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Biographical Sketch prepared by Prof. Mahesh P. Bhatt & Prof. Mukund S. Trivedi, published in a book "PLANNED PROGRESS OR PLANNED CHAOS?"

BELLICOTH RAGHUNATH JANARDAN SHENOY

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(3rd June 1905 - 8th February 1978)

— A Biographical Sketch By Prof. Mahesh P. Bhatt & Prof. Mukund S. Trivedi

Nearly for two and a half decades, Professor B.R. Shenoy dominated the discussion on Indian Economic Policy and Planning. Through the vast number of articles he contributed to professional and popular journals, he attained a world-wide recognition as a powerful dissenter to what Professor Bauer has called "the spurious consensus of development economics".

He was born on 3rd June 1905 at Bellikoth, a small village near the beautiful city of Mangalore situated on the South-West coast of India. In his school, he was considered to be rather shy but bright and strong-willed boy possessing an unusual degree of self-control and discipline. In 1920, he passed his high school examination, with excellent grades. In those days, a career in the Indian Civil Service was regarded as something which all the bright young students would eventually strive for. Obviously his parents also wanted him to go in for this career. However, the young Shenoy could not keep himself away from the freedom movement which was then in its full-swing. He left his studies, plunged in the movement actively and courted imprisonment in 1923. He was placed in the Nagpur Central Jail, where, by a happy coincidence, Pandit Madan Mohan Malaviya-one of the principal architects of Modern Indian Renaissance and Nationalism was also lodged. As Panditji was in weak health, young Shenoy gladly took upon himself the task of helping and assisting Panditji in his daily chores. Impressed by his sharp intellect, patriotism, and religious upbringing, Panditji took him under his wings, and conditions the Banking system may prevent a fall in the price-level of investment goods, but it did not tackle the more fundamental issue of how the price-level of new investment goods itself gets determined. Adhering to the terminological and definitional frame of the Treatise, he supplemented its system of Fundamental Equations by an additional equation and attempted to show how the system can yield a determinate solution for the price-level of new investment goods. Subsquently, he published another paper *"Interdependence of Price Levels," again in Quarterly* Journal of Economics (1933), wherein he presented further important results appertaining to this issue.

These two papers were received as important contributions to the field and established him as a promising young monetary economist within the profession. To the best of our knowledge, he was the first Indian economist,whose theoretical papers were published in a world-class Journal.

During the same period, Prof.Shenoy also acquired considerable interest in the wider problems of social philosophy and methodology. In this connection, his ideas came to be strongly influenced by Hayekian liberalism and throughout the rest of his life,as an economist as well as a social philosphor and critic, he remained a fiercely uncompromising liberal.

After receiving his M.Sc. degree in 1932 from the University of London, Prof. Shenoy came back to India and for sometime worked as a Lecturer in Wadia College(Pune) and Gujarat College(Ahmedabad). In 1936,he again left India and joined the University of Ceylon as a Lecturer in Economics. His stay in Ceylon turned out to be important for him from the professional as well as from the personal point of view. For it was in Ceylon that his marriage took place with Ansuya Kamath, who proved to be an inexhaustible source of inspiration, support and counsel for him throughout his life. On the professional plane also, it was in Ceylon that he got his first direct experience of persuaded him to join the Benaras Hindu Unversity as a student. His close association with Panditji at a very young age of his life left a permanent and lasting impression on Professor Shenoy's personality. Some of the distinct qualities of his character-his life-long interest in philosophy and religion, his leonine spirit,his unflattering courage in defending the intellectual positions, his vedantic mind-had led him (to espouse-for which his contemporaries subsequently came to respect him can be traced back to his early association with Pandit Malaviyaji). He completed his studies at the Benaras Hindu University in 1929, passing his M.A. Examination with first rank in the first division. His teacher Professor Gurumukh Nihal Singh, who had been taking keen interest in his career suggested him to join the London School of Economics (L.S.E.) for further studies and gladly made necessary arrangements for his stay at U.K. He left India in the same year and registered himself as an M.Sc. students at L.S.E. The academic atmosphere of LSE in those days was charged with intense intellectual activity and excitement. Prof.Hayek had just arrived at the LSE and was presenting the Austrian Theory of Capital and business cycles to the English speaking world for the first time. Simultaneously,an acute controversly and debate had started around Keynes's "Treatise on Money" This was both a challenge and a promise for Prof.Shenoy. As a student at B.H.U. he had already developed a strong fascination for pure theory and had acquired a good deal of intellectual capacity for abstract analysis, and theorising. Consequently, instead of working on some applied problem-which was the usual practice for most of the Indian scholars and students of that period-he chose to concentrate on the study of monetary and capital theory. He deeply immersed himself in the study of these subjects and published his first paper, "An Equation for the Price-Level of New Investment Goods", in Quarterly Journal of Economics (1931). The paper arose out of his dissatisfaction with Keynes's treatment of the price-level of new investment goods in the "Fundamental Equations" of Treatise. In Professor Shenoy's view Keynes's discussion merely showed under what

