

G

Vintage Publication Series

INDIAN POLITICAL ECONOMY

R-2

Mahadev Govind Ranade

X-2

X.2
GO;NO
266861

Indian Economic Association Trust
for Research and Development

INDIAN POLITICAL ECONOMY

Mahadev Govind Ranade

**Indian Economic Association Trust
for Research and Development**

Published by

Indian Economic Association Trust
for Research and Development
Care RIS, Zone IV-B, 4th Floor
India Habitat Centre
Lodhi Road, New Delhi-110003

December, 2000.

Foreword

The Indian Economic Association Trust for Research and Development has launched a programme of bringing out small volumes, with a view to providing a comprehensive insight into the theoretical and empirical aspects of the select themes of economics. The basic objective of this programme is to enable the teachers and researchers in colleges, universities and research institutions as also the policy makers to have at one place, access to a good account of the concepts, theories, and empirical analysis of the subject.

We are happy to bring out the present booklet containing portions from famous lecture delivered by Mahadev Govind Ranade on "Indian Political Economy" and Extracts from V.G. Kale's popular treatise on "Introduction to the Study of Indian Economics-Vol. I". The contribution deals with Ranade's ideas of "Separation of Indian Economics from the then Western Economics". The book also contains an essay on Mahadev Govind Ranade by V.G. Kale.

We are thankful to Prof. P.R. Brahmananda for making these articles available to us for publication. These articles are included in the website of the Indian Economic Association under the section on Indian Economics - Archives.

We hope students of Indian economics and all others associated with the development process of Indian economy would find this booklet useful.

December 21, 2000

V.R. Panchamukhi

Managing Trustee

IEA Trust for Research and Development

Contents

<i>Foreword</i>	iii
I. Indian Political Economy <i>by Mahadev Govind Ranade</i>	1
II. Indian Economics <i>by V.G. Kale</i>	24
III. Mahadev Govind Ranade - 1842-1901 <i>by V.G. Kale</i>	29

I

INDIAN POLITICAL ECONOMY

Mahadev Govind Ranade*

It will be useful at this stage to note the general features of these assumptions of the earlier Economists, which they believed to be as necessarily and universally true as the First Law of Mechanics, that Bodies move in straight lines, or the First Law of Physics, that they attract each other directly according to their mass, and inversely according to the square of their distance. These assumptions may be thus briefly stated: (1) that National Economy is essentially Individualistic and has no separate Collective aspect; (2) that the Individual, or typical Economical man, has no desire but that of promoting his own self-interest, or at least that this is his strongest motive power (3) that this self-interest is best promoted by the largest Production of Wealth, i.e., articles with value in Exchange, at the least trouble; (4) that such

* Portions from the famous lecture delivered by Mahadev Govind Ranade in 1892. This lecture originated the Rationale of Indian Political Economy and of Indian Economics.

Pursuit of Private Gain by each individual promotes best the general good; (5) that the free and unlimited Competition of individuals in the race and struggle of life is the only safe and natural regulator; (6) that all customary and State Regulation is an encroachment on natural Liberty; (7) that every Individual knows best his Interest; and has the capacity and desire of acting according to this knowledge; (8) that there is perfect Freedom and Equality in the power of contract between individuals and individuals; (9) that Capital and Labour are always free and ready to move from one employment to another, where better remuneration is expected; (10) that there is a universal tendency of Profits and Wages to seek a common level; (11) that population tends to outstrip the means of subsistence; (12) and that Demand and Supply always tend mutually to adjust each other.

These assumptions lie at the root of all dogmatical treatment of the subject. It need not be said that they are literally true of no existing Community. To the extent that they are approximately true of any state of Society, the assumptions furnish valid explanations of its Economical Statics. Even then they furnish no suggestion as to its dynamical progress or development. As these assumptions do not absolutely hold good of even the most advanced Societies, it is obvious that in Societies like ours, they are chiefly conspicuous by their absence. With us an average Individual man, is, to a large extent, the very antipodes of the Economical man. The family and the Caste are more powerful than the Individual in determining his position in

life. Self-interest in the shape of the desire of Wealth is not absent, but it is not the only nor principal motor. The Pursuit of Wealth is not the only ideal aimed at. There is neither the desire nor the aptitude for free and unlimited Competition except within certain predetermined grooves or groups. Custom and State Regulation are far more powerful than Competition, and Status more decisive in its influence than Contract. Neither Capital nor Labour is mobile, and enterprising and intelligent enough to shift from place to place. Wages and Profit are fixed, and not elastic and responsive to change of circumstances. Population follows its own Law, being cut down by Disease and Famine, while Production is almost stationary, the bumper harvest of one year being needed to provide against the uncertainties of alternate bad seasons. In a Society so constituted, the tendencies assumed as axiomatic, are not only inoperative, but are actually deflected from their proper direction. You might as well talk of the tendency of mountains to be washed away into the sea, or of the valleys to fill up or of the Sun to get cold, as reasons for our practical conduct within a measurable distance of time.

