in the 1950s and 1960s both in India and in mainstream development economics in the West. Unless I quote from this literature I cannot convey the difficulties and obstacles Shenoy had to face. And unless I quote at considerable length and from several sources some may think that the passages are out of context or are unrepresentative.

Comprehensive Economic Planning: Shenoy's Dissent

I had never heard of Shenoy until I read the literature surrounding the Indian Second Five Year Plan launched in 1956. I first encountered his name as that of the author of his one man Note of Dissent (Shenoy 1955), appended to the Majority Report of the government advisory panel of economists on the draft of the Second Five Year Plan. The

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government then had a panel of some 20 economists who in April 1955 submitted to the government the draft for an ambitious development plan. This draft in turn drew heavily on a draft plan entitled Draft Plan Frame by Professor P.C. Mahalanobis, Nehru's personal economic adviser. The Majority Report and Mahalanobis's Draft Plan Frame formed the basis of the Second Five Year Plan, the text of which was published by the Government Planning Commission in 1956.

These various documents all took for granted that comprehensive central planning was indispensable for economic progress. They envisaged large-scale money creation for the financing of the highly ambitious Second Five Year Plan, maintenance and expansion of a wide range of economic controls, and extensive nationalization. In his Note of Dissent, Shenoy rejected the general spirit of the Majority Report as endangering personal freedom and a democratic political system. He also disagreed with several major proposals, including the scale of money creation, the maintenance and extension of state economic controls, and the scope of nationalization. He argued specifically that money creation on the scale envisaged by the Majority Report and under the Second Five Year Plan would result in inflation or a balance of payments crisis or both—a prediction that was fulfilled barely a year after the inception of the plan. Both the spirit of the Majority Report and the major proposals reflected the opinions of Nehru, who was then at the peak of his power in India and of his prestige there and in the West. In these conditions, Shenoy's Note of Dissent represented conspicuous moral courage. Moreover, Mahalanobis's Draft Plan Frame and the Second Five Year Plan very largely reflected the then dominant opinion of development economics in the West. Thus, Shenoy's Note of Dissent went counter to the opinions and wishes of Nehru and his personal adviser, and also of the position of the Indian Planning Commission. It also went counter to the then current orthodoxy in the West. Many prominent representatives of that orthodoxy regularly visited India in the 1950s and 1960s. The visitors included Gunnar Myrdal, Joan Robinson, Nicholas Kaldor, Thomas Balogh, Ian Little, Oscar Lange, Paul Streeten, and others. Most of these representatives of the prevailing orthodoxy endorsed the Second Five Year Plan in public pronouncements in India and in prestigious and influential publications in the West, such as the *Economic Journal* or the *Review* of the British National Institute for Economic Research.

The great majority of the representatives of the official national and international aid agencies were committed supporters of the orthodoxy, as were the representatives in India of the Ford Foundation, then the principal source of unofficial aid, whose representatives worked closely with the Planning Commission. Thus, Shenoy's position also went counter to the opinions of people who very largely determined the allocation and disbursement of Western aid. Here are two examples of the position of these representatives.

On my first visit to India in 1958, I called on a senior officer of the economic section of the British High Commission. I asked him whether he or his colleagues were in any sort of contact with Shenoy. He said that people there were too busy to have time for acknowledged madmen. It also transpired that he was unfamiliar with the writings or even existence of British or American dissenters from the prevailing orthodoxy. I may add that at about the same time I visited the Delhi School of Economics and the National Council of Applied Economic Research. There also I found considerable and often not well founded disagreement with Shenoy's views, but nothing like the disdain exhibited by this arrogant and ignorant mandarin at the High Commission.

My second example is from an American source. In 1962, John P. Lewis, a full professor of economics at Princeton University and director of the Indian operation of the U. S. Agency for International Development (the official U. S. aid agency), published a substantial volume entitled *Quiet Crisis in India*. Here is a passage from that book:

> It has been decided in India that it is the duty of government—and it cannot be delegated—to create and maintain that "growth perspective" which . . . is the one *sine qua non* for successful economic development.
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> Outside supporters of the Indian development program who refuse to accept this proposition well-nigh disqualify themselves from the outset [Lewis 1962: 28].

