

The Indian Economic Conference

TWENTY-FOURTH SESSION

PRESIDENTIAL ADDRESS

*(The Economic Policy of the State
in India)*

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Saturday, December 28, 1940.

Your Highness, Ladies and Gentlemen,

I have to thank the members of the Indian Economic Association for having elected me President of the Association for the year and for having thereby conferred on me the privilege and the honour of presiding over this, the 24th session of the Indian Economic Conference.

The Economic Conference meets today in this historic city under the shadow of two great calamities—one domestic and the other universal. In His late Highness Maharaja Sri Krishnaraja Wadiyar Bahadur India has lost a noted personality of modern times and this State one who may be verily termed its maker. On this occasion all that need be said is that in the practical solicitude for the welfare of his subjects, in the discriminate and happy choice of ministers, in the love and patronage of learning and the arts the late Maharaja ably represented and carried on the noble tradition of the *Triya* rulers of the Deccan. I may add that of his successor, confidently expect no less.

The world has now lived through more than a year of a war which has involved a larger extent of territory and peoples within it than any previous war in history; and it would be a mere truism to say that the crisis through which we are passing will materially influence the future trend of human history. At such a juncture the confabulations of academicians are apt to appear especially unreal to minds that are almost always a little impatient of them. The sanguine expectations entertained of the spread of reason by the founders of our science have failed to materialise and wars continue to be waged even though it may be conclusively proved that they bring material gain to no party. But this is no reason for despair. Humanity has come through similar crises in the past. Progress has not always been uniform or unimpeded and human history has had its dark ages. Through it all, however, a continuous strand

can be discerned which represents the progress of a rich and growing tradition. This tradition represents the working faith of those who would look to a solution of human problems in a close and sympathetic understanding of the natural and social forces among which we live. The majority of those assembled here share, I believe, such a faith and a crisis like the present makes all the more urgent the call on us to live by that faith. So that those of us who are unable to take an active part in the struggle that rages round us may at least feel that they are doing their bit in fitly carrying on the intellectual traditions which we profess to inherit.

It has been a common practice of my predecessors in office to pass under review during the course of the annual presidential address a large number of questions of current interest. I intend, however, to depart from this practice and to take up a single, though somewhat wide, theme as the subject of my discourse. The theme I have chosen is the consideration of the manner in which the economic policy of the State in India should be moulded. The definition of the principles of public policy on economic questions is always of the highest importance and it is particularly important at times like the present. The economist has always claimed to speak with authority on this matter. The founders of our discipline—the Physiocrats and Adam Smith—were concerned intimately with the definition of the attitude of public authorities towards economic life and the extent and the methods of regulation to be exercised by the State over it. Indeed, it may be said that the search for the criteria of economic policy was the motivating force of their intellectual activities. Discussions regarding public economic policy have played a dominant part throughout the subsequent history of economic thought. In recent years there has, no doubt, emerged a school of thought which would divorce, almost entirely, the connection between economic science and public policy. The actual behaviour of the majority of the protagonists of this school, however, belies their protestations. For, some of the most strenuous of them are among the most prolific and the most emphatic in the expression of opinions on matters of immediate public interest. Obviously the only title to consideration from the public to which academic economists can lay claim is that acquired by their study of economics. If, therefore, the “pure” economists behave as if in

their opinion the study of economics entitled them to say something on current problems which was worth a hearing from the public, this can only be because there subsists some connection between the study of even "pure" economics and public policy. This problem, then, of the end and means of public economic policy has always been one of the main objectives of the economist's quest and continues to hold the position even today.

To the question whether there are any definite criteria of public policy which economics lays down the economist has until very recent times been wont to give an unequivocal answer. It has usually been axiomatic with him that the welfare of the largest number was and should be the proper goal of economic activity and that this was best attained in a society in which the activities of the private individual were interfered with as little as possible. The doctrine of *laissez faire* and economic science were born together and have until recently been inextricably associated. During the last few years doubts have been cast on many of the assumptions on which the doctrine of *laissez faire* has been founded and academic economists have been chary of making the assumptions in their analysis. It has, for example, been argued that the concept of welfare should be banished from the field of economics as it was based on reasoning that was not scientific. And some economists have been so impressed with the objection that a considerable amount of ingenuity has been expended on proving that welfare economics, which after all represents the chief body of thought with which most except the "purest" economists are chiefly concerned, can be retained within the fold without making the unscientific assumptions. On the other hand, there is also a growing body of thinkers who feel that the assumption that a minimum of interference leads to a maximum of welfare is itself not justified. However strong these dissentient trends may have shown themselves in modern times, the main body of economic thought is still deeply under the influence of the doctrine of *laissez faire*. Economists when writing on public policy habitually take the *laissez faire* assumptions for granted and the models of the economic theorist are so constructed as to lead to *laissez faire* conclusions. Indeed, whereas one result of the Great Depression has been to move public policy and some economists away in most

