

## UNIT-V

### INDIAN ECONOMIC THOUGHT

Indian economic thought is relatively little known either in India or elsewhere. The study of ancient Indian economic ideas provides a deeper insight into India's culture, tradition, and inherent national characteristics. The major sources of information about the economic ideas of Indian writers are Vedas, Arthasastra, the Ramayana and Mahabharata, Manusmriti, Sukraniti, and several other ancient Indian texts. Many scholars, particularly during the first half of the 20th century, attempted to make an objective and unbiased evaluation of ancient Indian economic ideas, explicitly or implicitly, contained in ancient Indian writings. Indian economic thought has certain special features which necessitates a separate study of Indian economic thought. The peculiar features of Indian economic ideas are:

1. **Descriptive:** The economic ideas are descriptive and not analytical. Indian thinkers paid more attention to practical problems and hence are realistic in nature.
2. **Mixed with politics:** Economic ideas were mixed with politics and were influenced by political factors.
3. **Less Emphasis to Material wealth:** Indian thinkers mixed ethics and economics together and did not give much importance to material wealth and welfare. They gave importance to moral aspects of life also.

Thus the utility of the study to Indian economic thought is undoubtedly very great. It provides an economic interpretation of our historical past; and enables us to interpret the motives of economic activities of our ancestors.

We may classify Indian economic thought mainly into two as ancient economic thought and modern economic thought.

#### Ancient Indian Economic Thought

The history of Indian economic thought provides rich insights into both economic issues and the workings of the Indian thinkers. A study of the history of Indian economic thought provides the first overview of economic thought in the sub-continent. The sources of information available for the study of ancient Indian economic thought are Vedas, the Upanishads, the Epics - Ramayana and Mahabharata, Smritis and Niti Shastras particularly those of Manu and Shukra. Among these, the two most well-known ancient Indian writings are Arthasastra and Manusmriti. Kautilya was the important thinker, whose 'Arthasastra' has been considered the most reliable work on ancient Indian economic thought. It should be mentioned that ancient Indian thinkers had no clear conception of economics and their ideas were mixed with politics, ethics and economics.

#### Kautilya (350 BC-275 BC)

Kautilya was a professor of political science at the Takshashila University of ancient India, and later the chief Minister of Chandragupta Maurya who ruled over the mighty Indian empire in the 4<sup>th</sup> century BC. He wrote the [Arthashastra](#) ("Science of Material Gain" or "Science of political economy" in Sanskrit). both names that are traditionally identified with Kautilya. He is known by the name of Kautilya

because he was an expert in diplomacy and political strategy. Arthashastra deals extensively with aspects of political, economic, and social management and is the oldest book on management in the world. Arthashastra provides an authentic account of the economic and political ideas of the day. It also contains information about law, agriculture etc. prevailed at that time. It also deals in detail with the qualities and disciplines required for a wise and virtuous king. According to Kautilya, the king's happiness lies in the happiness of his subjects and his welfare lies in the welfare of his subjects. It was written by Kautilya around 350 BC. Kautilya has given vivid description of the administrative procedures, the duties of kings, ministers and government officers, in his book, Arthashastra. It covers almost every aspect of the theory and practice of economics. It also deals with nature and purpose of material wealth, varta - agriculture and animal husbandry, dignity of labour, trade, public finance, population, slavery, welfare state, social security, interest, price control, socio-economic institutions and town planning. His book contains ample ideas on a welfare state. We may briefly summarise the economic ideas prevailed in ancient India as elaborated by Kautilya.

### **Nature and Purpose of Material Wealth**

[Kautilya](#) says that artha (sound economies) is the most important thing and dharma and karma are dependent on it. Hence the king shall be ever active in the management of the economy. The root of wealth is (economic) activity and lack of it results in material distress. In the absence of (fruitful economic) activity, both current prosperity and future growth will be destroyed. A king can achieve the desired objectives and abundance of riches by undertaking (productive) economic activity. The term Artha (wealth) occupied an important place as one of the Purusharthas, in the system of economic thought during the Vedic Period. Artha or the material wealth or prosperity was essential for the stability and maintenance of the social structure and organization which provide means and opportunities to a decent living.

### **Varta- National Economy**

**The most common word used at that time as Varta meaning the national economy. The national economy consists of agriculture, animal husbandry and trade. Later on money lending and artisanship were also brought under Varta. The King was expected to have a good grasp of Varta or Economics. The term Arthashastra was wider in scope than Vartha and it was a combination of economics, political science and jurisprudence. Arthashastra is that science which describes the actions and administration of Kings in accordance with the dictates of revelation and of law as well as the means of appropriate livelihood. Arth or material prosperity was necessary for the smooth functioning of social structure, organization and institutions.**

## **Agriculture**

Ancient Indian scholars laid considerable emphasis on agriculture including animal husbandry. It was regarded as the basic source of new wealth. Agriculture was the highest occupation in society. Agriculture is the most important constituent of the economy. Three principal vocations are recognised as providing men with the means of livelihood namely, krsi (agriculture), pasupalya (cattle rearing) and vanijya (trade). The three together constitute varta (derived vritti, -livelihood). In those days the state and the community were responsible for the development of agriculture for which waste land were to be cultivated. The lands which were neglected by absentee landlords were to be taken away and given to those who could cultivate them with greater advantage. With respect to taxes on agriculture, avoid extremes of either complete absence of taxes or exorbitant taxation.

