



**Gokhale Institute  
of Politics and  
Economics**

(Deemed to be University)

# Equilibria



Issue 2023-24

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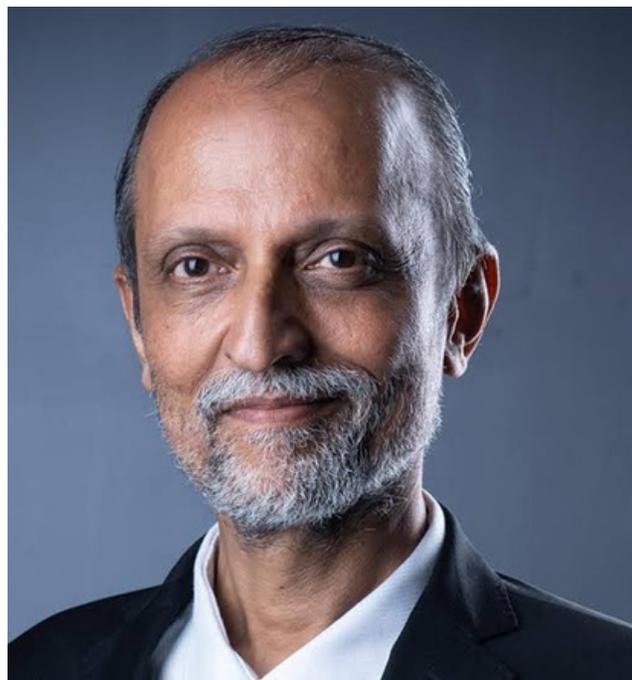
# VICE CHANCELLOR'S MESSAGE

As we delve into the pages of this year's Equilibria edition, we embark on a profound journey that explores the very essence of Economics: "The Philosophical Roots of Economics". In recent years, Equilibria has offered a broad platform for our aspiring economists to articulate their perspectives and viewpoints. The institution consistently fosters a culture of exploration, research and perseverance, and academic rigour, striving for excellence throughout. In doing so, the Gokhale Institute is committed to nurturing a supportive environment conducive to learning and personal development. Equilibria echoes the Institute's commitment to advancing research on global social and economic matters, cultivating informed discussions, analyses, and critiques that influence public discourse.

This edition of Equilibria delves into the philosophical underpinnings of Economics, inviting us to reflect on the timeless questions that have guided economic thought throughout history. From Aristotle to Adam Smith, from Chanakya to Boettke, this edition reminds us that Economics is not merely a science of allocation and distribution, but a discipline deeply rooted in moral, ethical, and philosophical inquiries. With rigorous analysis and insightful commentary, we have an edition that sheds light on critical discourse that led to the birth of the subject that our Institute takes pride in studying.

Thus, through the journey across these pages, let us actively participate in meaningful dialogue, questioning our presuppositions and expanding our understanding of the philosophical bedrock of Economics. I would like to congratulate the editorial board for their work and wish them the best for the success of this magazine. I also look forward to reading many more upcoming editions.

All the best.



**Dr Ajit Ranade**

# DEANS' NOTE

We are pleased to introduce the Equilibria edition for the year 2023-24. This edition furthers the established legacy of Equilibria as a student magazine for the purpose of critically examining economic ideas and enabling discourse around similar themes. The fact that this edition also contains interviews of two esteemed personalities adds to its treasure trove of insights.

The theme for this year's edition, 'The Philosophical Roots of Economics', delves into the intricacies of Economics and Philosophy, and the web of interconnected questions that arise from this juncture. The articles in the edition deftly deal with different aspects of the theme. The other content is also quite informative and fascinating.

We congratulate the entire team of Equilibria for the publication of this edition. Their persistent efforts have born fruit, with this edition as well as the Reading Group sessions and facilitation of the Thursday Seminar Series by Equilibria throughout the year. We wish them the best for future editions as well as other Equilibria initiatives.



**Dr Jayanti Kajale**

Professor

Dean of Student Affairs and  
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**Dr K. S. Reddy**

Associate Professor

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# EDITORS' NOTE

After a hiatus of almost a year, we present to you the next edition of Equilibria on the theme “The Philosophical Roots of Economics”. The idea for this theme came from the need to examine the very neglected discipline of Philosophy that has shaped the foundations of modern economics. Right from the ancient philosophers who theorised ideas on society, polity, and economy, to early modern economists and contemporary political economy, philosophy has underlined various conceptions of organising an economy as well as the debates around them. Unfortunately, this discipline is rarely explored in Indian academia, even less so by economists. This edition is a small attempt towards ameliorating that.

The entries in this edition have expounded on the various prisms of economics and philosophy, including Indian and Western economic thought, origins of economic phenomena and their interplay with social issues, along with a film commentary. We have also brought to you two very special features: exclusive interviews with Dr Montek Singh Ahluwalia, former Deputy Chairman of the Planning Commission of India and Dr Ramachandra Guha, a historian, writer and environmentalist. We present to you their opinions on contemporary socio-economic issues, as well as reflections on issues related to their work.

This edition is a product of persistent efforts of the entire Equilibria team, including the writers, designers and illustrators, as well as the cooperation and help we received from the GIPE administration. We hope reading this edition generates curiosity within you to read more on Philosophy and Economics and write something about it. With this, team Equilibria 2023-24 signs off. Equilibria will be back again next year with an interesting edition.

**Vedant Deshpande, Deboparna Poddar and Samrudha Surana**



**Vedant Deshpande**



**Deboparna Poddar**



**Samrudha Surana**

# ADAM SMITH STILL RELEVANT AT 300

BY AJIT RANADE



OLI SCARFF / AFP via GETTY IMAGES file photo

June marks the 300th birth anniversary of Adam Smith, the Scottish philosopher considered to be the father of modern economic thinking. His most famous book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, was published in 1776, the same year that America declared independence from the United Kingdom. This coincidence is of great significance since the United States of America is the first and most enduring bastion of free enterprise in the modern world. It is the biggest and most prosperous economy, not least because it is based on the principle and functioning of free markets. Economic growth in a market economy happens due to individual enterprise and the pursuit of self-interest. This was Smith's basic insight. He wrote famously in *The Wealth of Nations*, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."

The pursuit of self-interest promotes social good and prosperity, so long as it is pursued under well-defined rules (for instance, property rights). That basic insight remains valid to this day. When entrepreneurs or investors pursue profit, the generation of that profit signals improvement in the lives of others. Smith also warned in the same book that economic growth is best achieved by letting individuals manage their assets (i.e., capital) and not by governments interfering, or worse doing "central planning". No government can do better than what markets can achieve, and to hand over to governments the power to determine capital allocation is unwise and possibly ruinous.

Friedrich Von Hayek's *Road to Serfdom* was a warning, surely inspired by Smith and later liberal philosophers, about the dangers of too much market intervention by the State. One intervention leads to another, and soon you are totally shackled. Indian agriculture put price caps to keep wage goods low, and then subsidised inputs to

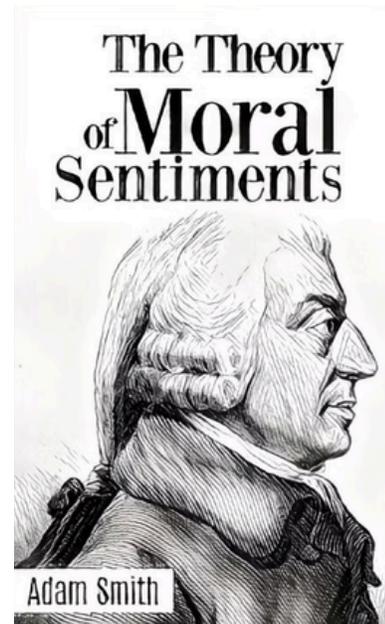
farmers to undo the impact of price caps, and topped it with massive government procurement. Indian agriculture is a classic example of a spaghetti of often contradictory State interventions, resulting in the shackling of the Indian farmer, trapped in penury. The recent thinking on interventionist industrial policy will also undoubtedly have side effects, which will call for more intervention. If you don't let markets work, you get bad outcomes. Karl Marx, writing four decades after *The Wealth of Nations* was following in the footsteps of Smith, and saw capitalism as necessary. Of course, unlike Smith who believed that capitalism led to prosperity, Marx predicted that capitalism would be doomed by its internal contradictions.

Incidentally, Smith was aware of the dangers of cartels and monopolistic practices in the context of markets. He wrote, "People of the same trade seldom meet together, even for merriment or diversion, but the conversation ends in conspiracy against the public, or in some contrivance to raise prices". This dictum applies to this day, as watchdogs like the Competition Commission of India keep a vigil against cartels.

Smith was against mercantilism, which might have made him unpopular in his time. But he had a gentle way of making this point. He said, if you tried to grow grapes and make wine in Scotland, it would be 30 times more expensive, and equally good if brought from abroad (i.e., imported). "Would it be a reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland?" Can we be self-sufficient in everything? America does not grow a gram of coffee or sugarcane and yet is the highest consumer of both. Singapore imports food, energy and even drinking water. How then is "Atmanirbharta" to be understood in the context of Smith's philosophy?

However, our understanding of Smith only from the lens of *The Wealth of Nations* book is incomplete and misleading. He wrote another book, *The Theory of Moral Sentiments*, 17 years earlier in 1759. This is the book that he considered his most important contribution. In this book his stature as a leading light of Scottish enlightenment shines brightly. He was acutely concerned about justice and fairness. He also believed that people do not want to do better for themselves by hurting others. We have a "spectator self", which one can interpret as an inner conscience, which guides us. He wrote, "The chief part of human happiness arises from the consciousness of being beloved." Here, being loved is not about pleasing people, but about being admired and respected. Man wants not only to be loved, but to be lovely. That is, to be worthy of love, and live that high moral standard.

Indirectly echoing this, the founder of Infosys, Narayana Murthy, once said that he wanted his company not to be the biggest or the most profitable or with the highest market value, but to be the most respected. Smith wrote that we may not understand the predicament of others because we have never experienced it. Nevertheless, we can imagine it, or put ourselves in the shoes of others. This is the essence of empathy, which he championed. Smith would be the first one to argue that too much inequality is unjust and unfair.



Credit: DH Illustration

But he believed that the betterment of the lives of others would come through beneficence, and through philanthropy, not government coercion. Of course, this can be debated, but his concern for fairness and justice cannot be. Smith held the Chair of Logic and Rhetoric at the University of Glasgow. Naturally, the art of persuasion was central to his thesis.

Markets are conversations, and we are constantly trying to persuade others about our ideas. "The offering of a shilling", or rather offering to buy something from the seller, is also an act of persuasion. Markets can function well when there is free speech, free expression, free debate, dissent, and even freedom to offend. Smith wanted societies to evolve toward more freedom in an organic, consensual, conversational way. His thoughts are as valid and compelling today, as they were three centuries ago.