countries from *laissez faire* it has also led to a revival of some characteristic *laissez faire* dogmas in an acute form in the academic world. I do not think that it is necessary for me to give examples of the dominance of academic economics by assumptions which lend support to *laissez faire* or of the bias towards it in the writings on policy of economists in general. But some remarks may certainly be made regarding the modern version of the older doctrines which has played a considerable part in the writings of economists during the last ten years or so. There is yet no uniformity in the formulation of this modern version; as a fact, it is usually to be found only implicit in the analysis. I may, however, cite for illustration certain explicit statements recently made in regard to it by Mr. Harrod.¹ Mr. Harrod treats of the competence of the economist to give advice and is discussing the limitations on the validity of the advice tendered by him. There are in his opinion certain directions in which the advice has unqualified validity and is universally applicable. The great merit of Adam Smith according to Mr. Harrod lies in his having found the one criterion which enables the economist to judge of policies and actions infallibly. Mr. Harrod calls this the "Economic Criterion" and defines it in the following manner. "If an individual prefers a commodity or service X to Y it is economically better that he should have it. Similarly if the individual prefers work X to Y or dislikes it less it is economically preferable that he should have it." This constitutes, we are told, the economist's criterion of good or bad. But surely it is merely the substance of the old *laissez faire* doctrine under a new guise. This definition of the "criterion" raises many problems. Firstly: What is the meaning of "economically" better? What can constitute the economist's "good"? Are not terms being used here which are connected essentially with the process of valuation? Can anything be called economically good or bad, as, say chemically or biologically good or bad, without the intrusion of extraneous values which have nothing to do with the scientific study of surrounding phenomena? Having first decided that economics is not a normative science, this looks like an attempt at prejudging questions of public policy by introducing by the back-door normative considerations in a definition of the economic good. The definition

¹ R. F. Harrod:—Scope and Method of Economics, *Economic Journal*, September, 1938

again embodies typically *laissez faire* prejudice. The "criterion", let us note, is said to be of universal validity. But men have in large numbers habitually preferred drugs and drink, unhealthy food and overwork; all action taken to prevent them from having their hearts' desires in these directions would then have to be described as economically "bad" and the "Opium War" could be characterised as one undertaken in pursuit of the economic "good". Again, why should the preferences of individuals be taken to be axiomatically supreme and why should the criterion entirely neglect the group or the society? It is difficult to discern any "economic" reasons for this definition of "economic criterion" and Mr. Harrod offers us none, though he insists that advice based on the "criterion" will be free from "ethical bias". I do not desire to discuss at length Mr. Harrod's attempt at defining the economic criterion. My purpose in drawing attention to it was merely to emphasize the hold of the *laissez faire* attitude on economic thought even today and the curious ways in which it manifests itself. Most academicians seem yet to believe in a presumption in favour of *laissez faire* and seem to think that the onus of the proof is necessarily on the shoulders of those who would not agree with their assumptions. The attitude of Prof. Viner¹ who frankly states that the economic and political formulations in the liberal tradition are dogmas and not axioms is yet too rare and the opinion expressed by Mr. Keynes years ago that problems of policy cannot be settled on abstract grounds but must be handled on their merits in detail is yet unheeded.² Though the academicians are still ruled by traditional beliefs the trends in public policy have been decisively reversed. During the last two decades events have increasingly conspired to move governments into policies of greater and wider interference. This movement has reached a climax during this last year when we have found the "Economist" newspaper - the very home and citadel of the liberal tradition in economics - supporting vigorously such heterodox doctrines as that of a "National Minimum". In this country, however, those in authority still cherish the old dogmas and over our economic destinies rule those who openly express contempt for the tradition in Indian

1 J. Viner: Short and Long Views in Economic Policy. *American Economic Review*, March 1940.

2 J. M. Keynes: *End of Laissez-Faire*, 1926.

economic thought which has ventured, for many decades past, to express dissent from them.

I do not desire to detain you long with a discussion of the familiar theme of the operation of *laissez faire* in India during the last 100 years. The fruits of what may be called the obviously "interested" version of this doctrine represented, of old, by the cotton excise duty and in recent times by the "economic safeguards" lie outside the scope of my subject. I shall further not talk about policy in relation to trade and industry where also "interest" may be said to have entered to a greater or less degree, but shall deliberately choose for illustration one or two extensive fields where *laissez faire* may be supposed to have been worked without any bias or prejudice. The development and the working of the rural credit system in India offers a specially instructive example. We can here witness the results of a rapid transition from conditions of restraint imposed by laws and by social conventions to a state where there was complete liberty for the borrower to ruin himself and for the creditor to exploit him mercilessly. The classic description of the debtor-creditor relations created by the joint operation of *laissez faire* and the British judicial and administrative system is that contained in the report of the Deccan Riots Commission. This is the first vivid official account; later studies in various parts of the country have added to it much in detail and the elaborateness of analysis but the essentials of the problem remain as then disclosed. The fundamental factor in these relations is the great disparity in knowledge and economic power between the two parties; so that, where the disparity is the greatest the results are the worst. It is in the more precarious and poverty-stricken tracts that the moneylender is decisively dominant; and where, as in the case of the aboriginals, these conditions are accentuated by habits born out of a traditional primitive life the borrower is often no better than a serf.¹ The failure of a policy of *laissez faire* to generate corrective forces, even in the very long term, is only too obvious over the whole field of Indian rural credit.