## **Labour**

The economic thinkers of ancient India regarded that labour as unproductive which failed to achieve its end. They never said that agriculture was more productive than other types of labour. Kautilya clearly mentioned that women should help men in productive activities in agriculture and trade.

## **Trade**

Gold or bullion was regarded as a means of producing wealth; and trade was the source of industrialized capital. There was free trade in those days in India. Tolls, duties and customs were realized for revenue purposes. The state had framed trade regulations which show that commerce in ancient India had reached an advanced stage.

## **Population**

In ancient India there was no fear of large population as population could not grow beyond a reasonable limit because of constant wars between small states, and loss of life due to the lack of medical facilities.

## **Welfare State**

The state was to promote the welfare of people by regulating the life of people. It had to give subsidies for the development of trade, agriculture, irrigation, mines, cattle welfare, etc. Various regulations relating to financial transactions, weights and measures, essential industries, currency and exchange, public works, prevention of adulteration, usury, etc point towards the ideal of a welfare state. Good governance in Kautilya's literature is aimed at fulfilling the welfare of the people. "In the happiness of the King's subjects lies his happiness, in their welfare, his welfare. Whatever pleases him personally, he shall not consider as good, but whatever makes his subjects happy, he shall consider good."

## **Private Property**

Our ancient economic thinkers supported the institution of private property. Individual and family can own land and the right in land was transferable and saleable. The state dominated all forms of property and levied cesses and fines when needed.

## **Interest**

Interest was justified in ancient India on the ground that capital was essentially productive. Interest in those days was part of profit. Kautilya proposed the public regulation of interest.

## **Production and Consumption**

The starting point of the ideals of consumption in ancient India was the acceptance of the doctrine of the four ends of life. They are Dharma, Artha, Kama and Moksha. In those days four agents of

production – land, labour, capital and organization appear to have been recognised. Land was regarded as the source of all wealth.

### **Functions of the State**

Our ancient economic thinkers had a clear idea about the functions of the state. In the field of production, the government followed the principle of full freedom and enterprise to individuals within limits. It is important to note that private individuals could also undertake the manufacture and sale of commodities monopolized by the state.

### **Public Finance**

Taxation was regarded as one of the most important source of State revenue. Ancient Indian thinkers supported tax for beneficial purposes and not to be wasted by the government. The two principles that were followed in connection with the realization of taxes were : (i) It should be levied once a year and should not prove burdensome and (ii) Taxes should be levied according to the ability to pay. Kautilya's discussion of taxation has several underlying principles - the taxing power of the state should be limited, tax should not be felt to be heavy or excessive, tax hikes should be introduced gradually, tax should be levied in the proper place, time and form, and tax level should be equitable and reasonable. Ideally, the government should collect taxes like a honeybee that sucks just the right amount of honey from the flower so that both can survive. Kautilya's scheme of taxation involved the elements of sacrifice by the taxpayer, direct benefit to the taxpayers, redistribution of income (the state took care of the poor), and tax incentives for desired investments. Kautilya suggested forced loans for meeting deficit budgets.

### **Town Planning and Social Security**

Town planning which included the re-orientation of main roads and street, and the sub-division of city areas was found in a much developed form, particularly during the days of Mauryan Kings. The metropolitan city was established after a detailed and careful planning; and due emphasis was laid on the maintenance of sanitation and prevention of fire. Regarding social security, Kautilya emphasized that it was the prime duty of the state to protect the weak and the aged, to provide jobs to the unemployed, and to set up poor houses and charitable institutions.

### **Critical Estimate**

The study of ancient Indian economic thought leads one to the conclusion that the economic ideas were scattered and discontinuous. Economic life was governed by religious ideals and moral sanctions. People generally believed in the Karma theory. Economics was not regarded as a separate discipline but combined with ethics, politics and philosophy. State intervention was considered necessary for the protection of consumers and weaker sections of the community. Due emphasis was laid on the establishment of a welfare state. It was the duty of the King to maintain law and order and to regulate the life of people. The King should also adopt measures to increase their prosperity. Self – dependent village units provided economic stability in ancient India. The economic ideas of Kautilya are undoubtedly the precious gems of ancient economic thought.

### **Thiruvalluvar**

Thiruvalluvar was a celebrated Tamil poet and philosopher and ancient Indian economic thought would be incomplete without the economic ideas of Thiruvalluvar. His celebrated work [Thirukkural](#) is one of the important works of the Sangam era and it is a work on ethics. It deals with the fundamentals of life. Valluvar's teachings were an appeal to the people and he was not a mere scholar but a prophet

to his countrymen. Thiruvalluvar is thought to have lived sometime between the 2nd century BC and the 8th century AD. The basic economic ideas of Thiruvalluvar are contained in the four chapters of Thirukkural and it is one of the most revered ancient works in the Tamil language. It is considered a 'common creed', providing a guide for human morals and betterment in life. Thirukkural is a combined word formed by joining the two words Thiru (meaning revered) and Kural (is a form of poem writing style, like Ballad in English Poems). Thirukkural is divided into three sections: section one deals with Aram, good ethical behavior with conscience and honor ("right conduct"); section two discusses Porul, the right manner of conducting worldly affairs; and section three deals on Inbam, love between men and women. Although two sections, Aram and Inbam, are devoted to the private life of an individual more than half the couplets in Thirukural are grouped under Porul which discusses ethics in public life. Thus Thiruvalluvar gives more importance to righteous living in public life.