(Originally published in *The Deccan Herald*)

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# PHILOSOPHICAL FOUNDATIONS OF ECONOMIC ANALYSIS: UNRAVELLING UNDERLYING ASSUMPTIONS

BY SONAKSHI GARG



*“Economics is the study of how people make choices under conditions of scarcity. Philosophy is the study of how people should make choices.” - Amartya Sen*

The above quote effectively clarifies both the differentiation and interrelation between the fields of economics and philosophy. Economics cannot be divorced from broader philosophical considerations, and the study of economics often intersects with questions of ethics, morality, and human behaviour, which are traditionally within the purview of philosophy. Economics is not just a technical discipline but has profound implications for how societies function and for the well-being of individuals, and understanding it requires a philosophical perspective. The variety of tools and methodologies that are used to examine economic phenomena frequently hinge on philosophical presuppositions that have an impact on the results of economic research. This article explores the basic techniques employed in economic analysis as well as the philosophical principles that underpin them.

As the preeminent economic theory, neoclassical economics depends on underlying philosophical beliefs to guide its methodology and strategy. However, it is important to note that neoclassical economics does not typically cite specific philosophical works in its foundational texts, as it emerged as a discipline in its own right. Instead, it makes use of a number of philosophical concepts that have impacted economic theory. It makes use of a variety of philosophical concepts, such as methodological individualism, which is founded on the idea that personal preferences and decisions influence economic behaviour. The underlying philosophical premise of assumptions like rationality, utility maximisation, and marginalism is that people are rational and self-interested decision-makers. The effectiveness of open markets and decentralised decision-making is rooted in libertarian ideologies.

Marxian economics, developed by Karl Marx and Friedrich Engels, provides a critical analysis of capitalism.

It emphasises the role of class struggle and offers a distinct philosophical perspective on economic systems. Marxian economics is based on the core idea of historical materialism. It asserts that historical changes in material circumstances and class conflicts have shaped the development of human communities and economic systems. This viewpoint is influenced by Hegelian dialectics and Enlightenment philosophy, notably the notion that conflicts and changes are necessary for history to advance.

The Austrian school of thought supports the more general philosophical tradition of individualism, which highlights the value of autonomy, freedom, and rights and subjectivism which recognises the fact about the subjective nature of preferences and decision-making of individuals. Praxeology, a methodology used in this school of thought, studies human action and its logical ramifications, underpinned by the dedication to comprehending human behaviour using logical reasoning and deductive reasoning.

The study of how institutions, such as formal rules (such as laws and regulations) and informal norms and practises affect economic behaviour and results is known as institutional economics. It has a close relationship to philosophy as it deals with fundamental issues regarding the nature of institutions, their history, and their effects on society. The emphasis on methodological pluralism in institutional economics indicates that it is open to a variety of research techniques, including qualitative and historical study which supports the philosophical idea that various study designs might offer insights into complex social issues.

By introducing the idea of restricted rationality, behavioural economics interferes with the traditional economic assumption of perfect rationality. Prospect theory's basic idea, loss aversion, is a reflection of philosophical debates over the psychology of loss and gain and how different people evaluate these things. The behavioural ethics area relates to philosophical discussions about the role of ethics in economic decision-making.

Although Adam Smith's *Wealth of Nations*, published in 1776, is frequently recognised as the beginning of economics, it was truly not until after World War II that economics emerged as the distinct, mostly independent discipline that is now summed up in textbooks. Just half a century ago, individuals with intellectual curiosity could very easily go from economics to political economy, sociology and social theory, psychology, and philosophy. This situation has changed, and today, most young economists are encouraged to view their field not primarily as the study of specific economic social phenomena, as it once was, but rather as a sophisticated and mostly self-contained analytical framework for examining various social phenomena. Nevertheless, economics never has and never will be able to completely detach itself from its related disciplines as its core values and assumptions are based on them.

Philosophical underpinnings have shaped the field of economics throughout its history. Numerous methodologies and philosophical underpinnings are included in economic research, and these in turn influence the questions posed, the models created, and the policy suggestions made. For a nuanced and critical approach to economic analysis and policy-making, it is imperative to comprehend these philosophical foundations to ensure that decisions and choices made as per economic analysis are just and ethical.

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# ON THE ORIGINS OF INEQUALITY

BY SOUMALYA GHOSH

The study of inequality has been around for quite a while but a renewed interest in the field has surfaced in recent times. Thomas Piketty in his magnum opus “Capital in the Twenty-First Century”, talked about the long-term trend of inequality in capitalist economies which sparked rejuvenated interest in the nitty-gritties of inequality. Questions arose on whether Kuznets was right when he said that inequality declines with economic growth. Others countered that capitalism without severe constraints can sometimes readily cause rising inequality. We can trace back the ideas of inequality to the Greek philosophers and also find some wonderful contributions made by recent scholars. Inequality whether it be gender-specific or economic, holds a critical position in the modern world. According to a UN article titled “Inequality - Bridging the Divide”, inequality as such has been increasing day by day with the rich becoming richer and the poor becoming poorer with growing disparity between the different genders.

Plato in his Republic extolled the idea of “proportional inequality in the distribution of all careers, including ruling, defence, and the provision of goods and services, on the basis of inborn inequalities in intelligence, spirit, abilities in the arts/crafts, and appropriate education.”

Aristotle believed that justice is the principal element that will maintain order in society. He went on to write “Since then some men are slaves by nature, and others are freemen, it is clear that where slavery is

advantageous to anyone, then it is just to make him a slave.” (Aristotle, 330-323 B.C., Book I, Chapter V).

The three great classic economists Adam Smith, David Ricardo, and Thomas Malthus observed poverty and equality as a consequence of some natural causes that they were trying to figure out. Jean Baptiste Say, in his second book entitled “*Of The Distribution Of Wealth*”, quotes “Thus, each class receives its respective share of the total value produced, and this share composes its revenue.” which also talks about some natural law. Adam Smith, despite being a champion of capitalism, was very much concerned about economic inequalities. Smith believed that inequality should be judged through a lens of ethical and moral considerations, even though his view was that they were a natural consequence of inequality. Ricardo was less optimistic than Smith when he saw the conflicting interests between the social classes and criticised the Smithian view of “social harmony”. The Classical school did not ignore the problem of inequality and poverty that characterised the birth of capitalism. “The puzzle for the Classical school was to find the economic laws that explained exchangeable value because they wanted to understand the origin of wealth and its distribution.”

The socialists also explored the idea of inequality and provided some exciting insights. Poverty in the nineteenth century, a radical interpretation of Utilitarian postulates (“The greatest happiness for the greatest



number"), and unhappiness with the "liberal dream" explain the origin of socialist ideologies that attempt to establish a more egalitarian society.

Rousseau in his *Discourse on Inequality* described the different forms of inequality that exist among human beings and how to differentiate between inequalities that are "natural" and those that are "unnatural" (and therefore preventable). According to Rousseau, in his natural form, man is fundamentally an animal like any other, motivated by two key motivational principles: pity and self-preservation. Man exists without reason or the concept of good and evil in the state of nature, which is more of a speculative conception than an actual historical epoch, has few needs and is essentially happy. The only thing that distinguishes man from the beasts is a sense of unrealised perfection.

Finally, Karl Marx, the great opponent of capitalism, believed that poverty and inequality were the result of private ownership of the means of production. He believed that capitalism's inherent contradictions would bring down the capitalist system. Marx's famous argument was that inequality is socially created and is not a natural phenomenon as espoused by the classicists. According to Marxist theory, the capitalist system is inherently unequal because it is based on the exploitation of the working class by the ruling class. The ruling class, or bourgeoisie, owns the means of production and exploits the working class, or proletariat, by paying them less than the value of their labour. This creates a surplus value that is appropriated by the bourgeoisie as profit. Marx believed that this exploitation would eventually lead to a revolution by the working class, which would overthrow the bourgeoisie and establish a socialist society where there would be no exploitation or inequality.

Due to shifts in the paradigms of political economy, there arose the neoclassical school which became the mainstream till the emergence of a certain Keynes. Their broad idea was that any inequality would be solved by the self-adjusting market mechanism, promoting the classical view. Although Keynes did not explicitly address inequality in almost any chapter of his *General Theory*, he observed that inequality of income distribution was a dangerous byproduct of the capitalist mechanism. He wrote, in the last chapter of his famous *General Theory*: "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes. The bearing of the foregoing theory on the first of these is obvious. But there are also two important respects in which it is relevant to the second". (Keynes, 1936, p. 372). He believed that an unequal income distribution can never be an impetus for voluminous growth and there was not any "technical" justification of the inequality of income or wealth. He even went on to say "Thus our argument leads towards the conclusion that in contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it. One of the chief social justifications of great inequality of wealth is, therefore, removed" (Keynes, 1936, p. 373).

PKuznets in his paper, *Economic Growth and Income Inequality*, asked whether inequality in the distribution of income increases or decreases in the course of a country's economic growth and what factors determine the secular level and trends of income inequalities. (Kuznets, 1955, p. 1). Kuznets was very optimistic and answered that economic development would gradually solve the problem, as market forces first would increase and then decrease economic inequality. Market forces will be able to solve economic inequality while the countries begin their industrial and economic development; therefore, a graphic of inequality would look like an "inverted U".

Recently, Branko Milanovic (2016) talked about the connection between inequality and globalisation. He formulated the Elephant Curve, also known as the Lakner-Milanovic graph or the global growth incidence curve, which is a graph that illustrates the unequal distribution of income growth for individuals belonging to different income groups. The original graph was published in 2013 and illustrates the change in income growth that occurred from 1988 to 2008.

Last but not the least, our very own Amartya Sen has made monumental contributions to the development of new approaches to measuring poverty and inequality in addition to producing very pertinent insights in works such as *On Economic Inequality* (Sen, 1972) and *Economic Inequality Re-examined* (Sen, 1992).

Some say that inequalities might increase in developed countries, but global inequalities will decrease. This is because inequality between countries has been falling in recent decades. Faster-growing emerging economies, such as China and India, have been narrowing the income gap with advanced economies. However, a negative scenario for 2035 envisions higher levels of inequality within and between countries. This scenario also includes more severe discrimination based on race and gender, less international cooperation, and an intensified trend toward nationalism. The global top 1% income share could increase from nearly 20% today to more than 24% in 2050, while the global bottom 50% share would fall from 10% to less than 9%.

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# TRACING THE ORIGIN OF THE THEORY OF INVESTMENT

BY ANOKHI DESAI

## Introduction

The idea of formalised investment can be traced back to 1792 B.C. in ancient Mesopotamia, from 'The Code of Hammurabi' (Nagarajan, 2011). The ruler Hammurabi laid down a regulatory framework in his kingdom to establish a set of rules for the efficient functioning of markets. There was a legal framework for investment, establishing a means for the pledge of collateral by codifying debtor and creditor rights regarding pledged land. Punishments for breaking financial obligations were not as severe as those for crimes involving injury or death (Etheridge, 2021). Such law traces the origin of current rules regarding the penalties imposed for violation of any rule in the financial market, be it the banking, real estate, or corporate sector concerning investing and financing activities in the market.