I would, in this connection, draw special attention to the intrusion and the spread of the non-indigenous moneylender in many parts

1. For a recent official description see Symington:—Report on the aboriginal and hill tribes of the partially excluded areas in the Province of Bombay, 1939.

of rural and urban India. Here again the poorer the tract or the class the more in evidence is the non-indigenous moneylender. The rural type is the earlier and is well described by the Deccan Riots Commission. The urban type takes rise later and culminates in the terrorising bully whom all students of labour conditions, especially those of industrial labour, agree in considering a social pest needed to be eradicated immediately. We shall leave it to the champions of *laissez faire* to discover the services to society of the non-indigenous moneylender which justify his emergence and spread; for, he certainly brings neither technical skill nor capital into the locality. To me his chief asset seems to be his ability to disregard the conventions and the decencies by which the social group, in which he finds himself, is bound and his willingness to take the extremist measures within the law and, if possible, even outside it. With this advantage he is able to oust the indigenous moneylender in all the poorer and the socially less integrated communities; and wherever he flourishes he is a force making for further social disintegration.

A parallel to these circumstances of our credit system can be found in the West chiefly in the field of consumption loans in the big cities. It is noteworthy that the need for regulating this field severely has been felt in most of the advanced countries and that in U. S. A. "small loan" legislation has evolved, in most states, a strictly supervised system of licensed and controlled moneylending.

Another large field in which the failure of the usual *laissez faire* assumptions may be shown to be markedly evident is that of the wages of industrial labour. The traditional market analysis yields the result that payments for similar services will be the same and it has been usually taken for granted that payments to the various types of workers in given occupations or industries in a locality or a region will tend to uniformity. This trend should further be specially marked among workers in modern large scale industry who are concentrated in a few important centres. The data regarding wages paid to industrial workers in India reveal a state of things which is at considerable variance with the results of this market analysis.¹

¹ This statement is based on an examination of recent data relating to industrial wages in India which I undertook in another connection.

Except where some measure of collective bargaining or external regulation is present, large differences are found to exist between the scales of payments to workers engaged in even contiguous establishments and no trend can be observed towards the disappearance or reduction of such differences. The forces which are usually said to make for a disturbance in the working of a free market for labour in other countries have mostly been absent in India. Trade Unions have been either absent from large parts of the field of industrial labour or, where present, have been mostly ineffective; employers' organisations have also not usually paid any attention, till very recently, to the regulation of wage rates and the State has done nothing. And yet in this market, subjected to almost no influence or interference from outside, one finds conditions which can only be described as chaotic. This leads me to suggest that in the actual world, free market analysis works out as supposed only under a given set of social conditions. For example, in England, where most of these ideas were first formulated wages were, for the greater part of the nineteenth century, influenced over a large part of the industrial field by custom and convention. Entirely apart from the influence of Trade Unions, the Webbs have pointed to the extensive area covered by "shop bargains," by "custom of the trade" and by local "working rules." One suspects that it was more these, than the fact of a free labour market, that brought about and maintained such state of order as appeared in English wage payments in the nineteenth century. English labour in the modern machine industry, especially skilled labour, never lost the organisational traditions of the earlier period and these grew in volume and influence with the progress of the century. In India, on the other hand, there was no such continuity of tradition; industrial labour grew up mostly in new cities and was recruited from diverse regions, diverse occupations and from all strata of society. This heterogeneous mass was again not stable in its composition for any long period. Hence it, and in a somewhat similar manner the class of employers also, ideally fulfilled the requirements of free market analysis. The result lends support to the view that except under appropriate social conditions *laissez faire* does not lead to order but, as one would naturally expect it to do, to chaos.

I may now go on to a consideration of another concept closely associated with *laissez faire* which has had and which continues to have a considerable influence on public policy. This is the "universalism" which is implicit in traditional economic analysis. The international liberalism of the eighteenth and nineteenth centuries which dominated the development of modern economic analysis is based on what Prof. Robbins has termed the "cosmopolitan utilitarian calculus".¹ Let us realise clearly what the academic economist in Europe means by the cosmopolitan calculus. By the cosmopolitan calculus is not meant a careful calculation of the effects of given policies pursued by individual nations on the particular circumstances of the different peoples and nations in the world. Such a concrete study is entirely foreign to the notions of these economists; indeed, if attempted, it would have revealed to them the great difficulties of the cosmopolitan calculus and the impossibility of finding a uniform basis on which to conduct the calculations. The cosmopolitan calculus of the international liberal was based on the hypothesis of a uniformity of world conditions and meant merely the generalization of such causal relations as may be discerned in the working of the economy of an advanced European nation. Beer has pointed out that the universalism of the Physiocrats is derived largely from medieval schoolmen.² The chief argument advanced by Quesnay, for example, against the mercantilist notion that one nation can profit in trade at the expense of another was that a good and a just God has wished that it should not be so. Quesnay had further no opinion of the merchant engaged in international trade and thought of the financier as a stranger in his own land. Adam Smith's beliefs had not the same medieval and theological bent; they were dominated by the naturalistic concept of the "invisible hand". It is noteworthy, however, that this confidence in the beneficent working of natural forces did not lead Adam Smith to ignore the realities of the situation, as witness his acute analysis of the working of the government of the East India Company and its officials in Bengal.³ None of the classical economists or their follow-

1 Prof. L. Robbins:— *Economic Factors and International Disunity*. [*World Order Papers* 1940.] It is interesting to observe Prof. Robbins deploring, in this connection the disregard of the utilitarian calculus the prestige of which in economic analysis he has done so much to undermine.