A BIOGRAPHICAL SKETCH

In terms of intellectual and professional accomplishments, the ten years that he spent with the Reserve Bank of India can be regarded as a very fruitful period of his life. Going by the usual hierarchical rules of the R.B.I. he was not very far away from the Governorship of the Bank. On the other hand, besides a number of technical articles and notes in the R.B.I. Bulletins, he had published in 1948 one of his widely acclaimed books, "The Sterling Assets of the Reserve Bank of India" which he had completed before he joined the Reserve Bank of India.* Moreover, he pursued his interests in capital theory and contributed two important papers related with the analysis of saving and capital in a monetary economy. In these papers, he gave a lucid and authoritative expostion of Austrian theory of capital and discussed some important related issues.**

In 1954, he left the Reserve Bank of India and joined the Gujarat University, to become the first Director of its newly established School of Social Sciences. Although he was holding a position of substantial status at the R.B.I. he accepted the University invitation because of the attraction for greater academic freedom which the university position promised and also because of his love for teaching.

The time of his joining the Gujarat Univeraity marked the beginning his life as a lone advocate of liberal economic order and a critic of Indian Planning. By training and by conviction he was an economist of the liberal tradition and quite naturally he found himself in a major disagreement

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* Professor Bhabatosh Datta, in his history of Indian economic thought considers this monograph as the "most outstanding work" on the subject of Indian sterling balances. As he says "The first important work on Indian Sterling balances was that of B.R. Shenoy, who presented the problem in its true perspective", B. Datta "Evolution of Economic Thinking in India", see also B. Datta "Indian Economic Thought", Tata Mc-graw Hill Publishing Limited(New Delhi).

** (1) "The Classical Theory of Savings" Indian Journal of Economics(1947)and (2) "Static Equilibrium Theories of Savings", Indian Economic Review (1953).

working in Government and Public bodies. He was appointed as a Member, Board of Commissioners of Currency, in 1940 and also occupied the position of economic adviser to the Department of Commerce and Industry of the Ceylonese Government. His active association with the Board of Currency and Department of Commerce, enabled him to acquire a considerable knowledge of financial and industrial practices and institutions. The practical experiences he thus acquired sharpened his understanding of economic phenomena and led him to view theoretical analysis in a more meaningful perspective. This is reflected in his first technical monograph - "Ceylon Currency and Banking" - published in 1941. Various subsequent reviews of the book regarded it as an exemplary piece of applied work for its fine blending of institutional details and theoretical analysis.

In 1942, Prof. Shenoy came back to India to become the Principal of L.D. Arts College(Ahmedabad) which at that time was considered to be one of the prestigious colleges of the country. The College was founded by the Ahmedabad Education Society with nationalist spirit and zeal and had an enviable record of having some eminent scholars of the country on its staff list. He stayed with the L.D. Arts College for three years and before he left it to join the Reserve Bank of India in 1945, he published in a small book form, a critique of the celebrated "Bombay Plan".

