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An exposition of trends and tendencies in the present state of debate in economic theory and practice is by no means an easy task. There are so many strands and these strands have become so tangled. There seems to be a process at work in which the body of economics periodically renews itself and takes on a different shape while keeping its substance very much the same as before. Economic thinking assumes a cyclical pattern. To go back no further than a hundred years ago, J. S. Mill’s orthodoxy first fastened itself upon the world of academic economics; but its rule gave place to the Jevonian revolution, which in its turn yielded place to Marshall’s orthodoxy. With Marshall as the high priest of economic science it looked as if there was general agreement about the principles of economic thought. And his most ardent pupil, not dreaming in the least that he was going to create a revolution of his own, declared that “important improvements are becoming rare”. The rebirth of controversy followed the economic crisis of the thirties. Even the fundamental assumptions which were taken for granted, or which had passed unnoticed, came under rigorous examination. The Marxians and the Keynesians have created what appears at first sight a veritable crisis in economic thought and policy and we witness to-day not the firm and straight lines of the Marshallian structure but a furious attempt at repair and reconstruction from the basement to the ceiling. The economist in his search for first principles and final conclusions has arrived at the same position as Alice in Wonderland:

“The time has come, the Walrus said,
To talk of many things,
Of shoes, and ships, and sealing wax,
And cabbages and Kings,
And why the sea is boiling hot,
And whether pigs have wings.”

The nineteenth century was an age of specialisms. To-day the boundaries between the Social Sciences have broken down. Economics in fact
grew out of Moral Philosophy and one of the most striking features in the economics of the Founders, above all in Adam Smith and Malthus, was the strong infusion of ethics and theology at the roots of their thought. We are once again recognizing the many-sidedness of Economics. The economic problems of the present day are inextricably embedded in a whole mass of relationships which cut across purely economic considerations and impinge upon all phases of man living in society. Or as Mill pointed out, “A person is not likely to be a good economist who is nothing else. Social phenomena, acting and reacting on one another, cannot rightly be understood apart.” An economist to be an economist must be vastly more than a mere economist. Keynes emphasizes the fact that the Master Economist must possess a rare combination of gifts: “He must be mathematician, historian, statesman and philosopher in some degree. He must study the present in the light of the past for the purposes of the future. No part of man’s nature or his institutions must be entirely outside his regard. He must be purposeful and disinterested in a single mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician.” Recently Barbara Wootton has set up a “lament for economics,” that it is conceived almost solely as a study of market processes—as an analysis in terms of margins and equilibria, of movements of demand, supply and price in several kinds of markets such as labour markets, capital markets and money markets. Equilibrium analysis has too narrow a field and too limited a vision with the result that as Wootton says, “the economists feed on their own tails by busying themselves with the analysis of imaginary worlds which they themselves have invented”. And the incursion of mathematical methods in economic analysis has led Robbins to exclaim that the Economics of the future will not be a body of knowledge accessible to everyone.

The 1890’s were the first of the three decades of what may be called the Marshallian epoch. It was distinguished by three characteristics. There was first a novel preoccupation with problems of social reform and progress. Secondly, economic history detached itself from general history and obtained a secure and rightful place within the precincts of academic economics. Thirdly, a new organon of economic theory, variously called marginalism and neoclassicism, came into its own after a prolonged and arduous struggle. Marshall’s leadership succeeded in uniting these strands and produced the New Economics of round about 1900 with a proud apparatus of conceptual tools, models and schemata.

Even a cursory glance at the changing world of economic analysis to-day will disclose so many novelties not known to the theorists of the Marshall Age. The Price Theory has been entirely recast in terms of imperfect com-
petition in place of the traditional assumptions of perfect competition. Modern thinkers are concentrating upon a theory of the forces which determine the aggregate activity of the economic system as a whole as distinct from the time-honoured theory of relative prices. In place of the single equilibrium so dear to the economists of a generation ago we have had demonstrations that equilibrium is possible at different levels of output and various levels of employment. Parallel to these developments there are studies in economic fluctuations based on varying assumptions about time lags and about the movements of different categories of economic quantities. These studies have called into question the old notion of stable equilibrium and have given us instead the “cobweb theorem” which describes the situation where price and output, far from converging directly on the position of stable equilibrium, might fluctuate hither and thither around such a position. These cycles are important in agriculture and are distinctly noticeable in hogs, sheep, cattle and some vegetables, the length of the cycle varying with the “period of economic gestation”.

The general effect of these recent developments has been to destroy the very basis of the economic theory of the late nineteenth and early twentieth centuries. The fundamental assumption upon which that theory was made to rest, that the economic system was a self-adjusting and self-regulating mechanism tending to bring about an optimum allocation of resources among various productive uses, was proved to be divorced from the realities of the market-place. The wide prevalence of monopolistic conditions and imperfect competition made it impossible to justify the equilibrium positions of the traditional doctrine. There are firms which are neither economic nor of optimum size; prices do not always conform to costs, and where they do, the costs are not reduced to the minimum; the ideal distribution of the productive factors among their various uses is often distorted; selling costs are a needless item of expense that result in shifting demands without adding to total satisfaction; profit is quite often the result not of superior ability but of restrictive practices; fluctuations of economic activity are more frequent and more steep than they need be; the economic system suffers repeatedly from under-utilization of resources. These conclusions led to a remodelling of the traditional edifice to make it approximate to the real world of imperfect competition.

A little while ago we were concerned with problems of relative values but to-day the shift is to problems of relative volumes. It seems quite out of fashion to discuss the trade cycle in terms of price changes, and the prevailing tendency is to discuss it in terms of unemployment or the size of the national income. Barely a decade ago exchange control was considered
as a corrective of over-valuation or under-valuation of currencies, but now its importance lies in closing the gap in the balance of payments. We notice the transition from static value economics to dynamic value economics.