2 M. Beer: *An Inquiry into Physiocracy*, 1939.

3 Adam Smith:— *Wealth of Nations*. Bk. IV ch., VII.

ers in the nineteenth century exhibited, however, this faith or this vision; their universalism was for the most part merely an assumption implicit in their analytical procedure, an assumption which was rarely explicitly stated or defended and whose nature was never properly explored. If these economists had been endowed with the same vision as Adam Smith we would surely have found at least one of them explaining how the nature of British interests in India and the structure of their administrative machinery made it impossible for the government to smoothen the transition from one economy to another in this country.

While the genesis of this peculiar "universalism" is clear its dominance and continuance till very recent times needs explanation. It is a commonplace of the history of human thought that notions are widely accepted and popularly believed not because they can be proved to be logically valid but because they work. In retrospect, it may appear strange that such beliefs were once held but contemporaneously they derive their strength from their being efficient instruments in building up concrete workable policies.¹ The universalism of Anglo-French thinkers was in this manner justified by its fruits; it worked. Or, to differentiate between the two, it may be said that the French belief in universalism continued to be founded in an abstract philosophical idealism while the British belief had a more solid and practical basis. The French interest in international trade or technological advance was, throughout the period, of a comparatively minor importance. To the British, however, their universalism was a practical necessity. At the beginning of the nineteenth century the British were leading the world in material production technique to an extent unparalleled in modern history. The greater the field over which they were able freely to operate, the greater the extent to which they reaped the fruits of this advantageous position. Prejudices, however, die hard and it was not till the nineteenth century was considerably advanced

1. It is not necessary to resort to the materialistic philosophers in order to find support for this proposition. Cannan (History of the Theories of Production and Distribution) has, for example, conclusively shown that while the ideas of the Classical Economists were scientifically unsatisfactory they were excellent tools for dealing with the immediate concrete problems of the Poor Law and the Corn Law. Whitehead (Science and the Modern World) puts forward an analogous proposition in a wider context.

that universal free trade was, even in England, fully accepted and operated upon. The fruits of the policy were, however, too obviously good and plentiful for it not to secure general acceptance. This explanation is rendered the more plausible by the subsequent history of English ideas on the subject. The loss by England of the decisive leadership in technology towards the end of the century leads to a change, first in emphasis and then in fundamental ideas. It may be admitted that the position of the bulk of the economists and intellectuals was unchanged till about 1920. But the course of the last two decades has revealed interesting developments. Among living economists there is perhaps no one who can sense as keenly as Mr. Keynes the inwardness of passing events; and it was he who in his "Economic Consequences of Mr. Churchill" first put forward an English case in favour of discarding universalism in the monetary sphere. And when some years later his predictions were proved only too correct he came out openly in favour of national self-sufficiency in this respect. A surprisingly large body of English economists immediately agreed with him and thus ended the sway of the notion of universalism. For, you cannot interpret the brotherhood of man sectionally and uphold universalism in one sphere while rejecting it in another.

It is too simple an explanation of this revolution in ideas to talk of it in terms of a betrayal or an aberration on the part of the intellectuals. Truth to tell, the roots of this belief were never too deep and its character was always formal. I may illustrate this by referring to the development of economic thought on the subject of what has come to be called "technological unemployment." The subject has naturally received the attention of economists from almost the beginning of the industrial revolution, but its consideration was for the larger period conducted under somewhat peculiar conditions. The economists when discussing this question always took the long view. This was not only because that was what the economist habitually did but also because the short term effects of technological changes were not fully felt in the countries in which the industrial advance was taking place. For the greater part of the nineteenth century the bulk of the unemployment resulting from industrial advance was evident in countries outside the advanced countries of the West and only the

expansionary effects were felt within their areas. The adverse effects of the mechanisation of the cotton industry, for example, were, except for a short period in the beginning, felt chiefly in the distant continents. The same was the result of the growth of the metal and engineering trades. On the other hand, the increased demand for machine-made goods from distant peoples was reflected in a steadily growing employment in the new industries in these pioneering countries. The economist could, therefore, content himself with pointing to the obvious benefits, in the long run, of the technological revolution without troubling himself with the length of this period or the misery that might be caused in the intervening years.¹ The nineteenth century economist confined himself optimistically to the long view not because he shirked from thinking of the short period but because during that century, when the wheels of progress ran smoothly, there was no need to concern oneself with a shorter or a more critical point of view. It is only recently that the spread of modern industry to other countries and continents and the continued progress of inventions have brought home the difficulties acutely.² That is why there has been in recent years more consideration given to the immediate unemployment caused by the progress of technology, as apart from the larger employment it may ultimately create; and in this latter respect also the verdict is not so emphatic as it used to be once. Even so the industrial countries of the West have experienced nothing like that entire upsetting of the traditional economy without compensating alternatives which has been our experience for a century. The nearest

1. This aspect was not so neglected by the English writers in the earlier part of the 19th century as later. But then it should also be noted that they did not resort to the cosmopolitan calculus. For example, Babbage when writing on the exportation of machinery (*Economy of Manufactures*. Chap. XXXIV) advocates free exportation not because a spread of the new technique was in the interests of humanity but, because, for a variety of reasons, such exportation could not harm English interests.