This hypothetical character of the entire fabric of Doctrinal Economy has been more or less freely recognized, as stated above, by Mr. Mill, Mr. Cairns and other Teachers of Political Economy; and in our own time, Mr. Bagehot has gone so far as to assert that the traditional system rested on assumptions which were not only not true generally, but were true only of England of the present day. He calls it the

Science of Business done in large and trading Communities. It does not explain the Economic life of earlier times, or of our own times in other Nations. It is insular, and has not obtained general recognition, by reason of its being chiefly a convenient series of deductions from assumed axioms which are in many times and places not true, and are only true in England, where Capital and Labour can freely transport themselves from one employment to another. Mr.Sidgwick, another contemporary writer, has expressed the view that the abstract method is useful only for the statistical study of Economy, and that its conclusions, even within this province, are only hypothetically valid. In the dynamical study of the Progress of Wealth the value of the deductive method is almost nil. Mr.Cliff Leslie has expressed himself in stronger terms. The Economy of every Nation, according to this writer, is the result of a long growth in which there has been continuity and change, and the economic side of this change is only a particular aspect. The Laws of Social Progress in Wealth must be sought in the history of the general Social Evolution which is different in different countries.

Professor Jevons was filled with such despair by the sterile character of the hypothetical system that he thought the only way to cure its defects was to fling away, once and for ever, preposterous assumptions of the Ricardian School. It will be thus seen that in the land of its birth and highest development, the claims of Political Economy as ordinarily taught in the Text books, have been seriously questioned, and its value as a guide to practical conduct greatly discounted.

This resume of the past and contemporary history of the growth of Economic Sciences in England, France, Germany, Italy and America will satisfy the student that modern European thought does not at all countenance the view of the English writers of the Ricardian School, that the Principles of the Science, as they have enunciated them in their Text Books, are universally and necessarily true for all times and places, and for all stages of Advancement. Modern Thought is veering to the conclusion that the Individual and his Interests are not the centre round which the Theory should revolve, that the true centre is the Body Politic of which that Individual is a Member, and that Collective Defence and Well-being, social Education and Discipline, and the Duties, and not merely the Interests, of men, must be taken into account, if the Theory is not to be merely Utopian. The Method to be followed is not the Deductive but the Historical Method, which takes account of the past in its forecast of the future; and Relativity, and not Absoluteness, characterizes the conclusions of Economical Science. There are those who seek to get over this difficulty by differentiating the Science from what they are disposed to call the Art of Economy. This divorce of Theory and Practice is, however, a mischievous error, which relegates the Science to the sterility of an ideal dream or a puzzle, and condemns the Art to the position of a rule of the thumb. Theory is only enlarged Practice, Practice is Theory studied in its relation to proximate Causes. The Practice is predetermined by the theory which tests its truth, and adapts it to different conditions by reason of its grasp of the deep-seated,

permanent, and varied basal truths. I hope thus to have shown that the nature of the subject itself as a branch of Social Science which is best studied historically and not deductively, the actual Practice of the most Civilized Nations and the history of the growth of its Theory given above, alike establish the Doctrine of Relatively, and the predominant claim of Collective Welfare over Individual Interests, as the principal features in which the highest minds of the present day chiefly differ from the Economical Writers of the Old School, with their a priori conclusions based on individual self-interest and unrestricted competition.

We have next to consider the bearings of this enlarged view of the Science in its Indian aspects. The characteristics of our Social Life are the prevalence of Status over Contract, of Combination over Competition. Our habits of mind are conservating to a fault. The aptitudes of climate and soil facilitate the production of raw materials. Labour is cheap and plentiful, but unsteady, unthrifty, and unskilled. Capital is scarce, immobile, and unenterprising. Cooperation on a large scale of either Capital or Labour is unknown. Agriculture is the chief support of nearly the whole population, and this Agriculture is carried on under conditions of uncertain rainfall. Commerce and Manufactures on a large scale are but recent importations, and all industry is carried on, on the system of petty farming, retail dealing, and job working by poor people on borrowed capital. There is an almost complete absence of a landed gentry or wealthy middle class. The land is a monopoly of the State. The desire for

accumulation is very weak, peace and security having been almost unknown over large areas for any length of time till within the last Century. Our Laws and Institutions favour a low standard of life, and encourage subdivision and no concentration of Wealth. The religious ideals of life condemn the ardent pursuit of wealth as a mistake to be avoided as far as possible. These are old legacies and inherited weaknesses. Stagnation and dependence, depression and poverty – these are written in broad characters on the face of the land and its people. To these must be added the economical drain of wealth and talents, which Foreign subjection has entailed on the country. As a compensation against all these depressing influences, we have to set off the advantage of a free contact with a race which has opened the Country to the Commerce of the world, and by its superior skill and resources has developed communications in a way previously unknown. If we wish to realize our situation fully, we may not overlook this factor, because, it represents the beam of light which alone illumines the prevailing darkness. It cannot well be a mere accident that the destinies of this Country have been entrusted to the guidance of a Nation whose characteristic strength is opposed to all our weaknesses, whose enterprise, chiefly in Commerce and Manufactures, knows no bounds, whose Capital overflows the world, among whom Contract has largely superseded Status, and Competition and Co-Operation play a predominant part, whose view of life is full of hope, and whose powers of organization have never been surpassed.

