
A Historical Survey- Indian Economic Thought

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Abstract

Indian economists did not seek a divorce between ethics and economics, between moral and material aspects of life. The Indian economists 'would not accept the purpose of life to be incessant struggle for the survival of the fittest', in terms of the physical force or material goods, and emphasised the obligation of civilized society to ensure an equal chance at least for the survival of the weakest. Thus, greatest stress in Indian economics is on welfare, social justice and morality and less on material wealth. While in the western economics thought, analytical and practical aspects developed side by side, Indian economics remained primarily a normative and practical science. The history of Indian economic thought is little known either in India or elsewhere. Hardly any research is being done by economists. The subject has the potential in offering a variety of principles that could help Economics evolve further. It is important to revitalise the discipline and instill a fresh zeal among students and others.

Keywords:- *Ethics, Morality, Normative, Social Justice, wealth.*

Introduction

There is denying the fact that systematic study of economics is of recent origin and the initial attempts in this direction were made in Europe at the end of the 17th and the beginning of the 18th centuries. But this, however, does not mean that people started thinking about their economic problems only in the 17th century or they had no conception of economic problems before that. Economic problems and their speculation are as old as human life. They are not restricted to any one region of the world.

Indian economic writing are less analytical and more descriptive and realistic in character. Indian economists were not much interested in economic analysis as such, but laid stress on the practical aspect of the analysis. Poor living conditions of the Indian people led the Indian thinker to conceive economics not so much as a science of wealth, but as a science of poverty and means to remove it.

Due to political subordination of the country, Indian economic thinking has largely remained political in nature. Economic thought and economic policy were considerably influenced by the motives of the political rulers.

- **A Historical survey**

Historical, Indian economic thought can be divided into four periods. Let us see what the general outlook of the economists of each period was.

- 1. Ancient Economic Thought**

Information regarding ancient economic thought is lying scattered in the old Indian scriptures, such as Vedas, Upanishads, Brahmanas, Eripics, Smritis. Kautilya was the important economic thinker, whose Arthashastra has been considered the most authoritative work on ancient thought.

Ancient thinkers had no clear conception of economics, as we have today. However, they generally used two concepts, i.e., Var-ta and Arthashastra, dealing with economic phenomena. Though, in those days, the centre of activity was man and his life and not material wealth. Yet, the ancient people recognized the importance of material prosperity. There is no one book covering all the fields of economics. Rather, different aspects of economics are dealt in different books. While Arthashastra and Nitishastras deal with production and exchange, Dharmashastras covered the fields of consumption and distribution. (a) Consumption: The idea of consumption was based on the doctrine of the four ends of life, i.e. Kama, Art-ha, Dharma, and Moksha. (b) Production: Four factors of production, i.e., land, labour, capital and Organisation, were recognized and were given due importance. Priority was given to agriculture production. (c) Value: Scarcity and utility were considered to be the chief determinants of value. Action was taken against the traders who created monopolies or artificial scarcities. (d) Distribution: Productivity and basic human needs of a factor of production were taken into consideration while determining its remuneration.

- **Medieval Economic Thought**

Not much economic speculation was done during this period. But some economic reforms were introduced by Ala-u-din Khilji, Mohammad Tughlaq and Firozshah Tughlaq in the period from 8th century to the close of 15th century, and by Sher Shah and Akbar in the period from 1503 to 1800.

- 1. Ala-u-din Khilji:** Ala-u-din Khilji realized the necessity of a big army to maintain his empire. Moreover, excessive rebellions had exhausted the treasury and the burden of taxation had reached its maximum. Thus, in order to keep a huge army with low wages, efforts were made to supply basic necessities of life at a cheaper rate. But, it must be noted that the market controls effected by Ala-u-din Khilji were politically motivated and were not intended to relieve the distress of the people.

- 2. Mohammad Tughlaq :** Mohammad Tughlaq introduced a new system of token coins to overcome the financial crisis. But the system failed because the monopoly of the coins could not be maintained.

- 3. Firozshah Tughlaq:** Firozshah's contribution was in the field of taxation and public works. He reorganized the taxation system and introduced four types of taxes on the basis of

the laws of Qur'an . He also started various public works, such as, the construction of canals, public building, etc., which had a stimulating effect on production and employment.

4. **Akbar:** Akbar's economic reforms included two things: Reorganization of the revenue system and promotion of state enterprises. He fixed the land revenue on the basis of the last ten year's average price of land. He also abolished the jagirs and the peasant was directly related to the state . A number of enterprises were started where apprentices were also trained .All this led to agricultural and industrial prosperity.