According to Thiruvalluvar, the four principles for a prosperous society are (i) faith in God (ii) economic resources (iii) spiritual leadership and (iv) observance of moral law. The economic ideas of Thiruvalluvar are found in the second part of the 'Kural' which is named as Porutpal (dealing with wealth).

### **Wealth**

Porutpal literally means things, wealth etc. and hence include all material things than can be acquired which a man requires in daily life for maintaining ones family. According to Valluvar, wealth is only a means and not an end. He was against hoarding of wealth and to him a hoarder is a burden to the earth. Thus, Porutpal covers all consumer and producer goods. According to Valluvar, a society should have freedom from hunger, freedom from disease and freedom from fear of external and internal aggression.

### **Poverty**

Thiruvalluvar was aware of the dangers of poverty and hence cursed poverty and he was against begging. Hence to him poverty and begging are the greatest social curses.

### **Agriculture**

Valluvar attached very much importance to agriculture. He favoured peasant proprietorship and was against absentee landlordism. According to him all are dependent on agriculture for food.

### **Public Finance**

According to him, there are four functions to the state and they are the creation of revenues, collection of revenues, management of revenues and public expenditure. He was not in favour of compulsion in taxation and preferred balanced budgeting.

### **Welfare State**

He was of the view that the king should promote education and health of the people. He believed that people should be free from hunger which increases welfare of the society. Thence, he was an advocate of welfare state.

### **Kautilya and Thiruvalluvar**

When we compare Kautilya and Thiruvalluvar, we find the following differences between them in their economic ideas.

1. Thiruvalluvar attached importance to agriculture whereas Kautilya attached importance to wealth

2. Thiruvalluvar advocated taxation by consent whereas Kautilya advocated compulsory taxes to increase states revenue for the benefit of the society.
3. According to Kautilya the economy is based on caste system while according to Thiruvalluvar, the economy is not based on caste system.
4. We can see an ethical foundation of society in Thiruvalluvar whereas in Kautilya's Arthashastra, ethical principles are absent.

We may conclude that Valluvar was a great sage and poet and was not an economic theorist. He tried to synthesise the principles of ethics, economics and politics in his Thirukkural.

## **Modern Indian Economic Thought**

Economic thought in modern India was largely influenced by the British rule in India. The British rule has impoverished the country and according to Indian thinkers this has been the major reason for the abject poverty of Indians. Hence, Indian nationalism and widespread poverty of the masses in India influenced the economic thought of modern India. We may briefly explain the economic ideas of Indian economists in the following paragraphs. It should be mentioned that the economic ideas of Indian writers are mixed with ethics and politics.

### **Dadabhai Naoroji (1825 – 1917)**

Dadabhai Naoroji, the Grand Old Man of India, was the father of Indian nationalism. He was from a rich Parsi family of Bombay and was an intellectual, educator, and a political and social leader. He was a Member of Parliament (MP) in the United Kingdom (House of Commons between 1892 and 1895), and the first Asian to be a British MP. Naoroji is also credited with the founding of the Indian National Congress, along with A.O. Hume. He was also member of Second International along with Kautsky and Plekhanov. At the early age of 25, he was appointed leading Professor at the Elphinstone Institution in 1850, becoming the first Indian to hold such an academic position. In 1854, he also founded a fortnightly publication, the *Rast Goftar* (or *The Truth Teller*), to clarify Zoroastrian concepts. By 1855 he was Professor of Mathematics and Natural philosophy in Mumbai. Later, he became Professor of Gujarati at University College London. In 1874, he became Prime Minister of Baroda and was a member of the Legislative Council of Mumbai (1885–88). Naoroji was elected President of the Congress in 1886. He died in Bombay on 30 June 1917, at the age of 91. He was the first Indian to estimate the national income of India. Naoroji published *Poverty and un-British Rule in India* in 1901. His book brought attention to the draining of India's wealth into Britain.

### **Economic Ideas of Naoroji**

#### **Poverty**

The economic ideas of Naoroji are found in his celebrated work: *Poverty and Un-British Rule in India*. He considered poverty as the major problem of India and attributed the mass poverty of India to the British rule. According to him, the continuous exploitation of India by the British government and the consequent draining of Indian wealth to Britain was the reason for the poverty of Indians. He estimated the per capita income in Bombay Presidency for the years 1867-70. He found that it was Rs.20 and reflected the poverty of the people as he found that at least Rs.34 is needed to satisfy the minimum needs of life.

## **The Drain Theory**

Dadabhai Naoroji is known for drain theory by which he focused on the drain of India's wealth to England through the colonial rule. The consequence of foreign domination was the drain of wealth of India to Britain. Through his work with economics, Naoroji sought to prove that Britain was draining money out of India. Naoroji described 6 factors which resulted in the external drain. Firstly, India is governed by a foreign government. Secondly, India does not attract immigrants which bring labour and capital for economic growth. Thirdly, India pays for Britain's civil administrations and occupational army. Fourthly, India bears the burden of empire building in and out of its borders. Fifthly, opening the country to free trade was actually a way to exploit India by offering highly paid jobs to foreign personnel. Lastly, the principal income-earners would buy outside of India or leave with the money as they were mostly foreign personnel.

The drain of wealth took place in a number of ways. First large remittances were made by the British officials of their savings in India. Second large remittances were made in the form of salaries and pensions. Third, India often had to pay for government expenditure in England and of course in India too. Fourth, non-official Britishers made remittances from their business profits in India. The money which has gone out of India to England has once again come back as British Capital has monopolized trade and industry. It has once again resulted in the drain of wealth. Thus, the drain has become continuous and it has affected capital formation in India.