From 1945 to 1953 - a period of almost a decade - he remainded with the Reserve Bank of India; and held various important positions in the Bank. He was the Director of Rural Economics and Director of Monetary Research from 1945 to 1946. For one year(1949-50), he acted as a nominated member of the Board of Directors of the Bombay Bullion Exchange. In 1948, he became the Far Eastern Representative of the International Monetary Fund and subsquently for two years (1951-53), he acted as an alternate Executive Director of the International Monetary Fund and the World Bank.

economics. However in the charged intellectual climate from 1955 onwards, they came to be solely concentrated on Indian Economic Policy and planning. His contributions to the field of Indian Economic Policy are distinguished by their underlying unity of approach, and reflect an uncommon understanding of the market principle and appreciation of the role of price-mechanism in allocation of resources. They bear an irrefutable testimony to their author's genius for creative application of this principle and correct sense of judgment, relevance and perspective. Above all, they bring out a social scientist who had an utmost regard for his commitment to his discipline and made no compromises in reaching the conclusions,his reasoning led him to upholding them courageously. For Prof. B.R. Shenoy was anything but a "Committee" man. He was an economist who preferred to be right in a minority of one . Every important contribution he made to the subject, sparked off long-drawn controversies and memorable debate amongst the Indian economists. It would not be an exaggeration to assert that his contributions went a long way in demonstrating the substantive importance of the theory of markets, in the analysis of development issues, and thereby changing the character and quality of the professional discussions on Indian Economic problems.

At the time of the preparations for the Second Plan, the Government of India formed a panel of economists and Prof. Shenoy was invited to be its member. As a member of the Panel, he wrote his famous note of dissent against the massive programme of deficit financing, which was proposed by the majority of the panel members in their memorandum on the Second Plan. He presented an extended and fuller treatment of the issues he had dealt with in his "Note of Dissent" in his "Sir William Meyers Lectures" 1955-56, which he delivered at the University of Madras. The lectures were subsquently published by Madras University in a book-form as "Problems of Indian with "mainstream" view of development planning. He was seriously apprehensive of the development strategy adopted in the Second Plan. He considered that the strategy in its heavy reliance on deficit financing for meeting the resource requirements of the contemplated ambitious investment programmes was permanently committing the country to a regime of inflation and controls. In his view,a genuine and long-term commitment to the policy of maintaining monetary and price-stability was essential part of a truly growth-oriented strategy. Furthermore, Indian planning in its emphasis on the development of highly capital-intensive goods industries,was imposing on the economy a programme of large-scale transfer of resources from agriculture and other sectors to low-return public sector industries. In fact it was a low-employment strategy, which, in his view, a poor country like India could ill-afford. At a more general level he could not share the methodological predilections of most of the development economists of that time formulating and analysing the development issues in terms of mechanistic growth models, devoid of price-theoretic contents. He considered the process of development as too complex a phenomenon and believed that it can be attained only as a byproduct of the economic activities of individuals in the environment of free markets and decentralised choice.

In his view, attempt at supplanting the market determined "priorities" by the "planned" priorities through administrative fiats, how so ever well-intentioned they might be, rested on an extremely weak understandings and appreciation of the strength and direction of market responses to such attempts and the ultimate allocational and distributional effects these responses entailed. Generally these attempts produced results quite opposite from what they were intended for. Obviously, his disagreement with the prevalent view appertained to issues which were basic in nature and his opposition to it was total and outspoken. Before 1955 his interests were more or less equally divided between theoretical and applied on the conventional elasticity approach, he considered the approach as largely irrevelent in the Indian context. By adumbrating impressive evidence, he showed that the Balance of Payments crisis was caused by domestic inflation and was reflected in the observed wide margins between the international and domestic prices of traded goods at the prevailing official exchange-rate. He also pointed out that the devaluation was to take place in the context of imports and exchange controls and in analysing the effects of devaluation this particular fact needed to be properly recognised. In his view, for all practical purposes, international prices of traded goods were parametric for the Indian traders. Consequently devaluation did not imply change in the terms of trade for India. Devaluation in the Indian conditions essentially amounted to elimination of implicit tax on exportables and subsidy to the importers. He contended that it would involve an increase in the rupee prices received by the exporters and a shift-back of exportable goods from domestic consumption to sale in international markets. He recognised the importance of the domestic supply elasticities of exportables in this context. However, he considered the impact of devaluation on domestic prices of imports as nil — the impact being fully borne by the abnormal profits earned by the importers through differences in the landed rupee costs of imports and domestic market prices of imports.

