

AN APPRECIATION OF B.R. SHENOY, ECONOMIST

SANDEEP PRAKASH

ABSTRACT: Bellikoth Ragunath Shenoy was an Indian economist and teacher who produced many essays on Indian economic policy. Scholars of economic thought have neglected the importance of his work. In this essay I develop an analysis of the theoretical basis that suffuses his policy commentary. Throughout many articles and lectures, Shenoy's analysis is derived from a strong foundation of methodological individualism, the Austrian theory of capital and business cycles, and the role of prices in the market process.

KEYWORDS: economics, B.R. Shenoy, indian economic thought, history of thought, austrian school, biography, economic planning

JEL CLASSIFICATION: B310, B250, O200

Bellikoth Ragunath Shenoy was an Indian economist and teacher who produced many essays on Indian economic policy. Scholars of economic thought have neglected the importance of his work. In this essay I develop an analysis of the theoretical basis that suffuses his policy commentary. Shenoy was in fact inclined towards the Austrian school of economics and possessed a strong

Sandeep Prakash (prakash.sandeep.85@gmail.com), is an independent scholar, musician and teacher. He is the founder and director of Global Icaro (www.globalicaro.com), a non-profit supporting endangered folk music.

understanding of economics. Shenoy excelled in school and earned an M.A. in Economics from Benares Hindu University in 1929. During this time he participated in the Indian independence movement, and was jailed for taking part in a protest at Nagpur.¹ He traveled to Britain in 1929 to study economics at the London School of Economics where he attended lectures by Friedrich Hayek. During the interwar period, J.M. Keynes was popularizing his own brand of macroeconomics, and many prominent western intellectuals began to advocate central planning of underdeveloped economies. While many other British-trained Indian scholars embraced Fabian Socialism, Shenoy was a student of the Austrian School of economics (S. Shenoy, 2003). Throughout his many articles and lectures, his analysis is derived from a strong foundation of methodological individualism, the Austrian theory of capital and business cycles, and the role of prices in the market process. Just as contributions of past Austrians have been revived in recent years, Shenoy's work is of continuing relevance to economic thought and policies regarding Indian economic development.

Shenoy's graduate work at LSE culminated in two papers, "An Equation for the Price Level of New Investment Goods" (1931) and "Interdependence of Price Levels" (1933). Shenoy employed Keynes's own nomenclature to critique the fundamental equations in *Treatise on Money*. In these theoretical works Shenoy established himself as a promising monetary economist and the first Indian economist to publish in the prestigious *Quarterly Journal of Economics* (Balakrishnan, 2011).

After graduation from LSE, Shenoy taught at a number of colleges in Ceylon (now Sri Lanka) and India, and in 1945, joined the Indian central bank as a senior analyst. In a book chapter called "What Happens When We Save" (Shenoy, 2004b²), Shenoy outlines the causal steps in the phenomenon of social saving. Shenoy distinguishes consumption entrepreneurs, or those who produce lower order goods, from instrumental entrepreneurs, or those who

¹ For a biographical summary see http://ccsindia.org/ccsindia/people_brs_shenoy.htm.

² Many of Shenoy's publications are out of print and not web archived. Thanks to R.K. Amin and Parth Shah, we have two compilations: *Theoretical Vision* and *Economic Prophesies*.

produce higher order goods. In a market economy, consumers' abstention from consumption goods directs entrepreneurs to divert means of production to higher order goods. The resultant capital goods from the savings-investment process "would enable the economy to turn out a larger stream of consumption goods than before the commencement of saving.... Savings, for instance, may bring about a replacement of hand-loom by power-loom, hand-ploughs by tractors, sailing ships by modern liners and so on. That is to say, savings produce an increase in the standard of living of the community" (Shenoy, 2004b, p. 29). Throughout his work on savings, Shenoy emphasized that involuntary saving, such as an artificial expansion of credit "must necessarily lead to disaster, though at first it might produce all the outward symptoms of boom conditions.... artificially created paper of bank money can be no substitute for voluntarily generated savings as an agent of lasting economic progress" (Shenoy, 2004b, pp. 32–33). In addition to his theoretical contributions, Shenoy penned a history of savings, discussing contributions from classical and Austrian School economists (Shenoy, 2004b).