Although this passage is convoluted, the central thrust is clear. Those who dispute the necessity of government control of the composition and direction of economic activity are not qualified to participate in the shaping of economic policy. Thus, according to the director of the most important aid agency then operating in India, Shenoy's position disqualified him from a say in policy. I do not know how much comfort he drew from the fact that he shared this disqualification with Milton Friedman, George Stigler, Gottfried Haberler, Jacob Viner, and others.

Lewis's opinion was not eccentric. Indeed, it largely reflected the received opinion of the 1950s and 1960s. Gunnar Myrdal expressed substantially the same opinion in his much publicized Cairo lectures:

> The alternative to making the heroic attempt is continued acquiescence in economic and cultural stagnation or regression which is politically impossible in the world of today; and this is, of course, the explanation why grand scale national planning is at present the goal in underdeveloped countries all over the globe and why this

> policy line is unanimously endorsed by governments and experts in the advanced countries [Myrdal 1956b: 65].

Thus, according to Myrdal, experts were unanimous in the 1950s that comprehensive central planning was indispensable for the economic advance of poor countries. It followed that those who like Shenoy disputed this view could not be experts, whatever their formal qualifications, technical competence, or knowledge of the institutional setting.

I trust that I have conveyed something of Shenoy's moral courage in dissenting from the Second Five Year Plan and the orthodoxy surrounding it. But dissent from the received opinion is by itself of no merit unless it is intellectually well founded. Shenoy amply met this requirement. His competence is not in dispute. The tools of trade of economists acting as advisers on policy are microeconomics, macroeconomics (or applied monetary economics and public finance), and knowledge of institutions and magnitudes. Shenoy qualified under all these headings. I commend his Note of Dissent and his book *Problems of Indian Economic Development* (Shenoy 1958) as highly informative introductions to applied monetary economics and to political economy. These publications are not easily accessible, but the effort is worthwhile.

Shenoy's Note of Dissent does not readily lend itself to brief summary or quotation, chiefly because much of it refers to contemporary statistical evidence in support of his position, or to the Majority Report and to documents underlying it. However, the following passages from the Note of Dissent (Shenoy 1955: 25, 30) make clear his general position:

> The size of the Plan Frame has been unduly inflated as a result, on the one hand, of an over-optimistic growth in national income, which it aims at, and, on the other, of an unduly high average rate of saving as applied to this assumed growth in income. A much lower figure would result if both these rates were more realistic projections of Indian experience of the recent past. Though a certain measure of accelerated progress may result as incomes grow and savings increase, a steep upward movement from a background in which the mass of the people live on the margin of subsistence may not be possible except in a totalitarian regime.
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> I agree with my colleagues that the scarcity of administrative and specialized personnel, and the necessity of conserving savings for the Plan are factors against extension of nationalization. But they have no objection for such extension on principle. I would oppose general extension of nationalization on principle. Nationalization

> should be ordinarily limited to public utility concerns and to concerns involving national security. Otherwise state intervention should be concerned with the prevention of monopolies or quasi-monopolies. Efficient management of business and industrial concerns in a competitive market economy is a highly specialized function and demands qualities which a civil servant is not required to, and in the ordinary course of his training may not, acquire. This function is best left to private entrepreneurs, in the prevailing socio-economic order which is dominated by the market economy and the pricing system.
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> I do not feel convinced of the economic importance of continuing the remnants of controls. Decontrols have proved a noteworthy success. Controls and physical allocations are not a necessary adjunct to planning. The distribution of productive resources, including the ratios in which they are used, are subject to variation and depend upon diverse technological, economic and price considerations. It is quite impossible to take into account these complex and changing considerations and arrange anything like a satisfactory allocation of resources. There are great advantages in allowing freedom to the economy, and to the price system in the use and distribution of the needs of production. I am unable to agree with my colleagues that a case exists for continuing what controls now remain. Steps should be taken to remove controls as early as may be possible. Controls and allocations are an essential characteristic of communist planning. They do not very well fit in under planning in a free enterprise market economy.