5. **Sher Shah:** Sher Shah introduced reforms in the land revenue system. During his time , Land was surveyed , graded into different classes and rent was fixed on the basis was provided to the determination of land revenue, oppression by the officers were over and uncertainty of the ryat was removed.

Nineteenth Century Economic Thought

India's modern economic thought began in the early British period. Leading thinkers of the nineteenth century were Dada-bhai Naoroji, Ranada, R.C .Dutt, and Gokhale. These intellectuals are collectively called the founders of Modern Indian Economic Thought. They seriously analyzed the causes of India's poverty during the days and also made suggestions to solve the problem. Their main observations are: (a) India is a poor country as compared to the other civilised countries of the world, the poverty of India is increased due to wrong economic policies of the government .(b) Land tax is excessive and uncertain .(c) The Home charges are continuously increasing .(d) There is excessive military expenditure.(e) The Laissez-faire policy, which is unsuited to India, is followed by the government .(f) European officers hold monopoly in the higher services, both civil and military.(g) Commercial policy is determined by the interests of England and not by those of India. (h) No assistance has been given to industries by way of production , advances, subsidies or guarantee.(i) Surplus budgets are not due to the economic prosperity of the country, but because of the manipulation of currency on the one hand and heavy taxes on the other. (j) There was no provision of supply cheap credit to the agriculturists who are over-burdened with heavy debt.(k) There is no representation of the country or in the higher services.

These economists also made the following suggestions to improve the economic conditions of the country : (a) The Land tax should be permanently fixed and its burden should be reduced .(b) The home charges should be reduced to the minimum.(c) The high civil and military posts should be opened to Indians.(d) The heavy military expenditure should be reduced.(e) The government should give up the laissez-faire policy and should take up all the economic functions of national interest.(f) The economic policy should not be influenced by the interests of the British traders ,but should be directed towards the general welfare of India.(g) The tax burden on the people of India should be reduced and the budget surplus should be spend on the welfare of the people.(h) There should be some representation of tax payers on the body which controlled the government expenditure.

Twentieth Century Economic Thought

The economists of the nineteenth century laid down the foundations. They systematically analysed the problems of poverty in the country .It was for the coming generations to

discuss about and select the pattern of development for the Indian economy. Differences of opinion existed as to the question of how the Indian economy should be developed (a) V.G. Kale and Brij Narain were of the opinion that India should develop the western lines and emphasis should be laid on large scale industries. (b) M.K.Gandhi and J.K.Mehta held the view that the economy should be developed on the principles of truth, simplicity and non-violence. Their main emphasis was on the development of small and village industries. (c) K.T.Shah and R.K. Mukherjee suggested a middle path according to which all kinds of industries are to be developed side by side.

After independence, the main issue of discussion was economic planning. Economists like C.N. Vakil, D.R.Gadgil, P.A.Wadia, Gyan Chand, V.K.R.V.Rao, B.P.Adarkar, R. Balakrishna came to the conclusion that laissez-faire system was not conducive to the Indian conditions and the solution to the economic ills of the country lay through planned development. Consequently, after Independence the Government of India realized the importance of planning and set up the National Planning Commission to formulate a plan for the effective and balanced utilisation of the country's resources. With this, the country moved forward on the path of planned growth and, also with this, the academic interest shifted from the controversy over large or small scale industries to the question of effective implementation of the plan.

Recently, considerable interest has arisen among the academicians in India to pay their attention to the current economic problems of the country and also to the matters of economic theory. Research is going on in almost all the fields of economics, But it is to be noted that the economists in India show relatively less interest in the abstract theory and more in the practical problems.

Kautilya

Kautilya was the Chief Minister of Chandragupta Maurya. His Arthashastra provides an authoritative account of the political and economic thought that prevailed in ancient India. Dr. Shyama Shastri's discovery of Arthashastra in 1905 has aroused wide and enthusiastic interest in the Indian ancient thought. Main economic ideas as elaborated in the Arthashastra are as follows:

Attitude Towards Wealth

The ancient Indian Economists conceived of wealth as having four qualities, material, consumable, appropriate and transferable. The general attitude was to regard material wealth not as an end in itself but as an important means to the objectives of life. For an individual, acquisition of wealth is beneficial if it is acquired for maintaining a good wife, a son, or a friend or for giving away. For a Country, material wealth is required (a) to maintain the social structure, the Organisation and institutions of the community, (b) to provide means and opportunities for each individual to live a decent life, (c) to ensure self-expression, self-fulfilment, self-realization, and thus (d) to achieve salvation.