2. It is part of the *topsyturvydom*, from our point of view, of western economic thought that when the short-run now receives attention it should be almost entirely in connection with the progress of technical advance in non-European countries. Thus Prof. Staley in his broad and sympathetic survey of world problems cites the following as the most typical example of the occasional conflict of world welfare with the welfare of particular countries. He writes: "The British textile industry, for example, has thus far borne the brunt of the transition occasioned by the increased efficiency of Japanese textile-making". (*E. Staley. World Economy in Transition. 1939. p. 92*). There is not a word about the heavy transition costs that countries like India and China have borne for over a century and still continue to bear !

to this experience that they have approached has been in the field of agriculture, where the technological changes in Colonial agriculture have impinged disastrously on the peasantry of many European countries. Even the modern refinements in the analysis of technological unemployment do not take into account the large variations in the incidence of this unemployment as between country and country. And yet to us in India these differences are the most striking feature of the situation. To us the technological revolution has meant chiefly the successive loss of avenues of employment. And this experience must continue with the constant progress of technology as long as the disparate position continues. Wherever either social, political or geographic factors prevent the wide adoption of modern technology the impact from outside of its products must lead to unemployment without necessarily resulting in sufficient compensatory action. These aspects of the question rarely receive their due attention and the analysis is carried on on the hypothesis of universalism because it postulates fit, approximately, or used to fit the facts in the Western countries.

All these considerations emphasize the fundamental importance, in determining economic policy, of the social environment within which the economic problem is posed. In the field of applied economics the social background is all-important, especially when there is an attempt, as has happened throughout the last 150 years with us, to apply the theoretical analysis formulated and the lessons of experience gained in one country to another very differently circumstanced. The economic history of modern India affords many examples to illustrate this statement. Consider, for example, the first important step in economic policy taken by the English in India—the establishment of the Landlord System. While the peculiar character of the system introduced in Bengal was no doubt the result of particular local and historical circumstances men like Lord Cornwallis may well have thought of the great benefits that the landlord system would confer on the land. And this was natural when they had before their eyes the results of the work of private experimenters like Tull or Bakewell and of private landlords like Townsend and Coke. But while the administrators could create the landlords they could not equip this newly created class with the social traditions of the English country

gentry—traditions which were peculiar to England and which were lacking even across the channel in contemporary France. The result of the experiment is well-known. Whatever else may be claimed for them, the landlords either in the permanently or the temporarily settled provinces have not functioned as pioneers of agricultural improvement.

The difference made by the political and social environment is even more strikingly brought out when we consider the nature of the development of modern industry in India. Veblen has pointed out that the acquirement of the "premises and logic" of modern technology is a sufficiently simple matter and that in the process of this acquisition the borrowers have certain advantages over the originators. In an acute analysis he lays bare the factors to which was due the advance made by German industry in competition with the British. Apart from the absence of conventional restrictions or obsolescent equipment the German industry possessed at the start certain special advantages. These were, an educated middle class with an intellectual habituation favourable to the ready acquisition of modern technology, a sufficiently well-instructed force of operatives and workmen and the fact that the German adventurers in the field of business were captains of industry rather than of finance who were accustomed by tradition to be content with a relatively low return.¹ Similar favourable circumstances obtained in the case of Japan also. The policy of the governments in the two countries also actively influenced the course and pace of their industrialisation. In this vital matter the predisposing social and political conditions are thus seen to have very considerable influence. This is true of India also; the course of such development of industries as has taken place in India has been largely moulded by our social and political environment. In their aptitude for taking to modern machine industry both our educated and our working classes inherit traditions and have characteristics very different from those currently attributed to Germans. And even more important than this is the fact that the large majority of our industrial capitalists are recruited from the ranks of those whose traditions and habits of thought have been formed in the vocations of

¹ Veblen:—*Imperial Germany and the Industrial Revolution*. Chap. VI.

the money-changer and the financier. It would be easy to show how all these circumstances have had their share in shaping, in the past, our industrial history and how they continue today to dominate the situation.

The development of economic ideas since 1920 has sometimes been called "neo-mercantilist". But if by the mercantilist tradition is meant the tradition of the social thinker to speculate in relation chiefly to the concrete problems of his environment and to think of the good of the collective group of which he is a member there is no reason to state that there ever was a break in that tradition or that it survived only in some countries and not in others. And let me state this, that I do not feel that the social thinker is to blame in ordinarily adopting this point of view. Except in the realm of abstract speculation the specific local circumstances are of the utmost importance in all social studies, and it is but natural that the turn that social sciences take in a country should very largely be determined by the environment in which the students find themselves and the urgent problems which they are called upon to tackle. When one frankly accepts this point of view the peculiar nature and the particular trends of the Anglo-French and latterly the Anglo-American tradition in economic thought becomes clear and it becomes unnecessary to charge the British economists with hypocrisy. It becomes at the same time evident that the application of the lessons of British experience and of the views Anglo-American economists have distinctly limited validity.