Some distinction has to be made between the study of economic theory and economic problems. Economic theory is concerned with the enunciation of general principles that have universal validity while economic problems refer to concrete issues of reality such as the clash of progress and security and the conflict between freedom and restrictionism. The bulk of economic theory has been conceived in terms of statics while economic problems, frequently arising under the influence of change, growth, invention and technology, call for dynamic analysis. Like most concepts used in modern economics, statics and dynamics have been adopted from physical science, more especially from that branch of physics known as mechanics. By statics in economics we understand an approach which makes no allowance for the element of time and which treats effects as if they occurred simultaneously with the changes in conditions that give rise to them. The great systems of economic theory such as those of Marshall or Keynes are static. In recent times we notice a steady attempt to build up a system of Economic Dynamics where the quantities are dated and account is taken of change and growth. Hicks and Harrod have given us a system of dynamic analysis. Since the formal methods involved in dynamics are usually numerical and mathematical, the ordinary student of economics finds himself shut out from an understanding of much of the modern debate conducted by Frisch, Roos, Tinbergen, Kalecki and Samuelson. To their comfort it must be stated that the "literary" or "logical" works of Joan Robinson, Hicks, Pigou and Robertson have shown that verbal reasoning can have all the vigour, grace and even beauty that is usually appropriated by the language of symbols. As Hicks warns us, "our mathematician will not have become an economist until he has learned that there are vital things in economics which are not applied mathematics; and that there is much else which could be stated mathematically but which anyone with a sense of elegance would prefer to state in prose." And Stigler bemoans the fate of the mathematical economist who "purchases mathematical literacy with economic illiteracy".

The main body of economic theory still treats of small "atomistic" units like commodities, firms or industries while economic problems of the present time are generated by the behaviour of large "aggregates". In American economic literature these two branches of modern analysis are called micro-economics and macro-economics. The study of particular commodities, individual firms or particular industries with its proper tools of demand and supply, marginal analysis and equilibria are contrasted with
the study of problems and policies which are concerned not so much with units as with aggregates such as the general level of output, the general level of prices and the general level of income, employment and trade. The economic policies of modern governments which have a bearing on large groups and aggregates are framed on macro-economic terms. Until the thirties the study of aggregates was considered to have relevance only to the business cycle, but in current economic thought the study of aggregates is greatly widened. The business cycle theory and general theory are integrated and much importance is attached to the forces that determine the size of the aggregates.

The fortunes of economic theory and economic policy seem to be bound up with the prevailing climate of laissez faire or State interventionism as the case may be. Economic theory was fashioned in an environment that was largely governed by the laissez faire philosophy. Economic theory became an apologetic for the free trade and free enterprise doctrines and its principal assumptions rested on the "beneficent" play of market forces. But economic policy has strayed away from its old moorings and with the tremendous expansion of Government intervention in business affairs economic policy has become either a cause or a consequence of State action. A study of economic problems resolves itself, very largely, into a study of public policy.

We cannot however belittle the role of economic theory even in matters relating to economic problems and policy. Economic theory is necessarily abstract, hypothetical and speculative. It proceeds on the assumption that one or more factors are in operation while the rest are constant or quiescent or non-existent. Gradually the unreal or hypothetical assumptions are shed and the model takes on a shape that corresponds to reality. Economic theory sets out with the simple model of a Robinson Crusoe on a lonely island and goes all the way to Yankee Doodle at the very hub of a well-stocked and flourishing world. Economic theory and policy are not mutually exclusive or antagonistic. Theory and policy complete each other. There is no doubt divergence between the hypothetical and the real but the construction of simplified and graded models of the hypothetical is the key to the understanding and unraveling of the real problems of economic life.

Many economists have supposed that controversy over the theory of value, like the controversy on the scope of economics, has been laid to rest. A body of received doctrine, they say, has reigned for nearly half a century. There seems to be a conspiracy of silence on their part to regard it as sacrosanct and beyond question. In recent years, however, there has been an undercurrent of doubt and instead of brooding on the margin we now move down curves of indifference, exchanging cigarettes for beer according to our
varying preferences, and if we have the courage to do so, further admitting the claims of a third commodity or even a fourth commodity on our scale of preferences. As Gray puts it, "We have discussed the subject of Value for a solid 2,000 years; but it may be doubted whether we have made much progress. Such advance as is periodically made seems, indeed, to consist largely in a dawning realisation of the inadequacy of a recently held dominant theory."

The prevailing tendency, unlike the sage counsel and practice of classical political economy, has been to make economics essentially a theory of exchange—an analysis of price relationships between things which appear on a market as objects of purchase and sale. Adam Smith, no doubt, spoke of the propensity to truck, barter and exchange as peculiar to human beings. "Nobody," he says, "ever saw a dog make a fair and deliberate exchange of one bone for another with another dog." Smith's successors, however, did not follow out his trail into the theory of production and distribution but confined themselves to the theory of exchange which was supposed to furnish principles true of any and every type of exchange society. Production and distribution were of importance to them only so far as the pricing of the factors was a part of the market process, a demand for these factors being derived from the demand for the final product. Economic laws in the hands of Professor Hayek acquire the force of "synthetic a priori propositions" which arise not from individual physical facts but from wholes constituted out of familiar categories of our minds which apply to all economic experience. Hence a large part of economic territory was put outside the pale of the orthodox canon. Among the items excluded are the question of the ownership of the means of production and the class relations that are the direct outcome thereof, the emergence of surplus over cost and the justification of its proprietorship, and the notion of Capitalism as one among many possible economic systems, each with specific advantages and disadvantages. The general theory of price determination, more or less isolated from the interacting social phenomena, became the sole concern of the economic theorist. Such a conception involved a drastic departure from reality. And the Indian economist, for example, working in an environment where custom and tradition, the caste and the joint-family, religion and dharma bind society otherwise than on abstract principles of price determination and exchange economy, has been surprised at the somewhat sterile results achieved by Western speculators in economic theory. His obvious approach would be a social or institutional one that comprehends forces both economic and non-economic and their mutual interactions.
The central theory of economic behaviour, despite its formal perfection, does not correspond with facts. For instance, we are told that wherever exchange is free, desires of consumers shape the pattern both of prices and of allocation of productive resources in the direction of the optimum. And the theory of price determination is made to cover both product prices and factor prices and the solemn principle of marginal productivity is somehow taken as an explanation of the relations of production and aspects of distribution. We may return to Smith and Ricardo and seek an explanation of exchange relations in the real cost relationships between factors of production and the products which emerge therefrom. Or as Marx laid it down, value is a social relation and not merely a relation of exchange.