Conception and Divisions of Economics

In ancient India, Varta and Arthashastra were the two terms used for the science dealing with the subjects having large economic content. Varta has been defined as a branch of knowledge dealing with agriculture, commerce and cattle breeding. Later on, the scope of Varta was extended to include the additional subjects of Money-lending and artisan-ship. Arthashastra, which became popular since Kautilya, covered a much wider field than Varta did. It included Kama, Artha and Dharma as separated from Moksha. In modern terminology, Arthashastra is a combination of jurisprudence, politics and economics. Sukra defined Arthashastra as that science which describes the actions and administration of kings in accordance with the dictates of revelation and of law as well as the means of livelihood. In the ancient period, there was no one book that dealt with all fields of economics. Different books contained different fields. For instance, production and exchange have been treated in Arthashastra and consumption and distribution are found in the Dharmashastras and in Buddhist and Jain literature's.

Dada bhai Naoroji

Dadabhai Naoroji (1825-1917), 'The Grand Old Man of India's', was one of the founders of Indian Nationalism. Born in a Parsi family of Bombay, Dadabhai Naoroji was the first Indian professor in Elphinstone College, Bombay, the founder of the East India Association (1886), the first Indian to be elected as member of British Parliament (1893), the first Indian member of the Royal Commission, and above all, the first Indian economist of the 19th century. He was thrice elected President of the Indian National Congress in 1886, 1893 and 1906.

Naoroji's economic ideas are contained in his book, *Poverty and Un-British Rule in India*. Naoroji analysed the effects of the British rule on the Indian economy. He pointed out how the Britishers were responsible for causing drain on the Indian resources and generating poverty in India. He also suggested some remedial measures for improving the worsening condition of India.

The Drain Theory

Naoroji developed the drain theory to explain the condition of poverty in India. The drain theory emphasised the fact that management and institutions of the British India were prone to a mechanism of the economic drain. According to this mechanism, the economic surplus of India was drained out of the country by the foreign rulers, in two ways: (a) Through internal drain, i.e., through the transfer of purchasing power by means of taxation, interest payments and profits from poor classes to the rich classes. (b) through external drain, i.e., through unrequired exports which produced no equivalent returns in the form of imports. The dynamics of the process of external drain is functionality related to a net transfer of funds, with its obvious adverse effects on India's terms of trade. Thus, Naoroji's explanation for India's poverty involved both internal as well as external drain of its resources. While internal drain refers to the exploitation of poor regions or individuals by the rich within a country, external drain implies the exploitation of a poor country by the rich.

The effects of external drain on the colonial Indian economy can be grasped with the help of the following model:

(1) $P > Y$

(2) $Y - T = E - (X - M) = (C + M) - (X - M)$

As a result of economic drain or uni-lateral transfer (T), National income (Y) in a colonial economy remains below its total production (P). T is a leakage from Y. On the expenditure side, the corresponding leakage is export surplus (X-M). Where X stands for the value of exports and M for the value of imports. Export surplus is to be deducted from total expenditure E; C and I, i.e. consumption and domestic investment, being the constituents of E.

In this model, T has to be interpreted as net transfer because in actual practice its size depended upon the reverse flow of sterling loans as a balancing factor. If X-M is insufficient to be equal to T, or if there is an exceptional rise in T, the gap had to be filled by sterling loans. This inflow of capital in the form of loans produces adverse balance of trade in the borrowing country. As Haberler remarked :- 'A Country making large Uni-lateral payments will tend to import capital in one way or another. In this way, the direct effect of these payments on the balance of trade and services will be suspended or weakened. Haberler's conclusion on the issue of capital inflow incidental to the large scale uni-lateral transfer of funds is fully applicable in India.

Prices and wages

Naoroji understood prices and wages in the content of his drain theory. By prices he meant the prices which the cultivators received and wages denoted the earnings of the small peasants and agriculture workers. The idea that rising exports of agriculture workers. The idea that rising exports of agricultural products bring higher prices to the producers had little relevance in the Indian situation. Naoroji's explanation was that due to lack of proper communications, the produce in the areas nearer the seaports could not be carried to the interior parts of the country where there was scarcity. Thus, the produce was exported to the foreign countries, not because the foreign countries offered higher prices, but because, if not exported, it would simply perish. Naoroji considered the price rise in India around 1876 as due to scarcity of food as a result of (a) bad communication or season, and (b) inelastic supply emanating from backward and static character of agriculture. It was not a healthy price which usually accompanied economic development.

The condition was also not favourable as regards wages. Where the worker was paid in kind, his wages remained stationary; Where he was rewarded in cash, his real wages fell due to rise in food prices. Naoroji also observed variations in wage rates ranging between 2 and 5 annas per day. These differentials were due to distribution on public works projects, favourable conditions in the Punjab, famines and scarcity, and the regional distribution of remunerative commercial crops.