DISSENT ON SECOND FIVE-YEAR PLAN

In 1956, Shenoy resigned from the central bank to pursue greater intellectual freedom as a researcher and teacher at Gujarat University. The new leaders of government as well as many prominent intellectuals favored centrally planned economies. When the Nehru government released a draft of its Second Five Year Plan it was extolled by Indian and foreign economists alike (Bauer, 1998). State officials and their economic advisors believed economic progress could only be achieved by central planning, supporting the Plan's mandates for large-scale money creation, controls on foreign exchange, and nationalization of private enterprises.

It was in this context of widespread support of planning that Shenoy rose to prominence with his famous Note of Dissent (Shenoy, 2004a), in which he disagreed with the major tenets of the Second Five Year Plan. In response to the Plan's call for nationalization of industries, Shenoy writes, "I oppose general extension of nationalisation on principle.... Efficient management of business and industrial concerns in a competitive market economy is a

highly specialised function... 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" (Shenoy, 2004a, p. 33). Shenoy had a strong grasp of the coordinating functions of the price system, and chastised the planners for advocating state distribution of resources: "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" (Shenoy, 2004a, p. 33).

After the government implemented the Second Plan, India ran into balance of payments difficulties. Shenoy later wrote, "Our balance of payments difficulties are the direct result, principally, of inflation and of the distortions in the production structure which have ensued from statist policies" (Indian Planning and Economic Development, 10). Shenoy was especially concerned with inflation and its unequal effects on different groups:

The real act of treachery lies in printing money to meet government outlays and in misdirecting the resources of the nation in spectacular rather than useful channels of investment. It is this policy that has involved the double crime of retarding economic development and of denying the common man the elementary needs of living.... The only beneficiaries of these perverse developments are businessmen, industrialists, the corrupt functionaries of the state—civil servants and the politicians—and the body of touts, contact men and other intermediaries which have sprung up as part of the distributive machinery of the instrument of statist economic controls (Shenoy, 2004b, pp. 92–93).

Shenoy continued to develop his critique of central planning in a series of lectures delivered at the University of Madras, which were published as a book called *Problems of Indian Economic Development*.

AGRICULTURE AND FOREIGN AID

In 1968, Shenoy resigned from Gujarat University and founded an independent research institution, the Economic Research Centre, in Delhi. Although weakened by heart ailments, he

continued to write many articles (Bhatt, 2001, p. 106). Shenoy was deeply concerned with the welfare of the rural poor engaged in agriculture—at the time and currently a majority of people in India. In his policy analysis, he methodically struck down the State's arguments for price controls, import/export bans, restrictions on private bankers, public expenditures on wasteful industrial projects, and state monopsony of agricultural goods. Shenoy points out, "Unduly heavy resource drafts into the public sector, the weighted emphasis on industrialization, and legislative hurdles to the flow of credit and capital into the farm sector have led to capital starvation of agriculture" (Shenoy, 2004a, p. 169). State monopsony procurement prices of farm products continue to be commonplace in India and it remains the fact that "...procurement prices...involve confiscation on part of the most legitimate earnings of the peasants and farms producing foodgrain. The social accounting of the phenomenon of procurement prices and the subsidised distribution of foodgrain is broadly that we supplement these confiscated amounts from the Union and state budgets and utilise the total sum to issue rations to urban people at low market prices" (Shenoy, 2004a, p. 175).

Shenoy was one of the earliest critics of the popular notion that foreign aid transfers help kick-start growth. He was seeing first-hand in India the unintended, yet destructive consequences of US and European aid. In a 1970 paper entitled "Is aid necessary for development?" Shenoy writes, "If domestic policies fail to make for harmonious, balanced, multi-sided progress but divert resources into the wrong channels, any amount of foreign aid cannot effectively contribute to economic development. Massive aid is apt to be massively misdirected" (Shenoy, 2004a, 89–90). Shenoy was appropriately disgusted by the perverse effects of aid, which he linked to "...the accumulation of smuggled gold despite semi-stagnant per capita incomes... secret accounts in investments in Switzerland and elsewhere, and of the abandonment of frugal ways for extravagant living by the new rich among the beneficiaries of planning" (Shenoy, 2004a, p. 96). Shenoy was in a unique position as a highly competent economist in an aid-receiving country. When the United States began the P.L. 480 food aid program, India bought massive amounts of aid by printing money. Shenoy was able to discern the unintended consequences of this arrangement:

Thus, it is not as if—as Professor Max Millikan, Mrs. Joan Robinson and their Indian followers seem to think—P.L. 480 imports offer abundant scope for accelerated economic growth through deficit financing, foodgrains absorbing inflation. Foodgrains are not the entire package of wage-goods, nor can wage-goods alone enable economic development. For the latter, wage-goods must come with complementary factors of production. The complementary factors being unavailable, P.L. 480 imports of foodgrains do no more than glut the market and demoralize it without furthering economic development.... These imports are a clear case of dumping, though they are heavily dressed up in the garb of benevolence” (Shenoy, 1963, pp. 107–109).

ECONOMIC CONSTITUENTS OF A FREE SOCIETY

In one of his last writings before his death, Shenoy addressed the newly formed Janata government and summarizes the “Economic constituents of a free society” (Shenoy, 2004b). These concepts follow from the Austrian tradition of subjective valuation by consumers, time preference, and capital theory. He begins by making clear that “the economic affairs of a free society are controlled, directed, and governed by truly sovereign consumers.” (Shenoy, 2004b, p. 2). Far from being a truism proffered for political reasons, the sovereign consumer is the basis for deducing economic insights. Shenoy explains,

Consumer control and direction of the economy is effected through a price-regulated market mechanism.... Traders interpret these prices and turnover signals, and direct producers to adjust their production programs to match the consumer needs thus recorded.... Available investment resources... get shifted, through such activity of traders and producers, and via the capital market—which is an integral part of the overall price-regulated market mechanism—or otherwise, into production channels which meet consumer preferences. (Shenoy, 2004b, p. 3)

Shenoy is careful to emphasize that realities of scarcity and production apply to all societies:

In a modern society—whether it is free, communist, or socialist—production involves time, and the production process has, for technological reasons, to commence in anticipation and in advance of demand. The forward market which is another integral part of the over all price

regulated market mechanism, helps such anticipatory production. The forward market may reduce to a minimum...the resource wastage from production errors, by projecting the changing market situations (Shenoy, 2004b, p. 3).

Despite the Indian government's rejection of market exchange, Shenoy tenaciously asserts its role in creating prosperity: "That trade is the spearhead of all economic development emerges graphically when we imagine a community cut off from the rest of the country of which it has hitherto been an integral part. Production for the national market will soon be replaced by production to meet the limited needs of a small community; and its people are consequently destined to slip down into poverty...." (Shenoy, 2004b, p. 3).

SHENOY'S INFLUENCE

B.R. Shenoy passed away on 8 February 1978. Although the Indian government disregarded Shenoy's warnings about interventionism, he certainly made an impact on intellectuals at home and abroad. During his 15 years at Gujarat University he challenged scholars' views, enthralled students in lectures, and wrote prolifically in Indian and foreign newspapers and journals. His colleague at the Gujarat University, Mahesh P. Bhatt, remembers, "During his directorship he established a strong tradition of economic liberalism at the Economics Department and exposed generations of young students to liberal economic ideas and doctrines.... His lectures used to be uniformly lucid, extremely well organized and highly stimulating" (Bhat, 2001, p. 105). In 1957, Shenoy was elected President of the fortieth annual conference of the Indian Economic Association. In 1966 he was a visiting professor at the London School of Economics and was invited to the prestigious group of classical liberal economists, the Mont Pelerin Society. After hearing of Shenoy's dissent regarding planning, Milton Friedman wrote, "There is only one prominent professional economist, Professor B.R. Shenoy of Gujarat University, who is openly and publicly and at all effectively opposed to present policies and in favour of greater reliance on a free market. He is a remarkable and courageous man" (Friedman, 1963).

Because of his outspoken advocacy of a liberal economic order, Shenoy was characterized by Peter Bauer as "a hero and a saint."