The crux of the problem of value in economics is the search for a common denominator to express the sum-total of cost factors such as land, capital and the various kinds of labour. The classical theory reduced all costs to terms of labour while the Subjective Theory set out to measure them in terms of utility or satisfactions. The former is objectionable because the cost at which a thing can be produced cannot be reckoned independently of the size of demand while the latter is objectionable on the ground that it defies measurement. Dobb, who has done the most in setting forth the requirements of a satisfactory theory of value, says, "the significance of a theory of value has to be looked at, not as a premise from which all else in economics is deducible a priori, but rather as a method of analysis: a conceptual framework for focussing our attention upon causal sequences and economic mechanisms which are the important ones for understanding the real world and for acting upon it." Wicksteed had warned us long ago that economics is not merely a matter of the market place or monetary dealings but one aspect of all human activity, namely, the aspect of choice or balancing of alternatives. His delightful discussions of how much family prayers should be shortened to speed a parting guest to the train, or of how high a cliff one would dive off to save a mother-in-law from drowning, brought home to his readers the wide generality of economic principles. He also laid the ghost of that shadowy creation, the "economic man".

Economic theories are conclusions drawn from assumptions according to the rules of logic. "Pure" economic theory is therefore a field of logic and an exercise in mathematics. It follows that an economic theory is formally correct if its assumptions are not mutually inconsistent; but it becomes practically useless if these assumptions, as it often happens, do not correspond to facts. It is quite often forgotten by the economic purist, raising his elegant logical structures, that an individual may not care to attain a position of maximum satisfaction, because the effort involved in
reaching a nice mathematical balance is more than what that nice mathematical balance is worth to him. Prof. G. M. Clark rightly alludes to the "irrational passion for dispassionate rationality".

The economist brought up in the settled traditions of value theory is occasionally shaken out of his complacency by what may appear to be a common sense approach in accord with the world around him. Hall and Hitch have raised the question, Is the Price Theory of economic treatises borne out by business behaviour? By the interview and questionnaire method they have thrown fresh light on the way in which business men decide what price to charge for their products and what scale of output to produce. The basis of current doctrine on the price and output policy of the entrepreneur is that he expands production to the point where marginal revenue and marginal cost are equal. As a result of their survey these economists have cast serious doubt on the general applicability of the conventional analysis of price and output policy. They reveal a mode of entrepreneurial behaviour which the current doctrine tends to ignore. The carefully constructed systems of Chamberlin and Robinson with their marginal and average revenue and marginal and average cost will not fit into the generality of cases. In quite a large number of firms interrogated by Hall and Hitch there was no conscious aim, in their pricing policy, at a maximisation of profits by the equation of marginal revenue and marginal cost. These firms were thinking in altogether different terms; in price determination they apply a rule of thumb seeking the realization of "full cost"; and they achieve maximum profits, if at all, more by accident than by design. The formula for "full cost" which differs in detail from firm to firm may be generalised as follows: prime cost per unit is taken as the base, a percentage addition is made to cover overheads, and a further addition (frequently 10 per cent.) is made for profit. The precise method by which the price is fixed by the firms under examination is not what a reader of Chamberlin and Robinson would infer. A large proportion of business people make no attempt to equate marginal revenue and marginal cost in the manner which economists have asserted to be their typical behaviour. There is a strong tendency among business men where oligopoly is present, or even where it is absent, to fix prices directly at a level which they regard as their "full cost".

The concept of "Profit" bears a wide variety of meanings. "Profit maximisation" is a very frequently used expression in discussion on the theory of the firm and yet considerable disagreement exists on what it should convey. Knight, who believed in the dependence of profits on "uncertainty," was supposed to have laid securely the foundations of a theory of profit,
but the wide range of concepts of profit persists even to-day. In a recent
survey of over thirty widely used texts it was found that there are seven
variants of the risk or uncertainty theory of profits, four variants of the
managerial or entrepreneurial functional theories and three variants of mani-
pulative or exploitive theories. The continued disagreement among econo-
mists, accountants and business people on the nature and role of profits
leads to several ambiguities in the use of the concept in economic analysis
and the need for a restatement of the economic nature of profit is keenly felt.

In areas of value theory the most important contributions have been
made in bilateral monopoly, indifference—curve analysis, oligopoly theories
and liquidity preference. The theory of employment, though outside the
range of value theory, has progressed significantly and along fruitful lines.
The content of recent advance is made up of Robertsonian periods, the Stock-
holm theories, above all, the apparatus of Keynesian functions such as con-
sumption, investment and liquidity. Much progress has also been achieved
in the building up of Economic Dynamics as a study of economic processes
that undergo important changes through time or, in more technical language,
a study of functional relationships between economic variables and their
rates of change, their velocities, their accelerations and their “derivatives of
derivatives”. Advance has also been made in monetary, fiscal and cycle theory.

It will not do to exaggerate the novelties or allow ourselves to be carried
away by the vast array of new tools and the attractive wrapping over these
tools. As Stigler has warned us, “The plain fact is that the economic theory
of the present time is much the same as that of 1930—a little better here and
a little worse there.” It is the neglect of the historical development of eco-
nomic doctrines that leads the contributors to exaggerate recent advance
in theory. Hence we should always hark back to Marshall and Edgeworth,
Walras and Pareto, Cournot and Marx and thus attain a proper sense of
proportion as between the old lamps that burn with a dim but mellow flame
and the new lamps that are apt to dazzle us with their piercing but perhaps
fitful rays.

The economic specialists of the present day in their over-powering pre-
occupation with statistics and mathematics have neglected the historical
method, once so productive of good results for economic thought. We
should exploit it more than has become customary. The historical method
has the advantage of yielding solutions on a much wider range of problems
than is possible with merely quantitative studies. For example, the con-
temporary theories of employment are developed mainly in terms of the
savings—investment approach in preference to the older quantity theory
approach. The belief is that propensity to consume part of one’s income
is a truer and more dependable index than willingness to hold some definite amount of cash in relation to one's expenditure. Here is an antithesis between the traditional method and the Keynesian apparatus. The question is really one of fact and the correct answer must come out of historical as well as statistical studies. Kuznets has shown that some of the predictions based on the consumption function and the proportion of national income saved have not come true, thus raising a doubt whether the quantity and velocity approach deserves to be discarded out of deference to the consumption function. In our hurry for the discovery of new truths we have been placing too much trust on casual observation. Rather, we should accumulate carefully tested regularities of economic behaviour and thus make sure that most of what we do know will continue to be true. This has been the age of the short-cut, or as Stigler says, "the period of the clever gadget and plausible surmise—the age of the easy answer". Careful interpretation of inductive studies, a discerning use of equations and statistics, a patient testing of theories by a comparison of their predictions with the actual course of events, a determination to accept only those results for which the evidence is compelling: these are the guideposts for economic research which will save us from spurious discoveries and frequent recantations.