The essential features of banking - deposits and lending - are highlighted in The Code, which describes a merchant engaged in foreign trade and acting as a banker, accepting deposits and playing the role of a trustee for the same. On the other hand, this merchant is seen as lending money to farmers to finance agricultural operations (Nagarajan, 2011). The Code also mentions the charge on lending funds, which is known today as the rate of interest. It was defined in terms of some amount of goods to be paid back in proportion to the amount lent and interest was approximated to be 20% of the principal.

## The Perspective Picture on Investments

We have the neoclassical theory of capital by Irving Fisher, wherein a plan for the production process is determined for profit maximisation. Maximisation of the net worth of the enterprise is the criterion for optimal capital accumulation, for providing capital services as inputs of the production function. The central feature of neoclassical theory is the response of the demand for capital to changes in relative factor prices or the ratio of factor prices to the price of output (Jorgenson, 1963). This aspect of the theory is contradicted by contemporary literature which states that there is no definite ratio or proportion by which the demand for capital responds to the prices of the factors of production. Similarly, there is no such relationship between the factor prices and output prices as the market always adapts to the new information and latest policies to stay afloat, incorporating changes in the mathematical relationship between such factors.

Professor Hayek posed his stance against the general conviction on the relationship between capital quantity and investment structure. He says that there is no direct relationship between the two and that more of the same goods does not necessarily imply a change in the investment function. However, there could be a temporary exception when the production process incorporates technological innovations. He maintains that there is no direct or fixed association between the



quantity of capital and the length of the production cycle. The capital increase is followed by a change in the production activities concerning raw materials and the labour time required (Knight, 1935).

The post-Keynesian approach to investments emphasises the significance of uncertainty and the philosophical implications of the same. The Efficient Market Hypothesis (EMH) is a key theory that makes economists cast doubt on the actual efficiency of market practices. EMH states that market participants act on all the latest and complete information to execute their transactions. This is rarely true of the practices as all cannot have all the relevant and recent information to execute their contracts. The EMH also denies the culmination of abnormal returns due to perfect knowledge of market prices, which is a rare outcome. This has direct implications for modern investment portfolios which tend to diversify their investment plans. Modern portfolio theory involves a joint hypothesis that combines the EMH and the capital asset pricing model (CAPM), leading to the investment strategy associated with the two-fund separation theorem: rational investors will hold combinations of the riskless asset and the market portfolio, with the weights on these two components depending on the risk aversion properties of the individual investor (Poitras, 2002).

According to Modigliani, an asset is worth acquiring if the rate of return on the asset (yield) exceeds the cost of borrowing (rate of interest on bonds/loans). Another criterion for the same is that an asset should be purchased if it boosts the value of the owners' equity, implying that it should add more to the market value of the firm than the cost of acquisition (Miller, 1958). This goes in tandem with the existing idea of investment decisions made by firms to check the feasibility and profitability of additional assets in the production process. Therefore, the idea of investments, acquisitions, borrowings and capital is not a fixed formula with a mathematical equation showing the exact yields or costs, but a financial, market-based and economy-wide influenced mechanism explained by extraneous factors with a tinge of randomness.

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Source: Institute For New Economic Thinking

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# **INTERVIEW WITH DR MONTEK SINGH AHLUWALIA**



**Team Equilibria interviewed Dr Montek Singh Ahluwalia, an economist and former Deputy Chairperson of the Planning Commission on 19th August 2023. We had an informative discussion on India's 1991 economic reforms and the political economy behind them, his work in the Planning Commission and at IMF, as well as his thoughts on the theme of our issue. The interview in its entirety has been published below.**

**In your recent lecture at Gokhale Institute, you hinted that a reform agenda is not pre-determined and context-dependent. How were priority areas for the 1991 reforms determined, considering political constraints played a role?**

**Ahluwalia:** It was quite clear that there was a fiscal imbalance, spilling over into the balance of payments. We didn't have long-term capital inflows to meet that deficit and so the reserves were running down. Now in that environment, it's economics 101 that you have to bring down the aggregate level of demand to reduce the excess demand. And you do that by controlling the fiscal deficit.

The system of controls we had was limiting the productive capacity of the economy. Using both tariffs and licences hurt trade; we were running an overvalued exchange rate as a result. And if we tried to get rid of this through price means, such as liberalising, there would have been pressure on the exchange rate. We needed the devaluation plus these changes, plus we introduced EXIM scripts which became kind of like a halfway house to a fully floating exchange rate.

Among the technocrats, there was a lot of agreement, but not complete consensus. A lot of people said that we were just doing what the IMF wanted. Also, the World Bank at any given time represents a lot of consensus on what other developing countries are able to say. We did much more in certain areas of reforms than what the IMF wanted. And to say that we were completely outside that purview of the World Bank would be foolish. But we didn't implement every aspect. We did much more on investment and trade liberalisation and exchange rate flexibility, not nearly as much on privatisation which the Bank was pushing for.

But then there are other things that have to be done. For example, rationalising the system of reservation for small-scale industries, where I think we got badly delayed and insurance sector reform, which we started, but ran into all kinds of political constraints. But it's interesting in our system that first people object, then they say "Okay". Then they say, "Okay, please". These are the prices you pay for running a democratic system. You don't simply say, I'm the government. No opposition should be able to say, ki humein consult bhi nahin kiya (We were not consulted). That is a mistake.

**In 1966, we had a similar balance of payments crisis, and a devaluation was required. Again, there was some push for liberalised policies, but they didn't stick. Why do you think that is?**

**Ahluwalia:** I think that was very different. Indira Gandhi had just come in. Most guys were saying, we must liberalise because we must devalue. The devaluation and liberalisation were being pushed as something you have to do in order to get money. The correct thing, actually, is that money enables you to do less and gives you more time. I think in Mrs. Gandhi's case, the Americans just walked out of the deal because they were annoyed at some statements by her. So the money didn't come. She said I did all this [liberalising] because of the money.

But that was not our argument [in 1991]. Our argument was we must do this. Let's go to them for money, because they give us more time. Like I said to VP Singh, "You don't want the IMF thus far – that's fine. Just be ready to do more than what the IMF would want." You cannot say, I'm not going to do anything, and I'm not going to go to the IMF. Then you're just ending up in a worse crisis.

**As you pointed out, things were different in 1991. The ideas among the technocrats were very different – there was some agreement that reforms were required. Could one also say that there was an ideological shift among the populace?**

**Ahluwalia:** The ideological shift I think was a more middle-class phenomenon, but in the public at large, I wouldn't say so. I think one of the problems in our whole system is that we get carried away by the consensus of the elite. We really don't bother to educate the public. There was a greater understanding amongst the elite, because they were now travelling, and some controls were just ridiculous. For instance, people bought second-hand golf balls as they couldn't buy new ones or import them.

The other thing is that – a lot of economic activity consists of shopkeepers and it is completely wrong to say that shopkeepers are anti-liberalisation. They love selling Chinese goods. Earlier they somehow felt they'd get wiped out. They were very upset later on when big stores wanted to come in. But shopkeepers love liberalisation. All of a sudden, you know, they have pretty different toys which they could attract.

**Right, but weren't there also farmer movements like the Shetkari Sanghatana led by Sharad Joshi?**

**Ahluwalia:** Yes. Sharad Joshi was one of the most clear-headed agricultural economists. He was aware that by protecting industry we were actually running a highly overvalued exchange rate which was actually hurting agriculture. The protection was turning the terms of trade against agriculture. He said get rid of your control, and certainly don't ever put export control on agriculture.

**In your book, you alluded to the fact that even after the change in the government after 1995, the reforms continued. Would you say that the ideas transcended particular governments and specific administrations?**

**Ahluwalia:** I certainly think so. That was very much Manmohan Singh's attitude, When he was finance minister, constantly educating the country, that you need to do this, this is good for the country. I think it did succeed. The fact that the United Front government actually had Chidambaram as the Finance Minister gave a high degree of continuity. But take the case of the BJP. By the time Vajpayee came in, none of them had been in previous governments. They stuck to the same reforms. Here and there, a little bit of difference, but basically they stuck to reforms. I think in the process of the policy change, we had shifted the centre of gravity of politicians' minds.

**With respect to your time at the IMF, in your book, you mentioned the misguided emphasis on contentious microeconomic reforms as opposed to macroeconomic stabilisation. Since the decades that have passed, how do you view the functioning of the IMF with respect to this?**

**Ahluwalia:** I think the IMF has learned its lesson, the worst example being what they did in Indonesia. The microeconomic distortions weren't the issue, the big issue was macro. Had they advised about devaluation and fiscal deficit that would have been perfectly alright. But you know about the spice monopoly, it looked as if they were using the IMF program. And our view was that it is not the role of the IMF but maybe the World Bank. The IMF should go in when there is instability, bring in stability, and impose macroeconomic consistency with stability.

I think the IMF learned that in particular as they changed their approach from full capital account convertibility to one where different countries required different degrees of control.

**The theme for our next edition is going to be the philosophical roots of economics so we wanted to know, in your vast experience as someone who is engaged in policy-making, what role have you found philosophy to play in the economic policies which shape democracies such as India?**

**Ahluwalia:** That's a very difficult question. I mean, clearly, political philosophy has to underlie what your view of the State is. I certainly think that there's a contradiction to it because there are different interests and different governments. You must be clear, politically if you are in favour of a majoritarian approach. I don't think ours is a political philosophy that actually supports that, but technically, you can pass whatever law you want as long as it's not contrary to the basic structure of the Constitution. But therein lies the spirit of parliament, to debate which results in many recommendations, all of which the central government obviously cannot accept. So I think that is one element of the relevance of political philosophy.

The other element is if you accept the proposition that a large role for the private sector is necessary, then flexibility left to the private sector is important. If you believe that the private sector is "just a bunch of crooks", a view lots of people hold, then you would second guess all that they do. The other view would be that a competitive private sector poses no danger. So our regulatory system should be such that it makes sure that these fellows compete with each other and that includes competing with people abroad, it's not enough to just have domestic competition.

The government has a critical role, but not where the private sector can do just as good a job. We need to try to create an environment that supports it, which requires certain institutional developments, like, for example, the setting up of the Competition Commission. I think one of the biggest problems is that

when you set up independent regulatory institutions, they must be professionally managed, but they should also be independent, which is extremely difficult to achieve. The regulator appointed by the government might act fearlessly, or issues of threatening the regulator might come up. There has to be a culture of respecting regulatory bodies. I'm hopeful it'll come, but I wouldn't be surprised if it takes a long time, since the process isn't automatic (as evidenced by other countries).