The first point which illustrates the divergence between the orthodox English doctrine and the enlarged views I have attempted to set forth, as characterizing the more developed modern European thought on the subject relates to the so-called system of the territorial Division of Labour by which the orthodox economists assign to the backward Torrid Zone Regions of Asia the duty of producing Raw Materials, and claim for the advanced European Temperate Zone Countries the work of transport and manufactures, as a division of labour in production which is fraught with the highest advantage to all, and is almost a Providential dispensation, against which it would be foolish to rebel. Of course, as far as the natural advantages of climate and situation force our hands, economically backward races must submit to such an arrangement, but it is fairly open to question whether there is any such inevitable necessity which justifies a line of separation, which has a tendency to accentuate natural deficiencies, and make them a source of permanent weakness. (1) In the first place, the Torrid Zone people may fairly appeal to past history, when their skilled products found a ready market in temperate kingdoms, and excited such jealousy as to dictate prohibitive sumptuary laws both in ancient Rome and in modern England. (2) They may also urge that the natural fitness of things requires that the manufacturers should spring up where the raw materials grow, and where besides, there is demand for the manufactured produce, rather than that bulky goods should be transported many thousands of miles over land and sea, and re-consigned the same way back. (3) The differences in favour of temperate

regions are all modern growths due to the employment of Steam Machinery, and the abundance of cheap Iron and Coal. This is a real advantage, and has to be faced, but if it can be faced, there is no natural incongruity in an arrangement by which Industry would return to its ancient home with a double saving in time and cost. (4) Neither Mr. Adam Smith, nor even Mr. John Stuart Mill, recommend absolute freedom in such matters. Adam Smith was a Fair Trader, and Mr. Mill distinctly recognizes an exception to the general rule of Free Trade, where time is required to see whether new industries are or are not adopted to the natural resources of new countries. The late controversy between Mr. Blaine and Mr. Gladstone chiefly turned upon this point, Mr. Blaine contending that, with a large Continental Country like America, with all shades of climate and soil and position, the conditions of the problem were different from those of an isolated small territory like England. The Australian Colonies also justify their departure from the orthodox policy on this same ground. India may fairly claim the benefit of the experience and practice of these self-governing Communities, and demand breathing time. (5) It is further to be noted that such a division of Production, if permanently stereotyped, consigns Asia to an Industry which is under the bane of the Law of Diminishing Returns, while the West of Europe appropriates to itself those forms of Industry which are not subject to any such Law. The orthodox view thus concerns the poor to grow still poorer, and helps the rich to become richer – “it giveth much to him that hath, and taketh away from him that hath not the little that he hath.” (6) Lastly,

people forget that the Agricultural Industry in the Torrid Regions has to work under the disadvantage of an uncertain rainfall, and suffer from famine visitations, which, when they come, paralyze production, and condemn millions to violent or slow death. A due co-ordination of the three-fold forms of industrial activity, even if it be not immediately most advantageous to individuals in any one period, is a permanent National Insurance against recurrent dangers, and as such is economically the most beneficial course in the interests of the community.

The point noticed above has reference chiefly to Foreign Trade. In domestic interchange also, the same law operates, and every Nation which desires economical advance has to take care that its urban population bear in increasing ratio to its rural masses with every advance it seeks to make. Mr. John Stuart Mill has expressly laid down that no Agriculture can be really productive which is divorced from a neighbouring non-agricultural market represented by thriving Towns and Cities. Under Native Rulers there was a sort of rude adjustment made in this direction, when the Courts of the Petty Sovereigns afforded so many centres of urban activity in industries patronized by the Court and its dependents. Mr. Mill suggests that in the absence of such near markets, the next available substitute is a large export trade to Foreign Countries. This substitute cannot, however, be accepted as really answering the purpose in view. The progress of ruralization in modern India means its rustication, i.e., a loss of power, and intelligence, and self-dependence, and is a

distinctly retrograde move. The growth of the sea Ports and of the few Military and Railway Stations is not enough to counterbalance the enormous loss that has been inflicted by this retrograde movement. Every class of artisans, the spinners, weavers and the dyers, the oilsmen, the Paper-makers, the silk and sugar and metal workers, etc., who are unable to bear up against Western competition, resort to the land, leave the Towns and go into the country, and are lost in the mass of helpless people who are unable to bear up against scarcity and famine.