In money and banking, as elsewhere in economic life, the two features of change and continuity may be traced. An old French proverb, "the more it changes, the more it is the same" may well be applied to monetary theory and banking practice. The scope and magnitude of changes in monetary institutions and policies have never been so great as in recent years and yet it would be an exaggeration to say that the Keynesians have fully displaced the Ricardians.

At the time when economic policy was thought of primarily in terms of laissez faire, the monetary system was likewise expected to operate in an automatic or self-adjusting manner. It is now widely recognized that the gold standard even in its heyday was to some extent a managed system, while banking has always been subject to some degree of legislative control and public regulation.

Ever since the World War I monetary management has been carried to great lengths. Control policies at first centred round the foreign exchange rate. The measures adopted sought to "peg" the quotation of one currency in terms of another or, as it happened in the thirties, to gain a competitive advantage in foreign markets through currency depreciation. Many countries subjected foreign exchange transactions to extreme forms of regulation. Since the period of World War II the control of foreign exchange has become universal.
We have moved far indeed from the simple conceptions once held of a system of money and banking mainly automatic and self-adjusting. The fundamental change is in the duty cast upon the state for maintaining stability and in the great increase in the number and variety of methods available for the discharge of this duty.

At one time it was usual to think of money as merely a lubricant for the wheels of business and the ideal of money cherished was that it should be wholly "neutral" in the sense of exerting no positive influence on the economic process either in the direction of stimulating or retarding economic activity. More recently stress is laid on the dynamic characteristics of money. As Robertson puts it in a telling simile, if the tires of industry were sagging, it might be well to pump them up with a little monetary inflation. These dynamic potentialities of money, inflation and deflation, have become of paramount importance in the formulation of policy.

The principal names associated with the modern development of monetary ideas are those of Keynes, Beveridge and Robertson. The speed with which their ideas have spread and the extent of their influence on public policy, particularly on policies for maintaining a high level of employment and output, are without parallel in the progress of economic thought. Deficit financing, pump-priming, compensatory budgets, make work policy—all these stem directly from the teachings of the modern economists. There is a shift from concentration on quantitative factors governing the value of money to an emphasis on the behaviour of money. The attention of economists has been increasingly drawn to the flow of money payments through the economic system. Hence money intrudes into questions of national income, distribution of wealth among different groups of the population and the volume and disposal of saving, consumption and investment. While belief in central bank policies and instruments is by no means abandoned increasing attention is paid to fiscal policies, tax plans, public spending and management of public debt. Fiscal policies are far more effective than the traditional instruments of central bank policies in governing the flow of money payments through the economy and thus in determining the behaviour of money.

Changes in banking theory, though not as spectacular, are none the less fundamental. The character of banking has become altered from what it once was. When, for example, the assets of commercial banks consisted more and more of Treasury obligations and less and less of the short-term self-liquidating paper it is obviously necessary to rethink accepted conceptions of banking operations,
In the field of both money and banking we have on the one side a substantial body of inherited theory calling for restatement and on the other a new theoretical structure, largely fashioned by the Keynesian school still in the process of adaptation and appraisal.

The changes which have occurred in recent years call for a revaluation of accepted views concerning the traditional theory of banking. Among the principal developments which have taken place largely since 1930 are the change in the character of banking assets, the emergence of reserves greatly in excess of the requirements of safe banking and the altered environment, official and institutional, in which the banks operate. In most countries the banks have been transformed from holders of private to holders of public debt, from holders of earning assets in the shape of loans and discounts to those of earning assets in the shape of Treasury obligations. A second major change in banking has been the piling up of excess reserves and their continuance year after year despite strong measures to reduce them. Keynes in 1930 had laid it down as an axiom that banks generally use their reserves up to the hilt and hardly ever maintain idle or excess reserves, and yet, such is the irony of the history of economic doctrines, the emergence of surplus cash in the vaults of banks was proving to be a flat contradiction of Keynes' assertions. The older assumption that reserves would be fully and promptly utilised, thereby compelling the banks to move in step with one another has lost much of its force. A third major change arises out of alteration in business environment. The phenomenal growth of a government bond market, the extension of Treasury activities and fiscal policies to promote economic activity and combat depression, the direct purveying of credit to finance the operation, first, of war and then of post-war reconstruction, the marked tendency of business enterprises to finance their own operations and to reduce their dependence on bank credit—these are the institutional and environmental factors that have affected the scope and character of commercial banking.

The changed basis of deposit creation has seriously affected the traditional mechanism for automatically adjusting the supply of circulating medium to changes in the volume of transactions. As long as commercial paper constituted the mainstay of bank portfolios, an increase in the quantity of trade would be offset by a corresponding increase in the circulating medium. The automatic regulation of currency and credit has lost much of its effectiveness and its place is being taken by administrative controls such as monetary management, fiscal policy and central bank instruments. A deposit system tied primarily to government debt and public policy will behave differently from one tied primarily to personal debt and business transactions.
It will show greater stability in amount and probably a greater capacity to deal with booms and depressions.

The change in the character of bank assets indicates a shift in the economic functions performed by banks. At one time banks facilitated the production of goods and services as was proved by the tendency of the volume of bank loans to vary with changes in the volume of production. Nowadays the demand deposits of banks reflect not bank loans, not industrial production, not allocation of scarce resources among competing ends, not exchange of their own highly regarded and widely known credit for the credit of their customers, but the bank holdings of Treasury obligations. Hence the questions have often been raised: have the banks largely gone out of banking business, is not nationalization of banks a natural fulfillment of the prevailing tendency in the banking world?