Naoroji estimated that the drain was about 3 million pounds at the beginning of 19<sup>th</sup> century to 30 million pounds towards the end of the 20<sup>th</sup> Century. When referring to the Drain, Naoroji stated that he believed some tribute was necessary as payment for the services that England brought to India such as the railways. However the money from these services was drained out of India. India was paying tribute for something that was not bringing profit to the country directly. Instead of paying off foreign investment which other countries did, India was paying for services rendered despite the operation of the railway were already profitable for Britain. This type of drain was experienced in different ways as well, for instance, British workers earning wages that were not equal with the work that they have done in India, or trade that undervalued India's goods and overvalued outside goods. Englishmen were encouraged to take on high paying jobs in India, and the British government allowed them to take a portion of their income back. Furthermore, the East India Company was purchasing Indian goods with money drained from India in order to export to Britain. Free trade allowed Britain to exploit India. Naoroji believed that to solve the problem of the drain it was important to allow India to develop

industries. Over time, Naoroji became more extreme in his comments as he began to lose patience with Britain.

According to Naoroji, certain measures are needed to reduce Indian poverty and they are:

1. India and England should pay all salaries to their people within their boundaries.
2. As the Englishmen were paid reasonable salaries while they served India, there was no need to pay pension to them
3. As there was no danger of invasion of India by sea, India should not be charged any portion of the expenditure incurred for the Indian navy.

### **GANDHIAN ECONOMICS**

M.K.Gandhi (1869-1948)

Gandhian economics is a school of economic thought based on the ethical foundations founded by Indian leader Mohandas Gandhi. It is largely characterised by its affinity to the principles and objectives of nonviolent humanistic socialism, but with a rejection of violent class war and promotion of socio-economic harmony. Gandhi's economic ideas also aim to promote spiritual development and harmony with a rejection of materialism. The term "Gandhian economics" was coined by J. C. Kumarappa, a close supporter of Gandhi. Thus, Gandhian economic thought is based on four fundamental principles- Truth, Non-violence, Dignity of Labour and Simplicity. Gandhi believed in simple living and high thinking. Gandhi opposed capitalism as it is based on the exploitation of human labour. To him, moral progress is more important than material progress. Salient Features of Gandhi's economic Thought are:

#### **(a). Village Republics and Sarvodaya**

Gandhi was interested in developing the villages as self-sufficient units. Gandhiji believed that real India was to be found in villages. He suggested the development of self-sufficient and self-dependent villages. Village Swaraj was his ideal. Gandhi has given top priority to Khadi programme. He worked and advocated for the Sarvodaya or the welfare of all. He thought that the development of rural civilization on the basis of self-sufficient villages would result in the decentralization of political and economic power. Thus, he favoured Grama Swaraj or self-ruling villages. He opposed extensive use of machinery, urbanization and industrialization on the ground of destruction of villages and large scale unemployment in the villages.

#### **(b) On Machinery**

Gandhi opposed machines as described machinery as great sin. However, Gandhi was not against machinery in general. He was against labour saving machinery. He welcomed instruments and machines that saved labour and lightened the burden of millions of cottagers. Gandhi emphasized that he was against large scale production only of those things that villagers can produce without difficulty. He believed that the machinery was harmful when the same thing could be done easily by millions of hands not otherwise employed. In short, Gandhi was aware of the danger of technological unemployment.



Gandhiji's ideas on machinery are still relevant as many decades of machine using planned development failed to solve the problem of unemployment in India.

### **(c) Industrialisation**

Gandhi considered industrialization a curse to mankind and he was a sharp critic of large scale industrialization. He was aware of the evils of large scale industrialization. He described industrialisation as a manifestation of capitalism. Instead he suggested the development of village industries as it will promote the welfare of all. Gandhi opposed large scale industrialisation on the grounds on social justice also. Machinery would enrich the few at the expense of the many. He believed that it would result in the concentration of economic power in the hands of a few. He believed that large scale industries will destroy the handicrafts in villages. Gandhi advocated state ownership of public utilities.

### **(d) Decentralisation**

Non-violence was the basic principle of Gandhi's life. He advocated a decentralised economy. His decentralisation includes production at a larger number of places on a small scale. Thus Gandhi wanted production by masses and not mass production. He wanted the revival of cottage industries. He liked co-ordinated village communities.

### **(e) Bread Labour**

Gandhi believed in the dignity of human labour. He believed that God created man to eat his bread by the sweat of his brow. By bread labour (body labour) Gandhi meant manual labour Gandhi preached and practiced the gospel of manual work.

### **(f) The Doctrine of Trusteeship**

Gandhi has developed the doctrine of trusteeship to provide an alternative to Marxian socialism. According to the trusteeship doctrine, the rich man should consider him as a trustee of the society for all the wealth he accumulated. Hence, Gandhi desired the capitalists to become trustees of the nation by running their business efficiently for the welfare of the people. Thus, according to Gandhi, if one had inherited a big fortune (accumulated money), the entire amount did not belong to him, but to the entire community. One who had accumulated that wealth was entitled to only that part of it which was necessary for an honourable living. The rest of the accumulated wealth belonged to the entire society and must be spent on the welfare of all.