The highest Statesmanship may well feel against at this rapid change, and I know as a matter of fact that this subject weights heavily on the conscience of the British Administrators in India. They, however, feel powerless to act under the influence of the all-pervading doctrine that these matters lie outside the province of Government. A regular system of Immigration from thickly populated poor Agricultural tracts to sparsely peopled new and virgin districts is a desideratum. The halting efforts made in this direction produce no good, for the concessions are not liberal enough, and there is no prescience about it. The Ancient Rulers who settled waste districts, and founded towns with flourishing and extensive Industries, made no difficulty about granting the most liberal concessions. Anticipating Mr. Wakefield's colonization proposals, whole village communities with their varied elements of life were encouraged to move en masse, and were made comfortable in their new places. Powerful guilds of traders and artisans from distant places were similarly

induced to settle in new towns by free gifts of lands and houses and 'privileges. Stray settlers attracted by a few years' leases' can never accomplish the end the rulers have in view, and such attempts are bound to fail. A Colbert or a Peter the Great is wanted to give effect to such a scheme, and the ordinary doctrines of *laissez faire* must be set aside in view of the great interests at stake.

Conquest, consolidation, and conciliation have had their heroes in British History. Systematic Colonization and the promotion of varied culture are the next stages of development; and it may be hoped that, before long, with Africa and Australia and the East and West Indies literally straving for Indian labour, and Burma, at our door opened up, the ravages of periodical famines, carrying away our thousands and millions for want of work when Agriculture fails will become impossible, as soon as the policy of *let-alone* is given up, and an active effort made in all directions to stimulate productions both of raw and manufactured products. If the State can legitimately undertake from borrowed funds the construction of subsidization of Railroads and Canals, if it can afford to sell the *Fee Simple* of waste lands at nominal rates to European settlers on the hills, the road is certainly open for a further development of this same industrial effort on new lines. The Dutch Netherlands Government have shown the way in Java, and with less selfish motives the same method might well be tried in regard at least, to the Industries allied with Agriculture, Sugar Refining, Oil Pressing, Tobacco Cursing, Silk Rearing, etc., all of which

can certainly be made to thrive in this torrid land under skilled supervision.

Proceeding next to the department of Distribution, the enlarged view of political economy stated above does not accept the position of the unearned increment as a leading feature of the law of rent in India. The unearned increment theory fits in only where landed property continues for generations in the possession of the same family. If the land changes hands, the incoming purchaser buys it at its market value, and he enjoys no unearned advantage, and the so-called rent is but a return by way of fair profits on his investment. The English conditions of land-lordism, where the land under a complicated system of entails and settlements and primogeniture, continues in the same family for generations, allow free play to the law of the Unearned Increment. Here, in this country lands and houses are not so tied up, and they change hands frequently and largely. In every twenty years, the Registration Returns show that the value of sales comes up to the total value of landed property. In one generation, property thus changes hands, and when new men come in as purchasers for value, they do not enjoy any unearned increment of the past, but have to pay full value for the differential advantages of superior productiveness and vicinity. In the same way the Ricardian Theory that economic rent does not enter as an element of price, admittedly does not apply when all occupied land has to pay monopoly rent to the state landlord. There is no competition among landlords in this country, for there is only one true landlord, and the

so-called land tax is not a tax on rents proper but frequently encroaches upon the profits and wages of the poor peasant, who has to submit perforce to a loss of status and accommodate himself to a lower standard of life as pressure increases.

Lastly, the advanced theory expounded by the modern school fully justifies the attempts made by the government here and in England to check the abuse of competition among poor tenants by conferring fixity of tenure, by adjusting rents judicially for a term of years, and imposing limitations on its increase. In this matter the tenants of government claim the same consideration as those of private zamindars. The justification for this active interference is as valid in regard to Agricultural labourers and tenants, as it is in the case of Factory labourers and miners in Europe. These people are unable to combine for self-protection, or at least their combination is not so effective as that of the employers of labour, and when their efforts fail to obtain regular redress, disorder and misery result as consequences, and threaten public peace and general well-being. In the same spirit, the regulation of the freedom of contract in regard to the fixing of rates of interest in transactions between the poor disunited indebted classes and the money-lenders, and the protection of immovable property from being sold away for improvident debts, not secured on the same, are all legitimate forms of protection of the weak against the strong, and do not affect the real freedom of Distribution. The advanced theory concedes freedom where the parties are

equally matched in intelligence and resources; when this is not the case, all talk of equality and freedom adds insult to the injury. It is in this spirit that the distribution of produce among the needy many and the powerful few has to be arranged, i.e., in a spirit of equity and fair play, and the orthodox views of finality in such matters must be reconsidered in all the relations of life.

Lastly comes the great department of Governmental interference. The meddlesomeness of the Mercantile system provoked a reaction against state control and guidance towards the end of the last century in favour of natural liberty. The doctrines of this negative school have now in their turn been abused by a too logical extension of its principles. There is a decided reaction in Europe against the *laissez faire* system. Even in England, the recent factory legislation, the qualified recognition by law of trades-unionism, the poor law system, and the Irish Land Settlement, are all instances which indicate the same change of view. Speaking roughly, the province of State Interference and Control is practically being extended so as to restore the good points of the mercantile system without its absurdities. The State is now more and more recognized as the national organ for taking care of national needs in all matters in which individual and co-operative efforts are not likely to be so effective and economic as national effort. This is the correct view to take of the true function of a State. To relegate them to the simple duty of maintaining peace and order is really to deprive the community of many of the advantages of the