The logic of recent theoretical advance in money and the outcome of recent changes in banking practice is that fiscal, financial, banking, monetary and business cycles problems are becoming integrated into one vast system. There is at any rate intermingling and intertwining of diverse functions formerly assigned to institutions working independently of one another.

Since economic life is governed by price relationships and since price relationships are a monetary phenomenon, the successful functioning of the economy depends very much on the orderly behaviour of the monetary system. Contracts are entered into with a promise to pay in the future and long-term credit involves in its very nature an element of time. Hence the importance of money as a standard of deferred payments—the very function which money has performed with the least amount of success. The leading proposals for monetary reform centre round stability in the value of the monetary standard. The fundamental purpose of the 100 per cent. reserve plan is to deprive commercial banks of their power to create circulative medium, or, what comes to the same thing, to wipe out the power of commercial banks to create demand deposits. The chief idea behind the proposal for “composite commodity reserve money” is to establish a new type of monetary standard in place of the gold standard. A composite commodity unit would be established comprising fixed quantities of a large number of staple commodities such as meat, cotton, wool, rubber, coal, copper, sugar and tin. A “bale” of commodities would be the legal tender monetary unit of the country. And as in the days of the gold standard a two-way convertibility would be maintained between currency and the composite commodity unit.

The chief importance of these and similar proposals lies in the contribution their study makes to an understanding of the nature, behaviour and
operation of the monetary system. The proposals of the theorists may not always be enacted into law but their effect on practical conduct of monetary affairs is increasingly felt. Thus the raising of member bank reserve requirements in U.S.A. is but a means of limiting the expansion of bank deposits. It is different only in degree from the 100 per cent. reserve plan.

Great interest has been evinced since the early thirties in the factors governing the behaviour of money and its reaction on the functioning of the economy. The development of ideas was largely an outcome of the depression and the proposals for reform centred on an expansionist policy such as deficit financing and cheap money. A considerable body of monetary thought was developed in the decades of the thirties and forties; and though it was called into existence in response to particular economic situations such as depression, war finance, inflation, exchange control and dollar shortage it does not lack theoretical validity. As Paul Samuelson says, "The technique of analysis is neutral on policy questions". Thus the basis of the income-expenditure approach to the behaviour of money is the assumption of a flow of money payments through the economy and the consequences that ensue. The income of people results from the expenditure of people; it becomes available for spending and in so far as it is spent and not saved it generates income once again, and so on. In the words of Keynes, "Any level of production is potentially self-financing at the existing level of prices."

In the theory of monetary behaviour investment occupies a place of crucial importance. The gap in the flow of money payments is caused by saving and the gap has to be closed by investment. Here the interest rate on the price for loanable funds appears as the arbiter. According to Keynes, "The rate of interest is not the 'price' which brings into equilibrium the demand for resources to invest with the readiness to abstain from current consumptions. It is the 'price' which equilibrates the desire to hold wealth in the form of cash with the available quantity of cash."

The developments in monetary theory during the last two decades have given a new direction to monetary policies. Largely as a result of the Keynesian approach the theory of money has been brought out of its isolation and integrated with the main body of economic thought in general and with the theory of employment and of public finance in particular. The centre of interest has shifted from the factors determining the quantity of money and its effect on the price level to those determining the level of output and employment.
Central banking emerged from World War II with a new technique and with new functions. In time of war, central banking, like everything else, loses its essential character in an over-all attempt to achieve total victory. Central banks, for example, become the instruments of "deficit finance". Government deficits have however disappeared in many countries and the two leaders, U.S.A. and U.K., now show considerable budget surpluses. In the post-war world, central banking has to be conducted within a framework of full employment policies and wide extension of Government activity. The usefulness and effectiveness of the traditional instruments of banking policy have been depreciated. The question has now emerged, has the depreciation gone too far—are not those instruments of some use to fight inflation, which is the post-war malady of most countries?

A review of the development of banking methods during the last two decades reveals two tendencies—a swing away from the "quantitative controls" and a move towards "selective credit policies".

The theory of central banking was expounded by the Macmillan Committee, the theory which dominated the inter-war period. It envisaged the chief purpose of a central bank as the task to "keep the financial structure upon an even keel". To carry out the purpose the central bank has to be endowed with the power to control the expansion and contraction of credit. In those days the paramount importance of the bank rate and open-market operations, instruments pre-eminently suited for the control of credit, was stressed. On these lines the technique of control over the quantity and price of credit was worked out fully in the U.S.A. and U.K. and to a moderate extent in those countries like India where the money markets were in different stages of integration.

The definition of a central bank in terms of a rediscounting rate and open-market operations, important no doubt in the formative period, appeared to be too narrow to meet the needs of a changing economy. The many attempts to transplant the traditional technique of the central banks in the undeveloped countries also showed that the bank-rate policy was not such a "delicate and beautiful instrument" that the Macmillan Committee imagined it to be.

The policy of maintaining the interest-rate at a steady low level arose out of the cheap money philosophy of the thirties. Low rates were considered an important stimulus to capital investment, so necessary to bring the economy out of the slump. Cheap money also had the additional advantage of reducing the cost of servicing the national debt. Experience however showed that the new policy of low rates was of very great efficacy. It
became fashionable to assert that interest rates should be kept at a low level. Such a view amounts to reducing the Central Banks to passive agents whose sole business is to create the cash basis required to support the stable pattern of low rates. But the central banks are not content to accept such a passive role. Hence we see a disposition among them to balance the decline in the importance of quantitative control by the development of qualitative control. The underlying idea is that while a low interest rate is good for capital development, qualitative or selective credit policy will keep the money mechanism on an even keel to prevent unhealthy developments in particular directions. It has now been established that the interest rate as an instrument of credit has serious limitations; it works too slowly either in encouraging or discouraging activity in the right directions. Hence other weapons must be sought. For instance, to discourage a particular boom the central bank might restrict consumer credit or accommodation for the stock market, holding interest rates steadily at a low level. With the changing structure of the inter-war and post-war economic systems, sensitive points at which controls can be applied have changed, e.g., mercantile credit and foreign lending, at first, and now consumer credit and stock exchange speculation. As Sayers puts it, “The central bank should be quick to adapt itself to changes in the economy, and should be ready to use any device it can find to control the behaviour of the financial system in the interest of the employment policy adopted by the Government”.