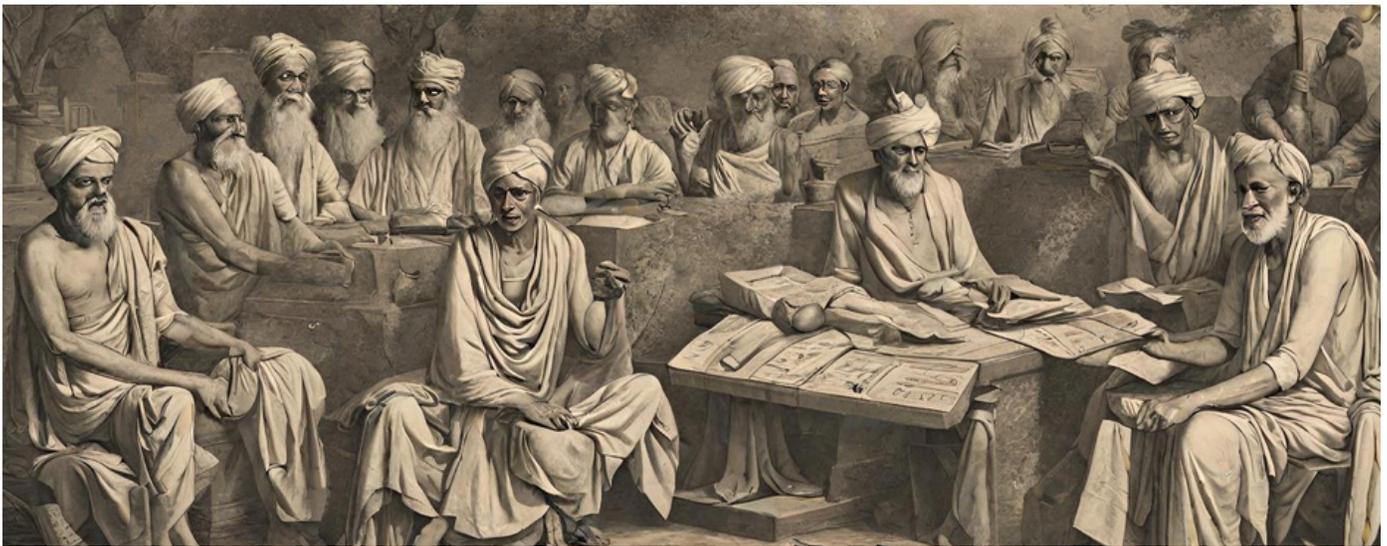
**If you were to look at setting a reform agenda today for India, what would it look like in terms of the top priorities?**

**Ahluwalia:** My view is that climate change is a big, dramatic challenge. Secondly, I think, the whole issue of how open we should be has come under challenge because of global developments, with regard to China, with people thinking we need to isolate due to the changing mood. I think that's wrong. The mood has changed primarily because people want to contain China. Nobody is trying to contain us. If we want to benefit from this, we have to remain open and start showing up. I think we have to make huge changes, to get into these value chains, for which we need to remain open. I don't think we're doing enough thinking on that.

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# KAUTILYA'S CURTAIN CALL: UNMASKING INDIA'S ECONOMIC THOUGHT

BY GUNIKA BHARAL AND ROSE SABU



While musings of Indian economic thought immediately bring attention to the treatise of Arthashastra, it leaves out a lot of ancient Indian literature unexplored. The pre-classical economic thought emanating from the subcontinent can be traced back to at least three millennia ago, way before Kautilya, when the Vedas were composed.

Completely overlooked, only the outwardly features of Indian thought got exposed to the world. Haney, in his book “History of Economic Thought” concluded that moral codes played a greater role in shaping Indian thought, leading to the denial of industrial advancement. This ignorant perception got carried forward to other Western scholars who interpreted that focus on otherworldly thought deterred poverty alleviation and economic advancement for Indians. The hangover continued as India’s deplorably low GDP growth rate in the first three decades after independence was termed as the Hindu Rate of Growth, holding Indian antecedents responsible for the slow growth.

However, this outlook doesn't do justice to the philosophical roots of economics in India, far more nuanced than commonly acknowledged.

In ancient Indian literature, Dharma, Artha, Kama, and Moksha are identified as the four life objectives where wealth is seen as a means of happiness. Texts such as the Rig Veda and Panchtantra encourage the pursuit of material desires while emphasizing its necessity for greater aspirations to be fulfilled. In the epic Mahabharata, Arjuna urges Yudhishtira to give up the thought of becoming a mendicant while pointing out the importance of wealth in life.

Further, poverty was looked upon as ‘living death’ and worldly wealth was considered morally desirable, to be utilized for the welfare of all. Today, poverty alleviation is a merit good which can be a source of market failure.

It is interesting to note the sophisticated view on charity and its voluntary nature that appears in the Vedas. The Bhagavad Gita differentiates between the right or saatvik forms of daana which is free from expectations and the wrong - rajas and tamas forms which include charity driven by ego or contempt.

The subject of taxes also finds mention in Vedic

literature along with the forces of demand, supply and price discovery covered in the Rig Veda. The Mahabharata conveys the idea of a progressive tax structure. It mentions -

“A king should milk (tax) his kingdom like a bee gathering honey from flowering plants. The king should enhance the (tax) burden on his subjects gradually, like a person gradually increases the burden of a young bullock.”

The writings of the great Sanskrit playwright, Kalidas, also convey the idea of taxation. It reflects an understanding of the income-multiplier effect through government spending on public goods through taxation in ancient India. He writes - “The state collects tax for the greater welfare of its citizens in the same way as the sun evaporates water, only to return it manifold in the form of rain.”

The Rig Veda references the division of people among four varnas : brahmin - the scholar, kshatriya - the warrior, vaishya - the merchant, and shudra - the cultivator based on guna or aptitude and karma or vocation and not birth. This recognition of the division and specialization of labor is noteworthy. The system also disrupted any monopolization of power between knowledge, weapons, wealth, and land in ancient India. A brahmin would possess knowledge but depend on alms from others, a kshatriya would rule, but would turn to brahmins for advice on policy making, a vaishya would possess wealth but depend on a shudra who produces food for others on his land. Thus, no varna possessed more than a single source of power in Vedic society.

Mahabharata goes on to cover modern economic ideas surrounding government expenditure and public finance. When sage Narada visits Yudhishtira’s palace at Indraprastha, he questions whether the king’s expenditures vary from 1/4th, 1/3rd, or at the poorest ½ of his income. He further questions whether loans are extended to farmers in need at a rate not exceeding 1/4th of the output. He highlights the king’s role in market facilitation.

He also focuses on public goods, asking Yudhishtira to construct water tanks and view external security as a public good. It is advised that war should be the last priority, given the huge expenditures involved.

Evidently, in contrast to the common perception, ancient economic thought in India does not fail to cover worldly concerns and presents advanced economic ideas for its time. These ideas, though fragmented and scattered, were profound.

Arthashastra, penned in the 4th century BCE, emerged from the amalgamation and refinement of economic ideas found in earlier Vedic and secular texts. It was a ceaseless masterpiece that took its form in the courtroom of Chandra Gupta Maurya and voyaged to the present day. While the locus of his treatise was security, wealth and

prestige, it opened doors to various intricate economic postulations such as resource maximization. In a contemporary perspective Kautilya viewed wealth as a spectrograph that had a wide spectrum unlike the Western economic thinkers who restricted economics to principles of wealth and money.

Dissecting into the Kautilyan thoughts, a parallel to the abstraction can be effortlessly constructed. When Kautilya prescribed a 5-10 percent profit margin for businessmen, this was built antecedently to avoid the conflict of interest that was set to arise between consumers and producers, something that was termed as the Invisible Hand by Adam Smith.

Further, Kautilya associated risk and uncertainty to profit and interest and advised the states that an increase in risk should be rewarded with profit and the burden of loans should be eased with differential interest rates for personal use and business purpose. Scavenging the later economic thoughts, the Ricardian Theory of Rent delivers a similar thought that recommends different rent from the land according to the fertility of land.

Moving on to one of his renowned contributions - taxation structures. He weighed the possibilities of tax evasion in the case of heavy burden and recommended a tax system that was limited to 1/5th of the economic activity. Moreover, taxation was levied on land and specific occupations, similar to the ability to pay ideology crafted by Adam Smith in his Theory of Rent.

In the denouement, the curtain however falls blind to these scientific strategies that evolved at a time when the economic and social structures of the societies were crude and primitive. As an envisionser who lived ahead of his time, Kautilya’s Arthashastra is an embodiment of his ideology that diverged from economics of money and wealth and explored the management of the state with his treatise.

To conclude, the colossal silence on Indian contribution to rudimentary economic concepts is perplexing when the literature has the capability to be among the foundational mainstream. Thus, prolonged stay at this lumber room perhaps will tell us if Indian Economic thought is less-understood or misunderstood!

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# WHAT DOES NATURE TEACH US? - AN ECONOMIC PERSPECTIVE

BY SOHAM SHANBHAG

*“Our life is what our thoughts make it”*

*- Marcus Aurelius*

These words of Marcus Aurelius remind one of how subjected our lives are to what we think and do, and the same applies to our interactions with Nature and all its associated ecosystems. Human progress through the ages has largely been on the basis of the resources that Nature has provided. In fact, it is natural phenomena that have also provided the base for human innovations, like gasoline, silk and so on. Human societies are embedded within Nature, aren't extrinsic to it, and depend on the latter for everything, be it satisfying their material wants, regulating the Earth's climate, providing avenues for recreation and recuperation (take Tambdi Surla for instance), and also as a dump for our wastes, thus acting as a sink for pollution; this flies in the face of the 'the civilised human supreme over wild Nature' argument. It was perhaps in recognition of this relationship that the saint-philosopher Sant Tukaram preached “वक्षु वल्ली आम्हा सोयरी वनचरे...” (all flora and fauna are friends to us). Thus, it is pretty evident that Nature is intrinsic to the existence of human societies and their progress, which has only been possible due to its resources.

At the same time, it needs to be understood that Nature itself has never been a 'pristine, untouched beauty' as the environmentalist G.P Marsh believed it to be, but rather has been modelled and conditioned by fauna, which includes one called 'Homo sapien sapiens'. It is these Homo sapien sapiens who have often altered the natural environment for their own purposes, often with consequences disastrous and long-lasting even after centuries, as seen with the Anasazi societies in New Mexico or the residents of Rapa Nui; no wonder the ethnologist Dane Lott remarked that Lewis and Clark weren't 'exploring a wilderness but a vast pasture managed by and for the Native Americans', reminding one of the ongoing 'Anthropocene' epoch. It is only the unbridled exploitation and manipulation of the natural environment by humans that has landed humanity into the climate crisis.