I may conclude this part of the subject with the observation that we must reject the *laissez faire* bias in economic speculations, reject the pseudo-universalism which consists merely in the assumption of a uniform set of conditions as ruling in the world without enquiry into the differing needs and circumstances of the various peoples, and we must beware of the immense difficulties involved in the application of the results of theoretical analysis to practical problems. And as Mr. Shove says, we must remember that "the economist who knows his business relies in the main on disciplined and informed common sense", and that "the more he knows about men and their ways the surer will be his touch in making the

necessary judgments".¹ Mr. Shove also proceeds to point out that the student, if he wills, has much greater opportunities of acquiring and properly analysing such knowledge than the practical man.

Modern apologists of *laissez faire* tend usually to argue that *laissez faire* does, in the long run, operate well and bring about a stable equilibrium and that its shortcomings are glaring only for the period of transition. This sort of reasoning seems, however, to miss the very core of the situation. In a stable or static economy where changes did not take place at all or took place only very slowly the concept of *laissez faire* is extremely unlikely to originate. A quasi-static society is bound to be dominated by concepts of order and of just price. *Laissez faire* is a prescription essentially for a changing economy. Its chief claim is also founded on its efficiency in directing changes in the most advantageous channels. Now, a changing economy under modern technological conditions is an economy which is perpetually in a state of transition. To say then that *laissez faire* fails only in periods of transition is effectively to give up the whole case in its favour. The fact of the matter is that *laissez faire* does not suit all types of changing economies; it suits only one phase of the change, that phase in a country when the transition from one economy to another is brought about under conditions of constantly growing prosperity. It thus suited the England of the nineteenth century or U. S. A. when the resources of that country seemed limitless. The condition of India has, however, been for the last century and a half very different and continues to be different. Throughout this period India has been bearing the brunt of the results of the technical progress—both agricultural and industrial—in other countries. Its internal situation has been such that it has not found it possible to go a long way in adopting modern technique. Hence each important fresh advance in technique has created for us problems of unemployed resources and men. The government in India has done nothing to smoothen the progress; it has, on the contrary, perhaps done something to aggravate the difficulties. The entire period has been, therefore, one of grave difficulties. Such advantages as have accrued to us have been mostly incidental and accidental; they have for the

¹ G. F. Shove:—Economics and the Social Sciences in "The Social Sciences, their relations in theory and teaching," p. 160, (1936)

major part been incidental to the industrialization of the other countries and to the cheapening of manufactured goods. The period of technical change, so far as one can look into the future, is by no means nearing its end and we may expect a continuous alteration of the technical structure of industry and notable advances in agricultural methods. As such changes are always found to be pre-dominantly to the advantage of highly capitalised and technically advanced societies in relation to those backward in these respects the changing economy of the near future will present to India, problems essentially similar to those encountered by us in the recent past. A national economic policy for our country must, therefore, be one which is suited to a period of transition ; the character of this period of transition we can envisage from our experience in the past.

It is not my intention to discuss in detail the manner in which such a policy could be built up or the main features that it might exhibit. In order, however, to illustrate what I mean by a national policy suited to a changing economy or to a perpetual period of transition I shall refer briefly to certain aspects of it which I feel to be important. I would put in the forefront, the problem of Relief. I suppose it will be readily agreed that an outstanding feature of a changing economy is some measure of insecurity. This insecurity will appear chiefly in the results of the employment of resources. In view of constant changes that may be taking place nobody can rest assured about the continuance of the profitable employment of natural and capital resources or of labour. A change may lead to an almost sudden cessation of employment in certain directions as happened in the case of indigo growing and manufacture, or it may mean a continuous deterioration in the conditions of employment in a particular industry over a long period as has been happening for over a century in the handloom industry or it may mean the cutting off of a resource and the upsetting of the balance of the economy of a class as happened after the introduction of motor transport in those tracts where the peasantry relied partially upon the earnings from carting. We are today facing the problem created by the accumulated effects of a series of such changes. This has rendered the Indian problem of the unemployment of men and resources not so much cyclical as chronic. In the circumstances, the primary social responsibility is, of