For several subsequent years, his plea for monetary and price stability and for relying on exchange rate adjustments rather than on trade and exchange controls, remainded unheeded by the government. As a result, during these years he undertook a further inquiry into this direction and devoted himself to the analysis of the functioning of overvalued exchange-rate system in India. He wrote a large number of papers on almost all major manifestations of this system: over and under-invoicing of imports and exports, trafficing in import licences, clandenstine exports of capital from India, financing of the smuggling trade and the

Economic Development ." In the Indian context, the book has been recognised as a first major contribution to the analysis of monetary aspects of development planning, in the tradition of neo-Classical monetary theory. It contains a definitive discussion on the relationship between deficit financing, inflation and economic development. At a technical level, it provides an excellent analysis of the factors influencing money-supply in the Indian economy with a sharp focus on the relationship between money supply and government budgetary operations and contrary to the established consensus, it ardently advocated for a substantial prunning down in the size of the Second Plan and maintaining the rate of planned expenditure to a level consistent with the available quantum of real voluntary savings. Prof. Shenoy pursued this theme further in his two papers - "The Indian Economic Scene " and "Prof. Gadgil Rephasing the Second Plan"- which were published respectively in the April and July issues of Indian Economic Journal(1958).

Just after the commencement of the Second Plan, inflationary pressures started gathering momentum, the balance of payments situation became increasingly fragile and Government resorted to stringent import and exchange controls. In 1957, Prof. Shenoy was elected as the President of the fortieth annual conference of Indian Economic Association and in his presidential address, he put forth a vigorous plea for floating the Indian Rupee along the Canadian lines as a solution to then prevailing balance of payments situation. His presidential address evoked a good deal of discussions on the efficacy of devaluation in correcting the prevailing Balance of Payments crisis amongst several prominent Indian economists, and important papers pertaining to this issue subsquently appeared in the print. However Prof. Shenoy's analysis of the Balance of Payments crisis and his advocacy of devaluation had a distinct flavour of originality. While most of the contributors to the debate based their analysis protected urban industries. During 1960, he was attracted to the study of the effects of P.L. 480 food imports on the Indian Economy. After a careful study of this issue, he concluded that the budgetary oprations related with P.L. 480 counterpart funds had a net expansionary effect on money supply and consequently they were responsible for aggravating inflationary pressures in the Indian economy. On the other hand, he reasoned that in an overall inflationary situation, the food imports were likely to lead the economy to a state of substantial and long-run dependency on food imports, by artificially depressing the food prices and inducing resources shift from food production to the production of other commodities. His analysis of the monetary impact of P.L. 480 counterpart fund entailed a long-drawn debate and controversy, in which besides a number of non-govt. economists, economists from the finance ministry, from USA embassy, as well as from the R.B.I. participated. For several years, Prof. Shenoy pursued this theme in a large number of papers, and it was because of his persistent writings on the subject that the Govt. if India was ultimately obliged to appoint a commission to look into the monetary impact of P.L. 480 funds in 1966.*

We have already remarked on his opposition to the planning strategy adopted by the Government of India since 1956. In his view the strategy involved a programme of large-scale transfer of resources from agriculture to public sector industries and other sectors which had easy access to organised capital markets and Government and semi-government financial institutions. By carefully distilling the relevant data, he highlighted the deplorable state of lagging food production and stagnant level of per capita availability of food, prevalent in that period. He further demonstrated the emergence and development of a complicated and discriminatory system of differential interest rates and their inimical effects on resource allocation in general and on

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* All his major writings on this subject can be found in his subsequently published book "P.L.480 and India's Food Problem" (1974).