It is no surprise that the ongoing climate crisis is a consequence of human societies' 'blissful' ignorance of this intrinsicity with Nature, which has only been to the former's detriment. It is the former's failure to sustainably engage with its greatest asset, Nature (owing to its multifarious uses for humanity), emanating from its failure

to recognise its position as a mere constituent of Nature. It was perhaps in recognition of this relationship that the saint-philosopher Sant Tukaram preached “वक्षु वल्ली आम्हा सोयरी वनचरे...” (all flora and fauna are friends to us), but this is precisely what humanity has conveniently dusted under the carpet.

Since ages, politico-economic theories have assumed an idyllic state of all the societal agents interacting among and between themselves in the most ideal way imaginable - being very altruistic and only thinking in the interests of the society and the groups they belong to as a whole, but as studies by Buchanan (1986) point out, these agents also seek to maximise their, and not their constituents, self-interest through their actions. Thus, it is pretty evident that 'it is futile to advise politicians or influence the outcome of specific issues', as Buchanan once remarked, but rather it is necessary that the desirable societal goal (here, a sustainable Anthropocene epoch) be sufficiently imbibed into the "rules of the game" which are the laws or the Constitution through appropriate incentives, sans the 'romance'. This is the essence of Buchanan's pathbreaking 'Public Choice Theory'.

This entire discussion brings us to an important conclusion, which also forms the crux of what the entire discussion sought to highlight: there is a lot humanity can learn from Nature, unfortunately, most of it pertains to '*what not to do*' through our actions. Some of the key takeaways for humanity from Nature are as follows:

- **Humans as efficient asset managers :**

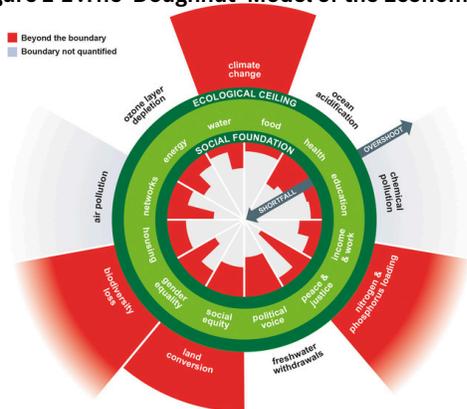
As seen before, all humans and their collectives, be they peasants or fisherpeople, miners or households and governments, are asset managers who are concerned with managing and utilising the assets or natural resources available to them in the best possible efficient manner. However, there is always a strong possibility that the desire by each agent to utilise the assets available to them in the most extractive manner possible, without giving a thought to its repercussions, is evident in the ongoing climate crisis. To avoid climate Armageddon, it is necessary that we realise our demands outstrip the supply of resources, and thus are simply untenable. As the economist Partha Dasgupta points out, between 1992 and 2014, while produced capital per person doubled,

and human capital per person increased by about 13% globally, the stock of natural capital per person declined by nearly 40%, thus 'human progress' has come at a cataclysmic cost to Nature, which in turn spells doom for current as well as future generations. Hence, it is necessary that as a mandate, economies and ultimately societies recalibrate their perspectives as well as strategies for what constitutes growth. As Kate Raworth calls it, 'agnostic growth' is the need of the hour, for many of the challenges we are encountering today as a society are a result of us mismanaging our natural assets.

● The 'Doughnut':

While outmanoeuvring one's inherent and imposed constraints has long been espoused as the hallmark of the human race, it is to be understood that human societies exist within the boundaries of social foundations and the environment. This is what the 'doughnut' or 'vadai', as you may prefer, model of the economy, pioneered by Kate Raworth precisely argues. If human societies breach the ceiling of environmental constraints, the result is irreversible and thus unacceptable environmental degradation and breaching the floor of social foundations would deprive several millions of the most basic and mundane of life's essentials, such as access to potable water and quality education. This only validates 'Gandhiji's Talisman' which advises policymakers to take into account the interests of the poorest and most deprived before taking any actions. It is evident that human actions must respect the crusts of the 'doughnut'.

Figure 1-1: The 'Doughnut' Model of the Economy



Source : Kate Raworth

● Nature, the teacher - An Example:

Now that the learnings from Nature have been sufficiently discussed, it becomes imperative to illustrate the same with an observation from Nature. Dung or Scarab beetles, seen in Figure 1-2 below, are quite small insects (0.3 cm - 4 cm) who lay their larvae amidst dung balls they accumulate and roll up; these larvae benefit from the heat, security and nutrition these dung balls provide, and after they metamorphose, accumulate dung balls themselves; doing so, they provide an important lesson in waste recycling and improving soil quality (upcycling and optimal utilisation of scarce resources), the larvae emerging from wastes and surviving on them (resilience). No wonder the ancient Egyptians considered them a

symbol of rebirth and revival. Thus, from the above arguments, it is evident that there are several lessons in economics from Nature that humanity can learn.

Figure 1-2 : The 'Dung' Scarab Beetle



Source : The Smithsonian Magazine

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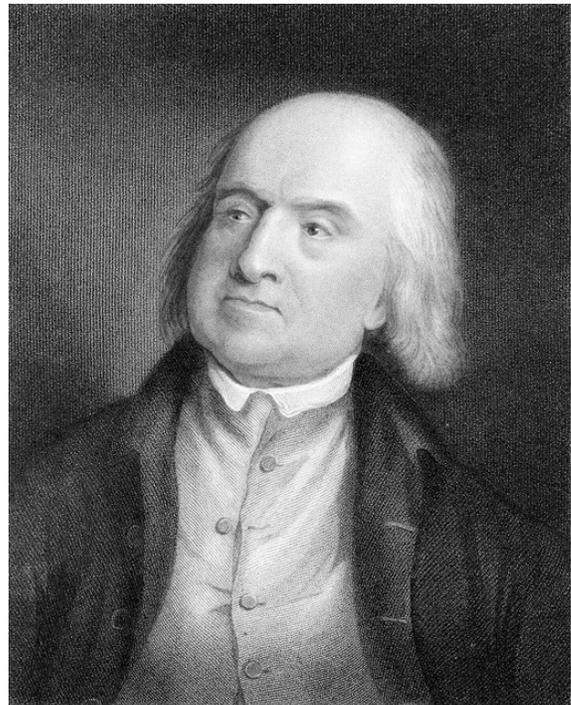
# IS THE DOMINANT UTILITARIANIST STANCE AS ETHICAL AS IT CLAIMS TO BE?

BY ALAN JOHN SAMUEL

From the ages of Plato, Aristotle, and Immanuel Kant, ethics has been a key subject of Western thought, conflict, and debate. Several philosophers and thinkers have put forth arguments to decipher a common, general, human ethics that does not vary from region to region and is universal in the sense that it depicts human nature, responsibility, and duty and is similar to the hard sciences. The wide majority of thinkers and schools of thought regarding ethics can be broadly split into two categories – deontological and teleological ethics. Consequentialism, and hence, utilitarianism, which emphasises the outcomes or consequences of actions are teleological in nature. This article directs a critique towards the utilitarian approach to ethics, which also, through marginalism and concepts such as marginal utility, dominate contemporary economic discourse and policy.

Despite the ideation of happiness being the end goal of all humans by various philosophers such as Aristippus, Epicurus, and even Aristotle, utilitarianism as a genuine ethical stance did not gain major recognition until Jeremy Bentham, widely regarded as the father of classical utilitarianism. In his book “An Introduction to the Principles of Morals and Legislation,” he states that human action can be reduced to a pain-reducing or pleasure-maximising nature and is best captured by “the greatest good for the greatest number.” The utility can be measured by its degree of intensity, duration, probability, i.e., certainty, or uncertainty, and propinquity/remoteness. Bentham’s views are called act utilitarianism and deal with the morality of individual action by understanding the consequences that arose because of it, unlike John Stuart Mill, who amended it into “rule utilitarianism.”

A common critique of utilitarianism is that it reduces humans to swine, nothing more than pleasure-seeking individuals acting in their own self-interest and engaging in hedonistic behaviour. While this charge against utilitarianism even persists today, especially considering the capitalistic, monetary nature of the world characterised by material pleasures and convenience, Mill had addressed it by stating that pleasure from intellectual pursuits that included the quality of pleasures must also be considered and action and not merely being the quantity of pleasure. In his own words, “It is better to be a human being dissatisfied than a pig satisfied; better to be Socrates dissatisfied than a fool satisfied.” By doing so, he aptly directs individuals to strive towards ideals that might be characterised by momentary or occasional displeasure or pain but give long-term happiness instead of transient pleasure from petty pursuits.



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However, it still remains true that this ideation has been vastly distanced from the modern world, with nearly everything being viewed as an optimisation and utility maximisation problem, especially considering the widespread dominance and popularity of the marginalist school, which rests on the utilitarianist ethic. Additionally, the foundation on which it is built – consequentialism and aggregation is very unsteady upon further investigation. It states that the morally right action is answered by adding up the utility of individual people and deciding the action that maximizes total societal utility. But is this genuinely true - is the total the sum of its parts – i.e., the utility of a society just the aggregate of the utility of individuals in that society? This train of thought violates the idea of individual rights and freedom of speech for the continuation of the majority’s dominance. It stands in direct violation of one of the very basic sayings several courts go by: ‘Rather let 100 guilty men go free than punish an innocent man’.

Moreover, any transformation of society towards being more morally just requires a compromise from certain parties. The majority could lose certain privileges, pay

a higher tax or a higher wage to workers, etc, all of which would reduce the utility of the rich or even the middle class.

Furthermore, ethical dilemmas posed by various thinkers, such as the trolley problem and McCloskey's sheriff counterexample, pose serious challenges to the utilitarian stance. In the sheriff counterexample, a sheriff in a city decides between making an innocent man a scapegoat to prevent people from rioting or not, which would result in several people dying from the riots. Utilitarianism seems to state that the suffering of one innocent man is insignificant compared to the vast number of people who could die in the riot and that the sheriff must prosecute the innocent man. Despite aligning with utilitarian logic, it is seen as intuitively immoral, as any ethical stance that permits the murder of innocents is a perverse one.

On these lines, critiques have also been targeted towards utilitarianism, such as the fact that it could justify slavery and even forced organ harvesting. The increased human welfare and reduction of suffering for several organ recipients would exceed the pain of a single healthy organ donor. Additionally, it could even be argued that by the bombing of Nagasaki and Hiroshima during World War II, widely seen as immoral and unjustified even today, the US forced the effective surrender of Japan, preventing the loss of further lives. A commonly discussed paradox – killing baby Hitler to prevent World War II and the Holocaust from even occurring, although can be seen as alleviating the pain suffered by Holocaust victims would involve murder, the murder of an infant, an ethically appalling action despite any 'utility' derived.