course, that for the relief of distress caused by this historical process. In most countries even of the western world poor relief has been traditional and unemployment insurance in one form or another covers an ever widening field in recent years. In India the only measure of this character adopted has been the opening of famine relief works by government at times of widespread failure of crops. The incidence of this relief is, however, occasional and it is further available only in times of failure of crops due to natural causes and not in other times of agricultural distress as, for example, that brought about by a collapse of prices. I do not think that it is necessary to argue the case for the urgent need for the introduction of some general system of poor or unemployment relief in India. The question, however, is rarely mentioned except sometimes in connection with industrial labour; and the method or the cost of such a measure are subjects which have not yet been adequately discussed. I am personally led to think that the best way of meeting the problem is to follow the same methods as those devised by the famine relief administration. Instead of framing programmes of relief works which are resorted to only occasionally there should be continuous schemes of annual public works which would afford the necessary employment and relief. The provision would be necessary chiefly in the off-season of agriculture. There should be no dearth of suitable items for such a public works programme. The extent of the construction of roads, embankments, wells, tanks, or work of afforestation, etc., that could be usefully undertaken in rural India is very considerable and this is work that will enlarge in a productive manner our capital equipment. Obviously, the scale on which these annual works are provided would be very much smaller than is usual in a year of famine; they would also not be large concentrated works but local works scattered over the districts. I do not also think that their cost would prove them uneconomic. In other countries where the policy of relief through public works has been found costly that has been largely because of the need of adapting labour, which was mainly industrial, to work to which it was unaccustomed and in some respects unsuited. With us, however, labour seeking work on relief works would be accustomed to the work it would have to do. The provision of work along these lines would

obviate many of the difficulties in the way of the administration of relief or insurance schemes on the western model ; and this seems to me the best way in which to begin to tackle this problem. I am aware that the cost of such a continuous public relief-works policy would be considerable ; but I am convinced that whatever the cost it must be borne. For, this is a primary responsibility which the society must recognise and the state should take upon its shoulders. It will be realised that what I propose bears no relation to the concept of a national minimum. It falls short even of a general system of poor relief. It is merely the belated generalised acceptance of a responsibility for providing work to those seeking it which even the *laissez faire* Indian government of the last century accepted as falling on itself during times like that of a famine. The effects of the changes of the last century have not been uniform ; some classes have prospered greatly owing to them while others have suffered. The least that can be expected in a social group is that those who suffer are saved at least from complete starvation. It will, of course, be no use undertaking this responsibility if it means a further increase in the burden on chiefly the agricultural classes and I take it as axiomatic that in any future reconstruction of our economy a correction of the regressive nature of our tax system will be the first to be attempted. There are many other incidental advantages which I consider will follow the adoption of such a public works relief policy. I, however, advocate it here mainly on the ground that it represents the beginning of an essential step in the formation of the economic policy for a changing India.

The second point to which I would draw attention is the regulation of the pace of the transition. It is obvious that the future direction of technological change is unpredictable and the area that it may at any time cover cannot be foreseen. It is, therefore, not possible to keep society in a state of preparedness for the impact of the next set of changes. Further, given the distribution over area of the population, the training for particular vocations imparted to men and the investment in durable capital goods the extent of change to which economic society can adapt itself during a given period of time is limited. The costs of a rapid transition are both material and psychological. It is often argued that each change tends invariably to a

somewhat greater economic welfare in the future and the dilemma of a clash between security and progress is posed, with progress being usually taken as obviously preferable. It has, however, to be remembered that periods of transition are short only in comparison with the span of human history but are long as human lives go. They often cover generations. And in view of this it is arguable that it should not after all matter much, in the long run, whether a particular set of technological changes took effect immediately or some years later. Economists in the early decades of the nineteenth century usually recognized the need for regulating the manner in which an invention was adopted. J. B. Say, for example, recommends that the State should deal with the problem of technological unemployment in the following manner. "Restricting in the beginning the use of a new machine to certain districts where labour is scarce or required in other industries...providing in advance for the employment of the idle by undertaking at its own expense works of public utility such as a canal, a highway, a big building...promoting a transfer of population from one locality to another."¹ This advice was ignored in the nineteenth century because the need for it was not felt by the industrially advanced countries; today its importance is being slowly realised. However, the chief type of control exercised at present over the introduction of new inventions is that by the activities of various types of vested interests. If the State itself controls investments likely to be affected by new inventions it is usually prompt in controlling them. The best instance of this is, of course, the attitude adopted by all governments which own railway systems towards the extension of mechanical road transport. The Indian government, faced with the new means of transport, talks readily of the dangers to public investment; but it does not yet recognise the corresponding responsibility where the traditional mode of living of millions of people is similarly endangered. The extent of the suffering involved in the process of transition is yet very inadequately realised. The artisans and the agriculturists have undoubtedly suffered the most. The history of the fortunes of the handloom industry is a continuous record of partial stabilisations followed by

¹Quoted in "Technological trends and National Policy," (National Resources Committee, U.S. A.) p. 86.

ever fresh periods of disaster. I can vouch from the findings of detailed studies of conditions in centres like Sholapur and Poona for the precariousness of the equilibrium in the industry and the appalling conditions of work and living obtaining within it. And yet governments have attempted little to remedy or to alleviate the situation. Whether it was on account of a general belief in the wrongness of governmental help or latterly because of a belief in the unworthiness of an industry using machine yarn, the handloom weavers as a body have been left much unto themselves. Theirs, however, is merely the outstanding specific example of a large genus.