The important features of the Trusteeship formula of Gandhi's ideal social order are:

1. Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one. It gives the present owning class the chance of reforming themselves.
2. It does not recognize any right of private ownership of property except in as much as it may be permitted by society for its welfare.
3. It does not exclude legislative regulation of the ownership and use of wealth.
4. An individual will not be free to use his wealth for selfish satisfaction or in disregard of the interest of the society.
5. As there is a minimum living, there is a limit to the maximum income that could be allowed to a person in society.

6. The character of production is to be determined by the social necessity and not by personal whim or greed.

**(g). On the Food Problem**

Gandhi was against any sort of food controls. He believed that such controls will create artificial scarcity for food grains.

**(h). On Population**

He was against control of population by the use of contraceptives. He was in favour of birth control through brahmacharya or self control. He did not agree with the view that food shortage was due to the growth of population.

**(j) On Prohibition**

Gandhi advocated cent percent prohibition. He regarded the use of liquor as a disease rather than a vice. He felt that it was better for India to be poor than to have thousands of drunkards.

**Relevance of Gandhian Economic Thought to India**

There are economists who believe that Gandhian economics is utopian in nature. They regard Gandhi as a medieval mystic who tried to put back the clock of human progress. Gandhian Economics is based on ethical values and the dignity of man. Gandhian economics do not draw a distinction between economics and ethics. Economics that hurts the moral well-being of an individual or a nation is immoral, and therefore sinful. It is regarded as an alternative to western socialism. Sometimes it is said Gandhism is communism minus violence. Gandhism tries to bring communism without violence or with the consent of capitalists. Gandhi was a practical idealist. His economic thought is basically sound and is relevant to our times. His concept of trusteeship, decentralization of economic activities, labour intensive technology and priority to weaker sections are all relevant today. Gandhi has often advocated social justice and equality. According to him if mankind was to progress and to realize the ideals of equality and brotherhood, it must act on the principle of paying the highest attention to the prime needs of the weakest sections of the population.

Gandhi was not against machinery as such. What he intended was that in a country like India where capital was scarce and labour abundant, it would be profitable to use labour intensive industries. He feared that use of machinery would result in technological unemployment. The mad race in industrialization and urbanization has resulted in the pollution of air and water. In the ideal social order of village economy, environmental pollution will not be a problem.

**Dr. B.R. Ambedkar (1891-1956)**

Dr Bhim Rao Ambedkar celebrated as the “Father of Indian Constitution,” found economics closest to his heart and got his doctorate for a thesis on “The Problem of the Rupee”. Ambedkar was a keen student of economics and got his MA for his thesis on ‘Ancient Indian Commerce’ and M.Sc (London) for his thesis on ‘The Evolution of Provincial Finance in British India’. His evidence before the Hilton-Young Commission was an important contribution to the discussion of currency problems in India. He gave expression to his thoughts on such issues as small-holdings, collective farming, land revenue and abolition of landlordism. It covered nearly four important decades — 1917 to 1956, and touched on all

major political and economic events. He was a Professor of Economics in Mumbai's Sydenham College in the early 1930s. Ambedkar strongly believed that the fundamental cause of India's backward economy was the delay in changing the land system. The remedy was democratic collectivism that entailed economic efficiency, productivity and overhauling the village economy. This, he said, would wipe out elements of economic exploitation and social injustice. His idea of economic realism sought both freedom and welfare.

The essential feature of his approach to economic problems was the condemnation of such extreme views as laissez-faire and scientific socialism. Mixed economy was the cornerstone of his economic ideas. He advocated an end to the glaring social and economic inequalities produced by the capitalist system. He realised that the solution to the problem of the untouchable landless labourers depended upon the solution to Indian agricultural problems. He focused on the injustice in basing the assessment of land revenue on income and advocated that land revenue be brought under the income-tax. His work "The Problem of the Rupee" was considered an instructive treatise. He wrote that closing of the Mints would prevent inflation and disturbances in the internal price level. He advocated that the standard of value should be gold and the elasticity of currency should come from this source. Dr Ambedkar was conferred posthumously the Bharat Ratna, the nation's highest civilian honour, on his 99th birth anniversary in 1990.

### **Economic ideas of Ambedkar**

Ambedkar's economic philosophy is expressed in his ideas on mixed economy (socialism), state ownership of industries, industrialisation, etc. He belongs to group of liberal thinkers but by and large his orientation is that of a socialist. Strangely he does not agree with Karl Marx as his ideas and methods appeared violent to Ambedkar. His economic ideas reflected his concern for the downtrodden and his desire for their development and upliftment in the social ladder. In order to eradicate exploitation by landlords and capitalist he advised mixed economy or state socialism.

### **Land reform**

Ambedkar's main concern was the nature of land holdings, especially their fragmentation and division into unproductive and economically in viable structure. According to him, consolidation may eliminate the evils of scattered holdings but not the evils of small holdings unless the consolidated holding was an economic holding. According to Ambedkar, the basic problem of Indian agriculture was that it was unable to generate surplus which ultimately led to scarcity of capital. This resulted in the inefficient use of resources, surplus labour and superfluous employment which by raising the cost of production culminated in low agricultural productivity. Thus the process of overall economic growth gets adversely affected. Ambedkar was of opinion that the process of consolidation of holding could eradicate the ill effect of uneconomic holding and usher in the progress of the cultivators. He favoured successful growth of industrialization.