It would also in certain situations of concern for national integrity and sovereignty, permit the torture of prisoners of war, violating the Geneva Convention, one of the most widely ratified human rights treaties in the world. Utilitarianism doesn't care who gets what, which poses significant problems for justice and equality, much less socially complex issues such as redistribution and equity, which often go contrary to utilitarian logic. It could culminate in an "ends justify the means" approach, which might even justify eugenics and race superiority proposed by Hitler or the various radical steps such as collectivisation undertaken by Stalin in the pursuit of a communist utopia.

Furthermore, it is evident that human life and motivation are not merely the sum of pleasure, or the least pain, or else individuals would not seek out pain ever and would seek pleasure always. There seems to be more to human motivation that cannot be explained within the utilitarian framework, especially highlighted by the works of philosophers such as Robert Nozick, such as his experience machine and utility monster concepts. Utility monsters, as per Nozick, are individuals who derive a significantly greater amount of utility than the common individual from the consumption of a particular good or service. Utility maximisation would state that all goods should be given to the utility monster as per the aggregation principle this would result in the greatest possible utility. Other researchers have extended on these lines, arguing that 'utility monsters' are not imaginary, or unrealistic as others responded to, but could even be groups such as large geriatric populations in countries. His

experience machine lays a proposition that individuals could choose to enter a machine with advanced virtual reality capabilities and could simulate an eternal experience of immense pleasure. His question is whether individuals with free agency and choice would enter the machine and stay in it for eternity. Individuals would vastly not opt for this, even according to empirical research and studies, despite utilitarianism claiming they would.

Other arguments against utilitarianism that do not critique the principle behind it but the degree of applicability of it in the real world include that it is too hard, too rigid, and too difficult to practice. Famous contemporary philosophers such as Peter Singer state that "ordinary" people are evil in his magnum opus "Famine, Affluence and Morality" and advocate for utilitarianism to its extremities. He states that individuals engage in luxury and affluence of no moral significance instead of donating to charities like Oxfam, which aid famine victims and can reduce human deprivation and save a human life, something of massive moral significance. He draws a parallel between it and a person not saving a drowning kid to avoid getting his/her suit wet, and despite various critiques of his stance, he firmly stands by it in both ideology as well as practice.

This piece leaves us with more questions than answers. Is pleasure truly the end goal and main driver of all actions? Can all utilities be reduced to a monetary value? Are there any exceptions, and if so, do they seriously undermine the utilitarian framework? To conclude, despite the various critiques against utilitarianism, it is a useful framework to consider despite all its flaws as it does provide direction and guidance, but it must not be solely depended upon. Additionally, it is important to recall that our moral instincts are what gave birth to the study of human ethics itself. There is no correct moral framework; hence, prioritising the conclusions of rigorous ethical systems over moral intuitions is not always ideal.

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# INTERVIEW WITH DR RAMACHANDRA GUHA



SOURCE: THE INDIAN EXPRESS

As a part of Equilibria's interview series, the Editorial Board had the opportunity to interview Dr Ramachandra Guha, eminent historian, environmentalist and author. We had an enlightening conversation on his journey from economics to history, environmentalism as a movement and its interface with the economy, democracy and polity, as well as the future of academia in India. The entire interview has been published below.

**Your journey through history commenced with your editorial role at the History Times alongside Amitav Ghosh. Subsequently, you pursued the field of Economics at St. Stephen's College, followed by further studies at the Delhi School of Economics. What catalysed the eventual transition to sociology and history? Did your fascination with Economics lead you to delve into the intricacies of ecological dynamics within society, or were there more nuanced factors at play?**

**Guha:** At University I started reading an anthropologist called Verrier Elwin, his works, and I was absolutely fascinated. I realised I was not very good at economics, I wasn't a bad student but it didn't really grip me. And then I thought you know sociology, anthropology and human beings are what really move me. Forget about this history, it is irrelevant to my life; what is relevant is my chance discovery of Elwin. Because my grades were bad I could not get admission to the Delhi University sociology department.

So I went to IIM Calcutta to do a Ph.D. in sociology and somewhere I moved towards history, and it is a different story. I had already spent four years studying economics, it wasn't a fit. I was looking for some other intellectual journey where I felt I would be more comfortable, and I found it in sociology and anthropology. Also one last thing, Elwin worked among Adivasis and he wrote a lot about relations between Adivasis and forests, so that is much more important to me. Discovering Elwin's work allowed me to become a scholar.

**Dovetailing from there, a lot of work and studying ecology and environment and the relationship of humans with them; so in economics, we have this public choice school which is about "politics without romance" and some economists and environmental scholars have now come to as now trying to bring in this perspective of environmentalism without romance which is about rejecting the idea of an environment which is so pristine and absent of any human interactive and that should be the basis of conservation. You have done a lot of work in this area, how do you think economics or the understanding of economics can aid in this approach, or even if not economics what discipline or what approach do you think can an individual escape to look at the environment this way as being one not absent from human interaction?**

**Guha:** So firstly, economics is one discipline that has come very late to environmentalism. There were always some odd economists who liked working in the field and being ignored, but compared to sociology, anthropology, political science, and history, where there is, you know, environmental history and environmental sociology political ecology, they're all long-standing developed fields, economists have come very late. I'm glad they've come, but this is noted that the framework of economics kind of assumes that human ingenuity can solve everything, either through technology or through market adaptation. But the biophysical world sets limits to what we can do. It's not that we can endlessly manipulate. On the other side, some romantic environmentalists want nature free of human beings, but nature has never been free of human beings. If you look at the history of national parks in America, you know the first national parks were

set up in America by evacuating Native Americans, who were thrown out like our Adivasis. Actually, it starts with the case that biodiversity suffers from excessive human activity. Some scholars have shown, including Madhav Gadgil's students, that either tropical forests or the Western Ghats, suppose you study the bird diversity, say it is X, and you clear the forest, then a year later it will be 0.1X. However, if you just do a little bit of modification, and some new ecological means, then bird diversity may be 1.2X. So actually, romantic environmentalists have this idea that the only true nature is that which is totally untouched, that is to kick out everyone from the national parks. Firstly, ecologically it is not true, a minor amount of human modification actually increases plant and bird diversity. Secondly, in India, we have always had peasant communities living there in forests, so you have to incorporate them. So what's happening today in the national parks is that all are urban middle-class tourists like us. You know we go with our family to see the tiger and elephant, but you see some African countries are doing a much better job of actually integrating conservation than India, and we have to move in that direction.

**In your book, A Global History of Environmentalism, you wrote extensively about Socialism and Environmentalism. And in your book "How Much Should a Person Consume", your chapter on democracy, the fourth chapter, you begin with a quote that says "Liberty and forest laws are incompatible". In the context of India, in the early decades of independence with the socialist pattern of society, can you talk a little bit about what were the implications of that for environmentalism?**

**Guha:** I mostly studied forests and the quote regarding liberty and forest laws comes from the fact of continuity in the colonial and the post-colonial state. The British took over the forest, regulated it strictly, and the post-colonial state took it over and the forest department became like a quasi-policing kind of organisation that kept people out. Even though we are a democracy, we were not partnering with any people. Now very interestingly, in Maharashtra, particularly in the last 15 years, there has been a movement of community forestry and the local community has been granted rights to go back to the forests for bamboo harvesting and they have harvested them sustainably. In Pune, you have bamboo harvested sustainably. It is a state having a monopoly over forest, forest produce, auction of forest produce, and marketing. If you actually give that right to the local community it can lead to a blending of economic growth, and reverse migration so that people come back to the villages because they have opportunities. It's in fact linked to the whole panchayat raj kind of thing, where decentralising political authority leads to wiser resource use and better environmentalism than either the state or the market could do.

**In your book, you also criticise Lester Thurow's claims about environmentalism and the phenomenon of development. You see that in recent decades while**

**India has grown richer income-wise there has been a perceptible negative shift in terms of public policy and to some extent public opinion with regards to environmentalism. How do you see this claim in light of this development?**

**Guha:** I will give a historical background. The modern environmental movement in India started with the Chipko movement in the 1970s, and in the 70s and 80s, you had very active environmental campaigns around forests, dams, grazing rights, fishing, and also a larger debate about environmentally sustainable development in which people like Madhav Gadgil also participated, for the Center for Science and Environment and other social scientists are working on this. Then we had economic liberalisation in the 90s, after which environmentalists became the bad guys. We needed liberalisation, there was a license permit raj and too much control that the Babu had over who could make what and sell what, but at the same time you did need environmentalism. Those were completely dismantled in the 90s because economists had a very mechanistic view of progress. you first grow and then the environment, you take this Kuznets curve, first grow, pollute and then clean up but that is nonsense, because actually the biopsychical reality is that India cannot emulate western models of industrialisation, not only because of population density but also because population ecologies are much more fragile than temporary ecology. So the debates of environmental sustainability in the 80s in India were about what would be a sustainable forest policy, what should be the energy policy integrated into economic policy for greater attention to environmental sustainability instead of what has happened. There was ignorance, particularly among the press, and free market economists, how Medha Patkar was demonised, you had ignorant free market columnists. You know how every country moves from agriculture to manufacturing to services and you move away from polluting the environment only when you become rich, that completely ignores the biophysical reality of the world which is that there isn't, that's why my book was called "How Much Will a Person Consume" because it's impossible for an average Indian or an average Chinese to replicate the American strategy. What it means is that some of us consume a lot and others will consume less.

**In 2007 you wrote about the impact on Adivasis of Indian democracy from the perspective of not their ecological distinctiveness but the fact that they are socially and economically disadvantaged. Today the same problems abound, but it has suddenly spread to other communities and minority communities as well. In intersecting this perspective on democracy with philosophical principles, what key insights from philosophy would you want India today to benefit most from in shaping a robust democratic society?**

**Guha:** So, I will not talk about philosophy because I am not a philosopher, but sociologically, there are four disadvantaged groups in India, who are Dalits, Adivasis, women, and Muslims. Dalits and Adivasis' historic discrimination is recognized in the constitution. Women, indirectly, by adopting universal franchise, but not directly and Muslims, which is not really recognised, in a sense, we don't talk about equal rights. All 4 groups are

disadvantaged: since I wrote that essay in 2007 the disadvantages of Muslims have increased more than other groups for a variety of reasons. Dalits are also very disadvantaged but Dalits are at least articulate, and vocal, they have an intellectual professional class, advocates who represent and fight for their rights. Adivasis hardly have it and Muslims even less so. Unless you escape into Islamic fundamentalism which is not really an alternative, which actually makes things worse. I mean someone like I have no time for Owaisi, he is a danger for Muslims and a danger for Indian democracy, because he just makes it a Hindu-Muslim thing whereas it should be equal rights for everyone regardless of religion. I think this is something that worries me. For the last 10 or 15 years, I think, women have become less representative in the economy I mean if you look at the declining labour force participation, I don't know what the reasons for that are. As a democracy we are a work in progress; these four groups face structural discrimination, in different parts of India, with different intensities of this discrimination and at different time periods. In my state Karnataka, you would have followed Karnataka politics and in the year before the election it was only about hijab, halal and Tipu Sultan. Four months into Congress being in power there was not a single incident of harassment of Muslims. It's not a perfect government, it may not be a 40% commission, maybe 30% commission. You know it has all kinds of problems but at least the explicit political persecution of Muslims mandated by the party in power which the BJP was doing has gone. So these four groups - Muslims, Dalits, women and Adivasis, remain vulnerable, relatively disenfranchised, relatively insecure, precarious communities and social groups. As democratic Indians, we have to be aware of imperfections of the society where these four groups face structural disadvantages. I would not call it a failure but it is a bug in Indian society. Sociologically we discriminate because they are Dalits, Adivasis, Muslims, and women, in everyday life in economic practice, in politics and that is something we have to slowly work to correct.