misallocation of foreign aid.* Obviously it is not feasible here to go in a detailed presentation of his contributions related with these subjects. However, it may be noted that in those days he was perhaps the only Indian economist who was putting a good deal of technical research efforts in investigation of these issues. His investigation of the various aspects of the working of exchange and trade controls in India vividly brought out the pronounced anti-egalitarian and perverse allocational effects. Moreover, they highlighted the large-scale wastage of foreign aid received by India in the form of overcapitalisation of public sector projects, and financing of the smuggling trade. His views on foreign aid made him quite unpopular with the ruling circles in the country. However he remained undeterred in widely publishing his views on this issue in forthright and categorical manner. Realising the Government's ideological opposition to accept a national exchange-rate policy, in a number of papers he pressed for a policy of auctioning of import licences and thereby reducing the anti-egalitarian income shifts and allocational distortions which were largely generated by Government's adherence to the policy of trade and exchange controls.

Besides his contributions to monetary aspects of Indian planning and exchange rate system, Prof. Shenoy also made contributions on two other important topics-the effects of P.L. 480 food imports on the Indian Economy and the increasing transfer of resources from agriculture to the

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* Although he had published quite a voluminous literature on these issues,the following papers may serve as a representative sample of his study on this subject:

1. "Overvaluation of the Indian Rupee"(The Banker 1969).

2. "Currency Overvaluation in Some Underdeveloped Countries"(Il Politico, Uni. if Pavia, Italy,1968).

3. "Freedom and Order in UDC and the Problem of Foreign Aid(Ibid 1965).

4. "Errors and Omissions in Balance of payments statements and No II Money" (The Account 1971).

5. "Errors & Omissions in India's B.P." (IL Politico, 1972).

Street Journal, Far Eastern Economic Review, etc. As a publicist, he remains unequalled amongst the Indian economists for his tremendous expositional and dialectical prowess and for his unreserved and untiring willingness to expound and to espouse "unpopular ideas" of the time.

The quality of an economist is generally measured not by the conclusions he pronounced on particular matters of his inquiry-though that is important-but by the quality of his logic, the technical competence, he demonstrates in his analysis, the empirical validity of the model he has accepted for operational analysis, and above all, by the extent to which his contributions come to reflect and pre-date the analytical interests and contributions of the subsequent generations of the scholars in his field. On the basis of this criteria, Prof. Shenoy would be recognised as one of the most outstanding and important economists by the future historians of Indian economic thought.

A perfunctory persual of literature related with development economics which is now recently coming out in recognised professional journals would convince anyone with an open mind that the problems which Prof. Shenoy identified as important from the view point of economic policy have largely come to command significant amount of research interests from the new generation of development economists. More importantly, many of his findings like the effects of P.L. 480 on the Indian Economy, distributional and allocational effects of exchange control, resource transfer from agriculture etc. have been more or less collaborated.* However it is indeed sad to note that during his life-time, the professional colleagues largely ignored his contributions or relegated their importance to background. Almost all the

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* For a sample of corroborative examples in this regard see Mellor "New strategy of Growth" M. Lipton,

J. Bhagavati & A. Kreugger American Economic Review 1978. J. Bhagavati and P. Desai "Industrialisation" O.E.C.D. Publication agricultural development in particular. His comprehensive analysis of the effects of the policy of repressed interest rates in organised capital markets in an overall inflationary situation with its usual accompaniment of the policy of selective credit controls has provided the basis for the subsequent researches in this field.

Unlike other economists Prof. Shenoy's emphasis on agriculture rested on quite subtle and distinct type of reasoning. A number of economists in those days had advocated greater priority for agriculture. What they meant, was a relatively greater proportion of Government outlays to be spent on agriculture. This was definetly not Prof.Shenoy's view. According to his reasoning, there should be a sufficient curtailment in the total volume of investible resource appropriated by the Government and the resources should be left to flow in the productive sectors, agriculture being one of these important sectors in accordance with the market forces. His idea of appropriate pattern of resource allocation therefore was based upon the twin principles of comparative costs and marginal productivity and was miles away from the usual simplistic "priority" discussions.