In the 1920's the prevailing view of economists was that the monetary or credit policy was a sufficient instrument for economic stabilization. In the 1930's the monetary policy was brought down to a position of subordinate rank. The central bank itself does not appear to be such an all-powerful institution as in the days of Walter Leaf, Kemmerer, Kisch and Parker Willis. For example, the traditional concept of the Bank of England as the supreme monetary authority controlling the volume of credit and regulating the amount of bank cash has been modified in the light of the cheap money doctrines, and as a result the Government, instead of private industry, has become the chief borrower from the banking system. Though the volume of deposits is determined almost solely by the financial policies of the Government there is little foundation for the recent theories of “costless credit” popular in some quarters. To the question whether the monetary system has a positive influence on the course of economic activity Sayers replies that he leans definitely to the view that it is in the main passive, though it could, if ill regulated, be a “positive nuisance”. It is important to appraise not only the potentialities but also the limitations of monetary policy and judge to what extent economic stability can be achieved through credit instru-
ments only. One has to take note of recent challenges to generally accepted views and observe their bearing on the financial systems as it operates under present-day conditions.

For effective monetary management we should get at the economic significance of a given amount of money—what groups hold it, in what proportions and for what purposes. In the thirties large amounts of money were held idle because of depression and lack of confidence but in recent years again large stocks of money have been inactive partly because of changes in income distribution and partly because of the shortage of goods and yet the two situations have entirely different implications. As Goldenweiser points out, fiscal and monetary policy are complementary phases of public administration—fiscal policy may create income but by itself cannot create money while currency policy can create money but cannot of itself create income.

Money plays a strategic role in the economy of a country. Nearly all economic activity is conducted through money payments. The amount and distribution of the monetary flow should be such as to place in the hands of consumers sufficient means to purchase the current output and in the hands of investors sufficient funds to maintain, replace and expand the productive equipment. To ensure such a flow of funds is the broad objective of monetary policy.

Whether the objective can be achieved with changes in the volume of money and in its efficiency and velocity is still a controversial question. Some attach exaggerated importance to the volume and velocity of money. Others, discouraged by the obvious fact that economy often fares badly even though money supply is more than adequate, abandon their faith in the economic potency of financial measures and turn to remedies such as Government spending and Government controls. Thus in the deep depression of the 1930's many thought that if we could only increase the quantity of money, the economy would recover; but when it was actually increased recovery failed to follow. The correct view seems to be that the money supply, the income stream and the pattern of distribution are among the major factors that shape the economic functioning of society. Walter Bagehot said, "Money will not manage itself". It needs management and management calls for operatives who will manage it adequately and effectively. There are several factors in a given situation making, say, for inflation: money wages, profits and prices; and the causal relationship in all these economic phenomena is so interlinked that all serve as causes as well as consequences. None of these factors is so readily susceptible of control and management in a free economy as money. The supply, availability and cost of money,
which enters into all these relationships is largely amenable to regulation. In discussing the role of money, however, it must be borne in mind that the forces which affect its function and behaviour are partly concrete and definable and partly intangible and psychological. “In certain respects money, one of the most concrete of economic entities, is nothing but a state of mind” says Goldenweiser. It means something entirely different to different people, depending on their state of mind or their attitude towards thrift and providence, their appraisals of cost of effort, their willingness to take pains, their addiction to luxury or even their degree of affection for money itself.

It is often asked whether monetary management can assure economic stability. If all money paid out, it is asserted, was promptly used in the purchase of consumer goods or on the production of capital goods there would be no business fluctuations. In other words, so long as all the income produced is immediately returned to the flow through one channel or another there will be no diminution or expansion of income and hence neither depression nor inflation. In practice the question is not so simple or decisive, because there is no effective way of ensuring a continuous flow of all income in the shape of goods and services. Many factors enter into the equation such as the character of spending, purposes of saving, the distribution of income among individuals, corporations and groups, or the fact that a complete utilization of current income may not allow for adequate expansion. One cannot deny that monetary management can influence ability and willingness to save, to spend, to invest and to lend but one doubts if the influence can be exerted in such a way as to guarantee steady and continuous operation of the economic machine without excessive slowing down or gearing up.

Out of the incessant strife between liberalism and socialism, capitalism and communism there has emerged the idea of conscious recognition of the problems of social organization and the exercise of conscious control over the economic system. The economics of control of which a convincing theoretical exposition has been given by Lerner is contrasted with the economics of laissez faire and of collectivism. Everywhere we observe a deliberate application of whatever policy will best serve the social interest and national economy, irrespective of the issue between private enterprise and collective ownership.

There is a dogma of the right which asserts that Government should not interfere with the profit-motive and profit-making business and there is a dogma of the left which would be satisfied with nothing short of complete State ownership and State management. There is much to be learnt by
contrasting these two 'pure' forms of economy and in making a synthesis out of them resulting in a 'mixed' or middle-of-the-road or 'controlled' economy combining the best devices of both the 'pure' forms.

Control must be distinguished from regulation. We have regulations of public utilities, food supplies, external trade, prices and subsidies, but these do not total up to a "controlled economy". They are partial, haphazard, sectional and fluctuating and not organized according to well-defined objectives as they would be if the Government accepted the responsibility to get the best out of the resources of society. Uncontrolled economy is like an automobile with passengers but without a driver while controlled economy has both passengers and a driver. Lerner proves that the benefits of both the capitalist economy and the collectivist economy can be reaped in the controlled economy. Welfare economics which works through a system of intelligently-conceived controls is a reconciliation of the tenets of liberalism and socialism.

Thirty years ago planning was little more than an idea in the minds of certain economic theorists. Any proposal for a planned economy aroused violent reaction. Since the World War II the idea of planning has become immensely popular and a planning system of some sort a commonplace necessity. The experience in planning and priorities acquired in the wars, the serious impairment of confidence in planless capitalism, the necessity to devise a rapid recovery and reconstruction programme after the last war, the increasing support given to planning by economists generally and the first-rate advertisement that planning has received through the colossal Russian experiments—all these conditions have led to the urge towards a planned economy in all the great countries. In a world continually torn by wars, depressions, and unemployment, capitalism is on its trial and is now on a fair way to be considered as a stage in the historical process from feudalism to socialism, from primitive and pastoral economy to a controlled and integrated economy.