The Taxation Policy

A glaring example of exploitation of Indian resources and discrimination with the Indian people is the taxation policy adopted by the British government. The tax burden on Indian people was about two and half times greater than on the people of England. In England the

revenue from taxation was 8.5% of the national income whereas in India it was 22%. What is more shocking was that whereas in England, the revenue from taxes is spent on the welfare of its people, in India, it was not so. Here, the whole tax revenue was either taken away from the country or was eaten up within the country by the outsiders.

The British Administration Criticised

Through the speeches in the House of Commons, Naoroji severely criticised the British administration in India. The main attack was on the unjust, destructive and exploitative attitude of the East India Company. It was, on the one hand, destroying the internal trade of the country, and, on the other hand, employing the imported labour in administration, thus, denying the Indians their due share in the administration of the country. While commenting upon the exploitative nature of the British rule, Naoroji said: 'The former rulers were like butchers hacking here and there, but the English with their scientific scalpel cut to the very heart. There is no wound to be seen, and soon the plaster of the high talk of civilization, progress and what not, covers up the wound.' Naoroji was of the opinion that if India did not progress under the rule of the Britishers, there was no justification for their existence in this country.

Suggestions

India could only prosper, if drain of its resources was stopped. The remedy of the problem of poverty and exploitation lay in allowing India to keep what it produced and helping it to reduce its burden of the interest on the public debt. Naoroji made the following suggestions in this regard: (a) India and England should pay salaries to their people within their own boundaries. As far as the case of the Englishmen employed in India and the Indians employed in England is concerned, there should be a fair and reasonable apportionment between the two countries. (b) No pension should be paid to the Englishmen as they were already getting reasonable salaries while working in India. (c) Since no country could invade from the sea, she should not be charged any portion of the expenditure incurred on the maintenance of Indian Navy.

Estimate

As an economist, Naoroji's importance lies in (a) his being the first to estimate the national income of India, (b) his materialistic conception of wealth, and (c) his drain theory. Dr. V.K.R.V. Rao has lauded Naoroji as a statistician and approved his method of income calculation. Naoroji's conception of wealth was narrow. He excluded services and mental achievements from his definition of wealth. His drain theory was also partially correct and was refuted by Ranade and Gokhale. These economists were of the opinion that the foreign investments by the Britishers increased our productive capacity, while their expenditure on foreign services and defence was a real drain.

Anyway, Naoroji's contribution as the founder of modern Indian economic thought is never over-estimated. He showed to subsequent Indian economists the need for a unified principle of explanation of economic phenomena contained in the foreign rule. He gave a complete picture of the economic process which contained the essence of reality. Even

though parts of the picture had to be redrawn by economists like Ranade and Gokhale, the pattern remained.

Gopal Krishan Gokhale

Gopal Krishan Gokhale (1866-1915) was the close follower of Dadabhai Naoroji and Ranade. Mahatma Gandhi, who regarded Gokhale his political guru, praised him for his patriotic, moral and intellectual qualities. After completing his studies, Gokhale taught history and economics at the Ferguson College, Poona from 1896 to 1902. From 1902 to 1912, he was a member of Viceroy's Executive Council. In 1905, he was elected president of the Indian National Congress and also founded the Servants of India Society.

Gokhale was greatly concerned with the moral and material progress of the country and as a member of the Viceroy's Executive Council, he did a great service in the field of Indian finance. Gokhale's economic views are contained in his evidence before the Welby Commission on Expenditure in India (1897), in his speeches in the Bombay Council (1900-1902) and the Imperial Legislative Council (1902-1913) on budgets and resolutions, and in his addresses to different conferences. His ideas on public finance and economic reforms are also to be found in V.G. Kale's book, *Gokhale and Economic Reforms* (1916).

The Problem of Poverty

Gokhale took a dynamic view of the problem of poverty. To him, the question was not whether the per capita income of India was Rs.20 or Rs.30 but whether the movement is progressive or regressive. He also mentioned the various dynamic variables on which economic development of India depended. These were: Population, per capita salt consumption, trend of agriculture output, area under crops, area under more remunerative crops, exports and imports. Judging from these indicators of growth, Gokhale concluded that Indian poverty was deep and was deepening further.

Public Finance

Gokhale made a comprehensive survey of the existing Indian financial situation and discussed almost all the aspects of public finance.