In a pervasive climate of intellectual opposition and apathy to market principle and market determined solutions, his writings evoked considerable opposition and strong criticisms from his fellows, colleagues and over a period of time he came to experience a wide communication gap with them. He became an "outsider within the profession-"A Cinderrella amongst the Indian Economists" as one Commentator of Hindu remarked. With stoicism and fortitude he accepted his professional alienation and in the tradition of his great predecessors like Lord Keynes, he tried to reach and influence the outside enlightened public opinion by writing profusely in prominent Indian and foreign newspapers and journals like Swarajya, Hindu, Times of India, Statesman, The Economists, Fortune, Wallpractices — emphasising instead the importance of understanding the underlying logic of these arguments and evaluating them critically.

His weekly seminars where he used to discuss the problems of his ongoing researches were a sort of star-attractions for the students and used to be frequently attended by the other faculty members and scholars outside the department. It is difficult for us to convey the atmosphere of intense intellectual confrontation, argumentation which used to prevail in those seminars, suffice it to state here, that all his students genuinely felt that they learnt most of their economics in those seminars and with deep nostalgic feelings many of them still remember them and cherish their memories.

During his stay, at the University Prof.Shenoy attained the zenith of professional recognition. In 1957, he was elected as the president of the Indian Economic Association. In 1962, he was honoured to delivere the prestigious Walchand Hirachand Memorial lectures, and in 1966, he delivered Sir Ramaswami Mudalliar lectures at the University of Kerala at Trivendrum His writings won him international recognition as well. He was invited to be a member of the Mont Pelerin Society. Subsequently he was the recipient of the prestigious Relim Foundation grant and went to U.S.A. as a Relim Foundation Visiting Scholar and delivered series of lectures on Indian planning at several American universities, and in 1966, he went to the London School of Economics as a Visiting Professor of Economics.

In 1968, his life took an unexpected turn. He resigned from his position and left the Gujarat University due to a difference of opinion over the appointment of a Reader in the Labour Welfare Department of the School. He felt that in the appointment, the University administration had not paid due weightage to the opinion of the faculty. He was deeply committed to the ideals of academic freedom, and he found it impossible to reconcile with the decision of the administration. Many leading intellectuals and educationists-irrespective of

academic writings and surveys dealing with Indian Economic Policy published durings sixties and seventies seem to be conspicuous in their universal silence on his contributions and views.**

He stayed with the Gujarat University from 1954 to 1968- a period of almost fifteen years. During his Directorship he established a strong tradition of economic liberalism at the Economics Department of School, and exposed generations of young students to liberal economic ideas and doctrines. For a number of years, he taught courses in Monetary and International Economics. His lectures used to be uniformly lucid, extremely well-organised and terribly stimulating. For in those days of an almost axiomatic acceptance of anti-market ideology and the left radicalism, students were encountering a person probably for the first time in their lives who was relentlessly challenging the basis of every "sacred cow" of the interventionist ideology and programmes, and presenting with an impeccable logic the desirability of maintaining monetary stability; the socially useful functioning of forward markets and the virtues of flexible exchange-rate system, compelling them in turn to reconsider their views on many important issues of theory and practice and to study and appreciate the logic of free market economy and the theory of markets. He intensely disliked the widely observed propensity of Indian students and scholars to perorate the arguments of famous economists uncritically and used to guide his students for such

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** An illustrative example of this tendency is J.Bhagavati & S. Chakravarti's survey paper on Indian economic policy. The paper, commissioned by the American Economic Association and bearing the usual mark of authenticity of that august body, is meticulous in mentioning even the least important papers on P.L.480, auctioning of import licences etc. but largely keeps away from refering to Prof. Shenoy's contributions, which as everybody knows were first contributions on these issues and which have been instrumental in initiating widely participated controversies and debates around these very issues.

Similar tendency is also observed in case of Prof.Bhavatosh Datta's otherwise excellent work on History of Indian Economic thought.

Prof. P.T. Bauer has also recognised this unfortunate ommission in case of Gunnar Myrdal's widely famous volume "Asian Drama", See his "Dissent on Development".