Twenty-one years ago Russia presented her first five-year plan. There have been several plans since then. The phenomenal economic growth of these years and the rapid rate of industrialisation and collectivisation, though by no means as extensive as the "official" figures indicate, attracted the attention of the major nations of the world. To Western countries Russia seemed to have discovered a remedy for the ills from which their capitalism was ailing, while to Eastern countries Russia seemed to provide the only way by which rapid marches towards industrialisation and towards the rising of their deplorable standards of living could be achieved. To-day, there is systematic planning in fifteen countries, accounting for over one-half of
the world’s population and three-quarters of the world’s income. The planner—pure and simple, the planner—capitalist, the capitalist—planner, the capitalist pure and simple, all these are peddling their wares and we are witnessing as though under laboratory conditions experiments of every hue and variety in some country or other. The goals of planning, the range of planning, the order of priorities, the degree to which central decisions supplant those of private enterprise, the extent to which planned economy and free economy are combined, the manner in which the targets selected are to be reached—all these differ, but the general trend is unmistakably towards a controlled system.

In a planned economy the public authority has to decide the scope and role of the so-called capitalist trinity, viz., sovereignty of the consumers, the behavior of the price system and the quest for profits. Barbara Wooton has stressed the compatibility of planning with the freedom of choice and argued that democratic planning need not compromise on consumer’s sovereignty or yield a pattern of output materially deviating from that given by consumer’s choice in a planless state. A planned society of course will, unlike the atomistic individuals, prefer the future to the present and tend to increase savings and reduce spending, or at any rate vary the proportions between saving and spending to suit the exigencies of the economy. Hayek and Mises may conceive of the journey to planning as the “road to serfdom,” but Finer and Dobb look upon the journey to capitalism as the “road to reaction.” The most serious doubts concerning the planned economy revolve around the issue of liberty. How to achieve economic goals without a complete surrender of fundamental freedoms is the problem that nearly defies solution. The U.S.S.R., the classic land of economic planning, is said to possess no freedom of speech, of assembly, of religion and of the press. Post-war Britain which has gone a considerable way towards a planned economy is still a land of liberty and has limited its controls to prices, imports, foreign exchange, licensing of factories, rationing of commodities and allocation of resources. There must be a half-way house between liberal capitalism and regimented planning which yields the benefits of both the systems and avoids their evils. The strength, the flexibility and the resilience of capitalism even under the severest trials show that it has not exhausted its usefulness.

India is still groping its way towards a planned economy. It has had a spate of plans. The best known among them, the Bombay Plan, sponsored by private interests, lays emphasis on rapid industrialisation, rising productivity, and a trebling of income within a period of fifteen years. The Government too has had its own blue-prints covering segments of the coun-
try's economy and now it has gone one step further by the appointment of a National Planning Commission. What Seymour Harris says of the Bombay Plan in particular may be generalized: "The plan is little more than a statement of objectives and an exercise of arithmetic."

In the years of the Great Depression and in the war years full employment was the main objective of planners. Under the influence of Keynes and Beveridge the economists preached the doctrine of full employment and drafted idealistic plans in which jobs for all were provided. Beveridge's Utopia in which there are more jobs than men seeking them seemed to be near fulfilment in several Western countries in the years following the Great War but the world nevertheless was still very short of both consumption and capital goods. Naturally the note that is now struck is not so much that of employment for all as that of productivity of those gainfully employed. The various raw-material bottlenecks, the wage disputes, the inflationary pressures, the dollar shortage, insufficient mobility and scarce resources, these seemed to destroy the effectiveness of a full employment policy. They call for the highest rate of productivity both of labour and of capital. The shift of emphasis has been from full employment to production at optimum levels. Productivity is the main concern of the planners to-day. The problem is how to raise the man-hour output and the following measures are actively brought into operation: increase in capital per worker, replacement of old plant by new, improvement in labour-capital relations, scientific techniques, efficient management, trained personnel and removal of restraints on output by both labour and management. Countries favouring planning on a large scale are inclined to depend as much on the control of demand and allocation of resources as on purely fiscal and monetary measures.

Recent developments in public finance are without doubt among the most significant trends in the science and technique of economics. The two World Wars and the intervening Depression have carried fiscal theory and policy far beyond its traditional role. The major contributions to the literature of public finance have been made largely from the monetary angle and by monetary economists. Strange as it may seem, as business cycle studies progressed in terms of money the economists became aware of the inadequacy of purely monetary controls and veered to the opposite extreme of fiscal controls as offering the most promising general solution to the problem of cyclical changes in the volume of employment.

It is being increasingly recognized that the raising and disbursement of government funds by no means constitutes a limited field of economic activity. It raises a host of issues bearing on production from the private economy and income through the private economy, and, through these, on
the way in which the whole economy works. It also calls for insight into the effects of the relative social utilities of governmental services and private spendings as also the impact of change in the operations of public finance on the structure and ideology of government, nay, even on inter-governmental relations. The elucidation of fiscal problems to-day requires the concerted effort of many specialists. Some of these problems can be resolved by cause and effect analysis while others involve value judgments. Leaving out social and philosophical considerations, every fiscal proposal or practice will have its repercussion on national production, national income, the standard of living, distribution of wealth, the financial markets, particular localities, particular classes and particular lines of business. Lutz still insists on the rigid observance of the orthodox canons of public finance and brands contemporary views on fiscal reform as “alien doctrines”. He even exclaims, Is taxation for revenue becoming obsolete? On the other hand Dalton, Hansen, Somers and Taylor expound and advocate the recent advance in budget theory and fiscal policy.

The issues in the field of public finance are by no means solely financial or mainly economic. Fiscal activities of government affect the social structure at a multitude of points, and the making of policy decisions involves choice of ends and means not only in the financial sphere but also in the political and social sphere. The major question concerns the use of fiscal instruments for the accomplishment of purposes not strictly germane to fiscal theory, as for example, the maintenance of the level of employment at which the economy operates.