Social Union. Education, both Liberal and Technical, Post and Telegraphs, Railway and Canal Communications, the pioneering of new enterprise, the insurance of risky undertakings, all these functions are usefully discharged by the State. The question is one of time, fitness, and expediency, not one of liberty and rights. In our own Country, the state has similarly enlarged its functions with advantage. The very fact, that the Rulers belong to a race with superior advantages imposes this duty on them of attempting things which no Native Rulers, past or present, could as well achieve, or possibly even think of. This obligation is made more peremptory by the fact that the State claims to be the sole Landlord, and is certainly the largest Capitalist in the country. While the State in India has done much in this way in the working of Iron and Coal fields, and in the experiments made about cotton and tobacco, and in tea and coffee and cinchona plantations, it must be admitted that, as compared with its resources and the needs of the Country, these attempts are as nothing by the side of what has been attempted with success in France, Germany and other countries, but which, unhappily, has not been attempted in this country. Even if political considerations forbid independent action in the matter of differential duties, the pioneering of new enterprise is a duty which the Government might more systematically undertake with advantage. In truth, there is no difference of principles between lending such support and guidance, by the free use of its credit and superior organization, in pioneering industrial undertakings or subsidizing private co-operative effort, and its guaranteeing minimum interest to railway

companies. The building up of national, not merely state, credit on broad foundations by helping people to acquire confidence in a free and largely ramified banking system, so advantageously worked in Europe under different forms, has also not been attempted here. There is, partly, the duty cast on it of utilizing indigenous resources, and organizing them in a way to produce in India in State Factories all products of skill which the State Departments require in the way of stores. These are only a few of the many directions in which, far more than exchange and frontier difficulties, the highest statesmanship will have a field all its own for consideration and action. They will, no doubt, receive such consideration if only the minds of the rulers were once thoroughly freed from the fear of offending the so-called maxims of rigid economical science. It is time that a new departure should take place in this connection, and it is with a view to drawing public attention to this necessity that I have ventured to place before you the results of modern economic thought. In this, as in other matters, the conditions of Indian life are more faithfully reproduced in some of the continental countries and in America than in happy England, proud of its position, strong in its insularity, and the home of the richest and busiest community in the modern industrial world. If the attempt I have made leads to a healthy and full discussion of the change of policy I advocate, I shall regard myself amply repaid for my trouble.

Those who counsel non-interference in such matters on the authority of writers of Political Economy forget that

political economy, as a hypothetical a priori science, is one thing, while practical political economy as applied to the particular conditions of backward countries is a different thing altogether. American, Australian and Continental Political Economy as applied to the particular conditions of backward countries is a different thing altogether. American, Australian, and Continental Political Economy, as applied in practice, permits many departures from the *a priori* positions of the abstract Science. If authority were wanted for this assertion, we could refer to Mill's Political Economy. The quotation is peculiarly appropriate as it lays down the duties of Government in Countries circumstanced like India.

“A good Government will give all its aid in such a shape as to encourage and nurture any rudiments, it may find, of a spirit of individual exertion. It will be assiduous in removing obstacles and discouragements to voluntary enterprise, and in giving whatever facilities and whatever direction and guidance may be necessary. Its pecuniary means will be applied when practicable in aid of private efforts rather than in supersession of them, and it will call into play its machinery of rewards and honours to elicit such efforts.”

“Government aid when given merely in default of private enterprise, should be so given as to be, as far as possible, a course of education to people”. Government must undertake to do “the things, which are made incumbent upon it by the helplessness of the public; in such a manner as shall tend not to increase and perpetuate, but correct this helplessness.”

These principles justify a departure in the directions suggested above. The Railway Policy pursued by Government has, as a matter of fact, except in a few Presidency Towns, killed out Local indigenous Industries, and made people more helpless than before, by increasing their dependence and pressure on Agriculture as their only resource. The policy adopted by the Dutch Government sixty years ago, has produced the opposite effects, and made Java export four times less Raw Produce and four times more of manufactured produce, than has been the case in British India. Mr. Mill recommends pecuniary assistance in aid of private enterprise, and the Government recognizes this duty in its Tagai advances. So far, therefore, as authority is concerned, there is no heresy in the recommendation of a departure of Policy in the direction suggested by the experience of Java. We are aware that objection will be taken to the proposals made above on the ground that, finding capital for industries and manufacturers is a function which does not belong to Government. This is no doubt theoretically true, but at the same time, it does not lie in the mouths of those who advocate a vigorous railway policy to urge this objection for, if the principle be accepted, it follows that government has no business to find capital for railway or canals, or for pioneering tea or coffee enterprises. Those who urge this objection forget that the great want of India is cheap capital ready for investment in large enterprises. The savings of the Indian population are but scanty. A large proportion of these savings is taken up by taxation, a still larger proportions hoarded or buried under one form or another, and there is

but a fraction less than four or five crores of rupees, all over the country, left for industrial investment on a large scale. A large portion of these five crores is in the hands of men in Presidency towns, who have little relations with the country at large. The habit of forming joint-stock organization is not developed, and the savings are invested in government stock or in post office banks and bear no productive efficacy. Just as the land in India thirsts for water, so the industry of the country is parched up for want of capital. The evil is not of today, but is an old inheritance. Capital desirous of investment and content with low interest is a national want, and this want cannot be adequately supplied by any partial or local private efforts. These last are good as far as they go, but after all they are a drop in the ocean. The want being national, the nation has a right to expect their rulers to supply the want, more especially as these rulers are not Afghans or Turks, but men belonging to a race the most gifted and the best endowed with material possessions, and lending their surplus wealth to all the countries of the world, and capable of applying that wealth in the most productive channels.