Expenditure:- In his evidence before Welby Commission, Gokhale pointed out the unhealthy financial condition of India. He referred to the increasing burden of taxation, growing expenditure by the government, costly military operations. He observed that there was neither any effective legal safeguard against and nor any check of public opinion on the misapplication of public revenue. Gokhale suggested the following reforms for the system of public expenditure: (a) spirit of economy in place of spirit of expenditure, (b) substantial reduction of military expenditure, (c) larger employment of Indians in public services, and (d) provision for independent audit.

Taxation :- Taxation during the British days was regressive. That is, the amount received by the government in the form of taxes was not spent for public welfare. Even the creation of economic overheads, i.e., railways, canals, etc., financed by taxation went to raise the incomes and profits of the foreigners. According to Gokhale, taxation during the British rule

was not utilised either to create capital or to finance welfare activities, but was only a means of draining the wealth of the country to England.

Surplus budget:- Gokhale also exposed the fallacy of surplus budgets. In the early years of the 20th century, there emerged substantial surplus in the Government of India budgets. According to Gokhale, these surpluses were not the result of the growing prosperity of the people, as the official explanation says, but were due to the appreciation of the rupee as a result of permanently fixing its gold value at 16 d. This appreciation reduced the burden of home charges. However, the government kept the burden of taxation unchanged.

Industrial Development

Gokhale was worried about India's arrested industries development and pointed out the conditions for promoting industrialisation. These conditions are: Skill, enterprise, capital and organisation. Japan's industrial progress provided a good example for India. Gokhale mentioned the following factors leading to effort to modernise the ways of life. All these factors were needed if India wanted to become an industrialised nation. Gokhale did not favour free trade, at least in practice. In practice, he said, each country must take care of its economic interests by following the policy of protection. But he cautioned that while giving protection, care should be taken that the general interest of the community should not be sacrificed to the narrow interest of a few industries. Consequently, he distinguished between the right kind of protection and the wrong kind of protection. 'The right kind of protection is that under which the growing industries of a country receive the necessary stimulus and encouragement and support that they require, but under which care is taken that no influential combinations, prejudicial to the interest of the community, came into existence. The wrong kind of protection, on the other hand, is that under which powerful influences and combinations and interests receive assistance to the prejudice of the general community, the general taxpayers of the country.'

General Welfare Schemes

Gokhale considered economic development in the broader perspective of its impact on general welfare of the poorer sections of society. Efforts must be made to raise the living standards of the rural masses and depressed workers. It is the poorer classes who contribute much more than their fair share to the revenues of the state. He wanted the state to seek a balance between the expenditure on economic overheads and on the social services and not to give undue emphasis to the former. Gokhale's main objection against the British administration was that while budgetary surpluses increased, they were not spent for the benefit of the poor people. He noted that fearful poverty, his ignorance and his insanitary surroundings. The schemes which Gokhale suggested to overcome these evils were as follows:

- a) The land revenue demand of the state should be reduced as the farmers were incapable of bearing this heavy burden.
- b) The farmers should be released from the load of debt

- c) Facilities should be provided ,which on the one hand ,encouraged thrift among agriculture and ,on the other hand,enabled them to borrow for reasonable limits at a low rate of interest.
- d) Steps should be taken to spread scientific agriculture and irrigational facilities.
- e) Mass education schemes were needed to remove ignorance among the people
- f) Technical and industrial education was also to be provided.
- g) Needs of sanitation should be given priority
- h) Emphasis should be given to rural self-government by developing village panchayats.

Estimate

While assessing Gokhale's economic contribution ,it must be borne in mind that ,though well- versed in economic and political theory, Gokhale was not a theoretician .He was primarily a politician and was concerned with propagating a viewpoint .His main contribution is that his economic ideas have great relevance to the present Indian conditions. The problems which he discussed-mass poverty , agriculture backwardness ,rural industrialisation ,welfare of the poor ,public enterprise ,role of public finance -are much the same as we observe today. There is ,therefore ,much to be found in Gokhale's economic thinking that can guide to deal with our present problems.

Conclusion

The domain of the present paper is to bring into public eye and connect those dotted thoughts, many of which are still relevant in this era of global crisis. After highlighting the multifaceted personality of Indian economists, the remaining is the modest attempt to elaborate his views on different sub disciplines of economics like monetary economics, public finance, agriculture and land holdings etc. Economic explanation of caste system in India and their ramifications for Indian economy particularly for current objective of inclusive growth are also dealt with. A final section deals with various strategies suggested by him for development of Indian economy and coming out with prospective suggestion flowing out of the knowledge stream of Indian economists. It is a humble attempt to acknowledge the due attention and recognition that these economic thoughts deserve.

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