The potential field of the origin of technological advance is vast; it is coextensive with the whole of the area where advanced technological methods of production are followed and their practical and theoretical problems are systematically studied. Any important advance has also repercussions which cannot be confined to its own sphere or to the area of its origin. Through the mechanism of international trade the results of all changes affect the economy of other industries and other regions throughout the world. Regulation of even the most elementary kind is, therefore, possible only if the economy of a country is to some extent insulated. Complete regulation would be effective only if the country was completely self-sufficient and its economy completely planned. The first step in the regulation of change is, therefore, to build up a regime under which the impact of events in other countries can in some measure be warded off. Every country in the world, including England, has during the last ten years accepted the desirability or the necessity of this step. In respect of the control of the pace of adopting new technological devices governments outside the totalitarian countries have yet attempted little. The chief operative influence in this regard in the advanced countries is the opposition of organised labour to certain forms of rationalisation. There is, however, no reason why government should not enter this field of regulations. In a country like India, there is every reason, as I have attempted to show, why it should do so. The regulation to be successful must necessarily be attempted over the whole extent of the country. Its form, however, will vary from instance to instance.

Lastly, I should like to refer to another aspect of national economic policy, that relating to the location of industry. Ours is a vast country and the problem of location is of particular importance in it. In recent years we have had a controversy regarding the location of sugar factories and the permissible extent of the development of the sugar industry in the country. The report of the Tariff Board on the heavy chemicals industry pointed to the great advantages of a concentration of that industry. But its purely negative policy would not allow our government to do anything in this regard. I may also draw attention in this connection to the claim made by the Iron and Steel industry in India in respect of "freight disadvantages." This claim was allowed by the Tariff Board but it raises an important question of principle which needs careful consideration. The claim of the Tata Iron and Steel Co. in effect means that even a single monopolist concern, wherever situated, ought to commandeer the whole of the Indian market. At the same time, under our present policy, such a monopolist concern would be under no obligation not to indulge in rate-cutting to prevent the emergence of a competitor even in a distant part of the market. I have, of course, no intention of implying a judgement on the merits of the claim and mention it here merely to indicate the type of problems that have necessarily to be considered.

I would also draw attention to problems of location of a somewhat different character. One of the main reasons adduced for a conscious direction of economic development has ever been the danger of a lopsided growth in any region. The need for diversity in forms of economic life has been emphasized during the last decade in particular. - Even in a comparatively small country like England the obdurate problem of the "distressed areas" showed the vital need for a balanced regional economy and the report of the recent Commission on the location of industries has accepted the principle of "regionalism" in these matters. Considerations of this character have even greater force in a vast and a comparatively much less homogeneous country like India. In addition to other things we have suffered during the last 100 years from too great centralization and an almost entire neglect of local needs and circumstances. I am aware that there is a feeling in some quarters that emphasizing

the claims of the region or the locality is tantamount to encouraging particularism and is, therefore, anti-national. I am afraid, however, that a lot of this talk is interested and arises from the desire of powerful groups to be allowed to exploit without obstruction or regulation the entire resources of this continent. While vested interests in India are too ready to seek support of arguments that would obtain for them a field free from external competition they often show themselves extremely impatient of the logical extension of these arguments viz. internal regulation. An undue concentration of industries in one region is bound to accentuate the difficulties in other regions and a pure *laissez faire* attitude towards internal financial and industrial exploitation is likely to give rise to forces making for economic and social disintegration over large areas. While it is true that the claims of the regions can be carried to absurd limits we are yet far from any extremes in this country. For, what we have still to fight for is the recognition of the fundamental claim that the concrete facts of the situation shall be allowed to shape an appropriate positive economic policy for the country ; and what I would emphasize is that in the shaping of this policy the legitimate claims of the major geographical and social regions in the country should be given due weight.

I have done. Indian economists must consider themselves very fortunate in the pioneers of their studies. Men like Ranade, Dutt or Wacha who laid the foundations of Indian economic studies laid them very truly ; for though rigorous in their analysis they moved close to reality. While fortunate in our leaders other circumstances have no doubt been inimical to a proper and rapid growth of economic research and teaching in India. Those in authority over us have for the most part and for obvious reasons been reluctant to accept our point of view. Their origin and their training necessarily breed in them other preconceptions and prejudices. They still cling largely to *laissez faire* and to pseudo-universalism and they reluctantly and only partially admit the overwhelming importance in the shaping of policy of the knowledge of local circumstance and social background. These are, however, the inevitable results of our present situation and must by academicians be accepted philosophically. We should be wrong, however, if we allowed these circumstances to discourage us. We

must persevere in our work and our studies and diligently prepare ourselves for the time when our labours may become more effective and our counsels more heeded.

The Indian economist has often been reprimanded from on high for paying attention to the political aspects of the problems with which he was confronted. The charge, if true, would merely show that some of us have a proper sense of the realities and would, in my opinion, be a matter for congratulation rather than complaint. Holding the views that I do regarding the role of the economist and the scope of economics I need not say that I feel specially pleased that we are today meeting in a joint session with the Indian Political Science Conference and I trust that this session is merely the first of a long and fruitful series.

Printed at the Aryabhushan Press, House No. 915/1, Bhamburda Peth, Poona City,
by Vithal Hari Barve, and Published by D. R. Gadgil, Director,
Gokhale Institute of Politics and Economics, Poona 4.