BOOK REVIEW

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THE UNEXPLORED KEYNES AND OTHER ESSAYS – A SOCIO-ECONOMIC MISCELLANY

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This is the definitive collection of articles by an economic historian and policy maker who has the unique distinction of being the singular scholar who has examined Keynes' India connection. It has always been a mystery as to how Keynes who never visited India yet had a sustained interest in the country. As Chandavarkar points out Keynes' India connection "was, arguably, the longest saga for any economist in time and space". It turns out that Keynes graduated in mathematics at Cambridge and gave the civil service examination. The convention was that the candidate who stood first went to the Treasury and the person in second place – in this case Keynes – joined the India Office. Within seven years his first publication in 1913 entitled Indian Currency and Finance established him as a monetary economist. Chandavarkar traces how Keynes attitude to British rule in India was conventional – he believed it protected the poor against rapacious moneylenders and brought good government and material progress to India. Interestingly he supported a major demand of Indian nationalism – the abolition of the salt tax – and placed his faith in the efficacy of cooperative credit societies as an agency for the emancipation of peasants from moneylenders. In fact, he went so far as to endorse government borrowing to develop cooperatives which Chandavarkar questions as the rationale of a cooperative is to rely on members subscriptions.

Keynes views on central banking in a developmental context are noteworthy and have been exposited on by the author. He emphasized in addition to the regulatory function, the promotion of financial intermediation. Keynes suggested the necessity for professional management not subject to political interference, the planned expansion of branches in under-banked areas, and the provision of rediscounting facilities to Indian banking. Unfortunately he did not consider the possibility of a central bank issuing its own securities independently of the government or the Government of India would not have had to issue Market Stabilization Securities a few years ago due to insufficient ammunition in the RBI's portfolio. Because securities with the central bank may be insufficient Keynes supported the alternative of the variation of reserve ratios so as to influence credit. Thus Keynes was a proponent of direct rather than indirect instruments of monetary control. Keynes also stressed the importance of timely data on economic aggregates which resulted in the appointment of Findlay Shirras to head the newly created Directorate of Statistics that helped to give India a database superior to that of other developing countries. However, it is a surprise as to why he did not advocate an Economic Advisor for the government.

One of the students Keynes supervised at King's College was B.P. Adarkar whose first publication "Mr. Keynes and the Classics" in the Economic Journal was possibly the first by an Indian economist in a professional journal of repute. Adarkar returned to India to the Benares Hindu University where he produced high quality publications but went unrecognized – no honours such as the presidentship of the Indian Economic Conference or a chair in a University. Another star student of Keynes was I.G. Patel who went on to become the director of IIM Ahmedabad and the London School of Economics, and the Governor of the RBI.

Chandavarkar's volume includes some fascinating essays on development. He points out how the saving fund embodied in disguised unemployment is inflated because it abstracts from the existence of large scale indebtedness in agriculture or the economies of joint consumption on the family farm. He also argues that income effects of price changes on the supply of food might operate to produce a backward bending supply curve. In an insightful essay he inquires into the causes of gold hoarding in developing countries like India. He argues that it is not a result of the desire to provide for times of need and neither is it an inflation hedge because substantial income is from the non-monetised sector and also because the sale of ornaments involves a capital loss as the seller cannot recover the cost of workmanship. Gold is more a durable consumer good that is demanded for its esteem value he argues. Since this represents foregone consumption it actually has an anti-inflationary impact and does not represent a leakage of resources but rather is an inducement for producers to increase marketed surplus and so is complementary to output. There is a bunch of illuminating essays on economic philosophy, Keynes as a young social philosopher, and whether Keynes was anti-semitic. The essay on an independent federal RBI is striking in its call for reform of the RBI which has not been on the agenda of reform. As he tellingly puts it that with the RBI Act of 1934 the "Government of India became the male chauvinist husband and the RBI the ever docile traditional Hindu wife". The RBI itself as he points out is opaque in terms of its operational and procedural transparency. A case is also made for the setting up of a federal RBI so as to enable monetary policy to take account of regional impacts. Appraisals of I.G. Patel, Dharma Kumar, and Ralph Whitenack who at the age of 30 served an Economic Advisor to the Gaekwad of Baroda from 1906 are also part of the book. This is a multi-hued miscellany of articles that have been crafted by a multi-faceted master who understands the nature of men and institutions and who puts up the mirror of the contingencies of history in front of us so as to equip us better for the future.

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