**In 1999, you wrote an essay called The Absent Liberal, where you point out this space that is being left empty where the discourse on the left was about caste and other class identities whereas on the right the discussion was more about the hegemonic evolution of the state which is being recognised with a particular religion. In context to that, it has been quite a few years since that essay was written, where do you see the classical liberal view?**

**A:** I still believe that the liberal is still beleaguered, more beleaguered from the right than to the left. I mean in 1999 the classical liberal was beleaguered from both sides, which is why I wrote it. Today it's about liberalism, pluralism and to Indian democracy and just decency and civility the threat comes from the religious right, much more the religious right than from identity politics, there is an asymmetry. In 1999, Indian Liberals were caught between these but now, the right is dominant, hegemonic, and controls the state and institutions. I think that the liberal is still beleaguered.

**From Keynes to Hayek, economists long recognised the role of academic scribblers and intellectuals in shaping the thoughts of madmen in authority – the politicians. Given the current scope for freedom in India for academic scribbling, how do you see the scope for shaping future madmen in context of the decline in quality of education institutions in the social sciences that you have talked about, and what gives you reasons for hope?**

**Guha:** That's a wonderful quote. In fact, Keynes also says in the same paragraph to the extent that politicians are governed by the ideas of some defined people, whose ideas are defined. There is a difference between economics and other social sciences, in that if you are a sociologist or a historian or a political scientist, you should be far away from madmen because you have no technical expertise to offer it. Economists, in theory, have some technical expertise, what should be the rate of interest, what should be the areas of investment, what tariff barrier should be there or not be there. Theoretically, economists have some expertise to offer to the madmen, a non-economist should not be offering that, but that does not stop them. So you will find political scientists in Delhi who wanted to be Rajguru, telling Modi what to do or telling Lalu Prasad Yadav what to do or to Rahul. I am also a scribbler, my job as a scribbler is to not reach the wise men or the madmen but to reach all of you, to tell my fellow citizens about how societies are voting, it is not to influence government policy, it is not to give direction to politics, but to further educate and illuminate what is going on in the society. My fellow citizens have a deeper understanding of where the country is changing. My next piece is about a conference, which was recently held in the Nilgiris, about Western ghats, about sustainability. Bottom-up development is as important as wider development. So a scribbler like Keynes, or Kaushik Basu or Raghuram Rajan wants Narendra Modi or Manmohan Singh to listen to them, or Abhijeet Banerjee. But I don't want that, I have no pretense or disillusion that I can change policy or influence policy. I have some scholarly expertise, some research experience, and some decades of cumulative understanding such as what I told about the discriminated groups of the Indian society, which you will not get from Times of India column. So that is what is the difference between a public intellectual or a scribbler, and a scholar. A scholar who is also a scribbler, who writes for his peers and also an ordinary person, if the scholar is an economist by all means address the politicians, but if you are not an economist and if you are from other social sciences don't go beyond your fellow citizens.

**Largely, how do you see the scope of academic freedom in India today?**

**Guha:** Yes, we are more threatened now, but there was never a Golden Age. Secondly, the BJP is not the only party guilty of suppressing academic freedom. No one has systematically politicised, intellectually like the CPI(M) in Bengal. The Congress has always been guilty. So it has always been perilous since it's an imperfect democracy, institutions are not autonomous, are funded by the state, it has always been a difficult thing, but after the emergency, this has been the most difficult time for

freedom. But you will make a mistake to think that Congress was different, maybe marginally better. CPI(M) may be as bad as the BJP, sometimes even worse, they have been more systematic in Bengal.

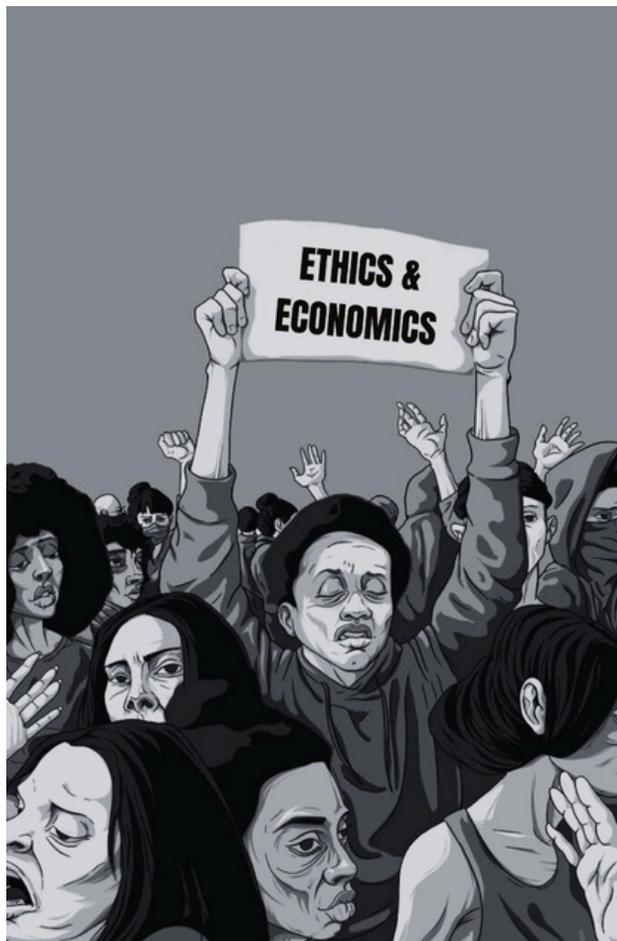
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# SWINGS IN ECONOMIC PHILOSOPHY: A PERSPECTIVE ON ETHICS IN ECONOMICS

BY MAYUKH CHAKRABARTI

“When the facts change, I change my mind- what do you do, sir?” – John Maynard Keynes. This quote most succinctly describes how philosophy is greatly intertwined and impacts economics as a field. Economics as a subject has developed over the past few centuries, thus it being quite new, dynamic and prone to change. Quite interestingly the roots of economics as a subject lie in philosophy.

The foundations of modern and neoclassical economics centre on an individual who is driven by self-interest to seek the maximisation of subjective material preferences, which is known to be achievable (under highly restrictive assumptions) by competitive markets. At the same time, neoclassical economics also is based upon the allocation of scarce resources for our (mankind’s) unlimited wants. Both of these definitions of economics seem very reductive as they do not consider the most important element of the picture – the people.



Contemporary economics does not consider the emotions, morals, values, and biases of an individual who is in the end making an economic choice. In recent years a lot of work has been done on how to approach economics as a field of study in terms of considering various other facets that influence the person or human being who is in the midst of economic decision-making. In any kind of scientific enquiry, we know that there exist a lot of unobservables that cannot be estimated, captured or incorporated into our economic models or thinking. This article tries to deal with how these different facets of economic decision-making that are generally not observed or understood can be incorporated into the field of economic theory.

Economic sciences as a field have taken quite a few drastic turns in recent times. The starkest one is the criticism of neoclassical economics along with the conception of homo economicus. This criticism can be seen as a drastic one. This is due to the fact that the neoclassical school of economics has for many decades been considered the foundation of economic theory. The most obvious strand of criticism lies in the definition of “homo economicus” or the “economic man” i.e., people are not necessarily always: a) fully rational b) fully egoistic c) atoms independent of society. The revealed preference theory has also come under the scanner, saying that people know what is best for them. At the same time, the neoclassical school of thought has also been vastly criticised for its overemphasis on positive economics. Many economists harp on the fact that value-freeness is what makes economics closer to the harder sciences. However, as we all know we as humans have some value systems, thus economics which deals with human behaviour is intrinsically linked with values.

In all this, a host of very different schools of economic thought have also developed. All these various streams of economics had their conception in various other fields like behavioural economics relates to psychology, institutional economics to sociology. It is quite easily understandable that all these various subjects influence and enrich our understanding of the subject. Neoclassical economics treats economics as an objective science that deals with a set of axioms used to deduce theories. It is quite similar to what is done in mathematics. For instance, in the neoclassical school of thought, we just wait and see what people choose, and whatever people choose is the best for them. Or else why would the choice be made? However, we very well know that an economic choice, having a person with his/her biases, emotions, and motivations is not so simple or straightforward.

Quite interestingly, we as humans go through a range of emotions. Sometimes we are happy, sad, angry and all of this can also occur at the same time. Hence it is very difficult to pinpoint which specific emotion, motivation or thought led to a choice at a particular point in time. Thus, it can be said that multiple selves exist within us. Each self is in harmony or conflict with each other. A choice that is revealed necessarily does not imply that it is the best for him/her. Generally, choices are made at an impulse which finally (in a longer time frame) may not be good for a person. The conception of multiple selves helps us understand choices can be fickle, abstract and ever-changing with respect to time. There has to be a new way in which economics is understood, taught and developed. Basically, a paradigm shift is required. However, before discarding the old paradigm a new better paradigm needs to be found. There have been quite a few advances made in terms of understanding economics from a completely new lens. Some of them include the economics of happiness, the conception of multiple selves, capability approach. Quite interestingly one of the new ideas that have emerged in economics in the last few years is that of 'altruism'.

Altruism in its traditional economic sense implies that people make sacrifices to benefit others without necessarily expecting a personal reward. Altruism basically hinges on the goodness of human beings to rise above their own self-interests and think about the greater good of society. For instance, is it more worthwhile to spend tons of money partying or giving it out to an NGO working for the education of poor children? From a neoclassical point of view whatever gives the most satisfaction is the appropriate one, however from the altruist's view choosing the second option is far greater. Ethics and economics are intrinsically joined with each other. Altruism is kind of a bridge that joins these two distinct fields. Another very interesting example in this regard is rent control. Rent control leads to losses for the landlords and at the same time creates housing shortages for some of the poorest renters. Despite this rent control is applied across many different places around the world. One of the major reasons for this is that innate altruism works which considers poor tenants being exploited by rich landlords.