He stated "Industrialization facilitates consolidation. It is a barrier against future subdivision and consolidation." Ambedkar was the first person to raise his voice against Khoti system. The Khoti system was one of the minor land revenue tenures in the former Bombay presidency. It was found mostly in Ratnagiri district and in some parts of Kolaba and Thane districts. In Khoti system unlike Ryotwari system, the government employed the services of the Khot for the purpose of collection of revenue.

Under this system the khot was obliged to collect revenue from the tenants and to pay a certain part of it to government. Once such a payment was made the Khot enjoyed unrestricted freedom to do whatever he liked to the tenants. On 17 September 1937 Ambedkar introduced in Bombay Legislative council a Bill seeking the abolition of the Khoti system. By introducing this bill Ambedkar sought to put an end to the exploitation of the actual tillers of the land and established a direct relationship between them and the government. Ambedkar was of the opinion that the state should acquire all the agricultural land held by private individuals like the owners, tenants or mortgages and pay them compensation equal to the value of land. The state should provide the land required into farms of standard size and should let out the farms for cultivation to the residents of the villages.

### **Currency problem**

Ambedkar's writings on currency problems constituted in his book "The problem of the rupee" and his evidence before the Hilton Commission in 1926. He brought a new perception on the monetary issue. He was not in favour of linking the rupee with gold and recommended establishment of a fully managed inconvertible currency with fixed limit of issue. Ambedkar stated " It is much better to introduce a currency system which will do away with the exchange standard and also the gold standard reserve. According to Ambedkar the pure gold standard comprises use of gold in some form convertible standard, paper money is also issued in addition to gold coins and is pledged to be redeemable in gold. In contrast under the gold exchanged standard the medium of exchange comprises only paper money which is kept exchangeable at fixed rates with gold and authorities back it up with foreign currency reserves of such countries as on the gold standard. Ambedkar vehemently criticized Keynes and other supporters of the gold exchanged standard and argued in favour of the gold standard of a modified form.

Ambedkar argued that the gold exchange standard does not have the stability of the gold standard. Under the gold standard, additions to the supply of currency are so small that stability is not affected. Ambedkar provided statistical evidence to show that prices varied much less under the gold standard than under the gold exchange standard in Indian context. Ambedkar favoured Gold currency and wanted to close down the mint as this will eradicate the money inflation and imbalances in internal payments. For the flexibility in currency he was of the opinion that Gold is a suitable measure for the flexibility of money.

### **Decentralisation of Imperial Finance**

Ambedkar's thesis the evolution of provincial finance in British India dealt with the history of public finance. He discussed in detail about the centre province financial relationship during 1833-1921. Ambedkar demonstrates how centralisation of government finances which prevailed in India during 1833 through 1871, was a failure on account of faulty fiscal system marked by injurious taxes and unproductive or extravagant expenditure. The system of Imperial Finance was started in India in 1833. It became so elaborated not e in 1858 when the crown took over from the East India Company that no province had any separate power for legislating any separate financial resources.

The imperial government was responsible in law but did not administer the country whereas the provincial governments administered the country but had no responsibility in law. Under this system budgets were prepared by the provincial government but the responsibility for the finding ways and

means for financing them rested on the government of India. There was practically no power of creating or modifying any appointments in service. The restriction involved provided the Government of India with an opportunity to interfere with all the details of provincial administration.” These led to extravagant demands and since the government of India did not possess the necessary machinery to appraise the demands and to control the expenditure, it often had to yield. Government finances came under severe strain and it was realised that the provincial government must draw up their own revenue and expenditure budgets. Accordingly the regime of provincial budgets came into force in 1871. Provincial finance was introduced in the form of budget by assignment (as referred by Ambedkar) during 1871-72 through 1876- 77. Under this scheme financial responsibilities of certain departments of administration were delegated to the provinces and the receipts accruing from the imperial from those services were handed over to them with fixed lump sum assignment from the treasury. According to Ambedkar this scheme led to high taxes and made taxation more iniquitous.

The next phase in the evolution of provincial finance was the budget by assigned revenue which was operational during the period 1877-78 through 1881-82. It gave the provinces certain sources the yield of which largely depends on good management for the growing needs of the provincial services. The third phase in the process of evolution of provincial administration was the scheme of budget by shared revenues. According to Ambedkar the earlier schemes were deficient as the sources of revenues assigned to provinces had little room for enlargement over the time. But the new scheme of shared revenues specific revenues were collected either by the imperial government of provinces and a portion of the proceeds was allotted to the other. The is scheme was most successful and lasted for 38 years and in 1920-21 major fiscal reforms were introduced in 1921 which in the opinion of Ambedkar were not induced by any inherent defects in the system. Thus, Ambedkar dealt in detail with the mechanism of finance of the centre- provincial government under the old phase.

### **State management**

Ambedkar emphasised on the nationalisation of economy. He was of the view that state should manage the economy that the production might reach the optimum level and the benefits must not be taken away by the capitalist. The benefits must be distributed equally. He stood for the progressive transformation of society, removing glaring social and economic inequalities that were due to the capitalist system. B.R. Ambedkar was a firm believer of socialism. According to him, “state socialism is essential; for India’s industrialisation. Private economy cannot do so and if it makes an attempt it would give way to economic disparities, as it can be visualised in the case of Europe. His view on nationalisation of industries and life insurance showed his great concern for the economic problems faced by India. The formation of the public sector and the establishment of Life Insurance Corporation showed that he was in agreement with other leading economists. He remarked that industrialisation of India was a necessary thing. But side by side the principle of state management and state ownership of industry must be adopted. Amenities like social insurance and control over employment, dismissal were vital to the progress of industry. About these measures the lower middle class must be protected. He firmly believed that by eliminating exploitation, the industrial harmony can be established through labour welfare and congenial industrial relation. He remarked “we have attained political freedom and equality but without economic and social equality this is quite insufficient”. Ambedkar emphasised more on economic and social freedom and equality. his concept of society and socialism aimed for the welfare of the

poor classes, ending inequality based on birth eliminating discriminatory practises in social behaviour patterns reorganising the political economy for the benefit of all maintaining full employment and education, providing social security for the weak and the sick.