We have to keep in mind the following almost axiomatic truths in all our deliberations.

1. The work of the Conference should be conducted, and its constitution framed on non-sectarian and non-party lines, so that all classes of people may take part in it.

2. What we have chiefly to avoid is the pursuit

of impracticable objects. We should husband our little resources to the best of our power, and not exhaust them by vain complaints against the drain of the Indian Tribute, or by giving battle with Free Trade.

3. We must realize clearly our exact situation, i.e., first, our phenomenal poverty; and secondly, our growing dependence on the single and precarious resources of agriculture.

4. Having realised this situation, we must strive to correct it with a full sense that we cannot do all that we wish in a single year or a decade, and that we can at the most create the spirit and the tendency, and initiate the movement of change and set it afloat.

5. The proper scope of the work to be done is to correct the disproportion between our engrossing production of Raw Agricultural Produce, and our backwardness in the production and distribution of manufactured produce.

6. "In the accomplishment of this aim, we should not forget that there are permanent advantages and disadvantages enjoyed by certain countries and races, which regulate the distribution and choice of labour, and that we cannot hope to accomplish impossibilities. And yet, within these limits, there is ample scope for good and honest work, for many a decade to come, in the utilization of our existing, relatively to us ample, though as compared with other

countries scanty, resources of natural agents and capital with our limitless supply of labour. The skill and patience of our industrial classes are a rich inheritance which cannot fail to help us, if we but provide a larger sphere for its growth and training.

7. Bearing these limitations and advantages in mind, our more immediate efforts should be directed to the improvement by Art and Industry of our raw wealth of agricultural produce, and of the articles which we send away as raw produce, and import as manufactured produce.

8. No hand-made industry can hope to thrive in competition with industry moved by cheap natural agents. The free use of natural agents, moreover, makes large investments of capital a necessity, and thus handicaps all individual efforts beyond rivalry. What we have to bear in mind is, therefore, the organization for industry and capital on the joint stock principle for collective and large undertakings.

9. The superior skill of the foreigner must be availed of freely by importing it from other countries, till we train up our own people for the work, first, in technical institutes here and in foreign countries, and further, in the far more practical discipline of factories and mills at work.

10. Our resources of capital are scanty, but if we only knew how to use such resources as we have, and brought them together, we have more wealth and capital than we can at present properly handle.

11. While we put forth our energies in these directions, we can well count upon the assistance of the State in regulating our co-operative efforts by helping us to form deposit and finance banks and facilitating recoveries of advances made by them, by encouraging new industries with guarantees or subsidies, or loans at low interest, by pioneering the way to new enterprises, and by affording facilities for emigration and immigration, and establishing technical institutes, and buying more largely the stores they require here, and in many cases by producing their own stores.

12. State help is, after all, a subordinate factor in the problem. Our own exertion and our own resolutions must conquer the difficulties, which are chiefly of our own creation.

These are a few of the thoughts which occur to me at this moment. You are most of you far better and more practically versed in these matters than I can well hope to be, and if I were called upon to justify this presumption on part, I can only appeal to the fact that it has been the Brahmin's Hereditary Privilege to formulate the Nation's wants and suggest remedies. With these observations, I shall, with your permission, conclude the speech and resume my seat.

II

INDIAN ECONOMICS

V.G. Kale*

'Indian Economics' may possibly mean one of three things: (1) it may, first connote a body of thoughts and doctrines expounded by Indian speculators and scholars in ancient and mediaeval times and may, therefore, be placed in the same category as Indian Medicine, Music and Astronomy; (2) secondly, 'Indian Economics' may mean, as distinguished both from the western Economic Science and from the above, a system of ideas and principles formulated so as to create a new science of Economics peculiarly in consonance with the characteristic culture and material condition of the people of this country; and (3) thirdly, it may mean a school of modern Indian economic thought which seeks to amplify, correct and supplement the economic theories and assumptions which have found general favour in the west, in the light of

*Extracts from V.G.Kale's Popular Treatise on "Introduction to the Study of Indian Economics – Vol.I" Elaborating Ranade's Ideas of Separation of Indian Economics from the then Western Economics.

their own experiences and of the needs and aspirations of their countrymen. Now, as regards the first among the above connotations, there is ample evidence to show that ancient Indian scholars had developed a systematic body of thought which they called the science of wealth (Varta) and which, we learn, discussed the problems of agriculture cattle-breeding and trade. Though independent works on this science are not yet discovered, economic ideas are found scattered throughout the works on Arthasastra, Niti and Smritis. Chanakya, the author of the 'Arthasastra' indicates the importance of Varta by observing that 'it is most useful in that it brings in grain, cattle, gold forest produce and free labour and that 'it is by means of the treasury and the army obtained solely through Varta that the king can hold under his control both his and his enemy's party'. The growth of this science was obviously arrested, and modern Indian thinkers have had to make a fresh start, the ancient Sastras having now more or less only a historical interest.

