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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

The title Economic Prophecies has been given to this book for two reasons. First, no less a person than Nobel Laureate Milton Friedman saw, as early as 1963, the voice of a prophet in B R Shenoy's writings. Second, today many of us realise with a sense of wonder – and hindsight – how true were Professor Shenoy's analyses and conclusions on various economic issues about which he spoke during his lifetime. Many of his insights are worth remembering even today since we may be required to fight an onslaught of socialist ideology any time in the future too.

Economic Prophecies is the first of a two-volume set of his writings, and reaches out to the general reader. The second volume Theoretical Vision is geared more towards students of economics. This, the first volume, contains his writings from 1954 until his death in 1978. Many of these were published either in economic periodicals, or in widely circulated newspapers, some in the form of books. Several of them were originally delivered as lectures at reputed forums. All these writings, which are rather difficult to access, have been brought together here.

This volume has been divided into five sections dealing with different aspects of the Indian economy and society. Providing an overall perspective, Section A contains three articles in defense of free enterprise. He wrote these three articles when he saw that communist infiltration was taking place in the government; when Indian entrepreneurs, by joining hands with the government, were working as enemies of capitalism; when the government shut its ears, refusing to hear any criticism of its socialist policies.

Section B contains articles pertaining to planning in India. These run the gamut of the beginning of his crusade against socialism – with the criticism of the plan frame of the Second Five-Year Plan – till his last appraisal of 25 years of planning in India. He often urged the need for an alternative to planning, and an entire article is devoted to this exposition. Another article with rare insights is the one on fallacies of plan finance, which contains the core of his criticism of Indian planning.

Throughout the book, we can see evidence of how he took it upon himself to sound the warning to politicians and the public on the wrong path taken by the Indian economy, replete with suggestions on what can be done to put it back on track – unfortunately, we did not give heed to what he said.

Section C contains four articles on foreign aid. In Professor Shenoy's view, massive aid from governments and multilateral institutions had become an easy passport to grandiose government projects and luxurious living for the people involved in those projects. Foreign aid was, in his opinion, being wrongly invested by way of constructing prestigious but unproductive monuments. He urged that care should be taken to invest aid wisely in productive investment, which may lead to higher productivity and growth of the economy.

According to him, India did have a need for import of wheat under PL 480, but it should have been limited only to meeting our market deficit or building up necessary buffer stocks. He also objected to PL 480 finance because it led to inflation. He skillfully pointed out how aid was used to finance gold smuggling or export of private capital in foreign countries, especially places like Switzerland. The government of India was very perturbed by Professor Shenoy's criticism of foreign aid because the weakness of the government was exposed all over the world.

Section D contains ten articles which critique different aspects of government policy - such as the population control policy, wage policy and export promotion. The common theme running through these is that socialist policy created so many distortions in our economy: sometimes the government did put correctives in place, but these too defied economic logic. Professor Shenoy suggested from time to time what the correct solution can be for every ailment of the economy.

The last section is devoted wholly to his views on Indian agriculture, which remained a chronically neglected area throughout the plan era. He felt the problems of agriculture were primarily the consequences of government policies. The government was intervening without understanding the root causes and hence his perception that all efforts of the government were bound to fail.

The last article in this section is very important because it is probably the last piece of Professor Shenoy's writing available to us. On 19 January 1978, a little more than two weeks before his death, he wrote a comment on the Note on a New Price, Trade and Marketing System on Agricultural Produce as issued by the ruling Janata Party in December 1977. His comments indicate the great importance he gave to growth of agriculture, and how deeply he felt for the plight of farmers and others in the rural areas.