It is quite visible from the above examples that no school of economic thought is free from criticism. All schools of economic thought have their own strengths and weaknesses. The more different approaches to look at the subject, the broader the scope of the subject. Economics which is rooted in philosophy and ethics can transform itself from just being an academic subject to something that can lead to the greater good of society.

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# HOW WOMEN IN 2023 SEE ARTH

BY TC SHINALI



Indian women, writes Romi Mehta in an Economic and Political Weekly article, found “more happiness more often than not in her home; and her troubles and heartaches were solved in the family. The incompatibility may sometimes be very great indeed; but in spite of it all, the family is maintained.” The family, therefore, must be maintained. The 2011 Census of India revealed that 0.8 per cent of the married population was either divorced or separated, which had been at 0.07 per cent in the 2001 census. The urban divorce rate (0.89%) was higher than the rural rate (0.82%) by a rather slim margin and more women were reported to be divorced and separated than men. Are women who were supposed to hold the family together now breaking it apart?

Passed in the 1950s, the landmark Hindu Code Bill gave women property rights, outlawed polygamy and allowed partners to file for divorce. In 1976, these laws were further amended to allow for divorce by mutual consent. Released in 1982, Mahesh Bhatt’s semi-autobiographical *Arth* was his cathartic attempt at understanding the journey of self-discovery of a woman caught in the whirlpool of infidelity. Way before the 2020 Supreme Court verdict that expanded the Hindu Succession (Amendment) Act, 2005, by granting a Hindu woman the right to be a joint legal heir and inherit ancestral property on terms equal to male heirs, Bhatt had his female protagonist Pooja walk away from the well-meaning offer of a male support following her divorce with

her faithless husband. With no family (or many great friends), any ancestral or familial wealth to tide her over (access to wealth/assets and income and support from family/community networks which is often used as an explanation for rising separation/divorce rates), Pooja chooses her independence over companionship with either her now-back guilt-stricken husband or an almost lover.

In Shrayana Bhattacharya’s *Desperately Seeking Shah Rukh*, she writes “Men must earn money and women must earn love.” Less than halfway into the film, this is the question Pooja asks her cheating husband, How did she fail to earn his love? On what counts did she falter in her labour of it? Of how she cannot fathom, a day would come when he would stop loving her.

Pooja is the same woman who judges her house help for not abandoning her husband despite his naked infidelity, alcoholism and domestic violence. She says, had she been in her shoes, she would have left him at once! The house help passes a resigning smile- how does one let go of a knot that has tied you to a person for seven lives? With this, writer and director Mahesh Bhatt foreshadows Pooja’s impending crisis - if her seven-year-old marriage would last in this life, if not for the next six lives?

Kulbhushan Kharbanda is her fickle-minded husband who cannot keep a job for more than three months. His long trips, close to nominal contribution in making their new house a home and perpetual absence at dinners for guests who come over to their new apartment for the first time do not arouse any hint of doubts in her. The only time he contributes to this new house is when he hammers the nail to mount the nameplate, which seemingly reads “Mr. and Mrs. Malhotra”. He leaves it hanging hurriedly to attend to the ringing telephone. He is seen yelling at the phone, repeating his words.

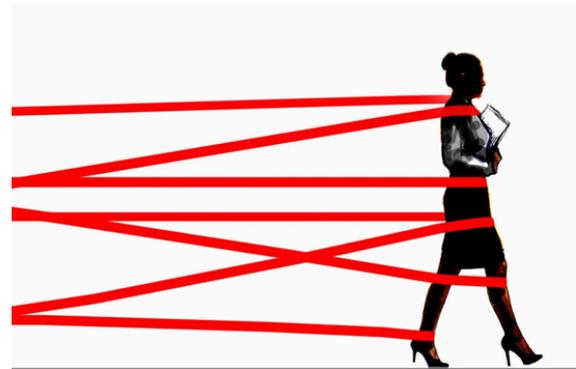
Pooja is devastated to know of the price she had to pay for that ounce of stability she always desired as an orphan. Glueing her back to the walls in shock, she inched towards her room, in her home, built on the bedrock of countless lies. The nameplate lay there, hanging on a half-hammered nail, almost like their seven-year-old marriage on the axis of the rose-tinted memories of their better days.

Pooja who had seemed erstwhile decisive about leaving her husband had she met with the fortune of her house-help, isn't so certain anymore. She is now bargaining with her reality -wallowing on the bed, twisting and wincing in pain. Distraught, in disbelief. She wouldn't let her husband touch her, for he reeks of sin, of pollution and of insufficient guilt. This was until she thought she had some vestige of power left with her, for she had been wronged. In no time, the tables turn. Inder is off to see the 'other' woman and with his departure, he robs her of this fading streak of power she thought she had in that marriage. Powerless now, Shabana Azmi as Pooja is at her visceral best, she stares at her husband and her doomed future in absolute horror, for she cannot believe this reversal of fortune. That she was an orphan again. That her husband has finally made a choice. And it was not her.

Based on Bhatt's affair with Parveen Babi, Arth doesn't demonise the 'other' woman, a lonely and love-lorn film actress who craves the security of companionship. Smita Patil as Kavita Sanyal aces the familiar portrayal of a lonely star who has a ginormous portrait of Marilyn Monroe in her room, in case you missed the point. In Inder, she saw the solution to all her fears, insecurities, loneliness and attachment issues. Since roses do not bloom on graveyards, her fear of losing what wasn't hers to begin with, now borders on neurosis, gnawing at her, killing her from within. She seeks redemption from the 'other' woman she wronged, admitting to having loved only the man, turning a blind eye to his identity as another woman's husband.

In an India just emerging from the ravages of emergency, a failed coalition government, still largely rural, agrarian and illiterate, Arth was bold for its times. It was made by a man, acutely aware of his own frailties and that of his gender, brave enough to navigate how devastating it was for a woman to be the victim of infidelity. That the death of a marriage isn't the death of life itself. On how a man choosing her, need not define her self-worth, she had other ways to a meaningful existence. Take for instance other Hindi movies on infidelity made around that time like *Silsila* (1981), *Masoom* (1983), *Ek Hi Bhool* (1981), *Ijazat* (1987), *Aakhir Kyon?* (1985), all of them culminate with an eventual reconciliation with the cheating partner (to not

let the family fall apart) or moving on with another man. Arth, however, wasn't one of them, with Pooja making a choice, unheard of in the 80s. A choice most women now make with improved access to property rights, income and familial support. She chooses motherhood without any man or his surname to tether her down. Being an orphan, therefore, proved to be a blessing in disguise for her. Familial ties and community networks that often make it harder for women to overcome the trauma of infidelity and divorce owing to the stigma attached to it, don't hold her back. This meant she could start from anywhere and she did. She chose her starting line and how.



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# TOWARDS AN INTERDEPENDENT UTOPIA

BY GAUTHAM ANTARVEDI AND KEERTHANA SATHEESH

Economics finds its roots in moral philosophy. In fact, early economists were philosophers in their own right. The father of modern economics, Adam Smith, was the head of moral philosophy at the University of Glasgow. The work of early economists largely focused on determining a moral social order, a morality that emphasises happiness and satisfaction. Therefore, economic theory assumes some form of utilitarian framework that focuses on maximising value for all. Characteristic of modern economic theory, the calculating, objective nature has since evolved into one that appears to be mired in mathematical apathy. Judgements about this moral direction of economics seem concretised and criticisms can seem juvenile for a framework that assumes gargantuan logic which can only be condensed into incalculable forces with names like the 'invisible hand'.

A fundamental problem of economics has always been that of resource allocation. For long, Economics has been focused on optimal allocation of resources to maximise output rather than its initial moral objective of maximising happiness. By questioning the logical grounds of equating maximum output and maximum happiness, we question the nature of utility itself. It is assumed that the selfish motives of man are the only agent to determine utility, conveniently turning a blind eye to the complex social interactions that form the more nuanced, altruistic reality. Economists for the most part consider an isolated individual who derives utility solely from self-consumption (Tomes, 1985). This however is simply not true as utility is interdependent; it is dependent on the satisfaction of others as well as yourself.



Often a thorn in the side of conventional economists, redistribution is an invaluable tool for its critics. Redistribution and social welfare activities often require us to ground our economics in a moral framework that constantly redefines utilitarianism or make leaps in our collective moral intuition. However, once one accounts for interdependence of utility, one can work within the ideals posed in economic theory and redistribution simultaneously and still stay under the same utilitarian framework. The assertion, therefore, is that redistribution yields benefits to the parties that finance it. Why then, do we not strive for complete equality in our society? Interdependence can be both positive and negative; that one can wish for the happiness of others while wanting to be in a better position themselves. The fact that positive and negative interdependence need not be mutually exclusive— gives us the criterion of Pareto optimality. Pareto optimality describes a situation where no further improvements to society’s well-being can be made through a reallocation of resources that makes at least one person better off without making someone else worse off (Smith & Swallow, 2013). Trade under markets is conducted under the logic of maximising individual utility. The existence of interdependent utility therefore requires forces outside the market to take action that requires cooperation.

The existence of the market, itself being an interdependent good, provides evidence to this fact since markets require government regulation and legislation beyond state security. Pareto optimal redistribution therefore maximises the positive interdependence of utility while suspending the negative, thus balancing the two. The utility of an individual with high income depends on the income of a poorer individual. The course of action for the negative dependence would be to preserve the social status, the differentiation of the rich from the poor. But, the positive dependence would dictate a government action that enforces redistribution through some direct-transfer scheme which would effectively improve the utility of all individuals in the society. Thus, redistribution becomes a necessary condition of Pareto optimality (Hochman & Rodgers, 1969).

The appeal of redistribution can be explained rationally and consequentially but arguably to most, aesthetically. A just and fair distribution of income is a reflexively desirable outcome. The appeal of social differentiation, of inequality can be the aesthetic as well, since it is quite oblivious to the plight of the other. In addition to alleviating inequality and trivial aesthetics, redistribution produces externalities in the form of public goods. Public goods may be a reduction in crime, political stability and numerous interrelated externalities that improve with social welfare (Thurow, 1971). The public goods thus produced are desirable not only by the poorer masses but also by the “sacrificial” elite.

It is thus our contention that the initial merit to redistribution served by either its consequent externalities or the aesthetic approach to altruism provides the necessary impetus to further contribute to the interdependence of utility. Beyond this point, it becomes easier to convince the public of redistribution as its effects become apparent. This strengthening of

interdependence of utility creates a self-sustaining upward cycle that reaffirms a sense of community, which replaces the frivolous aesthetic of inequality and creates a society where an individual’s happiness is dependent on the happiness of another— allowing us to arrive and maintain the coveted Pareto optimal equilibrium.

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