### **Labour problem**

Ambedkar supported trade union movement and right to strike against capitalism. He wanted participation of labourers in industrial management. He paid attention to joint councils employment exchanges and earned leave for permanent workers, welfare activities, conciliation, trade disputes. According to him industrial peace would prevail if it is based on social justice. He introduced 5% to 6% reservation for Schedule castes in Central government. He helped the untouchable students wishing to take technical education in foreign countries. In his inaugural address to the conference of the regional Labour Commission Ambedkar stated “three things are necessary to mitigate or prevent industrial disorder – Machinery for Conciliation, amendment in the Trade Disputes Act and Minimum Wage Legislation. According to him, the industrial peace could be realised if it was based on social justice.” Ambedkar, while discussing the labour problem, had in his mind not only industrial labour but also agricultural labour. According to him, similar condition of work provident fund employer’s liability, workmen’s compensation, health insurance including invalidity pensions should be open to all sorts of labour whether it was Industrial labour or agricultural labour.

### **Economics of Caste System:**

According to Ambedkar the caste system in India was a major obstacle to economic growth and development. The caste system didn’t allow people to teach their professional skills to any person belonging to other caste. Only the members of their own caste were allowed to learn the profession. Thus if a person had the skill necessary for a particular job he would not accept the profession of a caste lower than his own. In a dynamic industrial set up the individual must be free to choose his occupation. But due to social religious restriction on inter occupational mobility has following consequences: Firstly, by not permitting readjustment of occupation, caste become a direct cause of much of the unemployment in various groups, as a religious Hindu would prefer to be unemployed rather than getting employed in profession not assigned to his caste. Second, individual justice and economic efficiency demand that competition exists in factor market. Due to the restriction on inter-occupational mobility of labour, capital and entrepreneurship across caste groups the caste system creates segregation in each of these markets. Labour and capital thus does not flow from one occupation to another even if the wage rate or rates of return on investments are higher in the alternative occupations. This brings about a high level of inefficiency in resource allocation.

The division of occupation is not based on individual choice. Some of the occupations are socially degrading, and people are forced in these occupations on account of their caste origin. Such people cannot derive job satisfaction. As economic organisation caste is therefore a harmful institution in as much as it involves the subordination of man’s natural powers and

inclination to the exigencies of social rules. This also results in disassociation of intelligence from work. The dignity of labour is nearly absent in the general scheme of theory of caste.

The practise of untouchability has ruined the nation and the economy as a whole. Those belonged to the lower strata of society or the untouchables were not allowed to mix with others and denied basic civil right. They had no access to sources of income. They had no right to education. They had no right to property and were prohibited from acquiring wealth. They could not use their labour for their own upliftment. The Caste system has crippled the untouchable as it denied them economic security and independence.

In the opinion of Ambedkar the economics of the caste system had six types of consequences: 1) it divided labour ii) it disassociated work from interest iii) it disconnected intelligence from the manual labourer iv) it devalued persons by denying them right to cultivate vital interest v) it prevented mobilization vi) it deprived Sudras of all economic avenues of employment and took them nearly to the position of a slave.

#### **Ambedkar and Gandhism**

Ambedkar characterised Gandhism as conservatism and purely imaginary. He remarked that Gandhism meant return to village and making the village self sufficient and as such it made Gandhism a mere matter of regionalism. Gandhiji vehemently opposed machinery. He idolised charkha (spinning wheel) and called western civilisation as the creation of Satan. He even said “I would not weep over the disappearance of machinery or consider it a calamity”.

Ambedkar opposed Gandhism because, in his opinion, Gandhism was against democracy and also against mechanisation and civilization which were vital for progress of a country. According to Ambedkar, democratic society cannot be indifferent to machinery. Gandhism might well be suited to a society which did not accept democracy as its ideal. He maintained that the ills were not due to machinery and they were wrong due to social organisation which has made private property and pursuit of personal gain matters of absolute sanctity. He remarked that “Gandhism is a paradox. It seeks to maintain intact a social structure which permits the domination of one class by another on a hereditary basis which means a perpetual domination of one class by another.”

Ambedkar didn't have faith in laissez faire or Trusteeship of Gandhiji. He believed in socialism and advocated state socialism to ensure proper working of national economy. He favoured land acquisition by the state for distribution among poor. In his view socialism will not come without directive principle. Ambedkar viewed, Gandhism, a philosophy of the well to do and the leisured class. It deluded people into accepting misfortunes by presenting them as best of good fortunes.