The second interpretation errs in attributing too much to Indian Economics; and the criticism referred to in the beginning of this section may, therefore, seem to be justifiable. But a moment's reflection will show that the objection is due to a misunderstanding and that the criticism is merely a fight about words. It is the third sense in which the term is ordinarily used and understood, and no Indian economist has, as a matter of fact, cherished the vain ambition to create an altogether new science of Economics out of Indian materials. But the aspiration is legitimately

entertained to create an Indian school of economic thought which will take proper account of and lay special stress on the characteristically Indian outlook on life and the peculiar motives, practices and institutions of the Indian people. The term 'Indian Economics', it is important to bear in mind, enjoys the advantage of having had a long vogue and concisely expresses the meaning it is intended to convey; and in view of the fact that 'Political Economy' and several other terms used in the exposition of the science, are themselves not free from ambiguity and objection, there appears to be little harm in using the well-defined and well-understood term 'Indian Economics'. An exposition of economic conditions prevailing in England and a study of economic problems of special interest to that country, have thus been characterised as 'English Economics', and there is no reason why any one should boggle at 'Indian Economics.'

The Position Cleared Up: As the next two chapters will throw much useful light on this subject, a brief discussion will suffice in this place. It is now clear that 'Indian Economics' is not an independent science which presumes to rival and displace the economic science developed in the west in the course of the last century and a half. Even there, be it remembered, various schools of economic thought have flourished side by side and in succession to one another; and the fact is deplored that the divergence of view among them regarding the very fundamental principles, is a serious drawback in comparison with the harmony prevailing in the positive sciences. The classical, the historical, the socialist and

the other schools have revolted and warred against each other, and the practical policies suggested by them are obviously as much in conflict as their theories. The very basic ideas have been challenged, the correctness of the theories has been questioned and the beneficence of the working of laws has been denied. The need adopting a new vision and of overhauling the existing economic system, has been brought home with still greater directness and force the experiences of the last war.

'Indian Economics' owes its birth to a similar intellectual revolt. It was, in its origin a protest against the policy of the State which, by its sins of omission and commission, proved to be out of accord with the requirements of the healthy economic advancement of the people as well as the natural, the cultural and the social conditions of the country. It was out of the reasoned conviction of the earlier students of Indian economic problems that theories developed in the strange atmosphere of the west were inadequate and inapplicable in the dissimilar surroundings of India that 'Indian Political Economy' was born in the closing decades of the last century. As it grows, it cannot be content with playing only a negative role in exposing the weaknesses and deficiencies of the western doctrines as they are applied to the economic condition of the country. It labours to collect accurate facts, attempts a new analysis and synthesis of the different social factors and tries to evolve a connected body of thought with a view to point the way to a healthy path of progress. No unanimity can, of course, be expected

among Indian thinkers any more than among western economists, but however they may differ, and wide divergence of view is inevitable, there will be general agreement among them with respect to the need of bringing an independent outlook to bear on their task of investigation and reconstruction. Unquestioning acquiescence and slavish or idle imitation are to be deprecated. The Indian school of economics has its work cut out and it is calculated not only to prove beneficial to the progress of the country but to make a valuable contribution to the economic thought of the world.

III

MAHADEV GOVIND RANADE 1842-1901

V.G. Kale

Ranade is undoubtedly the founder of an important school of economic thought in India. He was one of the very first in this country to undertake a systematic study of the subject. Few people perhaps know that he was not only among the first batch of the economics students in the University of Bombay, but that he was also for a time in charge of the teaching of economics in the Elphinstone College, Bombay. Although he later on chose the judicial service as his profession, he continued to pursue the study of economics and allied subjects from the points of view of the purely academic and the larger national interests. It is noteworthy that as an economist he never allowed political or, for that matter, any other bias to sway his scientific judgement. He would always insist that political controversies should be kept out while discussing purely economic issues. This, however, is not to suggest that Ranade did not interest

himself in questions of practical economic policy. On the contrary, his continued interest in economic studies is mainly accounted for by his desire to promote the economic development of India and to alleviate the poverty of his countrymen by suggesting measures justified by scientific reasoning and suitable in the light of prevailing circumstances.

