Book Reviews

Deficit Financing, Controls, and Movement of Prices in India since 1947 by A. Vasudevan. Bombay: Allied Publishers Private, Ltd., 1967. Pp. 239.

Experience with the processes of inflation and growth is varied around the world and through time. In Western Europe and the United States, there has been rapid growth (or slow growth) when prices were rising and when they were not. The Japanese success story shows that more or less chronic inflation is consistent with a high growth rate; but it also shows that the growth rate is less rapid at the highest (observed) rates of inflation. Socialist countries, like Poland and Russia, have experienced (planned?) inflation in accompaniment to growth. Recent Brazilian and Mexican experience suggests that a rapid inflation is consistent with (contributed to?) a high growth rate. Indonesia and Ghana provide examples of inflation leading to stagnation or disintegration rather than progress. Other contradictory examples add to our mixed bag of empirical evidence.

In this small volume, the author explores this perennial but unresolved question of the relationship between the processes of inflation and growth with special reference to the Indian experience from 1947 to the mid-1960's. Part I is devoted to a "statement of the problem", matters of definition, and a review of the "theory". It is a discursive rather than incisive exposition of theoretical notions from Smith and Say, through the Classical School and Keynes, to Friedman. Withall, the author fails to establish a systematic statement of the theory he will use and does not formulate any hypotheses to be examined or tested. Nor does he propound a precise, coherent framework for the analysis which follows. It shows the author's familiarity with the standard literature but it will be of no more than passing interest to experienced professional economists. It will be useful to the neophyte — but there are better introductory treatments available. The whole section is not crucial to Part II which is the heart of the matter.

The author examines, in Part II, the variations over time in the government deficit, the money supply, the price level, and the gross domestic product. It is a lengthy (and sometimes tedious) description of these time series. The narrative could have been shortened and made more effective by greater reliance on the use of graphs and statistical tables, summarising the trends and turning points in the text. Unfortunately, there are no graphs and the numerous tables are untitled and incompletely labelled so that one is not always sure what the data are except by grubbing through the overly detailed literary description. And at the end we are unable to discern any systematic or consistent relationship among the variables or to advance our understanding of the processes of inflation and growth.

From Partition in 1947 through 1950, the government deficit (defined as the excess of expenditures over revenue financed by drawing down cash balances or borrowing at the central bank) fell from large to negligible. It was a period of inflation, inflation which was especially sharp in the first and last of the four years. But through it all the money supply (conventionally defined) was virtually constant. From 1951 to 1955 the government deficit rose from nothing (actually a modest surplus) to very large; the price level rose during two of the middle years, but it *fell* 12 per cent in the first and last years! The money supply was falling in the early part of the period and rising, at an accelerating rate, for the remainder. During the second-plan period, 1956-60, the government deficit consistently fell from very large to negligible; prices increased sharply at first, slower but consistently later; the increment to the money supply grew larger each year. And over the entire period gross domestic product sputtered ahead, never spectacularly. Similar, disparate changes occurred for the third-plan period up to the mid-1960's.

In short, there is no apparent systematic relationship between the values of the observed variables; the r^2 between any pair of variables must approach zero. Introduction of a "lag relationship" might lead to a higher measure of correlation. Or perhaps the divergence from expected relationships could be accounted for by introduction of other considerations. The author discusses the impacts of direct controls which were used from time to time, and he notes that for some years the balance-of-payments deficit, financed by drawing down foreign balances, was a factor. But oddly, the rate of interest and the role of private, as opposed to public, investment is never mentioned. Other variables readily come to mind.

In sum, from this book, we have some additional historical and descriptive facts—which is the major value of the book—but we have discovered no new insights into the basic problem at hand.

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