#### **Ambedkar and Communism:**

Ambedkar's views on communism are presented in his essay “Buddhism and Communism”. Like Marx Ambedkar believed that there is exploitation in the world, the poor are exploited by the rich; there is enslavement of the masses by the privileged few which leads to

perpetuation of poverty and ultimately suffering. Ambedkar did not sympathise with the Marxist paradigm of development. Ambedkar was of the opinion that economic relationships are not everything in human life nor the economic motive was the sole driving power behind all human activity. He emphasised that exploitation has many dimensions like social, religious and political. In Ambedkar's opinion, communism advocates revolution, it recommends revolutionary methods for overcoming the opposition of the capitalists for establishment of the dictatorship of the proletariat and any action that serves the interest of the proletarian revolution is ethical and there is no consideration for human life. Ambedkar being an ardent follower of democracy and human right was against any form of dictatorship. He was not in favour of violent change rather he believed that constitutional provision and democratic means could bring desired reformation. The control of all means of production and the abolition of private property as advocated by Marx were not accepted by Ambedkar. Ambedkar was not in tune with Marxian convictions that abolition of private property would bring an end to the poverty and suffering of the have nots and that the state is a temporary institution which will wither away in course of time.

Ambedkar believed that state is fundamental to human existence. It has many important roles to play. He maintained that state would continue to exist as long as human society survived. He believed in classless society but not in a stateless society. He sought active involvement of the government in economic development. In his book, "States and Minorities", he stated that state has an obligation to plan the economic life of the people.

Ambedkar's concept of state socialism is based on these tenets:

- a) State ownership economy agricultural land and key industries
- b) Maintenance of productive resources by the states
- c) A just distribution of the common produce among different people without any discrimination of caste or creed.

## **Conclusion**

Ambedkar was primarily an economist and his achievement in the field was primarily overshadowed by his achievement in his fields of politics. His political ideas had moral purpose. He was more concerned about the human welfare. He had unflinching faith in socialism and believed that it would solve the problem of the under privileged. Mixed economy was the cornerstone of his philosophy. He was concerned about the equitable distribution of wealth among people. He advocated the modernization of Indian society and economy. Ambedkar also linked salvation and emancipation of untouchable people with the emergence of modern urbanised and industrialised India with modern liberal ideology.



**Amartya Sen**

Amartya Kumar Sen was born in West Bengal 1933. Sen is an Indian economist who was awarded the Nobel Prize in Economics 1998. He was awarded Nobel prize for his contributions to welfare

economics and social choice theory, and for his interest in the problems of society's poorest members. Sen is best known for his work on the causes of famine, which led to the development of practical solutions for preventing shortages of food. He helped to create the United Nations Human Development Index. In 2012, he became the first non-U.S. citizen recipient of the National Humanities Medal. He is currently the Professor of Economics and Philosophy at Harvard University. Sen's books have been translated into more than thirty languages over a period of forty years. He is a trustee of Economists for Peace and Security. In 2006, *Time magazine* listed him under "60 years of Asian Heroes" and in 2010 included him in their "100 most influential persons in the world". *New Statesman* listed him in their 2010 edition of "World's 50 Most Influential People Who Matter".

Rabindranath Tagore is said to have given Amartya Sen his name ("Amartya" meaning "immortal"). Sen began his high-school education at St Gregory's School in Dhaka in 1941, in modern-day Bangladesh. His family came to India following the partition of the country in 1947. In India Sen studied at the Visva-Bharati University school and then at the Presidency College, Kolkata. In 1953, he moved to Trinity College, Cambridge. To Sen, then Cambridge was like a battlefield. There were major debates between supporters of Keynesian economics and the "neo-classical" economists skeptical of Keynes. Sen submitted his Ph.D thesis on "the choice of techniques" in 1959 under the supervision of Joan Robinson. Between 1960 and 1961, Sen was a visiting Professor at Massachusetts Institute of Technology. He was also a visiting Professor at UC-Berkeley, Stanford, and Cornell. He has taught economics also at the University of Calcutta and at the Delhi School of Economics. In 1972, he joined the London School of Economics as a Professor of Economics where he taught until 1977. From 1977 to 1986 he taught at the University of Oxford, where he was first a Professor of Economics at Nuffield College, Oxford and then the Drummond Professor of Political Economy and a Fellow of All Souls College, Oxford. In 1986, he joined Harvard as the Thomas W. Lamont University Professor of Economics. In 1998 he was appointed as Master of Trinity College, Cambridge. In January 2004, Sen returned to Harvard. He has served as president of the Econometric Society (1984), the International Economic Association (1986–1989), the Indian Economic Association (1989) and the American Economic Association (1994). He has also served as President of the Development Studies Association (1980–1982) and is a Honorary Vice-President of the Royal Economic Society, which he has been since 1988.

He presently serves as Honorary Director of Center for Human and Economic Development Studies at Peking University in China and is also a board council member of the Prime Minister of India's Global Advisory Council of Overseas Indians. In 1981, Sen published *Poverty and Famines: An Essay on Entitlement and Deprivation* (1981), a book in which he argued that famine occurs not only from a lack of food, but from inequalities built into mechanisms for distributing food. Sen also argued that the Bengal famine was caused by an urban economic boom that raised food prices, thereby causing millions of rural workers to starve to death when their wages did not keep up. Sen's interest in famine stemmed from personal experience. As a nine-year-old boy, he witnessed the Bengal famine of 1943, in which three million people perished. He presents data that there was an adequate food supply in Bengal at the time, but particular groups of people including rural landless labourers and urban service providers like haircutters did not have the monetary means to acquire food. Sen devised methods of measuring poverty (Sen Index) that yielded useful information for improving economic conditions for the poor.