Economics for Ranade was the Science of national wealth and of the material and moral well-being of the people. It must not only explain the working of the economic machine, but must also throw light on the subject of economic change. He was, therefore, critical of the purely abstract reasoning in economics then rather fashionable, for he believed that relativity of circumstance and hypotheticality of conclusions were inherent in our science. The distinctiveness of his approach to Indian economic problems lies in this emphasis on the relativity of economic generalisations. The immediate problem of the consequences of unregulated economic transition in India as also many events in contemporary Europe and America had raised a fierce controversy round the subject of the economic functions of the State, including the attitude towards foreign trade. On this latter subject, Ranade was prepared to accept List's reservations to free trade as far as they went, though he felt that they did not go sufficiently far. For one thing, Ranade did not admit the theory of a set sequence of economic stages. Facts, according to him, did not warrant such a simple generalisation implying a rigid scheme of stages that must be gone through by all countries. And, secondly, Ranade was not prepared to

concede that tropical countries were unsuited for the commercial-industrial stage. On the contrary, he maintained that once the handicap of a later scientific enlightenment was overcome, the natural advantages of tropical countries such as raw materials, abundant labour and markets would make for very much more lasting success than was possible in the case of European nations.

Ranade, like Adam Smith before him, recognised clearly the relevance of several non-economic considerations to the framing of economic policy. Defence, Adam Smith had said, is more important than opulence. For Ranade, not only defence but several other non-economic values must be considered as often overriding the demands of mere opulence. Thus, while arguing about the limitations of free trade, he observes in one place: "If the civilised world were one integral political and social community, the economic aspects would be the only ones which would need to be considered. As a matter of fact the millennium is far off, and the civilised world is split into a hundred different States with conflicting interests and aspirations, and perpetually, in peace and in war, opposed to one another in a thousand ways". For the realisation of the varied purposes of individual and collective life, the State, thought Ranade, was the most appropriate instrument. He was therefore in favour of using its resources in the interests of material and cultural progress.

Holding such advanced views about the economic functions of the State, Ranade very naturally found almost

exasperating the inactivity of the Government of India in the face of the serious problems inherent in economic transition and the growing rustication of the country. His leanings were all in favour of a constructive social policy reminiscent of neo-mercantilist or State socialist types. He did not subscribe to the doctrine of class war and the economic interpretation of history. At the same time, unchecked individualism and monopolistic exploitation jarred equally on his essentially orderly and humane nature. The absolute poverty of India and its increasingly detrimental operation during the period of transition were, according to him, national and international dangers. A concerted attack on the problem of poverty on all fronts was called for. To provide expanding employment for an expanding population, the entire organisation of industry and society must be improved. The growth of population must be regulated by prudential checks and a policy of transformation of agriculture, trade and industry along scientific lines must be promoted so as to augment the total yield of national industry.

Ranade's emphasis on industrialisation did not imply indifference to agriculture. Agriculture was, in fact, Ranade's first love, as it appealed both to his emotional and moral nature. It was for the very welfare of the agriculturist, for his safety as well as prosperity, that Ranade wanted State-directed industrialism in India. In the development of such industrialism lay the salvation of the agriculturist as well as of the whole community. Ranade's enthusiasm for industrialism and his comprehensive and continuous efforts in support of

the same are reminiscent of the Saint Simonians in France. It can be said with justification that Ranade combined in himself the sociological and ethical background of Adam Smith with the humanity of Sismondi and the collectivist viewpoint of State socialists. Economics was not Ranade's profession, but he wrote more steadily and zealously on the subject than many a professional student has found it possible to do. From 1878 to 1893 he kept up a continuous output of well thought out essays on economic problems in the pages of the *Quarterly Journal* of the Poona Sarvajanik Sabha. Many economists and public men such as the late Rao Bahadur, G.V. Joshi and the late Mr.G.K.Gokhale were influenced by Ranade's example and teaching, and there are at least some amongst us to-day who would acknowledge Ranade as their *guru*.

As a professor, as a judge administering the Deccan Agriculturists' Relief Act, as a member of the Indian Finance Committee, 1886, as the effective genius behind organised public opinion, as the voice behind the Sarvajanik Sabha *Journal* and as a steady and continuous supplier of authoritative interpretation of current events to leaders of thought in almost all parts of the country, Ranade exercised tremendous influence directly and indirectly on the national thought of his day. *Swadeshi* for the individual as also for the group, in official functions as in day-to-day life, was rendered not only respectable, but almost habitual by his percept and example. Thus, in many respects such as the role of the State in an industrialised community and the overriding importance in

economic policy of non-economic considerations, his thought was very much in advance of his day. He carried on his patient mission of observation, study, interpretation and advice till the very hour of his death.

A very large part of his life was devoted to the consideration of questions of finance. This was a subject in which the citizen was directly interested, and Ranade was for a time a member of the Bombay Council. While Ranade's work in connection with finance was thus the product of a certain practical interest, it is noteworthy that his writings on this subject as also on other problems were designed not just to appeal to the average reader but to carry conviction to the select world of students, administrators and politicians. Ranade's role was thus, in the main, to shape and direct thought, and he maintains to this day his position as a teacher of teachers.

The sociological background of Indian economic studies, the eclectic attitude of Indian economists and the practical urge behind our scientific enquiries, all these are inherited by us from Ranade. With the growing richness of economic experience and with expanding avenues of constructive thought, some of us may well specialise in analytical economics. But we cannot afford to lose sight of the common heritage that has come down to us from Ranade, the heritage which, as we have already observed, represents a sociological eclectic and practical approach to India's economic problems.