The Mid-1950s: High Water Mark of Price-less and Cost-less Economics

In contrast to Shenoy's assured command of basic price theory' and basic monetary economics, influential publication in India and the West of the orthodoxy reflects notable, even startling, neglect both of the basic tenets of economics and of simple empirical evidence.

The mid-1950s—that is, the period of the preparation and launching of the Second Five Year Plan—were the high water mark of price-less and cost-less economics (i.e., disregard of price in discussion of supply and demand, or more precisely, in quantities demanded or supplied). It was in the 1950s that prominent academic economists discussed the so-called dollar problem as a persistent and inescapable shortage of dollars, without mentioning the rate of exchange (i.e., the price of a scarce commodity), or for that matter interest rates either. From the dollar problem, this practice spread to the payment difficulties of less developed countries (LDCs). Exponents of the orthodoxy regarded these difficulties as inseparable concomitants of the economic progress of LDCs and especially of government policies designed to permit it. In reality, they were the consequences of inflationary policies pursued under conditions of fixed exchange rates, as was recognized by Shenoy. Gunnar Myrdal, perhaps the most prominent and influential Western guru in India, went as far as writing that "there must be something wrong with an underdeveloped country that does not have foreign exchange difficulties" (Myrdal 1956a: 270).

This totally and demonstrably unfounded opinion suited the purposes of the proponents of ambitious plans financed in part by large-scale money creation.

India's Second Five Year Plan and the World Bank Report

Let me now present two specific and detailed pronouncements of the orthodoxy of the mid-1950s. First, a central passage from the Indian Second Five Year Plan:

> The expansion of the iron and steel industry has obviously been the highest priority since, more than any other industrial product, the levels of production in these materials determine the tempo of progress of the economy as a whole. . . . Heavy engineering industries are a natural corollary of iron and steel works. . . . In this context the creation of basic facilities such as the establishment of heavy foundries, forges and structural shops is absolutely necessary. It is, therefore, proposed that the establishment of these facilities, which constitute an essential and primary phase of development for the manufacture of heavy industrial machinery in the country, should be undertaken at an early date. These developments have a priority second only to that of expansion of the steel industry [Government of India Planning Commission 1956: 394].

These remarks reflect price-less economics; neither price nor cost nor demand is mentioned.

My second example comes from a World Bank report. In 1955, the World Bank published a long report of its mission to Nigeria, which it considered as a guide to policy and as a model for this kind of document. The principal architect of the report was John H. Adler, who had taught at Yale, and who subsequently became the director of the World Bank Economic Development Institute, a prestigious organization for the training of development economists.

Throughout the report the influence of prices on quantities demanded, supplied, or produced is neglected. Demand and supply are treated as physical quantities affected by various factors, but not by price:

> Expansion [of agriculture] in the immediate future and over the long term will depend upon the degree to which Nigeria can succeed in overcoming or minimizing the effect of such limiting factors as soil deficiencies, inadequacy of water supply in certain areas, low yielding plant varieties, prevalence of plant and livestock diseases, and primitive cultivation methods [World Bank 1955: 371].

Thus, price is not listed among the factors influencing production or the establishment of capacity.

In this case the neglect of price was especially inappropriate. The report was intended as a guide to policy. The producer prices of the principal crops were prescribed by state buying monopolies. And because of large distances and heavy transport costs, the wide extensive margin of cultivation between cash crops and subsistence production, and the ability of producers to shift between activities and crops, the supply of farm products and extension of capacity necessarily depended upon price. Production was possible only with a positive return, and the area in which it was positive depended upon price. Neglect of price necessarily vitiated proposals for an effective fiscal policy.

The Indian Second Five Year Plan and the World Bank report on Nigeria were perhaps the two most important official documents influencing policy in LDCs in the 1950s. They show how price-less economics had engulfed development economics in the 1950s. This development much enhanced the difficulties of Shenoy's stance as he was a market-oriented economist with an assured command of applied basic price theory.