The case for compensating fiscal policy rests on the fact that the financial operations of Government have grown to such proportions as materially to affect the level at which the economy of the country operates. In modern times governments take from, and put into, the stream of national income a sum varying from one-fourth to one-third. Expenditure by government amounts to the employment of productive resources for the creation of things which society, as distinguished from business people, wish to be produced. It may also guarantee a reasonably stable and high level of production and thus eliminate the wastes involved in the under-utilisation of productive factors. Since the business cycle in the last resort is a cycle of spendings the compensatory methods may be used to encourage private spending in periods of unemployment and discourage it when there is a threat of price inflation in periods of full employment. Fiscal instruments are regarded as effective tools for control of the level of output and employment and thus for protection of the private economy from the consequences of its most serious defect—instability.
The Compensatory Fiscal Policy has however not escaped criticism. Nor has it proved an unqualified success in every case. The opponents of the policy hold fast to the orthodox doctrine of a balanced budget and a budget that is balanced at the lowest possible level of revenue and expenditure. That school does not recognize the income-inducing effects of public expenditure. Neither do they encourage Government spending which is not self-liquidating in the sense that the income to Government must be at least equal to the cost thereof. Any withdrawal of private income in the shape of taxes in their view is simply an abstraction of funds which would fructify if left in private hands. Spending without production is a free-lunch policy or a make-work policy which neither improves welfare nor adds to production in the long run. Government can only give public employment at the expense of private employment. The whole point of the criticism turns out on the scale of the minimum for Government finance. The orthodox school defines minimum levels solely in terms of the current need for government services and debt reduction while the compensatory school would define the minimum levels in terms of both the Government services and the needs of the economy as to employment, production and income. The neo-classical theory upon which the orthodox fiscal theory is based assumes full employment as the rule and looks upon unemployment as a temporary aberration for which there are reliable correctives. The compensatory doctrine points to the possibility of equilibrium at several levels of employment depending upon consumption and investment. It is wrong to think that the compensatory policy no more than redistributes an existing volume of production, robbing Peter and paying Paul. It is really designed to bring unutilized productive agents into active use and thus create additional production. Of course, when full employment of productive capacity exists, compensatory spending will be devoid of its useful effects and will result in inflation and a faulty redistribution of incomes. It is of as much importance to consider the timing and manner of taxing and spending as the mere fact of taxing and spending.

The emphasis that is laid upon compensatory possibilities in recent works on public finance may lead one to suppose that fiscal instruments constitute the only determinant of the level of economic activity. Monetary and banking policies may be of equal importance in determining the level of national income. Other regulating factors to be considered are the degree of competition inherent in the economy and the general pattern of income distribution which will affect investment and consumer spending. Thus fiscal policy is but one of several instruments tending towards stabilization and full employment. It has to be used consistently in con-
junction with non-fiscal controls and then only its effectiveness will be fully felt.

Robertson speaks of that humble individual, "the general purposes" teacher of economics who is apt to be pulled out of bed every six months with the news that his subject has undergone another revolution and that everything he has learnt and ventures to teach is once more in the melting-pot. Every now and again the "creative specialists" in our subject lead an assault on some phase of the orthodox canon and received doctrine. These assaults which are really no more than skirmishes are often called revolutions to increase the humble teacher's perplexities. He has thus been confronted by the Hicks–Allen revolution which gave us marginal rates of substitution in place of marginal utility; the Chamberlin-Robinson revolution which replaced competition by duopoly, oligopoly and polipoly; the Hall-Hitch revolution which dropped the tidy and elegant curves of demand and supply and put in their place the actual reactions and rule-of-thumb methods of the practical business people; and other revolutions set on foot by Tintner and Tinburgen, Slutsky and Kalecki. There was finally the master revolution of the Keynesians which is holding the field to-day.

One notices again and again a move forward from the Marshallian base, the storming of bastions and bastilles followed by a retreat to the secure shelter of the Great Master. The position is thus summed up by Robertson, "My own feeling is that though a great deal of high-grade intellectual power has been expended in the last fifteen years, nothing really very important has happened. The Marshallian tools are multiplied and sharpened for the study of competition and monopoly, tools which the old man had left relatively few and blunt. Geometry ascended the throne left vacant by philosophy and commonsense; and ingenuous youths and maidens, beguiled into the belief that here at last was a true picture of a new world, spent the best moments of their young lives in memorizing (generally wrong) endless fantastic patterns of tangencies and intersections." For a discerning student of modern developments the temptation to say, "There it is all in Marshall" is too great. The old master, very wisely, declined to polish his tools over-much or add needlessly more and more complicated tools, for he knew, what contemporary tool-makers after a hard day's work reluctantly admit, that the facts of life still elude their rigorous theoretical models, that the range of uncertainty concerning many variables and relationships are great enough to discourage the use of the "precision instruments" devised by the theoretical economist. In Marshall we may not find effective demand, anticipations, multiplier effects, full employment,
oligopoly, but the basic ideas are all there held in solution as it were. Lest we should exaggerate the revolutionary character of Contemporary Economics, Hicks an innovator and one of the "cycle makers", to use his own expression, warns us, "One must never forget, that the General Theory is in essentials a formalization (and sometimes an over-formalization) of the great Cambridge tradition in monetary economics, which descends from Marshall to Keynes, not without significant contributions from Pigou and Lavington, Robertson and Kahn. To associate it solely with Keynes is something of a personification." After all there is something in the jibe that Economics is the science that tells you what you know already in language that you do not know.

It has been my object to present an intelligible and reliable account of the main ideas in theory and practice which have been evolved during the last three decades. Knowing that merely informative summaries of recent literature in economics would not satisfy a gathering of savants I have tried to convey a sense of the essential character of the recent trends in economic thought. Of course I have not treated the economic fraternity merely as narrow specialists but as members of a liberal profession who look beyond propensities, liquidities, regression co-efficients, time parameters, balances of accounts and equilibria of forces to the whole arena of economic life. Contemporary economics really began in the worst depression in history, continued through the biggest war in history and has extended into a period of reconstruction and planning on a scale never before known in history. It is no wonder that all these critical years of the present century have produced an amazing efflorescence of economic ideas and an imposing array of analytical devices and their practical application to public policy.