Bauer was acutely aware of how unpopular Shenoy's views were in relation to the prevailing orthodoxy in developmental economics. Although Bauer writes that "Shenoy had no influence on Indian economic policy" (Bauer, 1998, p. 8), he impacted generations of students at Gujarat University and economists at home and abroad. Bauer insists that "[Shenoy] 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" (Bauer, 1998, p. 9). When he resigned from the University over an administrative dispute, Mahesh Bhatt contends, "Many leading intellectuals and educationists, irrespective of their political ideologies, were unanimous in censuring the University and in supporting his stand, which was in many ways a tribute to his intellectual integrity, and an indication of the esteem in which he was held by enlightened public in the country" (Bhatt, 2001, p. 106). Shenoy's daughter, Sudha Shenoy (1943–2008), followed her father's footsteps and became an Austrian economist. She worked on economic history and development, edited a book of articles by Hayek (*A Tiger by the Tail*, 2009), and claimed that through her father she held "the longest connection to the Austrian movement of anybody ever" (S. Shenoy, 2003). B.R. Shenoy's work has influenced Parth Shah, an Indian economist who is the founder and president of a highly respected research and education institution in India, the Centre for Civil Society. Shah has edited and published two books of Shenoy's work, *Economic Prophesies* and *Theoretical Vision*, in addition to creating an essay contest in Shenoy's name.³

CONCLUSIONS

By considering B.R. Shenoy in the context of the Austrian tradition, I have highlighted the continued importance of his life and work. Considering the persistence of monetary meddling, trade restrictions, corruption, and foreign aid problems in India, Shenoy's work continues to be relevant for improving the discourse on Indian economic development and public policy. Since Shenoy's passing, the Austrian School has experienced a revival. Shenoy's

³ http://ccsindia.org/ccsindia/people_brs_shenoy.htm

contribution to economics also deserves a revival if we are to effectuate Peter Bauer's plea, "May the succession of Shenoy and of his like never fail, East or West" (Bauer, 1998, p. 9).

REFERENCES

- Balakrishnan, Chandrasekaran. 2011. "India's Great Free-Market Economist," *Mises Daily*, July 5. Available at <http://mises.org/daily/5410/Indias-Great-FreeMarket-Economist>
- Bauer, Peter. 1998. "B.R. Shenoy: Stature and Impact," *Cato Journal* 18, no.1.
- Bhatt, Mahesh P. 2001. "B.R. Shenoy: The Lonely Search for Truth." In Parth Shah, ed., *Profiles in Courage*, pp. 99–108. New Delhi: Center for Civil Society.
- Friedman, Milton. 1963. "Indian Economic Planning." In Parth Shah, ed., *Friedman on India*. 2000, p. 19.
- Shenoy, B.R. 1963. *Indian Planning and Economic Development*. Bombay: Asia Publishing House.
- . 2004. *Economic Prophecies*. R.K. Amin and Parth J. Shah, eds. New Delhi: Center for Civil Society.
- . 2004. *Theoretical Vision*. R.K. Amin and Parth J. Shah, eds. New Delhi: Center for Civil Society.
- Shenoy, Sudha. 2003. "An Interview with Sudha Shenoy," *Austrian Economics Newsletter*, Auburn, Ala.: Ludwig von Mises Institute.

BIBLIOGRAPHY OF B.R. SHENOY

- Ceylon Currency and Banking*, Longman Greens and Co., Madras, 1941.
- Bombay Plan - A Review*, Karnatak Publishing Housing, 1944.
- Post War Depression and the Way Out*. Kitabsitan Allahabad, 1949.
- Sterling Assets of the RBI*, Indian Council of World Affairs, New Delhi, 1946.
- Foreign Exchange Situation*, Forum of Free Enterprise, Bombay 1957.
- Prune the Plan*, Forum of Free Enterprise, Bombay, 1957.

Problems of Indian Economic Development, Madras University, 1958.

Stability of the Indian Rupee - A Review of the Foreign Exchange Situation,
Harold Laski Institute of Political Science, Ahmedabad, 1959.

National Savings and Industrial Finance: Indian Experience, IIS Bangalore, 1969.

Indian Planning and Economic Development, Asia Publishing House,
Bombay, 1963.

Indian Economic Policy, Popular Prakasam, Bombay, 1968.

P.L. 480 and India's Food Problem, Affiliated East West Press, New Delhi, 1974.