The Danger of External Economic Advice

I said earlier that I had never heard of Shenoy before reading the literature of the Second Five Year Plan. Yet I had heard of several other members of the Government's Advisory Panel, notably D. R. Gadgil, B. N. Ganguli, K. N. Raj, and V. K. R. V. Rao. This reflected the much closer international contacts between socialists or dirigistes on one hand and market-oriented economists on the other hand, a situation to which F. A. Hayek drew attention many years ago. The overwhelming preponderance of supporters of the Second Five Year Plan among foreign visitors to India, including consultants to the government, also reflected this phenomenon, which exacerbated the difficulties of Shenoy in securing acceptance for his views.

There is an important practical lesson to be learned from this experience. Why should the Indian Government or its off-shoots and agencies rely on external economic advice? The tools of trade of an adviser on economic policy are microeconomic theory, macroeconomic theory (primarily applied monetary economics and public finance), and a knowledge of institutions and magnitudes. There is in India ample indigenous talent in analytical and applied economics. In recent years Indians have occupied some of the most prestigious university chairs in economics at Oxford, Cambridge, the London School of Economics, Harvard, Yale, and the University of California. And, of course, Indians are likely to have a far better knowledge of institutions and magnitudes than have foreigners. If an Indian Government uses external advisers, it should recognize that the advisers are likely to be people whose advice will be in the direction of the maintenance or expansion of the role of the institutions sponsoring them. The government may wish for political reasons to rely on such external advisers, especially if it thinks that by doing so it is more likely to secure external financial support. But the government should be aware of the substantive direction of the advice, which may often differ from the lip service paid by the advisers to the market and to traditional institutions.

Shenoy's Influence

Shenoy has had no influence on Indian economic policy. The original Second Five Year Plan and its various subsequent revisions and sequels reflected the play of political forces and the recurrent balance of payment crises. I believe however that he had considerable impact on the conduct and thinking of Indian economists younger than himself.

This opinion is necessarily conjectural. People's views on economic issues are affected by a multitude of different factors operating with differing and varying time lags. One is prone to overstate the influence of those economists whose views one favors. And economists are apt to make unwarranted claims for the profession. In an often quoted passage Keynes (1936: 383) wrote, "The ideas of economists and political philosophers both when they are right, and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else." If this claim were valid, the world would have been on free trade for decades or centuries, as the great majority of economists have been free traders since Adam Smith.

I can however say with some confidence that Shenoy's conduct and influence have had considerable impact. In the course of my visits to India between 1958 and 1982, a number of economists, including M. P Bhatt, told me that they had been influenced by Shenoy in that they revised their opinions or have become more confident in their position through reading his work.

There is certainly one economist of whom I can say with absolute confidence that he was influenced by Shenoy. This is myself. He has influenced both my conduct and my opinions. And as it appears from my correspondence that I have influenced some younger people, often in distant countries, Shenoy's impact has extended beyond myself.

The contrast between Shenoy's lack of influence on policy and his impact on other economists is an example of a widely prevalent situation. The political unacceptability or unpopularity of an opinion does not mean that its proponent is less influential than are those whose views are more readily accepted. These latter are sometimes known as realists. There is often a high correlation between the advice tendered by economists and the policy adopted without this indicating that the advisers exercise influence in any meaningful sense. They may only advise policymakers to do what the latter intend to do in any case. Indeed, they may have been selected as advisers because the policymakers anticipated that they would tender the kind of advice which makes it easier for the policymakers to carry out policies and measures which they had planned. I think this was the situation in India at the time of the Second Five Year Plan. The signatories of the Majority Report appeared to be influential since the plan accorded with their views. In reality, they simply endorsed what the government of the day wished to do in any case. So they had little influence either on thought or on policy. In contrast Shenoy's conduct and views influenced a number of people in India and beyond.

Conclusion

It is evident from what I have said that Shenoy united moral courage, intellectual integrity, and technical competence to an exceptional degree. The few people who possess this combination of attributes are of great value, both in public life and in academic study. They are particularly valuable in the study of society, where they are especially rare. May the succession of Shenoy and of his like never fail, East or West.

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